# AN INVESTIGATION INTO APPLICATION OF STRATEGIC MANAGEMENT ACCOUNTING IN ORGANIZATIONS: A CASE STUDY OF KENYA LITERATURE BUREAU

BY

JULIUS K. ARITHO

A RESEARCH PROJECT REPORT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION DEGREE (ACCOUNTING OPTION), SCHOOL OF BUSINESS STUDIES OF THE UNIVERSITY OF NAIROBI.

NOVEMBER 2010

## DECLARATION

I hereby declare that this Project is my original work and has not been presented for a degree or examination in any other Institution or University.

Sign ____________________ Date 15/11/2010

**JULIUS KITHURE ARITHO**

**D61/7345/2006**

This Project is submitted for examination with my approval as the University Supervisor.

Sign ____________________ Date 15/11/2010

**JAMES KARANJA**

Senior Lecturer, School of Business Studies.

# DEDICATION

I dedicate this project to my parents Mr. Harrison M'Aritho and Mrs.Esther Mutune Aritho who for the love of education inspired me to pursue my studies to this level and my wife Mrs. Albina Kathambi for support and encouragement throughout the study.

# ACKNOWLEDGEMENT

I wish to register my sincere gratitude to my family members, friends, colleagues and the management of Kenya Literature Bureau and all those who helped me in one way or another during my research.

In particular, I thank Mrs. Purity Waititu for her immense support in typing and typesetting of this project.

I further acknowledge the invaluable guidance of my Supervisor Mr. James Karanja.

Above all, the Almighty God for the gift of life and good health.

## TABLE OF CONTENTS

# LIST OF FIGURES

# LIST OF TABLES

## LIST OF ABBREVIATIONS

| | | |
|---|---|---|
| EAEP | - | East Africa Education Publishers |
| KIE | - | Kenya Institute of Education |
| KLB | - | Kenya Literature Bureau |
| KPA | - | Kenya Publishers Association |
| OUP | - | Oxford University Press |

# ABSTRACT

This study aimed at investigating application of strategic management accounting in organizations and in particular, Kenya Literature Bureau.

In the advent of new manufacturing and improved information technologies, the focus on the customer and growth of worldwide markets, business environment has increasingly become competitive for organizations. Conversely, firms are inevitably adopting strategic ways of management.

This implies that accounting system must facilitate strategic management by providing strategic information. In the traditional management accounting firms tended to focus primarily on financial performance measures such as growth in sales and earnings, cash flows but in the contemporary business environment, they use strategic management to focus primarily on strategic measures of success, many of which are non-financial measures of operations such as market share, product quality, customer satisfaction and growth opportunities.

Arising from the evaluation of the results on the basis of four perspectives of a balanced score card model, financial measurements and the non-financial factors which include customer service, internal business process and learning and innovation factors, the study concluded that KLB practices strategic management accounting to a great extent.

The study further established and recommended opportunities for improvement particularly lack of competitor analysis information that is critical for benchmarking in a competitive environment, formal periodical market surveys to determine market share of KLB in the publishing industry and increased participation of Finance and Accounting department in generating relevant information needed by various managers for decision making purposes. Recommendations for further study have also been made which include carrying out a similar study in some years to come in order to evaluate the levels of improvement in application of strategic management accounting in KLB and/or extend the study to other firms within the publishing industry.

# CHAPTER ONE

## 1.0 INTRODUCTION

### 1.1 Background to the Study

Strategic management is the art, science and craft of formulating, implementing and evaluating cross-functional decisions that will enable an organization to achieve its long-term objectives. It is the process of specifying the organization's mission, vision and objectives, developing policies and plans, often in terms of projects and programs which are designed to achieve these objectives, and then allocating resources to implement the policies and plans, projects and programs. It is also an on going process that evaluates and controls the business and the industries in which the company is involved; assesses its competitors and sets goals and strategies to meet all existing and potential competitors; and then reassesses each strategy annually or quarterly [i.e. regularly] to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment or a new social, financial, or political environment. Strategies are typically planned, crafted or guided by the Chief Executive Officer, approved or authorized by the Board of Directors and then implemented under the supervision of the organization's top management team or senior executives (Wikipedia 2009).

