



ORGANIZATIONAL CONTINGENCIES INFLUENCING THE ADOPTION OF STRATEGIC MANAGEMENT ACCOUNTING PRACTICES AMONG MANUFACTURING FIRMS IN KENYA

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Abstract: *The study sought to contend with the dearth of studies in adoption of Strategic Management Accounting (SMA) practices in manufacturing firms in Kenya with the view of filling this gap. The overall objective of the study was to investigate the organizational contingencies influencing the adoption of SMA practices among manufacturing firms in Kenya. Accordingly, the findings of the study contribute to the flourishing literature on adoption of SMA practices. This study is anchored in the framework of contingency theory to identify three contingent variables possibly displaying association with adoption of SMA. The study adopted a survey research design. The study findings indicate that the intensity of industry competition and the use of advanced manufacturing technology significantly influence the adoption of SMA among manufacturing firms in Kenya. However, the study does not find evidence to support hypothesis that life cycle stage of the firm significantly influences the adoption of SMA among manufacturing firms in Kenya. The main limitation of this study is that it focused only on three contingency variables. Future studies should explore the influence of other contingency factors on the use of SMA practices in developing countries.*

Keywords: *Strategic Management Accounting practices, Competitive advantage, management accounting, Manufacturing firms, competitor analysis*

1. INTRODUCTION

In the management accounting literature, the term Strategic Management Accounting (SMA) was introduced for the first time by Simmonds (1981), as an analysis of management accounting data including information about the business and its competitors, with the purpose of developing and monitoring business strategy. This concept was later positioned by Bromwich (1990) in an influential paper. However, there is no consensus on a clear



definition of SMA in the extant literature despite its “external orientation” being well established by the scholars who dealt with it (Langfield-Smith, 2008). According to Roslender and Hart (2003) SMA has been well accepted in a number of organizations as a generic approach to accounting for strategic positioning. As a result, many organizations have adopted SMA practices to make informed decisions (Roslender & Harts 2003; Cravens & Guilding, 2001). Indeed, SMA focuses on performance measurement, management control and decision making. Furthermore, Cadez and Guilding (2008) contend that SMA affects business performance in a positively significant manner.

As competition continues to deepen, Kaplan and Norton (2001) argue that organizations need to find ways to improve their financial and nonfinancial performance. This has led organizations to pursue competitive advantage through clearly articulated strategies, advanced management accounting systems, advanced manufacturing systems and advanced information technology, among other things (Baines & Langfield-Smith, 2003). In the same vein, Fullerton and McWatters (2001) contend that matching SMA methods with a change in strategy is critical to the organizations’ success. According to Shank and Govindarajan, (1992) organizations should adapt themselves to current business environment and predict future scenarios as strategies to excel in business. As such, adoption of “best-in-class” SMA practices is seen as a strategy for organizations’ continued dominance in their own market within which they participate to run business (Cadez, & Guilding, 2008). The use of SMA techniques therefore, assists organizations to recognize areas for improvement in supporting business decisions and in achieving breakthroughs in their processes through cost management strategies (Roslender & Harts, 2003).

There subsists an extensive gap between relevant management accounting and its fulfillment of managerial needs (Ahmed & Zabri, 2012). This gap is wider for organizations in developing countries where the management has less or no management accounting knowledge at all. As a result, the speed of implementation of modern management accounting techniques by many organizations has been slow which has led to the diminishing relevance of management accounting as a vital tool for managerial decision making (Karanja, Mwangi & Nyaanga, 2012). In the same vein, Nandan (2010) refers to this gap as “relevance lost” where management accountants have not entirely abandoned concepts of conventional management accounting despite advancements in the firm’s



environment. Nandan further argues that the fast changes in the business environment coupled with the product diversification have caused conventional management techniques to be of less value. Accordingly, the responsibilities of management accountants have become significant given the prominence of various strategic decisions. This has led to a growing shift in attention from traditional to contemporary management accounting techniques in order to satisfy this sprouting need for management accounting as a tool for strategic decisions making.

