

CIMA Strategic Scorecard™

Boards engaging in strategy

Executive Summary



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Preface

Since the publication of CIMA's discussion paper, *The CIMA Strategic Scorecard*, released in March 2005, we have developed a suggested methodology, as well as identified the tools and techniques, that can be used to support the implementation of the scorecard. We are currently helping organisations to implement the scorecard.

We have published this executive summary alongside a separate executive report to meet the needs of different readers. These are both available to download from www.cimaglobal.com/strategicscorecard

How to use this summary

If you are new to the scorecard, we would suggest one of two alternatives:

- read this summary to gain an overview of the concept and information on how to start using a scorecard, or
- read the executive report, omitting section 4.5 (pages 18 to 41) which covers the detail.

However, you may have come across the CIMA Strategic Scorecard™ before, for example, in the IFAC/CIMA report *Enterprise governance – getting the balance right* or through CIMA's discussion paper.

If you are familiar with the concept you might want to go directly to section 4 of the executive report (pages 12 to 42). This provides guidance on how to implement a scorecard in your organisation.

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1 How to engage your board in strategy

Ask a typical board member why they took on the role and what gives them most satisfaction, there is a good chance that they will talk about getting involved in strategy and bringing their experience and enthusiasm to bear on the future success of the organisation.

But as we will see, the reality is often very different. Recent regulatory developments, such as the Sarbanes-Oxley Act (SOX) have meant that many boards have had to devote most of their attention to compliance issues. Strategy has often had to take a back seat.

The problem is, however, this is a luxury that few organisations can afford. The dramatic increase in the speed of change – largely driven by developments in IT, globalisation and the shift towards a knowledge-based economy – has put boards and their organisations under relentless pressure to really understand the environment in which they are operating so that they can generate the options that will create future value and success.

The best planned strategy counts for nothing unless it is implemented successfully – boards have a key role to play in providing effective oversight. Not only this, but they also need to understand the attendant strategic risks so that they can seize opportunities and avoid adverse occurrences.

So how can boards address all these dimensions of the strategic process?

CIMA believes it can offer one possible answer through its development of the CIMA Strategic Scorecard™ – this is a tool for helping boards of any organisation to engage effectively in the strategic process – in spite of the numerous challenges in the way, such as compliance requirements, information overload and sheer lack of time.

What the scorecard does is to give the board a simple, but effective process that helps it to focus on the key strategic issues and – most importantly – to ask the right questions. This means that the board can work constructively with management to promote the future success of the organisation.

The uniqueness of the scorecard lies in the fact that it:

- Summarises the key aspects of the environment in which an organisation is operating to ensure that the board is aware of changing competitor, economic and other factors.
- Identifies the (key) strategic options that could have a material impact on the strategic direction of the organisation and helps the board to determine which options will be developed further and implemented.

- Charts for the board the significant steps or milestones in relation to the chosen strategic plans to be achieved in the coming period and then tracks performance against these.
- Highlights the risks facing the board in its strategic endeavours and moves these into manageable opportunities or mitigation plans.

Early indications from our first trials are already proving just how effective the scorecard can be for all the key players in the strategic process.

We have discussed more strategy than ever before at a board meeting and we have made decisions. (a board member)

We have had a great discussion with the board and I feel that they are totally supportive of our strategy. This process has brought us closer together. (a member of the executive team)

The process has brought focus to our strategic thinking and enabled our executive team to discuss the strategic options and engage the board. (chief executive)

It has helped us to focus on the issues that really matter and to avoid the comfort zone of detail. (finance director)

1.1 What this summary will show

This executive summary is based on a more detailed executive report of the same name, which can be downloaded from www.cimaglobal.com/strategicscorecard

The aim of this summary, therefore, is to give an introduction to what the scorecard is all about and how it can help the board of your organisation – whatever size and sector – to make a more effective contribution to strategy.

First, we look at the role of the board in strategy, in particular the difficulties that boards can face.

We then provide some contextual background in section 3 by looking at the enterprise governance framework and showing how the CIMA Strategic Scorecard™ provides the missing link to the overall process of board oversight.