The introduction of new manufacturing and information technologies, the focus on the customer and the growth of world -wide markets has resulted to increasingly competitive environment for organizations. Blocher et al (2002) notes that as a result of changes in the business operating environment, firms have responded in many ways, including re-engineering operational processes, downsizing the work force, outsourcing the service functions and developing smaller, more efficient, and more socially responsible organizational policies and structures. Firms are also beginning to use Management Accounting to support their strategic goals. This implies that the accounting system must assist management in this dynamic environment by facilitating strategic management.

Blocher et al (2002) further notes that in the past, firms tended to focus primarily on financial performance measures, such as, growth in sales and earning, cash flow, and stock price. In contrast, firms in the contemporary business environment use strategic management to focus primarily on strategic measures of success, many of which are non- financial measures of operations, such as market shares, product quality, customer satisfaction, and growth opportunities. The financial measures show the impact of the firm's current financial position and, therefore, it's current return to the shareholders. In contrast, the non-financial factors show the firm's current and potential competitive position as measured from at least three additional perspectives; the customer, internal business processes, and innovation and learning (i.e human resources). Only by succeeding at these critical success factors will the firm maintain its strategic competitive advantage. Therefore, in taking a strategic emphasis, management accounting system is expected to develop strategic information, including both financial and non-financial information. Concepts in management accounting stress that the accounting function has access to all the data within the entity so monitoring such information should not be difficult.

Blocher et al (2002) avers that without strategic information, a firm is likely to stray from its competitive course, to make strategically wrong manufacturing and marketing decisions such as choosing wrong products or the wrong customers. Some of the consequences associated with lack of strategic information include: decision making based on guesses and intuition only, lack of clarity about direction and goals, lack of a clear and favorable perception of the firm by customers and suppliers, incorrect investment decisions; choosing products, markets or manufacturing processes inconsistent with strategic goals, inability to effectively benchmark competitors resulting in lack of knowledge about more effective competitive strategies and failure to identify most profitable customers and markets. An effective management accounting system provides the critical information the managers need to develop and implement successful strategies.

### 1.1.1 The Publishing Industry in Kenya

The publishing industry in Kenya has not developed so much as we would expect. The industry has traditionally tended to depend so much on school curriculum books which until 2002, was the domain of only two state sponsored players namely; the Kenya Literature Bureau- Publishing for secondary schools and Jomo Kenyatta Foundation – Publishing for primary schools. The book market is estimated to be almost 90% curriculum based. The school curriculums books have highly been, and even now, are highly price regulated by the government through the Kenya Institute of Education.

The Kenya Literature Bureau, which is our choice for this study, was established in 1980 under the Kenya Literature Bureau Act cap 209. Its major function is among others, to carry on with the business of publishing, printing and distribution of literary educational, cultural and scientific books, periodicals, journals, magazines and works of every description. Kenya Literature Bureau is structured into seven key functional areas, which include Publishing and Editorial, Printing Press, Corporate Services, Finance, Human Resources, Sales and

Marketing, Internal Audit and Legal Services. It has also an establishment of 212 members of staff as at the time of the study.

The introduction of new school curriculum in 2002 and free primary education in 2003, the market which was hitherto dominated by KLB and Jomo Kenyatta Foundation was opened to other players which are estimated to be forty one (41) registered book publishing companies according to the Kenya Publishers Association (KPA). The market leaders are estimated to be ten (10) namely; The Oxford University Press (OUP), Longhorn Kenya Ltd, Kenya Literature Bureau, Macmillan (K) Ltd, Jomo Kenyatta Foundation, Longman East Africa Education Publishers (EAEP), Phoenix Publishers, Dhilon Publishers and Sasa Sema Publishers. The publishing houses in Kenya are reluctant to provide information about their performance statistics.

The size of the industry according to the Sales and Marketing Manager of Kenya Literature Bureau is estimated to be Kshs. 5 billion of which education curriculum shares 90% and the rest takes 10%. Within the 90% education curriculum books, primary level takes 70%, secondary level takes 20% and post secondary takes 10%. The entry to the school curriculum book market is restricted in that every publisher must submit their publication to the Kenya Institute of Education for approval and to be included in the list of approved secondary and primary schools curriculum books referred to as the Orange book.