The amalgamation of SMA with management decision making practices will breed glowing improvement of processes, product and service delivery as well as market strategies. This will sequentially result to value and wealth creation. The study and usage of management accounting practice must be tailored to a firm's specific objectives and thus cannot be universally applied without regard to the firm's individual uniqueness. The implementation as well as effectiveness of a particular SMA technique depends on various internal factors within the firm as well as external factors that affect the firm. Indeed, Haldma and Kertu, (2002) posit that the effectiveness of an accounting systems design depends on its ability to adapt to changes both in external circumstances and internal factors not just on its ability to lower real production costs and modernizing cost accounting systems, in effect some changes in cost and management accounting practices are associated with shifts in the business and accounting environment as external contingencies, and with those in technology and organizational aspects as internal contingencies. According to Alleyne and Marshall (2011) timeliness, technology, effectiveness, information needs and an adoption of best practice are important factors influencing the implementation of management accounting practices.

The literature on management accounting suggests that SMA is being increasingly used in the strategic management process (Simons, 1990; Langfield-Smith, 1997; Ward, 1992). Dynamic in nature, the strategic management process is a full set of commitments, decisions, and actions required for a firm to achieve strategic competitiveness. Furthermore, evaluation of both internal and external environments is an important strategic contribution for evolving effective strategy and implementation actions. Thus, the strategic management process is used to match the conditions of an ever-changing market and competitive structure with a firm's continuously evolving resources, capabilities and competencies.



Management accountants may play an integrating role in strategy formulation, performance management and evaluation (Ittner&Larcker, 1998).According to Alleyne and Weekes-Marshall (2011) manufacturing firms employ management accounting practices to plan, direct and control operational costs in order to enhance profitability. Similarly, Horngren *et al.* (2009) emphasize the role of management accounting practices to the success of the organization.

1.1 Statement of the Problem

Business world today is undergoing an unmatched economic change and multiple challenges characterized by the intricate structure of economy and uncertain business performance. The adoption of SMA practices shall assist organizations to identify areas for improvement in supporting business decisions and in achieving breakthroughs in their processes through cost management strategies (Roslender& Harts, 2003; Kaplan & Norton, 2001). However, only in recent years have management accounting techniques, considered to belong to SMA techniques been object of surveys and contingent research (Cadez&Guilding, 2008). Additionally, Abbadi (2013) and Karanja *et al.* (2012) decry the paucity of empirical studies on management accounting and adoption of modern management accounting techniques. The authors further observe that most studies in accounting are biased toward financial accounting.

Moreover, a significant portion of the SMA studies are based on work in large public companies in developed countries. Several studies indicate positive relationship between management accounting adoption and various internal and external contingencies (Haldma&Kertu, 2002). In contrast, some studies find no relationship at all between management accounting sophistication and various dynamics in contingency factors (Luther &Longden, 2001). As such, there is no consensus from the extant literature on relationship between management accounting adoption and various contingency factors. There are other authors who believe that the hype around SMA is not proved by empirical results. For instance Lord (1996) contends that the techniques advocated by SMA are ordinarily used in all organizations and that those techniques do not need management accountants. Alkaranand Northcott(2006) carried out an empirical survey of businesses in the UK to find out managerial use of strategic investment appraisal methods which included most of SMA related tools such as BSC and value chain accounting. However, the study established that



such methods were not widely practiced. This study therefore, sought to investigate the organizational contingencies influencing the adoption of strategic management accounting practices among manufacturing firms in Kenya with the view of building the body of knowledge on use of SMA practices.

1.2 Objectives of the Study

1.2.1 General Objective

The general objective of the study was to investigate the organizational contingencies influencing the adoption of strategic management accounting practices among manufacturing firms in Kenya

1.2.2 Specific Objectives

The study was guided by the following specific objectives:

1. To analyze the influence of intensity of industry competition on the adoption of SMA practices among manufacturing firms in Kenya.
2. To establish the influence of advanced manufacturing technology on the adoption of SMA practices among manufacturing firms in Kenya.
3. To examine the influence of life cycle stage of the firm on the adoption of SMA practices among manufacturing firms in Kenya.

