

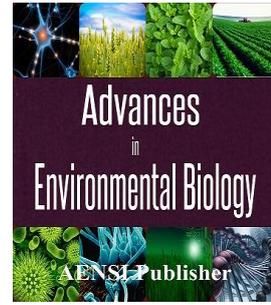


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### Strategic Management Accounting and Business Strategy

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#### ABSTRACT

In This research aims to study the business strategy effect on Strategic management accounting application rate. So 171 numbers of companies were selected among all the 1200 number of accepted companies of Isfahan's stock market by the use of simple random sampling and according to Kokeran sampling formula from which only 150 companies were accepted cooperation. 4 model of multiple regression were used to study this relation. Accordingly, just the regression model related to dependent variable of strategic management accounting cost assessment dimension has been significant. ( $P < 0.05$ ). According to this model, two dimensions including pattern and situation have a negative effect on cost assessment dimension of Strategic management accounting and the amount of effect of business's strategic situation is more than the effect of business strategy on cost assessment. Therefore, there is no much deference regarding using strategic management accounting rate(customer, competitor and performance) between foresighted companies and the companies which are defender of difference, but using strategic management accounting rate (cost assessment) is more for defender companies than foresighted companies. Also there is not much difference regarding using strategic management accounting rate (customer, competitor, performance and cost assessment) between construction companies and harvest companies. Also there is not much deference regarding using strategic management accounting rate (customer, competitor and performance) between differential companies and the leaders companies. Butt using strategic management accounting rate (cost assessment) is more for leaders companies than differential companies.

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#### INTRODUCTION

We all know that "change" has become the most predictable feature of business and economical environment. What that should be noted is this that the changes rate is speedily carried out [34,29]. From the time of financial planning in decade 1950, new foreign environment challenges shaped strategy developing, implementation and control in organization and related research and literature. Understanding the relations between strategy and accounting is one of the central points in advisable viewpoint of accounting [16]. There is an extensive research literature regarding mutual relationship between accounting management and strategy. There is two main research traditions in this literature: Some research which studies accounting management which is a strategic attitude by using strategic management accounting (SMA) and some research which studies relationship between strategy and management controlling systems (MCS), while strategic management accounting is always considered as informative supporter for strategic decision-makings by managers. Some leveled studies have evaluated strategy as one of the effective factors in introducing strategic management accounting. There are so many definitions of strategic management process, but there is an extensive consensus which their key activities consist of 1) expanding a main strategy and goal or sense the direction. 2) setting the strategic goals and planning setting in order to access to them. 3) Implementing the plan. 4) Their Supervision, assessment and amendatory action [40]. Strategic management accounting term was introduced for the first time in management accounting literature by Simondex [66], and then this issue was pursued by Bromowich, [7]. In

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the United States, some innovator approaches were introduced by Kaplan, Cooper and Shank for strategic application of cost information and consequently a track to strategic cost management was opened by Shank. It was mentioned that an innovator approach can overcome crises condition in traditional management accounting. The term "strategic" should be interpreted as supporting of methods in strategic decision-making process in Strategic management accounting, but if diverse relationship between different strategic typologies and specific techniques of Strategic management accounting is investigated, a missing link with business Strategy will be created. Also these results are reflection of ambiguity of strategy and possible concept which it makes possible for companies that follow from different strategic typologies aspects with different degrees [41]. This research aims to study the acceptance potential flexibility and using techniques of Strategic management accounting in business Strategy.

#### *Theoretical Basics and Designing Research Hypothesis:*

##### *Strategic management accounting:*

Strategic management accounting achieved fame as one of the new techniques and methods and revival of lost relation of management accounting at the end of decade 1980. And then, it was mainly developed in England as main supporting of university by Bromoj at that time [7-12]. The increased research regarding Strategic management accounting has been beyond the companies' borders with respect to increasingly importance of information management. Simmonds, [66] and Bromwich, [7] have referred to foreign focus of Strategic management accounting and most of the research have been consistent with these findings.

