Strategic & Financial Management

CS413 - Software Engineering Project Management

Department of Computer Engineering, Bilkent University

Dr. Mustafa Değerli
Strategic Management

• The art and science of **formulating**, **implementing**, and **evaluating** cross-functional decisions that enable an organization to **achieve its objectives**
Strategic Management

- Focuses on integrating management, marketing, finance and accounting, production and operations, research and development, and information systems to achieve organizational success.
Strategic Management

• The term strategic management is used synonymously with the term strategic planning
• The latter term is more often used in the business world, whereas the former is often used in academia
Strategic Management

• Sometimes the term strategic management is used to refer to strategy formulation, implementation, and evaluation and strategic planning referring only to strategy formulation.
Stages of Strategic Management

- The strategic-management process consists of **three stages**: strategy **formulation**, strategy **implementation**, and strategy **evaluation**.
Stages of Strategic Management

- Strategy formulation includes
  - developing a vision and mission,
  - identifying opportunities and threats,
  - identifying strengths & weaknesses,
  - establishing long-term objectives,
  - generating alternative strategies, and
  - choosing particular strategies to pursue
**Stages of Strategic Management**

- Strategy-formulation issues include deciding what new businesses to **enter**, what businesses to **abandon**, whether to **expand** operations or **diversify**, whether to **enter** international markets, whether to **merge** or **form** a joint venture, and how to avoid a hostile takeover.
Stages of Strategic Management

- Strategy implementation requires a firm to establish annual objectives, devise policies, motivate employees, and allocate resources so that formulated strategies can be executed.
Stages of Strategic Management

• Strategy implementation includes developing a strategy-supportive culture, creating an effective organizational structure, redirecting marketing efforts, preparing budgets, developing and using information systems, and linking employee compensation to organizational performance
Stages of Strategic Management

- Strategy evaluation is the final stage in strategic management.
- Managers desperately need to know when particular strategies are not working well; strategy evaluation is the primary means for obtaining this information.
Stages of Strategic Management

- All strategies are subject to future modification because external and internal factors are constantly changing
Stages of Strategic Management

• Three fundamental strategy-evaluation activities
  • Reviewing external and internal factors that are the bases for current strategies
  • Measuring performance
  • Taking corrective actions
Key Terms in Strategic Management

• **Competitive advantage**: Anything that a firm does especially well compared to rival firms

• **Strategists**: The individuals most responsible for the success or failure of an organization
Key Terms in Strategic Management

- **Vision statement**: Answers the question «What do we want to become?»
- **Mission statement**: Answers the question «What is our business?»
Key Terms in Strategic Management

• **Opportunities and threats**: Refer to economic, social, cultural, demographic, environmental, political, legal, governmental, technological, and competitive trends and events that could significantly benefit or harm an organization in the future. Largely beyond the control of a single organization.
Key Terms in Strategic Management

• **Strengths and weaknesses**: An organization’s controllable activities that are performed especially well or poorly.

• **Long-term objectives**: Objectives can be defined as specific results that an organization seeks to achieve in pursuing its basic mission. Long-term means more than one year.
Key Terms in Strategic Management

• **Strategies**: The means by which long-term objectives will be achieved

• Business strategies may include geographic expansion, diversification, acquisition, product development, market penetration, retrenchment, divestiture, liquidation, and joint ventures
Key Terms in Strategic Management

• Annual objectives: Short-term milestones that organizations must achieve to reach long-term objectives. Like long-term objectives, annual objectives should be measurable, quantitative, challenging, realistic, consistent, and prioritized.
Key Terms in Strategic Management

- **Policies**: The means by which annual objectives will be achieved. Policies include guidelines, rules, and procedures established to support efforts to achieve stated objectives.
Benefits of Strategic Planning

- Enhanced Communication
  a. Dialogue
  b. Participation

- Deeper/Improved Understanding
  a. Of others’ views
  b. Of what the firm is doing/planning and why

- Greater Commitment
  a. To achieve objectives
  b. To implement strategies
  c. To work hard

- THE RESULT
  All Managers and Employees on a Mission to Help the Firm Succeed
Strategic Management Model

- Vision and Mission Analysis
- Strategy Generation and Selection
- Strategy Implementation
- Strategy Execution
- Strategy Monitoring
Porter’s Five Generic Strategies

Type 1: Cost Leadership—Low Cost
Type 2: Cost Leadership—Best Value
Type 3: Differentiation
Type 4: Focus—Low Cost
Type 5: Focus—Best Value
Porter’s Five-Forces Model of Competition

- Potential development of substitute products
- Rivalry among competing firms
- Potential entry of new competitors
- Bargaining power of suppliers
- Bargaining power of consumers
## Strategy-Formulation Analytical Framework

### Stage 1: The Input Stage
- **External Factor Evaluation (EFE) Matrix**
- **Competitive Profile Matrix (CPM)**
- **Internal Factor Evaluation (IFE) Matrix**

