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# **Video Transcription: Introduction to Strategy, Risk Management and Governance**



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Hey, my name is Paul and I am excited to look at Strategy, Risk Management and Governance with you. This is important for all of you that are studying commerce. I hope that you are curious about business that you are curious about stepping into management shoes and understanding what it would be like to make big decisions for the health of the business, that impact many people's lives. For those of you wanting to study to become chartered accountants, Strategy, Risk Management and Governance is a particular discipline that SAICA emphasise. Between 10–15% of your ITC paper will be based on this discipline so although you might not do a separate course, you will probably be touching on this in every discipline that you focus on. Well, I am excited to explain to you what this interesting area is all about and it is an integrated discipline, so make sure that you understand each step of the way.

So, let's start with how SAICA define Strategy, Risk Management and Governance. The first part – strategy, addresses the identification of the entity's appropriate competitive strategies. Risk management flows from this and is concerned with identifying, assessing and managing the threats, risks resulting from pursuing the entity's strategy and then finally, governance addresses the organisational structures and behaviours appropriate for the effective implementation and management of the entity's strategic plan.

If what I have been explaining does not really make sense to you and you are unclear, then you are really watching the right video because we are going to be looking at each of these separately now. Great, so let's start with strategy. What we are not talking now is important to understand because so often the word "strategy" gets used. I have got a marketing strategy, I have got an organisational strategy, I have got strategic thinking and so it is used so often and maybe has lost a little bit of its meaning. And, also, we are not talking about goals, you know some people will say, "My strategy is to double sales" – that is a goal, that is not a strategy. Let's look at a great definition of strategy, which I am going to use from Richard Rumelt, who is a great lecturer. Let's read it together.

Strategy is the craft of figuring out which purposes are worth both pursuing and capable of being accomplished.

So strategy is about understanding where you are. Some people have said strategy starts with answering the question "What is going on here?" Trying to get an understanding of the environment you find yourself in, putting yourself in the shoes of management. And once you have seen what is going on, it is about isolating those options that are worth pursuing and which can be pursued, being realistic in what you hope to achieve. So strategy then requires you to understand, at a deep level, what is going on and to be able to answer that question, "What is possible, and what is probable and worth pursuing?"

There are some tools, which we think are helpful. The first tool is known as SWOT analysis, which is a tool that first allows you to focus on the internal dynamics of a company and then, secondly, on some external factors. Internal ones are your strength and your weaknesses, what company-specific dynamics are at work that would be regarded as strength, things that would put the company in a good position and then secondly what would be regarded as weaknesses, what could lead to the company being perceived as weak. The other two dynamics are opportunities and threats, so that is where you get the name from: SWOT – Strength, Weaknesses, Opportunities and Threats. And opportunity and threats focus on external factors, which could provide great opportunities but also those that could bring a



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company down and threaten a company. So this tool requires you to roll up your sleeves and really understand what is going on in the industry and with the company.

The second tool, which we want to highlight for you, is known as Porter's Five Forces. Michael Porter was a lecturer at Harvard when he invented this and essentially what he is trying to get you to do again is understand what is going on in the business. The first forces, all the competitive forces within an industry, what is going on as companies are trying to get market share and get customers to buy from them. Then you have got to break it down a little and think to yourself there are four other forces around this competitive market. The first is the power of the suppliers. How much power does the people that provide you with goods and services, have? The more powerful they are, the weaker your negotiation position is; and on the other side, how about your customers? How powerful are they? If you have got one or two customers, they are going to be very powerful in their negotiations with you. So the more powerful the suppliers, the more powerful the customers, the more you are going to be squeezed here in the middle.

The other factors are also important. The other one is: are there threats of substitutes? Can someone stop using your product or service and start using an alternative? The more options there are, well the less power you are going to have. And then finally, possibly the most important factor is labelled "barriers to entry". How easy is it for someone else to enter this business and to compete with you? The lower the barriers to entry, the tougher it is going to be. A barrier to entry might be all kinds of things, you might have to have a patent in order to operate in the industry, you might have to have a license from the government, you might have to spend a large amount of money just to establish yourself. These are all barriers to entry and we would encourage you to go and read about SWOT analysis and about Porter's Five Forces, because these are powerful tools that equip you to understand strategy better. We do not have time in this video to go through them in detail. My overall encouragement for you in strategy is to be curious, get into management shoes, try and find out what is going on, and to use these tools to better your business understanding.

So we have covered strategy, so now let's look at risk management. Risk management is all about understanding what it is that could lead to the downfall of your strategy. Let's look at a definition of a risk.

A risk could be defined as the potential loss or undesirable outcome to the business resulting from a given action, activity and/or inaction.

So, risk is something that could derail your strategy, take your company off-track and so again it requires of you the ability to read, be curious in business, step into the shoes of management and understand what could take a company down. What could lead to disarray, I think of different categories of risk. You have got operational risk, where you might not get your products to the market fast enough, for instance. There are financial risks, where intrastate movements or fine exchange changes can throw your business off course. There are so many risks and I hope as you are developing your studies you will come to understand these business risks to a greater extent. They are going to affect different businesses and different industries in different ways and, in particular, in South Africa it is important that you understand what is going on with electricity and labour unrest, and the challenges that we face because as a business professional, as someone who is in the shoes of management, these are issues that you have got to deal with and have a strategy for.



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Strategy, risk management and now we are going to be focusing on governance. Governance is all about the structures and the people you are going to put in place to make sure that your strategy deals with the risks and that you end up being successful. Governance deals with the board of directors, it deals with various committees that are established to help a business stay on track. We deal in particular with the risk committee that would look at the risks and keep a risk register, which allows a business to make sure that it is constantly monitoring the risks available as well as the probability of them occurring. These are all the different structures that can get put in place by a company, to help it manage its risks.

I hope that you can see the level of integration between these areas. They cannot be isolated, they cannot be separated and we would encourage you to think through Strategy, Risk Management and Governance – from your first year until your final year. Maybe in first year, you are struggling to understand the terms and how business works but gradually as you keep growing we trust that by the end you will be familiar with the big industries, some of the big risks in South Africa and certainly you will be familiar with King III and all the governance structures that have been established to help businesses succeed.

We are going to be shooting another video, which is going to basically be helping you to get involved in the business world by reading. You do not have to be in business, though that would be great if some of you have started up your own little businesses or have jobs but for all of you that are full-time studying, what you can do is read about business. This video is going to help you understand what it would look like to step into the shoes of management, and consider what to do in business. As I mentioned, it is important for all students studying commerce to be interested in this important discipline of Strategy, Risk Management and Governance and I hope this introductory video has given you a bit of an overview of why it is so important and what it is all about. All the best as you get curious about the business world and see it through the lens of Strategy, Risk Management and Governance.