"Foreign attitude"(noting to outside): Gulding and *et al* [27] stated that Strategic management accounting can be attributed to accounting information importance regarding competitor, suppliers and customers. Simmonds [67] was expanded frame of concept of competitor information importance (related to cost, price, stock and etc.). Later, different researchers identified competitor information role in access to competitive benefit [53]. Bromwich was able to draw an expansive spectrum from related conception in repeated formulation of Strategic management accounting. Kar Porte identified three general strategies regarding business strategy including: cost leadership, product differentiation and focus which everyone have had different consequents for both management and accounting [58]. Cost assessment based on goal has been displaced foreign strong emphasis as and it focused not only on competitors, but also on customers and market. In addition, economical theories of Lancaster about product features, [44,45] Bamoul about competitive markets [3,4] have enriched this mix, so as it has been appeared in Bromwich's definition in 1990 of Strategic management accounting : providing and analyzing financial information regarding companies' product market and competitors' cost and cost structures and supervision on investing strategy and competitors who exist in market more than one period. According to this definition, the concept of Strategic management accounting is very close to what that has been mention regarding strategic triangle. In the period of accounting literature, the studies which explicitly evaluate strategy are very rare. Design theories in practice [1,35] expands common chapters between accounting as practice and strategy in the field of new product development.. In their study, Jorgensen and Messer, [35] explains that how management accounting information shapes strategy builder continuous efforts through overall understanding of profitability importance and also through specific rules which have been issued at crises points. They also observed that how accounting has been completed by strategy in innovation process. Therefore, accounting and continuous strategy process operate in a mutually creative method. More participation took place by Rozlelndez and Hart [61] who presented a framework for integrating management accounting and marketing for promoting potential of strategic management accounting. They distinguish those viewpoint that dealt with integrating strategy and management accounting and those which pursued integrating management accounting and marketing and generally identifying shortcomings of first approach.

In addition to foreign orientation of strategic management accounting, it is notable that many of strategic management accounting's techniques are based on cost [31]. Regarding cost management progress in some recent decades, accounting information necessitates supporting of strategic decision-makings. Through development of the activity based cost approach [36,33,19,20] The dimensions of cost analysis have been developed and more refinement in unknown cost information such as activities, customers, product features and unused capacity have been possible [37,48]. In addition to relation cost, non- financial information have been also increased due to their ability in offering predicted process in company performance and generally operational business process [54]. Extensive application of balanced scorecard is a sign of need to find integrated/ multi-dimension management accounting tool in order to leading organization to a strategic approach [38]. In this regard, this research is about the relationship between application of balanced scorecard and market situation as a advisable factor and effectiveness of balanced scorecard as a communicative strategy and tool for controlling centralized management [46,15].

*Business strategy:*

Strategic management literature provides some typologies from business strategy orientation to describe that how a company is able to expand sustainable competitive benefits in industry toward its competitors. (As an example, Miles and Snow [50], Mintzberg [52] and Porter [58,59]). The common method of all these typologies in business strategy is concentration on relative emphasize of business locations in efficiency or effectiveness of a company's market situation. As an example, Miles and Snow [50] describe defensive strategy and Porter in 1980 describe generally relative concentration cost leadership strategy of a company as efficiency to changing producer by lowest cost in industry. In contrast, discovery strategy and distinguish strategy consider relative focus of a company as searching market opportunities in order to create and offer unique product and service to customers.

Several key aspects occur in experimental studies when business strategy is considered as advisable variable. Strategy's multi-dimension nature has been considered as difference between strategy. The importance of strategy's different typologies for managers and recognizing strategy as a continuous developmental process show weak elements in operational strategy [42]. However, typologies of Miles and Snowin, Gupta and Gowin Darjan and Porter have attracted the attention of advisable researches. Because as it has been recognized by Long Field and Smith [41], They provide the possibility of companies' clustering with (apparently) homogenous features.