The products in the industry are highly differentiated in terms of the book content, pricing, author and publishing companies. With the introduction of free primary education, increased funding of primary and secondary schools by the Government and liberalization of the market has seen some players record annual growth rate of 45% in turnover since year 2003 compared to only 15% in the period before 2003. However, due to price regulations by KIE on primary and secondary school books, there are limited profit margins since the prices are controlled through the orange book.

The publishing houses are not involved in vertical distribution of their products; rather, the distribution is done horizontally by book sellers. The entry into the publishing industry is restricted by heavy investment required for equipment and limited access to distribution channels especially for school curriculum books which must be approved by the KIE thus locking out some publishers. There is also high rivalry for an industry, which has over 41 publishers. The traditional publishing industry is also facing high threats of substitutes in the form of digital media e.g. internet, plagiarism, photocopying of published materials due to weak Laws of Kenya that have failed to fully protect the industry.

## 1.2 Statement of the Problem

In a competitive business environment, firms develop strategies that help them match competition and therefore remain in business. A firm's strategy identifies the critical success factors that it must achieve. These factors include financial measures such as profit or sales growth and non- financial factors such as new product development, product quality and customer satisfaction. Firms would only maintain strategic competitive advantage by succeeding at these critical success factors. In this regard, the role of a management accountant is to identify, measure, collect, analyze, and report information on the critical success factors reliably and in a timely manner.

The traditional management accounting systems in many companies failed to keep up with development in corporate and competitive strategies as opposed to other areas of management practice such as marketing and information technology. It does not focus on larger and long term health of an organization by reporting a comprehensive view of the business and therefore it does not provide appropriate information to help management in development, implementation and evaluation of the organizational strategies.

Kenya Literature Bureau traditionally enjoyed monopoly status in the government supported publishing market more so in the secondary schools book market. However, since 2002, with advent of free primary education, the publishing industry was liberalized and other players were allowed thus pausing a serious competition for the Kenya Literature Bureau.

Several research studies have been done on strategic management practices and the application of strategic management accounting in different organizations: Arithi (2001) did a study on application of strategic management accounting by large manufacturing companies in Nairobi; Karuthi (2001) investigated on the state of strategic management practices in non-profit organizations by investigating public membership clubs in Nairobi; Ng'ang'a (2001) did a study on real time strategic management practices in companies' quoted in the Nairobi stock exchange; Njanja (2002) investigated on the strategic management practices in the agricultural sector of Kenya; Mugambi (2003) did a study on the strategic management practices of shipping companies in Kenya; Kariuki (2008) studied the strategic management practices adopted by the Karen hospital Nairobi and Mbugua (2008) did a study on strategic management practices of major advertising agencies in Kenya. There is no known study that has been done on the application of strategic management accounting in organizations.

This research study was therefore motivated to investigate the application of strategic management accounting in organizations by focusing on Kenya literature bureau.

## 1.3 Objective

To investigate the application of strategic management accounting in Kenya literature bureau

## 1.4 Importance of the Study

From this study, it is envisaged that KLB Management and other stakeholders will benefit by understanding the strengths and challenges of their current management accounting system in reporting information on the critical success factors reliably in order to maintain a strategic competitive advantage in a competitive business environment. It is further hoped that the gaps identified and the recommendations made during the study shall be used as opportunities for strengthening the accounting system in KLB.

To the government of Kenya the study was of great importance since it provided information that can be used to form policies that govern and regulate the use of strategic management accounting and safeguard customers from exploitation.

To researchers and academicians the research provided a basis upon which further research can be based on strategic management accounting in public institutions. The study also provided information that can be used as literature review in other related studies.

# CHAPTER TWO

## 2.0 LITERATURE REVIEW

### 2.1 Management function and Accounting Information

The American Accounting Association describes accounting as the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information. In other words, accounting is concerned with providing both financial and non-financial information that helps decision makers to make good decisions. Managers require accounting information to discharge their core functions of planning, control, performance measurement and decision-making. For instance, accounting information is needed on the estimated selling prices, costs, demand, competitive position and profitability of various segments of an organization such as products, services, customers and distribution channels in order to ensure that only profitable activities are undertaken. (Drury, 2000).

