

LINKAGE OF COMPETITIVE STRATEGY AND MANAGEMENT ACCOUNTING BY FCPAK ERIC KIMANI July 2019

CONTENTS



- Overview
- Definitions
- Cost Leadership/Low cost
- Differentiation/Uniqueness
- Focus/Niche
- The Linkage & Modern trends
- Conclusion

OVERVIEW



➤ **Competitive Strategy**

- Strategic priorities + sound Mgt. accounting= enhanced performance & Profitability.
- Strategic Management Accounting (SMA) versus traditional accounting
- Quality systems, integrated systems, team based structures, HRM policies, PM, benchmarking and strategic planning are all management accounting practices that will lead to higher performance. This is emphasis on product differentiation.
- Low Price strategies will be enhanced by improved processes, manufacturing innovation, traditional accounting techniques and activity based techniques.

Definitions



- Competitive Strategies-actions that define how an organisation is going to compete in a specific business or industry. It focuses on the management of interests and operations of a particular line of business
- Competitive Advantage- a situation where an organisation maintains a competitive edge over its rivals. It is what sets an organisation apart from its competitors
- Management Accounting- involves partnering in management decision making, devising, planning and performance management systems and providing expertise in financial reporting and control to assist management in the formulation and implementation of an organization's strategy. (IMA)

Definitions (Cont.)



- Strategic Management Accounting-Focus is on internal and external factors that affect the business of an organisation in driving its strategy. It is an accounting system that continuously checks, accommodates, supports and controls the strategic management goals of an organisation.
- There is no accepted universal definition but it is accepted that SMA is in charge of devising and running an accounting and management system that will help develop, monitor and control the organisation's strategic goals

Competitive Strategy



- Competition is always striving to gain a competitive advantage. Therefore, world-class companies need to continuously aim at improving performance in the three interrelated dimensions of price/cost, quality and service. In order to compete, successfully, in these three dimensions, effective competitive strategies need to be adopted. Innovative management accounting strategies may therefore be useful in identifying competitive strategies that lead to a competitive advantage for an organisation
- Porter's five forces for analysing competition is worth reading (The threat of substitutes, Rivalry among existing competitors, The threat of new entrants, The bargaining power of suppliers and The bargaining power of customers).
- Known as SWOT under the earlier strategic planning model

Cost Leadership



- Low cost producer
- Economies of scale
- Technology
- Procurement
- Which local or international firms can you think of who have utilized this competitive strategy?

Product/Service Differentiation



- Uniqueness
- Valued by customers
- Premium price
- Quality systems
- Integrated systems
- What examples can we share of firms that have used product/service differentiation for competitive advantage?

Focus/Niche Strategy



- A niche
- In cost
- Segment
- Buyers with unusual needs/delivery/production cycles
- Examples of firms?

Sound Management Accounting



1. Addresses business needs and strategically align to the organization's overall objective.
2. Planning.... Identifying New/Innovative Products
3. Organizing-Setting the Time to Release New Products
4. Controlling
5. Decision making

The Linkage Explained



1. How does an organization with mature management accounting practices look like?
 - They are business consultants
 - They have a sit on the planning, execution and celebration table of strategy
 - They add value to the business
 - They are futuristic and innovative

Top Trends



- Data analytics & BData–predictive. Google style.
- Real time information versus historical
- Product/service channel profitability- Big in banking.
- Enterprise Performance Management
- The shift to Predictive Accounting
- Business analytics embedded in EPM
- Co –existive and improved accounting methods
- IT management
- Better skills and competency with behavioural cost management.

The Jury



- The Future lies in the enhanced co-operation and linkage. All modern trends emphasize the linkage.
- SMA is the answer to a VUCA (Volatile, Uncertain, Complex and Ambiguous) world!
- What in your view, can be done to get the best of the linkage between Competitive Strategy and SMA?

Parting Shot



THANK YOU!

Interactive Session