### Stage 2: The Matching Stage
- **Strengths-Weaknesses-Opportunities-Threats (SWOT) Matrix**
- **Strategic Position and Action Evaluation (SPACE) Matrix**
- **Boston Consulting Group (BCG) Matrix**
- **Internal-External (IE) Matrix**
- **Grand Strategy Matrix**

### Stage 3: The Decision Stage
- **Quantitative Strategic Planning Matrix (QSPM)**
Project Manager Competences

• **Technical project management**: The knowledge, skills, and behaviors related to specific domains of project, program, and portfolio management. The technical aspects of performing one’s role

• **Leadership**: The knowledge, skills, and behaviors needed to guide, motivate, and direct a team, to help an organization achieve its business goals
Project Manager Competences

• Strategic and business management: The knowledge of and expertise in the industry and organization that enhanced performance and better delivers business outcomes
Project Manager Competences

The PMI Talent Triangle®
Financial versus Strategic Objectives

- **Financial objectives** include those associated with growth in revenues, growth in earnings, higher dividends, larger profit margins, greater return on investment, higher earnings per share, a rising stock price, improved cash flow, …
Financial versus Strategic Objectives

- Strategic objectives include a larger market share, quicker on-time delivery than rivals, shorter design-to-market times than rivals, lower costs than rivals, higher product quality than rivals, wider geographic coverage than rivals, achieving technological leadership, consistently getting new or improved products to market ahead of rivals, …
Financial versus Strategic Objectives

• Although financial objectives are especially important in firms, oftentimes there is a tradeoff between financial and strategic objectives such that crucial decisions have to be made.
Financial versus Strategic Objectives

• A firm can do certain things to maximize short-term financial objectives that would harm long-term strategic objectives
• To improve financial position in the short run through higher prices may, for example, jeopardize long-term market share
Financial versus Strategic Objectives

• The dangers associated with trading off long-term strategic objectives with near-term bottom-line performance are especially severe if competitors relentlessly pursue increased market share at the expense of short-term profitability.
Financial versus Strategic Objectives

• There are other trade-offs between financial and strategic objectives, related to riskiness of actions, concern for business ethics, need to preserve the natural environment, and social responsibility issues.
Financial versus Strategic Objectives

- Both financial and strategic objectives should include both annual and long-term performance targets.
- Ultimately, the best way to sustain competitive advantage over the long run is to relentlessly pursue strategic objectives that strengthen a firm's business position over rivals.
Financial versus Strategic Objectives

• Financial objectives can best be met by focusing first and foremost on achieving strategic objectives that improve a firm’s competitiveness and market strength.
Finance and Accounting

- Financial condition is often considered the single best measure of a firm’s competitive position and overall attractiveness to investors.
- Determining an organization’s financial strengths and weaknesses is essential to effectively formulating strategies.
Financial Ratios

- Computed from an organization’s income statement and balance sheets
- Computing financial ratios is like taking a picture because the results reflect a situation at just one point in time
- Comparing ratios over time and to industry averages is more likely to result in meaningful stats to identify & evaluate strengths & weaknesses
# Key Financial Ratios

