

WEEK 2: ANALYSIS OF THE INTERNAL RESOURCES

1. SWOT ANALYSIS

- Used regularly in business to help managers to evaluate the **opportunities** and **threats** in the business environment as well as the **strengths** and **weaknesses** of a firm's internal environment
- Limitations:
 - By listing the firm's attributes, managers have the raw material needed to perform more in-depth strategic analysis, but SWOT can't show them how to achieve a competitive advantage.
Strength might not lead to advantage (*considering the competitive strategy*)
i.e. the skills of a highly creative product designer would offer little competitive advantages to a firm that product low-cost commodity products
 - Focus on external environment is too narrow on current customers, techs and competitors
⇒ Fail to notice important changes on the environment that may trigger the need to redefine industry boundaries and the whole new set of competitive relationships.
 - Give a one-shot view of a moving target: key weakness of SWOT, focuses too much of a firm's attention on one moment in time
 - Overemphasizes a single dimension of strategy, ignore other factors needed for competitive tech development, HR management and firm structure.

2. VALUE CHAIN



Inbound Logistics

- Location of distribution facilities to minimize shipping times
- Excellent material and inventory control systems
i.e. just-in-time inventory system ⇒ quick order processing
- Systems to reduce time to send “returns” to suppliers
- Warehouse layout and designs to increase efficiency of operations for incoming materials

Operation

- Efficient plant operations to minimize costs
- Appropriate level automation in manufacturing

- Quality production control systems to reduce costs and enhance quality
- Efficient plant layout and workflow design

Outbound Logistics

- Effective shipping processes to provide quick delivery and minimize damages
- Efficient finished goods warehousing processes
- Shipping of goods in large lot sizes to minimize transportation costs
- Quality material handling equipment to increase order picking

Marketing and Sales

- Highly motivated and competent sales force
- Innovative approaches to promotion and advertising
- Selection of most appropriate distribution channels
- Proper identification of customer segments and needs
- Effective pricing strategies
- *Marketing is often a key element of competitive advantage*

Service

- Effective use of procedures to solicit customer feedback and to act on information
- Quick response to customer needs and emergencies
- Ability to furnish replacement parts as required
- Effective management of parts and equipment inventory
- Quality of service personnel and ongoing training
- Appropriate warranty and guarantee policies

Procurement

Function of purchasing inputs (raw materials, supplies, machinery, laboratory equipment) used in the firm's value chain

Technology Development

Every value activity embodies technology, ranging from tech used to prepare docs and transport goods to those embodied in processes and equipment or the product itself

Human Resource Management

Recruiting, hiring, training, development and compensation of all types of personnel

Firm Infrastructure

General management, planning, finance, accounting, legal, government affairs, quality management, and information systems (overhead).

3. ANALYSING THE VALUE OF RESOURCES

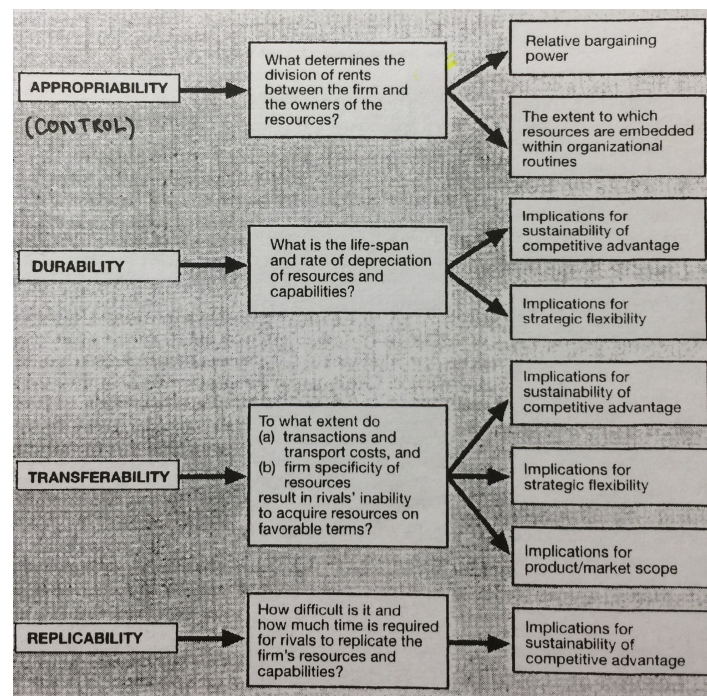
Steps for Analysis:

- Identify the core resources and capabilities (e.g. PERTH)
- For each resource or capability, assess how it meets the criteria of a SCA framework (i.e. DART)
- Make an assessment of the degree of SCA

Type of Resources

- Tangible resource: financial resources (cash, receivable, ability to borrow funds); physical resources (company's plant, equipment), organization resources (strategic planning process; employee development), technological resources (trade secrets, patents, copyrights)
- Intangible resource: human resources (experience, capacity, trust, effectiveness of team working), reputation resources (brand name, relationship with suppliers, customers), firm's culture
- Organizational capabilities: competencies or skills that firm employs to transform inputs into outputs, capacity to deploy tangible and intangible resources over time

DART framework to access the value of an organisation's core resource



Firm Resources and Sustainable Competitive Advantages

- Resources only derive a temporary advantage because competitors quickly imitate or substitute for it
- Provide sustainable competitive advantage (SCA) when having:
 - Resource must be valuable as in it exploits opportunities and/or neutralize threats in the firm environment.
 - Rare among current and potential competitors
 - Difficult for competitor to imitate
 - Have no strategically equivalent substitutes

WEEK 3: ORGANISATIONAL STRUCTURE & TRANSFER PRICING

1. ORGANISATIONAL THEORIES

Early Management Theories (1900 – 1930)

- Pursuit of the 'efficient organisation' led to the standardisation of specific principles and rules.
 - Regard labor as another factor of production, not promoting organisational flexibility or proposing methods adapting to change (adopted by mass producers, when reducing cost is prioritized)
 - *Fredric Taylor's scientific management*: achieve production efficiencies by systematizing and standardizing job achieve the 'one way' they should do
4 principals would result in significant increase in productivity:
 - The replacement of rule-of-thumb methods for determining each element of a worker's job with scientific determination
 - The scientific selection and training of workers
 - The corporation of management and labor to accomplish work objectives
 - More equal division of responsibilities between managers and workers
- Criticized for:
- The shift in power from worker to the manager, toward centralization
 - Took away their independence to determine how a job was to be done
- *Henri Fayol's principles of management*: function a manager should perform: Division of work, authority, discipline, unity of command, unity of direction, centralization, remuneration
 - *Max Weber' bureaucracy*: characterized by division of labor, a clear authority hierarchy, formal selection procedures, detailed rules and regulations, impersonal relationships (design prototype for most today's large organisation)
 - *Ralph Davis' rational planning*: management's formal planning determines the organisation's objectives, then in logical fashion determines the development of structure, the flow of authority and other relationships

Behavioral Theories (1930 – 1960)

- More of a focus on worker needs and their psychology
- Human Relations
Elton Mayo and the Hawthorne: usher the era of organisational humanism, managers would consider the organisational design with group works, employee attitudes and manager-employee relationship
- Human Resources: Douglas McGregor's theory X and theory Y
- Decentralised and democratic organisational structures
- One of emancipation or of deeper forms of control?

Contingency Theory (1960 – 1980)

- Achieving rational goals with an open systems perspective.
- Focus on analysis of the relationship between key organisational variables as a basis for organisational analysis, and which endorse the view that there are no universally valid rules of organisation and management
- Variables can include but is not limited to: environment, technology, size, strategy & culture

- The birth of strategy as a way that organisations could deal with these external factors and win against other companies.

Political Theories (1980 – present)

- Classical theorist attempted to ignore power issues by the scientific structuring of jobs and organisational structures. The behavioral theory thought that power issues could be bypassed by creating more people-friendly organizations. The contingent theory did not take power into account in their research
- People realise that organisations were not so rational (creating economic value) and in fact can be very political and chaotic.
- Introduced the idea of power and the realisation that companies are full of conflicts between different organisational groups (not just focusing on one goals and work together toward that goal, different stakeholders competing for power and resources)
- Strategy and organisational activity is an outcome of a political process rather than of a rational process.