1.3 Hypothesis

1. Intensity of industry competition does not significantly influence the adoption of SMA practices among manufacturing firms in Kenya.
2. Advanced manufacturing technology does not significantly influence the adoption of SMA practices among manufacturing firms in Kenya.
3. Life cycle stage of the firm does not significantly influence the adoption of SMA practices among manufacturing firms in Kenya.

1.4 Justification of the Study

Notwithstanding the growing interest in the management accounting, there is a famine of academic research into adoption of SMA practices among private manufacturing firms in Kenya. Specifically, there have been only a few empirical research studies explicitly designed to investigate contingency factor of SMA in manufacturing firms in developing countries. Thus, there is a considerable gap in body of knowledge in understanding factors that influence the adoption of SMA in manufacturing firms primarily in a developing country.



Consequently, the results of this study contribute to the growing literature on adoption of SMA practices.

2.0 LITERATURE REVIEW

2.1 Contingency Theory of Strategic Management Accounting

Study in management accounting has a long tradition with a diversity of theories being employed (Scapens & Bromwich, 2010). This study is anchored in the framework of contingency theory since most studies into adoption of SMA are grounded on this theoretical framework. A key proponent of contingency theory, Otley, (1980) contends that contingency approach is founded on the principle that there is no generally suitable accounting system which applies equally to all organizations in all circumstances. Otley further argues that the explicit situation of an organization determines features of a suitable accounting system. Therefore, contingency theory must pin point exact aspects of an accounting system which are related with certain defined circumstances and establish a suitable match. Scholars so far have endeavored to explain the progress or change of SMA practices by investigating designs that best fit contingent variables such as the nature of the environment, size, structure, technology, and strategy.

Notwithstanding these copious evidence in contingency-based management accounting research, Ahmad (2012) argues that there have been only a few empirical research studies specifically designed to examine contingency factor of Management Accounting Practices (MAPs) in firms in developing countries. This exposes a considerable gap in body of knowledge in understanding factors that influence the use of SMA practices in a developing country. This is in line with Cinquini and Tenucci (2010), assertion that research on SMA has only in recent years been devoted to investigation of the contingent factors supporting the application and use of a number of SMA techniques. Consequently, this research embodies the outcome of a work to contribute further empirical evidence in this area.

2.2 Strategic Management Accounting

Strategic management accounting considers the firms' competitive position in the market rather than simply concentrating on internal competencies Vaivio (2008). Consequently, SMA is a better instrument for in-depth review of decision making and is capable to look at past financial characteristics through market analysis and competitor analysis. Similarly, Roselender and Hart (2003) hold the view that SMA is not only about making management



accounting “more strategic” but it also brings more benefits to an organization. Thus, scholars on SMA have underscored diverse significant features of SMA. Simmonds (1981) for example, considers SMA to be mainly marketing focused, Wilson (1995) views it as future oriented whereas Cravens and Guilding(1999) argues that the most important aspect of SMA is competitor’s perspective. In the same line of thought, Baines and Lang field-Smith (2003) look at SMA as a means of redirecting energy towards the non-financial aspects of a firm.

Jain, Sen, Khan and Bala (2007) proclaim that SMA fills the gaps created by MA in implementation and management of quality improvement through promotion and provision of support mechanisms of implementing total quality management (TQM) and its improvement. As a result, SMA leads to enhanced product quality as well as safeguarding cost efficiency Malik emphasizes the need for supportive empirical research on implementation, diffusion, and usefulness of SMA practices to establish whether SMA can accomplish its promised role of a messiah for MA effectively or not. As a result, SMA has been recognized in a number of organizations as a generic approach to accounting for strategic positioning (Roslender, 2003). For instance, a study by Cadez and Guilding (2008) submits that SMA influences business performance in a positively significant manner. By and large, advanced SMA tools such as BSC, TQM, benchmarking, as well as activity-based costing and management (ABC/M) are used as methods of strategic management control. This indicates that advanced management accounting technologies are developed into strategic purposes such as competitive pricing decisions, enhanced business processes, and business positioning in the market among others. Cinquini and Tenucci (2010) identify and group SMA practices into four broad categories as shown in table 1.