Porter [59,60] argues that general competitive strategies of cost leadership, distinguish and concentration (cost leadership or concentration in a small section of market) indicates different strategic orientations of one company to compete and access to sustainable competitive benefits in that company's industry. So, cost leadership and distinguishing show two basically different ways to access to sustainable competitive benefits and improving company's performance. A company which follow cost leadership strategy can access to sustainable competitive benefits through offering product and service with lowest production cost in its industry. The company emphasizes the facilities aggressive construction in efficient scale, cost reduction strong pursuing through experience, cost and overcharge controlling, avoidance of marginal customer's account and minimizing the cost in some fields such as R & D, service, sale force, advertisement through implementing cost leadership strategy [60]. The company through implementing distinguishing and concentration strategy, emphasizes development of those product or service which are unique or customer perception of this uniqueness which creates a competitive benefit.

The case studies and investigations of Miller and Frizen [51] have shown the relationship between specific elements of MCA and special companies' strategies and Bruggman and Van Der stede [13]and Long Field-Smith [41] have investigated them. All these studies applied advisable theories. They inclined to analyze business strategy and the problem which was extensively under discussion has been paying attention to overall structure of strategy.

*Advisable studies related to strategic management accounting:*

The research on strategic management accounting only in recent years has been allocated to explore the implementation basis of advisable factors a using management accounting's techniques. Chenhall [17] has investigated advisable studies based on management accounting. The history of these studies goes back to the works of Gordon and Miller [50] and Etely and advisable approach became dominant paradigm speedily in management accounting's researches [22].

Gadline in order to evaluate advisable variables related to competitive-centered accounting techniques application realized that there is a noticeable relation between competitive-centered accounting and competitive strategy, strategic mission and company size. He applied explanatory and defensive typology of Miles and Snow in order to evaluate competitive strategy, while strategic mission was measured by the use of Govindarajan and Gupta's approach [25]. Galding and Kravenze applied 8 sub-dimension in study the relationship between using strategic management accounting and competitive strategy which are based on Porter model (R & D, product quality, product technology, product scope, service quality, cost level, the advertisement costs rate and marker coverage and they found a noticeable relations between R & D and marker coverage expansion.

Advisable factors were identified as potential factors in designing effective strategic management accounting due to common structural-organizational theory which refers to paradigm of structure strategy operation of Anderson and Lanen [2]. Hambrick [30]has observed strategy as a valuable concept of experimental research because of its potential relation with some other organizational aspects. This study emphasizes the level of business strategy which it has been operational by using exploration/ defender typology of Miles and Snow due to its extensive application in industrial environments. Cadez and Guiding [14] evaluated the effect of strategic options, market orientation and company size in two separated dimensions of strategic management accounting and moderator role of strategic management accounting on company performance in a comprehensive advisable model. These researchers showed that strategic management accounting systems application are not necessarily related to dominant communicative function, but product's

extraordinary function is a suitable proportion between considered advisable factors (business strategy, the degree by which applied strategy is formulated, market orientation and company size) and strategic management accounting application. In this study, business strategy was operational from the exploration/ defender dimension and its measurement was developed by Shortell and Zajack [65].

#### *Research Framework:*

In this study the effect of business strategy variable on strategic management accounting variable has been studied. The business strategy dimensions consist of strategic situation (cost leadership and distinguishing) and strategic mission (production, maintenance and harvesting) which have been studied. Because company size variable may affect on business strategy, it has been evaluated as controller variable. In fact, present research model are included of four independent variable (three dimensions of business strategy and company size) and business management accounting variable is considered as dependent variable. Because larger companies have more skills in accounting, so company size variable is considered as controller variable. Also the evaluated dimensions of strategic management accounting are included of customer, competitor, performance and cost assessment.

Different goals of business may influence on strategic management accounting. Accordingly, the groups are divided based on their business goals into 6 classes and 3 groups:

1. futurists and defenders 2. production and harvesting. 3. cost leaders and differentials. Accordingly and respect to recent researches, below hypothesis in this research have been studied:

H1. Strategic management accounting application rate (customer, competitor, performance) is more for futurists companies than defender ones.