Section 4 gives an overview of the scorecard and each of its dimensions and provides information on how to get started in using it as a tool in your organisation.

Finally, in sections 5 and 6, we take a brief look at how the CIMA Strategic Scorecard™ relates to the well-known balanced scorecard as well as CIMA's current and future work on developing the scorecard.

2 The role of the board in strategy

In recent years, major corporate scandals have meant that company boards have had to turn their attention to internal issues and the need to comply with new governance rules. Companies which are listed in the US, for example, have had to come to terms with the stringent requirements of the Sarbanes-Oxley Act, while in Europe listed companies have had to deal with the transition to international financial reporting standards. It is little wonder, therefore, that strategic issues have sometimes taken a back seat.

Nevertheless, there are signs that the pendulum is swinging back into balance and that directors are refocusing their attention on strategy. Furthermore, we have already seen how the increasing pace of change and the increasing importance of intangible assets on the organisation's market value have made it so crucial for directors to determine, drive and take accountability for the key strategic drivers of future value.

Boards have a crucial role to play in strategy. However, this is easier said than done. There are three key reasons why boards struggle to make effective contributions to their organisation's strategic development.

1 Lack of time and crowded agendas

'The most common concern I hear is: 'We don't spend enough time considering and dealing with company strategy'. Obviously, this is related to a second worry: 'We are spending too much time focused on issues related to complying with new laws and rules'.' (Lorsch, 2005).

2 Too much information

Greater complexity of business combined with information overload can make it difficult for non-executive directors to get a deep understanding of the organisation and engage in constructive debate with management.

'... well-intentioned directors find that they have insufficient time and knowledge to perform their jobs well. A director's lack of knowledge is complicated by another problem – the quality of information they receive from management. Oddly, it is not that they receive too little, but that they receive too much, which is often poorly organised and does not illuminate the most significant issues'. (ibid).

3 Lack of robust processes at board level for dealing with strategy

Boards may have annual strategy sessions or 'awaydays' but they do not tend to have ongoing processes for dealing with strategy.

By providing a continuous process with standard progress reporting with which directors become familiar, the CIMA Strategic Scorecard™ can address all three issues and thus makes for a more effective board.

The scorecard approach forms a key element of what has been termed the enterprise governance framework. This is explored in more depth in Section 3 (pages 6 to 8).

3 The enterprise governance framework and the CIMA Strategic Scorecard™

The CIMA Strategic Scorecard™ was developed in response to the key findings that emerged from a project led by the International Federation of Accountants (IFAC) and CIMA to develop the framework of enterprise governance.

3.1 Enterprise governance defined

'The set of responsibilities and practices exercised by the board and executive management with the goal of providing strategic direction, ensuring that objectives are achieved, ascertaining that risks are managed appropriately and verifying that the organisation's resources are used responsibly.' (IFAC/CIMA, 2004)

The framework is illustrated below.



Figure 1 The enterprise governance framework

The key point to note about the framework is that enterprise governance encapsulates two dimensions of corporate governance processes i.e. conformance and performance that need to be kept in balance.

The conformance dimension covers issues such as board structures and roles as well as executive remuneration. Codes and/or standards can generally address this dimension with compliance being subject to assurance/audit.

The performance dimension centres on strategy and value creation. The focus is on helping the board to make strategic decisions, understand its appetite for risk and the key drivers of performance. This dimension does not lend itself easily to a regime of standards and audit. Instead, it is desirable to develop a range of best practice tools and techniques, such as the CIMA Strategic Scorecard™, that can be applied intelligently within different types of organisations.

At the heart of the framework is the argument that good corporate governance can help to prevent failure, but it does not guarantee good business performance. As we have already seen, corporate failures led to significant efforts to reform the corporate governance side of the equation in the early 2000s, but, until more recently, there has not been as much attention on the performance side in terms of strategic decision making and implementation. What we are now seeing is that the pendulum is swinging back to a more healthy position. The enterprise governance framework helps us to understand the importance of both conformance and performance to the organisation's long-term success.