<table>
<thead>
<tr>
<th>Ratio</th>
<th>How Calculated</th>
<th>What It Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liquidity Ratios</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Ratio</td>
<td>$\frac{\text{Current assets}}{\text{Current liabilities}}$</td>
<td>The extent to which a firm can meet its short-term obligations</td>
</tr>
<tr>
<td>Quick Ratio</td>
<td>$\frac{\text{Current assets minus inventory}}{\text{Current liabilities}}$</td>
<td>The extent to which a firm can meet its short-term obligations without relying on the sale of its inventories</td>
</tr>
<tr>
<td><strong>Leverage Ratios</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt-to-Total-Assets Ratio</td>
<td>$\frac{\text{Total debt}}{\text{Total assets}}$</td>
<td>The percentage of total funds that are provided by creditors</td>
</tr>
<tr>
<td>Debt-to-Equity Ratio</td>
<td>$\frac{\text{Total debt}}{\text{Total stockholders’ equity}}$</td>
<td>The percentage of total funds provided by creditors versus by owners</td>
</tr>
<tr>
<td>Long-Term Debt-to-Equity Ratio</td>
<td>$\frac{\text{Long-term debt}}{\text{Total stockholders’ equity}}$</td>
<td>The balance between debt and equity in a firm’s long-term capital structure</td>
</tr>
<tr>
<td>Times-Interest-Earned Ratio</td>
<td>$\frac{\text{Profits before interest and taxes}}{\text{Total interest charges}}$</td>
<td>The extent to which earnings can decline without the firm becoming unable to meet its annual interest costs</td>
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<td><strong>Activity Ratios</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Inventory Turnover</strong></td>
<td>Sales [\frac{Sales}{Inventory \ of \ finished \ goods}]</td>
<td>Whether a firm holds excessive stocks of inventories and whether a firm is slowly selling its inventories compared to the industry average</td>
</tr>
<tr>
<td><strong>Fixed Assets Turnover</strong></td>
<td>Sales [\frac{Sales}{Fixed \ assets}]</td>
<td>Sales productivity and plant and equipment utilization</td>
</tr>
<tr>
<td><strong>Total Assets Turnover</strong></td>
<td>Sales [\frac{Sales}{Total \ assets}]</td>
<td>Whether a firm is generating a sufficient volume of business for the size of its asset investment</td>
</tr>
<tr>
<td><strong>Accounts Receivable Turnover</strong></td>
<td>Annual credit sales [\frac{Annual \ credit \ sales}{Accounts \ receivable}]</td>
<td>The average length of time it takes a firm to collect credit sales (in percentage terms)</td>
</tr>
<tr>
<td><strong>Average Collection Period</strong></td>
<td>Accounts receivable [\frac{Accounts \ receivable}{Total \ credit \ sales/365 \ days}]</td>
<td>The average length of time it takes a firm to collect on credit sales (in days)</td>
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<td>Profitability Ratios</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Profit Margin</td>
<td>$\frac{\text{Sales minus cost of goods sold}}{\text{Sales}}$</td>
<td>The total margin available to cover operating expenses and yield a profit</td>
</tr>
<tr>
<td>Operating Profit Margin</td>
<td>$\frac{\text{Earnings before interest and taxes (EBIT)}}{\text{Sales}}$</td>
<td>Profitability without concern for taxes and interest</td>
</tr>
<tr>
<td>Net Profit Margin</td>
<td>$\frac{\text{Net income}}{\text{Sales}}$</td>
<td>After-tax profits per dollar of sales</td>
</tr>
<tr>
<td>Return on Total Assets (ROA)</td>
<td>$\frac{\text{Net income}}{\text{Total assets}}$</td>
<td>After-tax profits per dollar of assets; this ratio is also called return on investment (ROI)</td>
</tr>
<tr>
<td>Return on Stockholders’ Equity (ROE)</td>
<td>$\frac{\text{Net income}}{\text{Total assets}}$</td>
<td>After-tax profits per dollar of stockholders’ investment in the firm</td>
</tr>
<tr>
<td>Earnings Per Share (EPS)</td>
<td>$\frac{\text{Net income}}{\text{Number of shares of common stock outstanding}}$</td>
<td>Earnings available to the owners of common stock</td>
</tr>
<tr>
<td>Price-Earnings Ratio</td>
<td>$\frac{\text{Market price per share}}{\text{Earnings per share}}$</td>
<td>Attractiveness of firm on equity markets</td>
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<td><strong>Growth Ratios</strong></td>
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<td></td>
</tr>
<tr>
<td>Sales</td>
<td>Annual percentage growth in total sales</td>
<td>Firm’s growth rate in sales</td>
</tr>
<tr>
<td>Net Income</td>
<td>Annual percentage growth in profits</td>
<td>Firm’s growth rate in profits</td>
</tr>
<tr>
<td>Earnings Per Share</td>
<td>Annual percentage growth in EPS</td>
<td>Firm’s growth rate in EPS</td>
</tr>
<tr>
<td>Dividends Per Share</td>
<td>Annual percentage growth in dividends per share</td>
<td>Firm’s growth rate in dividends per share</td>
</tr>
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Financial Position

Financial Position (FP)
- Return on investment
- Leverage
- Liquidity
- Working capital
- Cash flow
- Inventory turnover
- Earnings per share
- Price earnings ratio
Financial Measures

• May include but are not limited to:
  • Net present value (NPV)
  • Return on investment (ROI)
  • Internal rate of return (IRR)
  • Payback period (PBP)
  • Benefit-cost ratio (BCR)
Financials

• Considerations: Currency exchange rates, interest rates, inflation rates, tariffs, and geographic location

• Control procedures: Time reporting, required expenditure and disbursement reviews, accounting codes, and standard contract provisions
Cost-Benefit Analysis

• A financial analysis method used to determine the benefits provided by a project against its costs
• Meeting the agreed-upon financial measures documented in the business case
Cost-Benefit Analysis

• A financial analysis tool used to estimate the strengths and weaknesses of alternatives in order to determine the best alternative in terms of benefits provided

• Will help the project manager determine if the planned quality activities are cost effective
Cost-Benefit Analysis

- The primary benefits of meeting quality requirements include less rework, higher productivity, lower costs, increased stakeholder satisfaction, and increased profitability.
- A cost-benefit analysis for each quality activity compares the cost of the quality step to the expected benefit.
Financial Benefits of Strategic Management

- Organizations that use strategic-management concepts are more profitable and successful than those that do not
- Businesses using strategic-management concepts show significant improvement in sales, profitability, and productivity compared to firms without systematic planning activities
Financial Benefits of Strategic Management

- High-performing firms seem to make more informed decisions with good anticipation of both short- and long-term consequences. In contrast, firms that perform poorly often engage in activities that are shortsighted and do not reflect good forecasting of future conditions.
References


• Project Management Body of Knowledge (PMBOK) - 6th Edition and 7th Edition
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