H2. Strategic management accounting application rate (cost assessment) is more for defender companies than futurists ones.

H3. Strategic management accounting application rate (customer, competitor, performance and cost assessment) is more for production companies than harvesting ones.

H4. Strategic management accounting application rate (customer, competitor, performance) is more for differential companies than leaders ones.

H5. Strategic management accounting application rate (cost assessment) is more for leaders companies than differential ones.

#### *Research Method:*

The present research method is practical and it is non-experimental correlation in term of research method type. Also it is after event in term of data status.

#### *Population and sample:*

The present research community consists of all the accepted companies in Isfahan's Stock market which their number was about 1200 companies. Because statistic population variance is not available, at first a preliminary study was done on 30 number of companies to determine sample size.

Sample size was determined through below formula:

$$n = \frac{N \times z_{\frac{\alpha}{2}}^2 \times s^2}{(N - 1) \times d^2 + z_{\frac{\alpha}{2}}^2 \times s^2}$$

In which N is the number of sample size and  $S^2$  is primary sample variance. In this research population size is equal to 1200 members and primary sample variance was computed 0.52. Also Z is the amount of corresponding unit normal variable with considered trust level which in this research, this amount is considered with trust level of 0.95 equal to 1.96.  $\alpha$  is the amount of allowed mistake in sampling which an amount between 0 up to 1 can be allocated to it which in this research it is considered 0.1. Therefore, through replacing these value, the number of sample under selection of this population is equals to:

$$n = \frac{1200 * (1.96)^2 * 0.52}{1199 * (0.1)^2 + (1.96)^2 * 0.52} = 171$$

Therefore, 171 number of questionnaires were simple randomly distributed among companies from which only 150 number of them were applicable. The most of companies under investigation among 11 strategic management accounting method have used respectively competitor cost, quality cost assessment and evaluating competitors' performance in published bills in order to accounting.

#### *Variables measurement:*

A questionnaire was designed in order to measure strategic management accounting methods in which this question was asked: How much your company make use of each one of accounting methods. In continue, 11 strategic management accounting methods have been brought and a Spectra5-choice Likert for each method from 1 (not at all) up to 5 (very much) was considered. In order to measure business strategy variable along with

three-dimension of strategic situation, strategic pattern and strategic mission, a 5-option scale for each dimension was considered as bellow. Harvesting (1) and production (5), defender (1) and futurist (5) and for third dimension , cost assessment (1) and differential(5). This measurement method has been used in recent research by Golding and Cadez and Gulding [14]. The company size variable was measured according to total revenue of company. Logarithm transformation was used to normalize dada.

#### Research's Findings:

Descriptive indicators related to 11 method of strategic management accounting have been brought in table 1. As it was mentioned later, each one of these methods have been scored in range of 1-5. Their average have changed between 3.95 up to 2. The average of customer-oriented methods , considering competitive situation and evaluating competitors' performance in published bills, quality cost assessment and competitors' cost assessment is more than limit level (3). The average of other strategic management accounting methods is lower than limit level. Therefore, all the evaluated companies have used respectively the method of customer-oriented, considering competitive situation, evaluating competitors' cost , quality cost assessment and evaluating competitors' performance in published bills in order to accounting.