3.2 The need for checks and balances

Another point to note – and one of particular relevance – is that both conformance and performance require robust board oversight mechanisms to ensure that each is working effectively.

In the case of the conformance dimension, there are well-established oversight mechanisms for the board to ensure that good corporate governance processes are effective e.g. committees composed mainly or wholly of independent non-executive directors and, in particular, the audit committee or its equivalent in countries where the two-tier board system is the norm. Other committees are typically the nominations committee and the remuneration committee.

However, while it is true that strategy is the responsibility of the full board, there are no dedicated oversight mechanisms comparable to the audit committee. In other words, while issues such as remuneration and financial reporting are subject to particular scrutiny by a specialist board committee of independent non-executive directors and referred back to the full board, the crucial area of strategy does not receive the same dedicated attention. So there is an oversight gap in respect of strategy.

'While most boards have processes for dealing with traditional audit and compensation issues because of the committees established for those purposes, they also need well-designed processes for engaging in strategy development ...' (Carter and Lorsch, 2004).

One way of dealing with this would be to establish a strategy committee of similar status to the other board committees. However, this might put at risk the fundamental tenet that the board must take collective decisions on matters of strategy.

An alternative – and the one we propose here – is to use a pragmatic and flexible tool that helps directors to exercise effective oversight of the organisation's strategic position and progress. This tool is the CIMA Strategic Scorecard™.

4 The CIMA Strategic Scorecard™ in practice

The CIMA Strategic Scorecard™ is shown below with its four dimensions.



Figure 2 The CIMA Strategic Scorecard™

The scorecard is a pragmatic and flexible tool that is designed to help boards to fulfil their responsibilities to contribute to and oversee strategy effectively. It is important to emphasise that it remains the role of the management team to develop and propose the strategy – it is not for the board to undertake the detailed strategic planning. The board's focus should be to challenge the strategy constructively, endorse it and monitor its implementation.

It is also important to note that the implementation of the scorecard assumes that the organisation has already determined its broad strategic direction and has a strategic plan in place. The scorecard represents a process for developing and moving this strategy forward in a dynamic way.

4.1 Objectives

The objectives of the scorecard are to:

- Assist the board, in particular the non-executive directors, in the oversight of an organisation's strategic process. In effect, it gives the board the big picture.
- Provide an integrated and dynamic framework for dealing with strategy at board level that focuses on the major strategic issues facing the organisation and ensures that the strategy is discussed at board level on a regular basis.
- Provide strategic information in a consistent and summarised format to help directors to obtain sufficient grasp of the material so that they can offer constructive, informed input.
- Assist the board in dealing with strategic choice and transformational change and the attendant risks.
- Provide assurance to the board in relation to the organisation's strategic position and progress.
- Assist the board in identifying key points at which it needs to take decisions.

Although the scorecard is primarily aimed at board level for use as an agenda item at board meetings, it offers considerable benefits to the organisation's management:

- The discipline of having to prepare and update the scorecard helps management to keep its focus on the key strategic issues.
- It facilitates discussion within the management team and helps the team to refine its proposals prior to exposure to the board.
- It can help to identify gaps in knowledge and analysis and can improve the quality of information presented to the board.
- Because the scorecard improves the quality of the board's contribution, this will lead to more constructive engagement with management. The strategic process and content are thus enriched. This makes for better governance and performance.

4.2 Dimensions

The four dimensions of the scorecard are summarised below.

4.2.1 Strategic position

This focuses on information that is required to assess the organisation's current and likely future position. It covers externally focused information such as economic and market developments and market share as well as internal issues such as competences and resources.

The purpose of this dimension is to:

- Ensure that the board and executive management share a common understanding of the relevant facts on the strategic position.
- Provide assurance to the board that management is reviewing its strategic position appropriately. In particular, the board will wish to know that management is considering the **right** information at the **right** time.
- Provide the board with a summary of the analysis undertaken so that the board can review it, discuss its implications and challenge it in a constructive manner. This then helps management to refine its thinking on the strategic position.