Information is also required for making resource allocation and product mix and discontinuation decisions. In some situations cost information extracted from the management costing system plays a crucial role in determining selling prices, particularly in markets where customized products and services are provided that do not have readily available market prices (Blocher et al, 2002) .

The long-term and short-term plans in form of budgeting process are one of the mechanisms used by managers as a basis for control and performance evaluation. The role of management accounting information system therefore, becomes that of providing economic feedback to managers to assist them in controlling costs and improving the efficiency and effectiveness of operations. This feedback comes in form of periodic performance reports/information comparing actual and targeted outcomes in form of financial measures such as costs, revenues, profits and other non-financial measures such as customer satisfaction measured by customer complaints, customer returns and survey.

## 2.2 Management Information System and Strategic Management

The growing pressures of global competition, technological innovation and changes in business processes imply that manager must think competitively and doing so requires a strategy as well as strategic information. Strategic thinking involves anticipating changes, that is, products and production processes are designed to accommodate expected changes in customer demands. The demand of new management concepts of e-commerce, speed to market, and agile manufacturing and shorter Product life cycles implies that the ability to make fast changes is critical (Blocher et al, 2002).

The strategic emphasis also requires creative and integrative thinking, that is, the ability to identify and solve problems from a cross-functional view. This means instead of viewing a problem as a production problem, a marketing problem or a finance and accounting problem, cross-functional teams view it from an integrative approach that combines skills from all functions simultaneously. This approach is necessary in a dynamic and competitive environment. If a firm's attention is focused on satisfying the customers' needs, then all of the firm's resources, from all functions are directed to that goal (Blocher et al, 2002)

Blocher et al (2002) further notes that in a strategic management approach, managers require management information system capable of providing valuable information to aid in making strategic decisions for competitive advantage. Typical management information systems include the accounting management information systems where all accounting reports are shared by all levels of accounting managers; financial management information systems which provides financial information to all financial managers, the manufacturing management information system used in inventories to ensure they are provided just in time so that great amounts of money are not spent for warehousing huge inventories; marketing management information systems meant to support managerial activity in the area of product development, distribution, pricing decision, promotional effectiveness and sales forecasting. More than any other functional area, marketing systems rely on external sources of data. These sources include competition and customers. The other information system is the human resources management that is concerned with activities related to workers, managers and other individuals employed by the organization. Since the personnel function relates to all other areas in business, this system plays a valuable role in ensuring organizational success. Activities performed by the human resources management information systems include work-force analysis and planning, hiring, training and job assignments.

Management accountants use management information systems to solve business problems such as costing a product, service or a business wide strategy. Because strategic issues are increasing in importance to management, accounting and especially cost management has moved from traditional role of product costing and operational control to a broader strategic focus, that is strategic cost management. Strategic cost management provides information that the manager needs to effectively manage the firm and includes both financial information about costs and revenues as well as relevant non-financial information about productivity, quality, and other key success factors for the firm (Blocher et al 2002).

## 2.3 Traditional verses Modern Management Accounting

In the United States, several academics as well as practitioners have highlighted the serious shortcomings of the traditional management accounting systems in corporations and have asserted that the traditional management accounting system is part of the problem in the American industry rather than part of the solution (Shank and Gorindarajan, 1989).

The traditional management accounting system does not provide appropriate information to control the activities of companies operating in modern technologies but it instead places greater emphasis on reporting direct labor costs and efficiency while little attention is given to reporting and controlling overhead costs. It further fails to report on such issues like quality reliability, lead-time, flexibility and customer satisfaction. Further, traditional management accounting ignores indicators of performance such as customer satisfaction and competitors' strength, which provide advance signal of the need to change strategy. A successful business requires development and maintenance of some form of sustainable relative competitive advantage. Therefore, management should highlight the relative competitive positioning of the organization.