**Table 1:** Descriptive indicators related to strategic management accounting methods.

| Standard deviation | average | medium | Number | strategic management accounting methods                |
|--------------------|---------|--------|--------|--|
| 1.1                | 3.95    | 3      | 54     | customer-oriented                                      |
| 1.17               | 3.83    | 3      | 52     | considering competitive situation                      |
| 1.32               | 3       | 3      | 50     | evaluating competitors' performance in published bills |
| 0.9                | 3.09    | 3      | 52     | Quality cost assessment                                |
| 1.8                | 3.38    | 3      | 53     | evaluating competitors' cost                           |
| 1.2                | 2.85    | 3      | 48     | Goal evaluating  |
| 0.98               | 2.45    | 3      | 49     | Comparative evaluation                                 |
| 1.4                | 2.89    | 3      | 49     | Cost chain assessment                                  |
| 0.88               | 2.54    | 3      | 47     | Cost based on activities.                              |
| 1.3                | 2.23    | 3      | 47     | Comprehensive performance measuring systems            |
| 0.89               | 2       | 3      | 43     | Life chain cost assessment                             |

In table 2, correlation matrix have been brought between 4 dimensions of strategic management accounting (customer, competitor, performance and cost assessment) and business strategy dimensions (strategic situation, pattern and mission) and company size. Accordingly, significant relationship strategic management accounting dimensions have a positive and significant relationship with together. ( $P < 0.05$ ). It means that through the increase in one dimension , other dimensions will be increased. Three dimensions of business strategy do not have significant relationship with together. Among strategic management accounting dimensions, cost assessment has a negative and significant relationship with situation dimensions and strategy pattern of business. ( $P < 0.05$ ). It means that through the increase in situation and pattern, strategic management accounting cost assessment will be decreased. Also there is a negative and significant relationship between situation and company size. It means that through the increase in company size, situation dimension of strategic management accounting will be increased. These results is consistent with the results of Cinquini and Tenucci.

**Table 2:** Correlation matrix between strategic management accounting dimensions (customer, competitor, performance and cost assessment) and business strategy dimensions (strategic situation, pattern and mission).

| company size | pattern | situation | mission | customer | performance | assessment | competitor |              |
|--------------|---------|-----------|---------|----------|-------------|------------|------------|--------------|
|              |         |           |         |          |             |            | 1          | competitor   |
|              |         |           |         |          |             | 1          | *0.42      | assessment   |
|              |         |           |         | 1        | *0.49       | *0.56      | *0.48      | performance  |
|              |         |           | 1       | 0.12     | -0.023      | -0.09      | -0.045     | customer     |
|              |         | 1         | -0.03   | -0.03    | 0.11        | *-0.39     | -0.19      | situation    |
|              | 1       | 0/012     | 0.15    | -0.011   | -0.174      | *-0.47     | 0.034      | pattern      |
| 1            | 0.018   | *0.59     | 0.12    | 0.19     | 0.13        | *-0.67     | -0.096     | company size |

Multiple regression model has been used to test research hypothesis. One regression model was processed for each one of four strategic management accounting dimensions:

$$SMA = b_0 + b_1SPA + b_2SMI + b_3SPO + b_4CS$$

In which SMA is strategic management accounting (customer, competitor, performance and cost assessment). Also SPA is business strategy pattern dimensions, SMI is business strategy mission dimensions, SPO is business strategy situation dimensions and CS is company size.  $b_1$  is regression coefficients. The results have been brought in table 3. Accordingly, just the regression model relating to dependent variable of strategic management accounting cost assessment dimensions has became significant. ( $P < 0.05$ ). The models related to

other dimensions of strategic management accounting are not significant. According to cost assessment regression, two dimensions including business strategy pattern and situation have negative effect on strategic management accounting cost assessment dimensions. The rate of pattern effect is -0.34 and rate of situation effect is -0.45. It means that through adding one unit to business strategy pattern, 0.34 unit will be reduced of cost assessment. Therefore, the effect rate of business strategy situation on cost assessment is more than the effect rate of business strategy pattern on cost assessment. Determination coefficient of this model has been computed 0.71 and it means that strategic management accounting cost assessment is mentionable 71% by business strategy dimensions.

Because the models of customer, competitor, performance have not became significant, so the 1th, 3th and 4th hypothesis were not accepted, but the model related to 2th and 5th hypothesis became significant and because dependent variables scoring have been as :(1). harvesting, and production (5), defender (1) and futurist (5) and for third dimension of cost assessment (1) and differential (5) and pattern and situation regression coefficient have became negative and significant, so it can conclude that strategic management accounting application rate (cost assessment) is more for defender companies than futurist ones. Also strategic management accounting application rate (cost assessment) is more cost leader companies than differential ones. Therefore, 2th and 5th hypothesis were accepted.