4.2.2 Strategic options

Having set the scene with relevant background and information, the focus of the scorecard shifts towards decision making. Strategic options can be defined as those options that have the greatest potential for creating or destroying stakeholder value. This dimension builds on the strategic position by starting to scope out the options that are available to the organisation.

The purpose of this dimension is to:

- Provide assurance to the board that the management team is identifying, developing and analysing a comprehensive range of strategic options available to the organisation on a continuous basis.
- Provide the board with a summary of the options so that the board can discuss them constructively and decide which should be developed further into a formal business plan for a separate and more detailed board debate. During the course of the scorecard discussion, the board may identify other options that have not been considered or re-frame the ones that have been presented, for example, by combining two options into one. In essence, what the board is doing is scoping out the options in broad terms. The purpose of the scorecard is to set out the landscape rather than consider each option in detail.

The crucial point is that management and the board both need to be engaging regularly in discussions on strategic options and agreeing a timeline for reviewing specific options.

4.2.3 Strategic implementation

At this point, the emphasis of the scorecard is to identify key milestones for the board and to monitor implementation of the agreed strategy. Decisions on appropriate action may be required if things are not proceeding as planned.

Once a project or process improvement has moved through the evaluation stage to implementation, the board needs to be updated on progress. To a large degree, the success of the scorecard rests on how well this dimension is managed. The best analysis of the organisation's strategic position and identification of options will count for nothing if the strategy is not well-executed.

The detailed evaluation of a specific option should have developed and set out attainable milestones and timelines that need to be met. These should be reported on regularly, together with an outline of any implications and necessary corrective action.

Critical success factors should also be clearly set out – what must happen to make the strategy successful? There may be a critical path linked with the milestones.

The board needs to be aware of where there are breakpoints when board decisions and/or intervention might be required. These decisions would include whether to accelerate, abort, delay or, possibly, switch strategy.

It would be helpful for the board if the management team were to provide a brief update (say 20 minutes) on the strategic priorities during the board year rather than a once per year update on completion of a task. An example of this would be an update on a new product line or a major internal project.

It should be noted that the strategic implementation dimension of the scorecard should be very high level. It is meant to focus on a small number of key projects that are crucial to delivery of the strategy. The board should not get too bogged down in the detail of strategic implementation. Nevertheless, it is useful for directors to have some feel for how management executes strategy, including some of the tools and techniques used.

4.2.4 Strategic risks

This dimension underpins the others by focusing specifically on the major strategic risks that pose the greatest threat to the achievement of the organisation's strategy as well as key issues such as the organisation's risk appetite.

In recent years, there has been an increasing emphasis on risk management and various frameworks have been developed. The Enterprise Risk Management (ERM) approach, for example, recognises that risk management needs to encompass all the organisation's risks – operational, financial, compliance, regulatory and strategic risks. Strategic risks are defined as those risks that would threaten or enhance the achievement of the organisation's strategy and even the ability of the organisation to survive. Compared to other risks, such as operational risks, strategic risks can have major impacts. They are typically less predictable and can be interconnected.

A recent analysis of risk in the US by Marsh & McLennan found that where 10% of Fortune 1000 companies suffered a loss of over 25% of shareholder value in one month, the major reasons were strategic factors such as competitive pressures, misaligned products, integration of mergers and acquisitions and loss of reputation.

So it makes sense for the board to focus its attention on strategic risks. In essence, risk management must be embedded within the overall context of business strategy. In this way, the emphasis is balanced between risk minimisation – stopping bad things from happening – and risk optimisation – ensuring that good things happen. In this way, the risk management process drives improved performance and creates shareholder value.

The emphasis of strategic risk analysis often only concentrates on the internal strategies of the organisation and does not encompass the external risks (sometimes not within the organisation's control). Changes in economic or competitive environments are often more dramatic, tend to have both short-term and long-term impacts and should be on the board's risk radar. Work on the strategic position and strategic options often feeds into the strategic risk discussion.