Changes in the business environment have transformed the role of management accounting. The introduction of new manufacturing and information technologies, the focus on the customer, the increase and growth of worldwide markets, and other changes require firms to develop strategic information systems to effectively maintain their competitive advantage in the industry. This means that unlike the traditional management accounting system, the modern management accounting system must provide appropriate types of information that addresses the strategic objectives of a firm. Reports that focus only on operational issues as those often summarized in financial reports no longer suffice. To compete successfully in today's highly competitive global environment, companies are adopting new management approaches, changing their manufacturing systems, and investing in new technologies. Some of these new management approaches include; Total Quality Management (TQM), Activity Based Costing (ABC), Activity Based Management (ABM), Just In Time (JIT) and Strategic Management Accounting.

**2.4 Empirical studies**

Michael Porter's (1985) work in strategic management explains the fundamentals of how firms competed. He suggests that a firm has a choice of three generic strategies in order to achieve sustainable competitive advantage. These are cost leadership, whereby an enterprise aims to be the lowest-cost producer within the industry thus enabling it to compete on the basis of lower selling prices rather than providing unique products or services. The second generic strategy is differentiation, whereby the firm seeks to offer products or services that are considered by its customers to be superior and unique relative to its competitors and thirdly the focus, which involves seeking advantage by focusing on a narrow segment of the market that has special needs that are poorly served by other competitors in the industry. The nature and type of information to be provided by management accounting depends on the type of strategy being pursued by a firm.

Drury (2004) notes that the accounting literature suggests that firms will place more emphasis on particular accounting techniques depending on which strategic position they adopt, for instance, Porter (1980) suggested that tight cost controls are more appropriate when a cost leadership strategy is followed. Simons (1987) found that business units that follow a defender strategy tend to place a greater emphasis on the use of financial measures such as a greater emphasis on forecast data and reduced importance on cost control. Innes et al (1998) also found that the use of non-financial measures for determining executive's bonuses increased with the extent to which firms follow an innovation-oriented prospector strategy.

Shank (1989) stresses the need for management accounting to support a firm's competitive strategies and illustrates how different competitive strategies – cost leadership and product differentiation demand different cost analysis perspectives. For example, carefully engineered products cost standards are likely to be a very important management control tool for a firm that pursues a cost leadership strategy in a mature commodity business. In contrast, carefully engineered manufacturing cost standards are likely to be less important for a firm following a product differentiation strategy in a market- driven, rapidly changing and fast growing business. A firm pursuing a product differentiation strategy is likely to require more information than a cost leader about new product innovations, design, cycle times, research and development expenditures and marketing cost analysis.

Strategic Management Accounting is that aspect of management accounting in which emphasis is placed on information that relates to external factors of the firm, as well as non-financial information and internally generated information. Simmonds (1981) defined strategic management accounting as that area which deals with provision and analysis of management accounting data of a business and its competitors for use in developing and maintaining the business strategies, with particular reference to relative levels, and trends in real costs, prices, volumes, market share, cashflow and the proportion demanded of a firm's total resources. He saw it as the collection of management accounting information about a business, and its competitors for use in developing and monitoring the business strategy.

Unlike the traditional management accounting which has historical emphasis, strategic accounting emphasis on external factors to the firm and non-financial information. Strategic management accounting focuses on a larger picture and a longer-term health of an organization, (Kaplan & Norton 1996).

Harris Research Centre (1990) report on strategy formulation found out that, the use of external information is generally rare. Company reports are the most popular published sources of strategic information. However, such information do not provide relevant and adequate information for strategic decision making. The strategic indicators of performance such as customer satisfaction and competitors' strength that provide advance signal of the need to change competitive strategy are usually ignored.

A successful business strategy requires development and maintenance of some form of sustainable relative competitive advantage. A study by Bromwich and Bhimani (1994) to investigate and review the state and development of management accounting systems recommended strategic management accounting as one of the approaches and practices to be adopted by firms in order to enable management accounting to respond to the external challenges that faced organizations. The strategic management accounting was more externally oriented to the business operating environment as opposed to traditional management accounting systems. Some of the modern tools of collecting information for strategic management include chain value analysis and the balanced scorecard (Drury, 2000).

