MARKETING ASPECTS IN STRATEGIC MANAGEMENT ACCOUNTING

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SUMMARY:

Strategic management accounting has an important role to play in providing information about the major sources of competitive advantage of an enterprise. In increasingly dynamic environments the provision of strategically relevant information is of paramount importance for the formulation and execution of business strategies. Management control systems together with traditional management accounting represent a starting point for the development of modern management accounting concepts. There is a need to look for methods and techniques which can lead to better relationship between strategy and operational effectiveness. Externally focused on the market, strategic management accounting integrates insights from management accounting and marketing within a strategic management framework. This article outlines a broad role of marketing activities in management accounting as they can influence the relative strategic position and thereby help to evaluate business performance of customers, suppliers and competitors.

The goal of the paper is to search for marketing aspects which can lead to strategic goals set by organizations. The interdisciplinary approach which is including accounting and marketing can help executive management and academics in creating strategy framework and performance scorecards.

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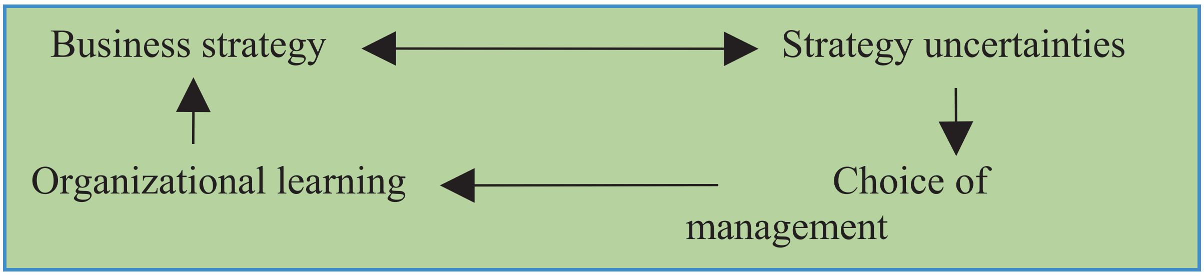
1. INTRODUCTION TO MANAGEMENT CONTROL SYSTEMS

Management accounting needs to be understood as a part of a broader context of management control systems by which managers make sure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives (Anthony and Govindarayan, 2000). They also put in action a second, more narrow definition as a process by which managers on all levels ensure that the people they supervise implement their intended strategies. In their revolutionary Johnson and Kaplan (1987) argued that current management accounting and control systems could not cope with the organizational demands of the new manufacturing environment and the increased importance of service industries. According to those authors the notion of strategic management accounting is linked with business strategy and maintaining or increasing competitive advantage. Strategic management accounting represents the most recent development of management control system and management accounting.

Management control systems encompass both financial and non-financial performance management. Its functions are: (i) strategy formulation concerned with goals, strategy and policies which fed into (ii) management control, which was concerned with the implementation of strategies and in turn led to (iii) task control, which comprised the efficient and effective performance of individual task (Kaplan, 1984).

Simmons (1990) developed a model of relationship between strategy, control systems and organizational learning in order to reduce strategy uncertainty. A model is shown in Figure 1. Choice by top managers to make certain control systems provide some kind of a signal to an organization about what should be monitored and where new ideas should be proposed. That is what activates organizational learning.

Figure 1. Process model of relationship between business strategy and management control systems



Source: Simmons (1990, 131)

Feedback plays a significant role in the functioning of the model shown in the diagram, but, also, in the functioning of other, similar models developed by other authors. Feedback is the retrospective process of measuring performance comparing it with the plan and taking corrective action. Feedback is a vital subpart of management control systems where the relevant information acquirement can be substantially improved if communication network is used in process. Management accounting is important because it summarizes the feedback effect of organization's actions which can be expressed in monetary terms, quantitative terms, or terms of time.

According to these contributions, management control system can be said to shed light on the control of all business processes, functions and tasks, with the purpose of achieving the highest possible level of business performance. The preconditions for the creation of new conceptions concerning managerial accounting have been created by identifying the need for the introduction of the necessary enhancements in an increasingly inadequate, traditionally designed management controlling system. The main reasons for the changes were more conditioned by the state of affairs on the market, uncertainty and the growth of competition, than by those internal ones. The formulation of organizational learning actually means that an organization needs to develop its own skills, so as to be able to cope with the feedback information successfully.