Table 1: SMA Techniques

| SMA Technique Category | SMA Technique |
|-------------------------------|---|
| Costing | 1. ABC/M |
| | 2. Life cycle costing |
| | 3. Quality costing |
| | 4. Target costing |
| | 5. Value chain costing |
| Customer | 1. Customer accounting (CA) |
| Competitor | 1. Competitive position monitoring |
| | 2. Competitor cost assessment |
| | 3. Competitor performance appraisal based on public |



| | |
|--------------------|--|
| | financial statements |
| Performance | 1. Benchmarking |
| | 2. Integrated performance measurement and Balance Score Card (BSC) |

Source: Cinquini and Tenucci (2010)

3.0 RESEARCH METHODOLOGY

The study adopted a survey research design. The study used stratified random sampling technique to select a sample of 156 firms from the study population of 650 firms obtained from the directory of Kenya Association of Manufacturers (2013). The companies were categorized into 12 different sub- sectors which formed groups or basis of stratification. The survey questionnaire was personally administered through drop and pick later approach. The data was collected between January and April, 2016. The study respondents were Chief Finance Officers (CFOs) or Chief Accountant or Management Accountant for each company. However, 112 of the administered questionnaires were filled in and returned, 8 were not properly completed and were therefore, omitted in the data analysis. This represented a response rate of 72%.

3.1 Variable Measurement

3.1.1 Adoption of SMA Practices

The study employed the approach seen in Cinquini and Tenucci (2010), Cravens and Guilding, (2001), and Cadez and Guilding (2008) to measure the extent of adoption of SMA practices. The respondents were asked to give their views in a Likert scale, extending from 1 (“not at all”) to 5 (“to a great extent”) on the degree of adoption of the 11 SMA practices in their organizations. A glossary of the 11 SMA practices was provided to the respondents as an appendix. In order to measure the adoption of SMA practices in manufacturing firms the mean of the responses for the practices included was determined.

3.1.2 Intensity of Industry Competition

According to Ahmad (2012) market competition is a more appropriate sub-set of environmental uncertainty which is an appropriate indicator of the external factors influencing the extent of use of SMAs. The measurement of the intensity of market competition was done using a five-point Likert scale on the respondents’ view on intensity of industry competition as used by Ahmad (2012), and Hansen and Van der Stede (2004).



3.1.3 Advanced Manufacturing Technology

Ahmad (2012) contends that the use of modern technology in manufacturing activities has been shown to impact on the extent of adoption of management accounting practices in many firms. The extent of use of advanced manufacturing technology in manufacturing industries in Kenya was measured using a five-point Likert scale from 1 = Not used to 5 = Widely used as seen in Ahmad (2012).

3.1.4 Life Cycle Stage of the Firm

The life cycle stage of the firm was measured based on Pavlatos (2014) approach. The organizational life cycle stage was categorized into formation, growth and mature stage as used by Auzair and Langfield-Smith as cited by Pavlatos (2014). Thus the respondents were required to choose the most appropriate stage of their organizations' life cycle amongst the three categories.