Interpretive Theory (1980 – present)

- Argued that organisations exist around symbols myths, stories and narratives (brand name, motivational strategies, employee training programs)
- These symbols and stories represent ideals which motivate individuals to come together for a common purpose.
- Interpreting the difference in our present day between great organisations and mediocre ones? Culture and identity, nature of products and services, brand name

2. ORGANISATIONAL STRUCTURE

Organisational structure

How job tasks are formally divided, grouped and coordinated to achieve organisational goals

Six key elements that define an organisation's structure

1. Work specialization

- The degree to which tasks in the organisation are subdivided into separate jobs
- If the products or services performed require a level of specific skill and knowledge in order to maintain efficiency or create high quality outcomes then a higher 'work specialisation' is required.
i.e. Big 4 vs small accounting practitioners
GPs vs Surgeons
Retail vs manufacturing vs mining
Mass production vs artisan industries.

2. Departmentalisation

- The basis by which jobs are grouped together, allow specialists to group together
 - Most popular way to do this is by function: sales, manufacturing, accounting etc
- => Advantages:
- Seeks to achieve economies of scale by placing people with common skills and orientation into common units (easier and cost effective training)
 - Increases accountability for product performance, under direction of one manager

3. Chain of command

- The unbroken line of authority that extends from the top of the organisation to the lowest echelon and clarifies who reports to whom
- Degree of authority to meet their responsibilities

- Unity of command: a subordinate should have only one superior to whom they are directly responsible

4. Span of control

- How many subordinates can a manager efficiently and effectively manage
- Wide span vs narrow span
 - Wide span: cost efficient, cut overheads, speed up decision making, increase flexibility, empower employees; but might reduce effectiveness, supervisors no longer have the time to provide necessary leadership and support
 - Narrow span: easier to maintain control, but expensive; added levels of hierarchy slows down decision making and tend to isolate upper management; encourage overly tight supervision and discourage employee autonomy

5. (De-)Centralisation

- Centralisation: decision-making powers are centered within top management and directives are carried out by subordinates.
- Decentralisation: decision-making powers are delegated to managers at divisional and departmental levels.
- Degree is often within a spectrum
 - Military (mechanic structure)
 - USYD: there is no pure centralisation or decentralisation
 - Apple (Jobs) v Apple (Cook) – leadership style

6. Formalisation

- Refers to the degree to which jobs within an organisation are standardised.
- Not to be confused with work specialization, formalisation refers to whether the work itself can be clearly described and done by following processes or rules.
i.e. Accountants need to follow accounting standards
- More formalised, more routine based, removes the need for employees to consider alternatives, just following a set of precise procedures dictated by management

Organisational Designs

1. Simple (horizontal) Structure

- Low degree of departmentalisation, wide spans of control, authority centralized in a single person, little formalisation
- Has only 2 or 3 vertical levels, loose body of employees
- Strengths: simplicities, fast, flexible and inexpensive to maintain and clear accountability
- Weaknesses: inadequate when the organisation grows, info load at the top, risky – something happens to the COE can destroy the organisation's info and decision making center

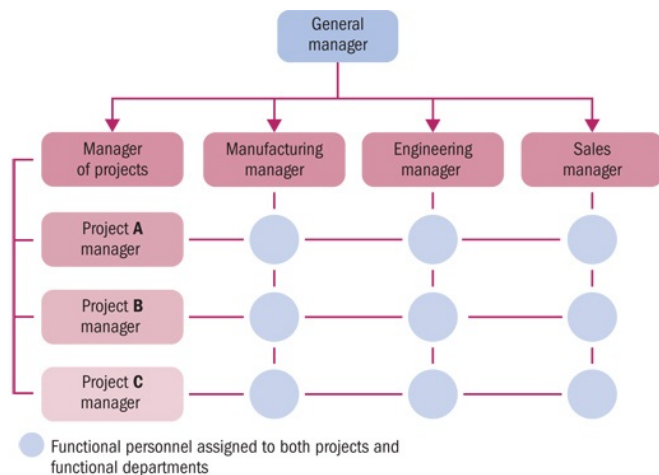
2. Bureaucracy Structure

- A structure with highly routine operating tasks achieved through specialisation, very formalised rules and regulations, tasks that are grouped into functional departments, centralized authority, narrow spans of control, and decision making that follow the chain of command.
- Strengths:
 - Ability to perform standardised activities in a highly efficient manner
 - Putting like specialties together in functional departments result in economies of scale
 - Minimize duplication of personnel and equipment
 - Rules and regulations substitute for managerial discretion, allows decision making to be centralized, less costly for middle and lower-level managers.
- Weaknesses:

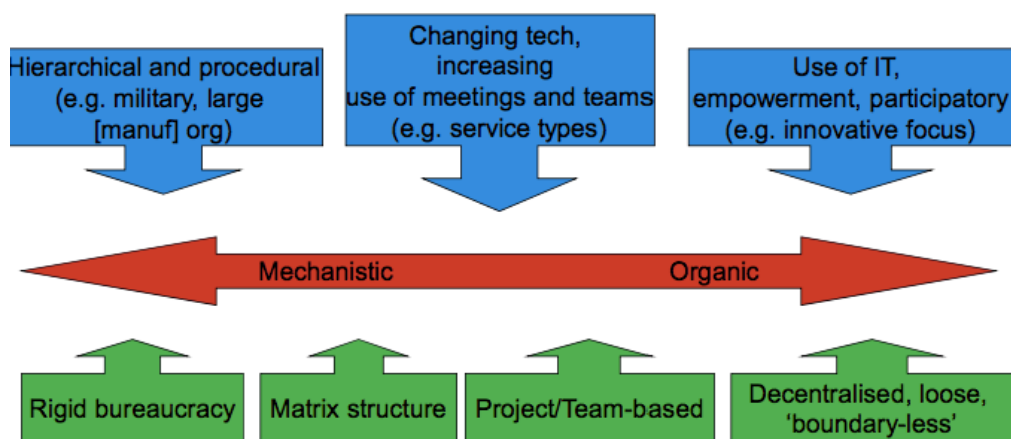
- Subunit conflicts, functional unit goals can override the overall goals of the organisation
- Uncommon case which doesn't fit the rules, no room for modification

3. Matrix Structure

- Combines functional and product departmentalisations
- Dual chain of command
- Strengths: allowing sharing and pooling of specialized resources
 - Facilitates coordination, communication and flexibility when the organisation have multiplicity of complex and interdependent activities
 - Efficient allocation of specialist, achieve economies of scale by providing the organisation with both best resources and an effective way of ensuring their deployment
- Weaknesses: propensity to foster struggles and stress place on individuals (i.e. increased ambiguity, don't know who to report to, reporting to more than one boss introduces role conflicts, product managers fight over who get the best specialists assigned to their products)

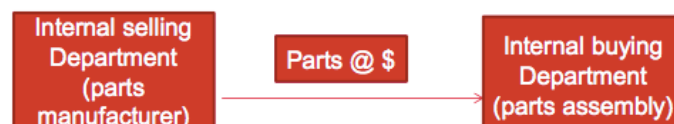


Organisational Spectrum



3. TRANSFER PRICING

- As organisations became more decentralized, the business units within these structures needed to be appropriately incentivized (i.e. competing with the market)
- Transfer pricing places a price on the transfer of goods or services which travel between one business unit and another.



- This transfer price contains an element of profit which will motivate the selling business unit to sell internally while also being sold at a price that encourages the buying department to buy from the selling department when it is appropriate.

i.e. Business School Events ABS venue bookings to other University Faculties

Objectives of Transfer Pricing

- Preserving the autonomy of business unit managers
- Incentivising business unit managers to make the best decisions for the entire organisation not just their business unit
- In terms of management accounting, transfer pricing is a zero-sum game
- We simply want to incentivise the selling department to sell internally and the buying department to buy internally when it will maximise total firm profit, ceterus paribus

Methods of Transfer Pricing

1. Market Price

- This is the preferred method as it reflects what individual business units would be facing in external competitive market conditions.
- If the supplying department cannot produce at this price we know something is wrong.