2. DEFINING STRATEGIC MANAGEMENT ACCOUNTING

The general focus of accounting in enterprise is shareholder value – increasing the value of the business to its shareholders through dividends from profit and through capital growth on stock exchange. Strategy, both, influences and is influenced by shareholder value. Strategy is reflected in the functional business areas of marketing, operations and human resources, i.e. intellectual capital, through the actions business wants to take to achieve, maintain and improve competitive advantage. In terms of strategy it evaluates external environmental opportunities as well as internal strengths and resources in order to decide on goals as well as a set of action plans to accomplish these goals (Miles and Snow; 1978).

The key features of an evolving area of accounting practice, comparing features of traditional management accounting vs. strategic management accounting was summarized by Collier (2006). He concludes, in reality, strategic management accounting systems will vary between organizations to reflect specific characteristics of the organization. Moreover, such systems will be continually evolving and the critical consideration in guiding development will be their contribution to the ongoing achievement of business success rather than a comparison to some abstract model of ideal practice. Table 1 present key features which distinct strategic management accounting from traditional management accounting concept. Emphasis should be done on marketing aspects like focus and profitability analysis.

Table 1. Key differences between traditional and strategic management accounting.

SCOPE	MANAGEMENT ACCOUNTING	STRATEGIC MANAGEMENT ACCOUNTING
REPORTING UNIT	Whole organisation	Strategic business unit
FOCUS	Internal	External
PROFITABILITY ANALYSIS	Products	Products, customers and markets
APPROACH TO COST ANALYSIS	Ex-post cost control via department/product costing systems Period based manufacturing costs and monthly departmental budgets. Volume the principal cost driver Cost analysis set within organisational boundary	Ex-ante cost control based on targeted, future, life-long costings set to attain a required profit level at market set price. Process/activity costing based on analysis of multiple cost drivers studied in a specific context Cost analysis embraces supplier firms in value chain
PERFORMANCE APPRAISAL	Monthly based financial review	Three/six monthly multi- dimensional review
INVESTMENT APPRAISAL	Financial evaluation with strict criteria	Strategic analysis using multiple models to promote decisions based on judgement
OWNERSHIP	Stand alone under control of the accountant	Part of a wider MIS with team ownership of strategic review process

Source: Collier (2006, 29).

The term strategic management accounting was coined by Simmonds in a paper to a 1981 technical symposium of the UK Institute of Cost and Management Accountants. It was identified as the provision and analysis of management accounting data about a business and it competitors for use in developing and monitoring the business strategy, particularly relative levels and trends in real costs and prices, volume, market share, cash flow and the proportion demanded of a firm's total resources (Simmonds; 1981). He argued that management accountants were in a better position to execute these activities than potential rivals such as marketing and business planning specialists. In his view management accountants possessed the necessary skills and concepts to represent changes. Much of the information that strategic management accounting sought to provide on costs and prices, sales volumes and market shares, cash flows and resource consumption has been, to a certain extent, removed from the conventional understanding of management accounting and its strong external financial reporting underpinnings.

According to what has been previously said, accounting should be integrated in the business strategy, while it embraces techniques necessary to capture environmental opportunities. Using its conventional cost methods together with modern cost methods (ABC, target costing, life-cycle costing etc.) and accompanied measuring systems (IC, TQM, VBM, scorecards) it helps to evaluate business performance of customers, suppliers and competitors.

In order to cope with uncertain changes in the market and to follow accepted strategic goals, contemporary accounting should be more outward looking in a way to help the firm evaluate its competitive position relative to its competitors by collecting and analyzing data on costs, prices, sales volumes and market share, cash flows and resources for its main competitors. Despite, there is no comprehensive conceptual framework of what strategic management accounting is or how it relates to corporate strategy. Collier (2006; 48) defines it as provision and analysis of financial information on the firm's product markets and competitors' cost structures, and the monitoring of the enterprise's strategies as well as those of its competitors in these markets over periods. It highlights strategic issues and concerns, and also, it helps to build the collection of competitor information, it provides management with cost reduction opportunities and matches the accounting emphasis with the firm's strategic position.