3.2 Model Specification

The following multiple regression was run to analyze the associations between the organizational contingencies and extent of adoption of SMA.

$$SMA = \beta_0 + \beta_1 IIC + \beta_2 AMT + \beta_3 LCS + \varepsilon$$

Where:

- SMA = Strategic Management Accounting
- IIC = Intensity of Industry Competition
- AMT = Advanced Manufacturing Technology
- LCS = Life Cycle Stage of the Firm
- ε = Error term
- β_0 = Constant
- $\beta_1 - \beta_3$ = Coefficients representing the influence of the associated organizational contingency on the adoption of SMA

4.0 RESULTS AND DISCUSSION

The study sought to find out the extent of adoption of SMA techniques among manufacturing firms in Kenya. The ranked descriptive statistics are as shown in Table 2. The results reveal that benchmarking is the prevalent SMA practice adopted by the private manufacturing firms in Kenya. Further, Competitor cost assessment, Competitive position monitoring, Competitor performance appraisal and Customer accounting practices have mean adoption scores higher than the midpoint of three (3). This is an indication that manufacturing firms in Kenya have certainly adopted these SMA practices to gain



competitive advantage. The findings further show that Target costing, ABC/management and Life cycle costing usage rank lowly among manufacturing firms in Kenya. Indeed, the results indicate that target costing is the least implemented SMA technique with a mean of 1.46 and standard deviation of 0.72. The findings support the views of Cinquini and Tenucci (2010) that there is a strong alignment towards competitor-focused SMA techniques such as competitive position monitoring and competitor performance appraisal as the need for competitor information escalates.

Table 2: Descriptive Statistics on Adoption of SMA Techniques

| Rank | SMA Technique | N | Minimum | Maximum | Mean | STDEV |
|------|--|-----|---------|---------|------|-------|
| 1. | Benchmarking | 104 | 1.00 | 5.00 | 3.60 | 1.25 |
| 2. | Competitor cost assessment | 104 | 1.00 | 5.00 | 3.54 | 0.99 |
| 3. | Competitive position monitoring | 104 | 1.00 | 5.00 | 3.40 | 1.15 |
| 4. | Competitor performance appraisal | 104 | 1.00 | 5.00 | 3.33 | 1.16 |
| 5. | Customer accounting | 104 | 1.00 | 5.00 | 3.04 | 1.00 |
| 6. | Integrated performance measurement systems | 104 | 1.00 | 5.00 | 2.56 | 1.17 |
| 7. | Value chain costing | 104 | 1.00 | 5.00 | 2.48 | 0.91 |
| 8. | Quality costing | 104 | 1.00 | 5.00 | 2.40 | 1.10 |
| 9. | Target costing | 104 | 1.00 | 4.00 | 2.06 | 0.97 |
| 10. | ABC/management | 104 | 1.00 | 5.00 | 2.02 | 1.07 |
| 11. | Life cycle costing | 104 | 1.00 | 4.00 | 1.46 | 0.72 |

The study used bivariate correlation analysis to find the degree and direction of association between the organizational contingencies and adoption of SMA. The findings of the correlation analysis are shown in table 3. The findings of the correlation analysis indicate that the correlation coefficient between the use of advanced manufacturing technology and adoption of SMA was 0.304 and a P value of 0.002 at 1% significance level. Therefore, there is a weak but positive correlation between use of advanced manufacturing technology and adoption of SMA among manufacturing firms in Kenya. The correlation coefficient between intensity of industry competition and adoption of SMA was 0.753 and a P value of 0.000 at 1% significance level. This is an indication of a strong and positive correlation between intensity of industry competition and adoption of SMA among manufacturing firms in Kenya.

Table 3: Pearson's Correlations between Organizational Contingencies and SMA

| Organizational Contingency | Correlation Coefficient | Significance (2-tailed) |
|-----------------------------------|-------------------------|-------------------------|
| Advanced Manufacturing Technology | .304** | 0.002 |
| Intensity of Industry Competition | .753** | 0.000 |
| Life Cycle Stage of the Firm | .156 | .092 |

** Correlation is significant at the 0.01 level (2-tailed).



The study used multiple regression analysis to test hypothesis on the influence of organizational contingencies on adoption of SMA at 5% level of significance. This methodology is in agreement with Cinquini and Tenucci (2010) research on whether business strategy influences SMA usage among large Italian manufacturing firms. The results of the regression analysis are represented in table 4.