There are three key components to strategic risk management:

- 1 Risk appetite – as its name suggests, this covers the organisation's propensity to take risk. Every organisation has a risk appetite regardless of whether it is aware of it or not. The determination of the risk appetite is a key strategic task as the risk appetite provides an overall context for the strategy.
- 2 Strategic risks and opportunities facing the organisation – the nature and extent of these, the likelihood of their occurrence and/or potential for exploitation, ability to manage risks, etc. To a large extent, these need to be considered in respect of each of the other three dimensions, but the strategic risk dimension provides a useful check and balance to ensure that this is actually happening.
- 3 Process issues – for example, risk identification and prioritisation, how risks are actually managed within the organisation, training issues, stress testing, risk monitoring processes and whether any risks are currently materialising.

In some respects, this dimension can be regarded as encompassing or driving the other three dimensions. For example:

- A couple of major companies in the motor and media sectors have suggested repositioning the strategic risk box so that it is the first box that is considered.
- An alternative approach, suggested by a major media company, is to view the strategic risks dimension as the 'strategy for risk' and add what it has termed the 'risk wrapper' to the entire scorecard with suggested risk interventions for each of the dimensions of the scorecard.

However the board chooses to view it, the key issue is that they spend adequate time on all three components of strategic risk and that risk management is fully embedded in the overall strategy. **Best practice is intelligent risk taking with formalised risk management.**

4.3 Pulling it all together

The particular value of the scorecard lies in the way that it brings all the strategic information together in a summarised, but coherent form for the board's use. This is supported by a strong foundation of high quality management information which the board can access if it is felt necessary to explore a particular issue in greater depth. The key benefit of the scorecard is that it provides the board with the big picture. The scorecard is a very flexible approach in that organisations can use any strategic tools and techniques to undertake their detailed strategic planning and management for each dimension.

When presented to the board, the scorecard is set out in the form of tables with relevant headings for each dimension. These can be modified to suit the individual organisation. These headings prompt management to provide an adequate description of the activity being undertaken, including when the last relevant information was put to the board and when new information will be presented in the future. The board can then ask challenging questions and depending on the answers, the board can decide whether it is satisfied, whether action needs to be taken and/or whether it needs to explore a specific issue in more depth – perhaps by referring to the more detailed supporting analysis and whether further discussion is required in a future board meeting.

4.4 Using the scorecard: getting started

In the first instance, the decision needs to be taken to prepare an initial scorecard and use it on an ongoing basis. The impetus for getting started can come from management or the board or both.

As mentioned above, however, the scorecard assumes that the organisation already has a strategic plan in place; if this is not the case, then the organisation needs to address this before it attempts to implement a scorecard.

It is important that the format of the scorecard should be standardised so that directors can become familiar with it quickly and be able to see the key trends. Otherwise, the temptation is to keep 're-engineering' the scorecard to get it right, particularly at the outset. It is more important to keep it simple so that it can be established and useful quickly. Otherwise, it will be seen as just another initiative and lose its impetus.

The organisation needs to make an initial time investment in order to prepare the first version of the scorecard. Once this has been done and the format agreed, the scorecard should be updated regularly – as a minimum, quarterly – to meet the organisation's particular schedule.

Our experience so far has shown that the process is not unduly onerous when it ties in with an organisation's existing planning schedules. If the scorecard is implemented properly, it becomes part of the normal planning process. As it develops and directors become familiar with the framework and outputs, it does not require significant additional resource. The largest resource requirements are at the outset, but these should diminish quickly once the scorecard is up and running. Boards should start to see benefits in terms of better use of their time.