Porter (1985) classified a strategic position of the firm on the following way:

- The four forces model (the treat of new entrants, the threat of substitutes; rivalry among firms; bargaining power of suppliers and customers) that assesses industry attractiveness from the perspective of long-term profitability.
- The value-chain (the linked set of nine inter-related primary and support functions) that compares the prices customers are willing to pay for features with the costs associated with providing them.
- The generic strategies (cost leadership; differentiation; focus on market segments) that lead to sustainable competitive advantage and the firm's relative position within industry.

For example, in order to pursue a differentiation strategy, therefore, it is necessary to have a range of reliable information available about customers and offerings, i.e. about the market in which the firm is operating. The most obvious source of such information is the marketing function, including the sales function. Management accountants cannot be expected to provide this information. Those two key functions, marketing and management accounting must cooperate and work most closely together. According to the Porter's approach, which observes the strategic positioning from three angles, it is important to establish a versatile internal accounting mechanism that would provide the execution and the control of the strategic model implementation. According to this generic approach, the model should be shaped by management authority.

In order to ensure the long-term profitability, much focus should be placed on gaining the bargaining power which exists only if the position of the other side can be overcome. Gaining of power is a rather long and demanding process that requires the knowledge about the market, business intelligence, but, also, the knowledge about the position of the other side, in order to choose the right direction in terms of the bargaining position. A new problem that occurs is how to put in the action bargaining power gained in the market. That is most often achieved by changing the conditions and the ways of cooperation in a supply-chain, and in favour of the more powerful side, that consequently receives the aliquot part of the profit.

3. DEVELOPING A NEED FOR STRATEGIC AND MARKETING ASPECTS IN MANAGERIAL ACCOUNTING

The initial phase of accounting for strategic positioning occurred largely in the later 1980s, immediately following Kaplan's expression of concerns about the relevance of management accounting. This phase entailed the identification of a range of new methods or tools, the most well known being the activity-based costing, together with strategic cost analysis and quality costing, and later, the non-tangible asset focused methods, such as balanced scorecard, strategy maps and strategic budgeting. What these methods have in common, is that they were designed to provide information on the aspects of business performance that Kaplan (1984) identifies as critical to success in the new competitive marketplace and that is strategic positioning. Activity-based costing accounting as a generic approach embraces the activity-based costing method together with the analysis of customer profitability and direct product profitability. The common factor within this approach is the search for operational excellence in the pursuit of delivering superior value to customers. Like the former approaches, strategic management accounting is interdisciplinary, incorporating achievements from management accounting and marketing management. The methods associated with strategic management accounting include competitor position analysis, costs of activities and assets used in value-chain analysis, scorecards, and measures of intangible assets, value-added, target costing and life cycle costing. Although Stewart (1994) isolates the value-based management from the framework of strategic management accounting, the same way Lynn (1998) isolates the intellectual capital management, these two approaches should be included in the context of strategic management accounting, for the purpose of these methods is to put the added value and the non-tangible asset into the function of strategic positioning. Furthermore, what facilitated the development of strategic management accounting is the fast development of the information technology, and it has become its integral part and a very important factor in its every segment, from data-gathering to reporting. The creation of database concerning the data from both, inside and outside the business system on the market, such as data on the customers, prices, supply-chain network inventory data etc., represent a quality source of information for generating the multiple models and multi-dimensonal reports neccesary to support up to date decision making proces.

The development of business strategies typology (Mintzberg; 1973; Porter; 1980; Miles and Snow; 1978), but also of corporate strategies (Porter; 1980), it is clear that all of them acknowledge the great importance of costs and their management. Management control system, by all means, monitors the implementation of the business strategy, simultaneously gathering the data on the costs. If there is a discrepancy between the costs, in terms of where they occur and how high they are, and the implementation, the cost method is examined. The cost method is used in the business process and is replaced when a more suitable one is discovered. This is, in most cases, the way the modern cost methods came to existence. Porter mentions the cost management as one of two possibilities for gaining the competitive advantage. Porter commends the strategic cost method to businesses pursuing a strategy of cost leadership. This involves identifying and investigating the configuration of both the business's value chain activities and those of its competitors, in an attempt to determine how it might be possible to deliver greater value for money. Shank and Govindarajan (1993) argue that it is necessary for businesses to focus on the entire value chain of the industry in which it operates.