Table 4: Results of Adoption of SMA Regression Analysis

| | Unstandardized Coefficients | t-Statistic | Significance |
|-----------------------------------|-----------------------------|-------------|--------------|
| Constant | 1.711 | 11.310 | .000 |
| Intensity of Industry Competition | .275 | 10.794 | .000 |
| Advanced Manufacturing Technology | .053 | 1.952 | .035 |
| Life Cycle Stage of the Firm | .045 | 1.007 | .316 |
| R Square | 28.7% | | |
| F-Statistic | 47.35 | | |
| Significance | .000 | | |

On hypothesis one, the study findings indicate that the intensity of industry competition significantly influences the adoption of SMA among manufacturing firms in Kenya (P- value = $0.000 < 0.005$). This is in line with the results of the correlation analysis which reveal a positive albeit weak relationship between the intensity of industry competition and extent of adoption of SMA. This provides support for prior studies notably Al-Omiri and Drury (2007) evidence that there exists a positive and significant relationship between intensity of market competition and the use of sophisticated management accounting practices. The Kenyan manufacturing sector faces a significant level of competition from cheaply imported manufactured products. As the level of external competition intensifies, firms need to employ SMA practices such as competitor cost assessment, benchmarking, competitive position monitoring and competitor performance appraisal to obtain and sustain a competitive advantage in order to survive and compete effectively in the global market.

On hypothesis two, the study results show that the use of advanced manufacturing technology significantly influences the adoption of SMA among manufacturing firms in Kenya (P- value = $0.035 > 0.005$). This provides support for Ahmad (2012) assertion that the use of advanced manufacturing technology has been positively and significantly associated with a greater use of strategic management accounting. Ahmad (2012) further suggests that



firms operating in an exceptionally dynamic environment especially in use of modern technology have found it exceedingly important to adopt SMA to evolve coherent and logically consistent business strategies.

However, the study does not find evidence to support hypothesis three. The findings indicate that life cycle stage of the firm does not significantly influence the adoption of SMA among manufacturing firms in Kenya (P- value = 0.035 < 0.005). This buttresses the finding that the extent of adoption of life cycle costing is lowest ranked among the SMA techniques in manufacturing firms in Kenya. This empirical evidence contradicts observation by Kallunki and Silvola (2008) that the management accounting systems should differ across the organizational life cycle as diverse accounting systems are required in different phases of organization development.

The ANOVA (F- Test) was used to test the overall significance of the regression model (the goodness of fit) at 5% level of significance. Table 4 presents the result of ANOVA test. The findings indicate that the value of computed F statistic was 47.35 with a P value of 0.000 at the 5% level of significance (0.000 < 0.005). Thus, the model fit is acceptable implying that there is a significant linear relationship between the organizational contingencies and adoption of SMA.

5.0 CONCLUSIONS

The study concludes that the intensity of industry competition and the use of advanced manufacturing technology are significant organizational contingencies influencing the adoption of SMA among manufacturing firms in Kenya. The study further established that benchmarking and competitor-focused practices are the most predominant SMA practices adopted by the manufacturing firms in Kenya. The study contributes to the debate on organizational contingencies influencing the adoption of SMA practices by presenting empirical evidence from a developing country in response to Cinquini and Tenucci (2010) proposition that SMA represents a significant research area to be explored within management accounting regardless of the critics and doubts on the essence of SMA.

The main limitation of the study is that it focused only on three contingency variables. Future studies should explore the influence of other contingency factors such as information technology, management attributes, business strategy, size and age of the firm among others on use of SMA practices in developing countries. Further research should be



conducted to establish the SMA practices proficiency levels of CFO, Chief Accountant and Management Accountant as the officers responsible for implementation of SMA. Future research should also explore through case study the benefits and significance of adoption of SMA among organization that have successfully implemented SMA practices.

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