The role of accounting in generating information for strategic management can be best illustrated by use of one of the economic theories discussed by Bromwich (1990). The theory sees economic goods as being desired not for themselves but rather for their underlying attributes or characteristics they provide to the consumer. Attributes might include a variety of quality elements such as operating performance variables, reliability and warranty arrangements, physical items including the degree of finish and trim, and service factors like the assurance of supply and of after sales service. It is these attributes that actually constitutes and differentiates commodities and which appeal to consumers. In this regard, the demand for goods are derived demands stemming from their underlying characteristics.

In the analysis, Bromwich (1990) observed that to be sure of surviving, a firm must offer a different combination of characteristic than any other firm unless demand for any combination cannot be met at minimum possible average cost by one firm or plant thereby allowing more than one supplier to exist. Thus costs, product characteristics and market strategies are seen to be highly intertwined.

The strategic implication of this model is that in order to survive in a competitive and horizontally differentiated market, a firm must offer a product that is not dominated by other products, that is, it must offer the cheapest way for the consumer to obtain the buddle of characteristics being offered. For an existing product to maintain its market share, it must offer at least the same amount of one characteristic as would the products offered by any actual or potential products and it must offer more of the other. In a multi -characteristic setting, a product to survive must yield at least the same amount of each characteristic as its competitors unless it generates sufficient extra of one or more characteristics to offset the lower amount of one or more of the other characteristics it offers.

The accounting implication of this model, notes Bromwich (1990), is that there is need to involve accountants in costing attributes and monitoring these costs overtime. In order to set itself in a market for characteristics, the firm needs to estimate the market demand for the product being offered and the elasticity of demand to changes in product characteristics, in addition to the price elasticity for each characteristic. Demand estimates may be particularly important where the possibility of selling a more complex product for a higher price is considered. A firm should also determine and monitor the strategy of each rival firm and of potential competitors even though they follow or will follow very different product differentiation strategies to the firm. This is because any given product may be very sensitive to, at least, some changes in competitors' strategies. Each firm in the market needs to determine cost structures and technologies used by all firms in the industry. Comprehensive information of this type is necessary because of the sensitivity of market position to new strategies by competitors.

Bromwich (1990) further notes that each firm will also need to consider the sustainability of its product characteristics portfolio and gather information relevant to this. Sustainability requires that each firm must continually monitor that it is able to offer a superior product relative to its actual and potential rivals. Moreover, for a buddle of characteristics to be sustainable, this combination must be producible at a cost no higher than any other firm or firms. This means that no other firm or set of firms, either in existence or which could come into existence has technological advantages in the product of the sustainable firms commodity or commodities such cost advantages must subsist for all possible volumes of the commodity that might be offered, otherwise competitors could enter at lower volumes. Each firm therefore must know its technology and that of all its actual or potential competitors. In conclusion, the model suggests that there is a role for accountants in helping to provide information for strategic decision making and for the monitoring of strategies.

## 2.5 Value Chain Analysis

The value chain for a firm in any business is the linked set of value creating activities from the suppliers to the consumers (shank and Govindarajan, 1993). It has a broad focus external to the firm, which involves seeing the organization from the context of overall chain of value creating activities of which it's only apart, from basic raw materials components to the end use consumers. It calls for an awareness of the supply's chain cost and their likely effect on the operations of the organization.

Value chain analysis further involves exploiting opportunities in the customer linkages for the benefits of the firm. It deals with the relationship between what a customer pays for a product and the total cost the customers incurs over the lifecycle of using a product. Explicit attention to post purchase cost by the customer can lead to more market segmentation and product positioning, it involves designing product that will reduce post purchase costs of the customer which can be a major weapon in capturing competitive advantage. Hongren, Datar and Foster (2005) notes that Accounting helps managers coordinate the business function of the value chain for example, by analyzing whether more money spent on research and development design will reduce subsequent production and customer service costs.

A study carried out by Shank (1989) on an American automobile company shows that if the company used the value chain approach to exploit links with suppliers it would have enhanced profitability. In this study, the company had made significant internal savings from introducing Just In Time (JIT) manufacturing techniques but, at the same time, price increases from suppliers more than offset these internal cost savings. A value chain perspective revealed that 50% of the firms' costs related to purchases from parts suppliers. As the automobile company reduced its own need for buffer stocks, it placed major new strains on the manufacturing responsiveness of suppliers. The increase in the suppliers manufacturing costs was greater than the decrease in the automobile company's internal costs.