Since strategy and vision are of significance to all the stakeholders in the organization, it is necessary to develop performance measurement systems that are directly meaningful to all stakeholders, hence the necessity for customer, internal business, and innovation and learning perspectives alongside a financial perspective, and the defining future orientation (Kaplan and Norton; 1992, 58). The balanced scorecard is viewed as providing the means of linking the long term strategic objectives of a business to its short term actions. It is enabling mechanism that translates strategy into action. The balanced scorecard is no longer to be seen as simply a forward looking means. Strategic management is represented as being constituted by four processes:

- translating the vision;
- communicating and linking;
- business planning; and
- feedback and learning.

A scorecard provides the means of accomplishing these crucial business imperatives. It enables a company to align its management processes and focuses the entire organization on implementation of a long-term strategy (Kaplan and Norton, 1996).

For Kaplan and Norton, the balanced scorecard promises to allow the management accountant to make a crucial contribution to the management of organizations in what they refer to as the Information Age. In this sense it can readily be accepted as an example of a management accounting development that has a strategic significance.

Based on the previous overview and an attempt to relate the relevant contributions to this topic, it can be concluded that there is a logical need for the managerial accounting and the phenomenon of strategy to be integrated in one functional unit. This notion may be used in a broader sense, i.e., every time when we talk about accounting (cost) methods, which are shaped in such a way that they can always link the competitive advantage, strategy, buyers or the products with managerial accounting.

The contribution to the development of the strategic and marketing aspect in management is also visible in the financial aspect of the management accounting which is based on the current and the future values of the net cash flow. Investments are made so as to create the conditions for the operational functioning and generate the cash flow. Strategic investment appraisal is concerned with determining the possible viability of a commercial opportunity in the marketplace. That represents quite different focus from a focus of ordinary investing in capital as in the conventional capital budgeting model. In the case of strategic investment appraisal, the necessary first step is to look to the market, at customer requirements and the capacity of rivals to deliver them, and to be concerned with product/service attributes and price.

Porter (1985) sees marketing as a business function that aims to understand customer needs and satisfy those needs more effectively than competitors. Marketing emphasize the importance of adding value through marketing activity. Pricing of products/services is crucial to business success, in terms of increasing the perceived value so as to maximize the margin between price and cost and to increase sales volume. Marketing decisions cannot be made in isolation from knowledge of business costs and the impact that marketing strategy has on operations and on business profitability.

When we talk about the selling price, we can point out one cost method that plays an important role in strategic management accounting. That method is target costing. It is primarily focused on upstream costs, on the basis that an increasingly greater part of the costs are committed at the design and development stages (Monden and Hamada, 1991). Target costing is heavily reliant on the continued cooperation of a wide range of functional specialists: accountants, including management accountants; process and production engineers; and marketers, including sales specialists. All those specialists are committed to the determination and realization of target costs. Finally, in contrast to most other approaches, target costing rejects cost plus pricing, substituting in its place logic of market-driven costing. In target costing there is a very strong link between cost management, marketing and strategic management issues.

5. CONCLUSION

At the beginning of this paper we were concerned to identify a particular meaning for strategic management accounting, one that provides a means for differentiating it from more general uses of the term. Having done so, and having, in turn, identified strategic management accounting as an interesting development of management accounting, we saw theoretical evidence how it is linked with strategy and marketing perspective taking into account generic approaches and contributions up to date.

Gathering competitors' data will be more effectively accomplished where management accountants and their marketing colleagues, together with others, cooperate fully. The accountant will need to work with marketing staff to evaluate bargaining power and cost position to make price decisions. The need for information should be served from one place and that is eventually strategic management accounting. With regard to the development and the specialization of management accounting, it is to be expected that some kind of a new, parallel concept will occur, some sort of a strategic marketing management accounting concept. Until recently, management gathered useful information for the management that was independent from the internal management accounting, especially from marketing. However, the creation of the forms of management accounting will always be interdisciplinary and directed towards the generic principle of market positioning, with the purpose of providing for and sustaining of the competitive advantage of the business.

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