**Table 3:** The results of regression models to study.

| Dependent variable of performance |                       | Dependent variable of competitors |                       | Dependent variable of customer |                       | Dependent variable of cost assessment |                       | Variables                 |
|-----------------------------------|-----------------------|-----------------------------------|-----------------------|--------------------------------|-----------------------|---------------------------------------|-----------------------|---------------------------|
| t                                 | Regression crude rate | t                                 | Regression crude rate | t                              | Regression crude rate | T                                     | Regression crude rate |                           |
| 1.09                              | 0.98                  | 0.99                              | 1.23                  | 1.1                            | 1.43                  | 2.1                                   | *2.78                 | fixed amount of ( $b_0$ ) |
| -0.63                             | -0.08                 | 0.90                              | 0.099                 | -0.93                          | -0.098                | -1.76                                 | *-0.34                | ( $b_1$ )pattern          |
| -0.71                             | -0.09                 | -1.01                             | -0.11                 | 1.21                           | 0.19                  | 0.17                                  | 0.12                  | ( $b_2$ mission)          |
| 0.77                              | 0.03                  | -0.98                             | -0.08                 | -0.78                          | -0.03                 | -2.76                                 | *-0.45                | situation ( $b_3$ )       |
| 1.08                              | 0.16                  | -0.44                             | -0.05                 | 0.59                           | 0.06                  | 0.23                                  | 0.13                  | ( $b_4$ company size)     |
| 0.11                              | 0.23                  | 0.12                              | 0.23                  |                                | 0.23                  |                                       | 0.71                  | Determination coefficient |
| 0.43                              | 0.87                  | 0.66                              | 0.87                  |                                | 0.87                  |                                       | 3.17                  | F                         |
| 0.54                              | 0.19                  | 0.23                              | 0.19                  |                                | 0.19                  |                                       | 0.045                 | Level of significance     |

#### Discussion and Conclusion:

The present research aims to study the effect of business strategy on strategic management accounting variable with controlling company size variable. The business strategy dimensions are included of strategic situation (cost leadership and distinguishing), strategic pattern (detector, analyst and defensive) and strategic mission production, maintenance and harvesting which have been studied. There are 11 number strategic management accounting methods according to recent researches whose usefulness was assessed by evaluated companies through 5-option Likert spectrum. Accordingly, customer-oriented methods average, considering competitive situation, evaluating competitors' performance in published bills, quality cost assessment and evaluating competitors' cost are more than limit level. The average of other methods of strategic management accounting is lower than moderate limit. So, the majority of evaluated companies have used respectively of customer-oriented methods average, considering competitive situation, evaluating competitors' performance in published bills, quality cost assessment and evaluating competitors' cost methods. In order to study the effect of 3 dimensions of business strategy on 4 dimensions of strategic management accounting through controlling company size variable, 4 number of multiple regression model (Only one model was processed for each one of strategic management accounting dimensions) was used. Accordingly, Only regression model related to dependent cost assessment variable of strategic management accounting has became significant. ( $P < 0.05$ ). The models related to other strategic management accounting dimensions are not significant. According to cost assessment regression model, two dimensions including business strategy pattern and situation have negative effect on strategic management accounting cost assessment dimensions and the rate of business strategy situation on cost assessment is more than the effect of business strategy on cost assessment. Finally we can conclude that strategic management accounting application rate (customer, competitor, performance) has not a significant difference between defender companies, but strategic management accounting application rate (cost assessment) for defender companies is more than futurist ones. Also strategic management accounting application rate (customer, competitor, performance) has not very much difference between differential and leaders companies. But strategic management accounting application rate (cost assessment) for leaders companies is more than differential ones.

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