2. Cost-based and Negotiated Transfer Price

- There can exist certain conditions under which alternative pricing methods may be used:
 - Where there is no market
 - Where the market is saturated (no demand)
 - Where there is an organisational policy for internal transfer
 - Other conditions
- The selling department can set a price:
 - Derived from its production and/or service costs; or
 - Negotiate a price with the buying department based off its sale profits.

Examples

1. NO EXCESS Capacity


When the selling division is operating at **capacity**, the transfer price should be set at the **market price**

> The Battery Division makes a standard 12-volt battery

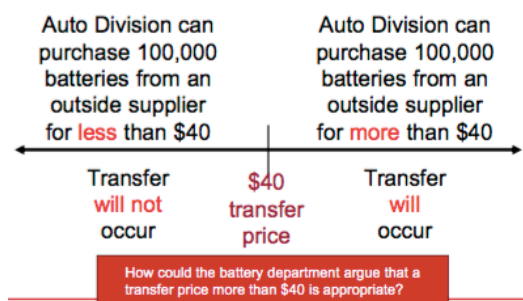
Production capacity	300,000 units
Selling price per battery	\$40 (to outsiders)
Variable costs per battery	\$18
Fixed costs per battery	\$7 (at 300,000 units)

> The Battery Division is currently selling 300,000 batteries to outsiders at \$40. The Auto Division can use 100,000 of these batteries in its X-7 model

What is the appropriate transfer price?


$$\begin{aligned}\text{Transfer price} &= \text{Cost of making the product or service} + \text{Contribution lost by not selling the product or service to an outside party} \\ \text{Transfer price} &= \$18 \text{ variable cost per battery} + \$22 \text{ Contribution lost if outside sales given up} \\ \text{Transfer price} &= \$40 \text{ per battery}\end{aligned}$$

There is still an element of negotiation




2. EXCESS Capacity

When the selling division is operating **below capacity**, the **minimum transfer price** is the **variable cost per unit**

› The Battery Division makes a standard 12-volt battery

Production capacity	300,000 units
Selling price per battery	\$40 (to outsiders)
Variable costs per battery	\$18
Fixed costs per battery	\$7 (at 300,000 units)

› The Battery Division is currently selling 150,000 batteries to outsiders at \$40. The Auto Division can use 100,000 of these batteries in its X-7 model. It can purchase them for \$38 from an outside supplier



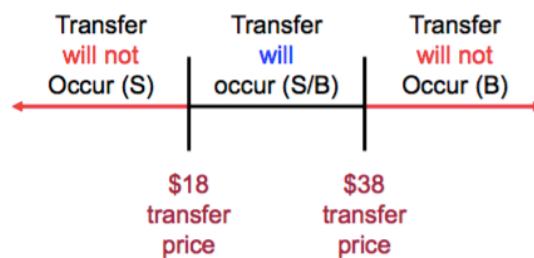
Transfer price = Cost of making the product or service + Contribution **lost** by **not** selling the product or service to an outside party

Transfer price = \$18 variable cost per battery + \$0

Transfer price = **\$18 per battery**

What is the appropriate transfer price?

Negotiating a Transfer Price

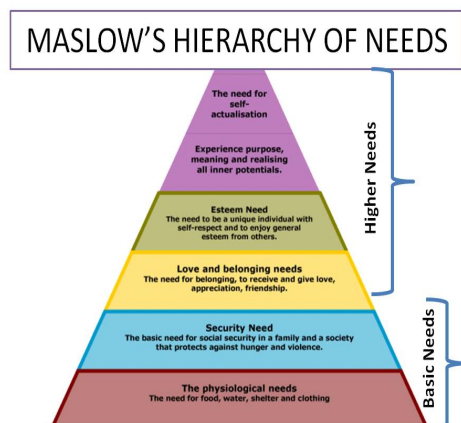


WEEK 4: MOTIVATION ASPECTS OF THE MANAGEMENT ACCOUNTING SYSTEM

1. CONTENT THEORIES

Content theories try to identify the specific factors – individual needs, task factors, management styles, that shape individual motivation

Maslow's Hierarchy



- As one level of need is met at once other needs emerge and come to dominate
- Meeting of a need is important in allowing others, more social needs to emerge. A need that is satisfied no longer motivated