The steps required are therefore:

- 1 The board needs to receive an initial presentation of the scorecard concept to achieve initial buy-in and agreement to use it.
- 2 The board and management team agree to prepare an initial scorecard and determine a date for which it will be produced. A recommendation would be to prepare it for a board strategy awayday or similar strategic planning session, but there is no reason why it cannot be presented at a regular board meeting. It is also worth giving some thought as to the facilitation process that will be necessary to support the discussion in the board meeting, for example, it may be useful to use an external facilitator when the completed scorecard is first presented to the board for discussion.
- 3 Management needs to plan a schedule for preparing the scorecard – the length of time required will depend on the current extent of strategic planning and reporting. For some organisations, it may simply require pulling together information that already exists, but it is preferable to produce a simple first draft reasonably quickly that can be kick-started at an awayday. Note that it is not essential to have produced all the underlying detail and analysis that supports the scorecard, for example, a detailed competitor analysis report. For the purposes of the scorecard, it is sufficient to flag competitors as a significant issue and provide a schedule of when the detailed report will be delivered. The main effort of producing the scorecard lies in determining which headline issues need to be included.
- 4 Once the scorecard has been presented to the board for the first time, the board needs to decide (in conjunction with management) its schedule for reviewing and monitoring strategy using the scorecard. The sooner that the scorecard forms part of the normal board routine, the better. A recommendation would be to review the full scorecard on a quarterly or half-yearly basis – and certainly as part of regular strategic reviews – although specific components of the scorecard may be reviewed more frequently. For example, a particular strategic option may be considered at a number of board meetings until the recommended action is agreed. Another example might be where it is agreed that specific market information, e.g. competitor analysis needs to be reviewed monthly. Strategy needs to be included on the board agenda at a frequency, and level, that will keep pace with change and that will support successful delivery. As mentioned above, it needs to be part of the board's normal routine.

A suggested layout for each dimension of the scorecard together with a checklist of questions for the board is included in the full executive report.

5 How the CIMA Strategic Scorecard™ relates to the balanced scorecard

The CIMA Strategic Scorecard™ and the balanced scorecard differ in the way that they are used at other levels of the organisation. The CIMA Strategic Scorecard™ is primarily a high-level tool for use by boards and executive management in exercising strategic oversight. It can also be used by strategic business units (SBUs) or divisions of an organisation. This contrasts with the balanced scorecard which is often cascaded to lower levels of the organisation. Many organisations have prepared lower-level scorecards e.g. at business unit, department and even individual level. These scorecards are designed to be used as a management tool to support implementation of the organisation's agreed strategy.

Although the developers of the balanced scorecard, Kaplan and Norton, have emphasised that the best balanced scorecards should reflect the strategy of the organisation and that a scorecard can help to force clarification and consensus about what the strategy is, they are quick to acknowledge that 'strictly speaking, the balanced scorecard is a strategy implementation tool' (Kaplan and Norton, 2001).

Unlike the CIMA Strategic Scorecard™, the balanced scorecard is not really designed to address strategic issues that confront the organisation as a result of major external disruption such as market collapse, competitor activity or regulatory change. Nor does it help with strategic choices, for example, whether to undertake mergers and acquisitions.

Despite these differences, there is a link between the two scorecards in that, as we have seen, the balanced scorecard can supplement the strategic implementation dimension of the CIMA Strategic Scorecard™. This then provides a clear cycle from the strategic position through to options and then to implementation.

6 Current and future developments

CIMA has adopted the scorecard itself to assist its governing Council in the oversight of strategy and this has been very successful in ensuring greater focus on the major issues. A number of other organisations are also using the scorecard on their own initiative and, in some cases, have modified the framework and/or used it in innovative ways to suit their own particular needs.

CIMA is also in the process of conducting in-depth trials with other organisations. The outcome of these trials together with the learnings gained from the use of the scorecard by other organisations will be published at a later date. In the meantime, CIMA would be very pleased to hear from organisations which have also adopted the scorecard and/or would be interested in undertaking a formal trial.

Other documents available on this topic from www.cimaglobal.com/strategicscorecard

Executive report, March 2007

Discussion paper, March 2005

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**The Chartered Institute
of Management Accountants**

26 Chapter Street
London SW1P 4NP
United Kingdom

T. +44 (0)20 8849 2275

F. +44 (0)20 8849 2468

E. technical.services@cimaglobal.com

www.cimaglobal.com

TE030V0407