Shank (1989) notes that for every dollar of manufacturing cost the assembly plants saved by moving towards JIT management concepts, the suppliers plant spent more than one dollar extra because of schedule instability arising from the introduction of JIT. Therefore because of its narrow value added perspective, the auto company had ignored the impact of its changes on its suppliers' costs. The management had ignored the idea that JIT involves a partnership with suppliers.

**2.6 Strategic Management Accounting**

Strategic Management Accounting is that aspect of management accounting in which emphasis is placed on information that relates to external factors to the firm, as well as non-financial information and internally generated information. Simmonds (1981) defined strategic management accounting as that area which deals with provision and analysis of management accounting data of a business and its competitors for use in developing and maintaining the business strategies, with particular reference to relative levels, and trends in real costs, prices, volumes, market share, cashflow and the proportion demanded of a firm's total resources. He saw it as the collection of management accounting information about a business, and its competitors for use in developing and monitoring the business strategy. Unlike the traditional management accounting which has historical emphasis, strategic accounting emphasis on external factors to the firm and non-financial information. Strategic management accounting focuses on a larger picture and a longer-term health of an organization, (Kaplan & Norton 1996).

Majority of firms in the world have adopted a balanced scorecard as a strategic management tool. A balanced scorecard is a strategic technique for communicating and evaluating the achievement of the mission and strategy of an organization. It emerged out of a need to integrate financial and non-financial measures of performance and identify key performance measures that link measurements to strategy (Drury, 2000).The balanced scorecard philosophy assumes that an organization's vision and strategy is best achieved when the organization is viewed from the following four perspectives; Customer perspective, Internal business process, learning and growth and financial perspective.

A critical assumption of the balanced scorecard is that each performance measure is part of a cause-and-effect relationship involving a linkage from strategy formulation to financial outcomes. Measures of organizational learning and growth are assumed to be the drivers of the internal business processes. The measures of these processes are in turn assumed to be the drivers of measures of customer perspective, while these measures are the driver of the financial perspective.

Drury (2000) notes that surveys indicate that even though the balanced scorecard did not emerge until the early 1990s, it is now widely used in many countries throughout the world. A US survey by Silk (1998) estimates that 60% of fortune 1000 firms have experimented with the balanced scorecard. In the UK a survey on large divisionalized companies with annual sales turnover in excess of €100 million by El-shishini and Drury (2001) indicated that 43% used the balanced scorecard at the divisional level. Other studies in mainland Europe indicate significant usage of balanced scorecard. Pere (1999) reported a 31% usage rate of companies in Finland with a further 30% in the process of implementing it. In Sweden, Kald and Nilsson (2000) reported that 27% of major Swedish companies have implemented the approach. Other studies by Oliveras and Amat (2002) and Speckbacher et al. (2003) respectively report widespread usage in Spain and German- speaking countries, that is German, Austria and Switzerland. Major companies adopting the balanced scorecard include KPMG Peat Marwick. All State Insurance and AT & T (Chow et al 1997).

In terms of the perspectives used, Malmi (2001) conducted a study involving semi-structured interviews in IT companies in Finland. He found that 15 companies used the 4 perspectives identified by Kaplan and Norton and 2 companies added a fifth on employees' perspective. A study by Olve et al (2000) found that 15-20 performance measures are customarily used. There is also evidence to indicate that the balanced scorecard approach is linked to incentive compensation schemes. Epstein and Manzoni (1998) reported that 60% of the large US organizations surveyed linked the balanced scorecard approach to incentive pay for their senior executives.

CHAPTER THREE

# 3.0 RESEARCH METHODOLOGY

## 3.1 Introduction:

This chapter describes the various steps that were followed in executing the study thereby satisfying its objective. The objective of the study was to investigate whether strategic management accounting is applied in organizations: a case study of Kenya Literature Bureau.

## 3.2 Population of the Study

The target population of this study was the KLB seven (7) senior managers who included: The Managing Director, Sales and Marketing Manager, Publishing and Editorial Manager, Production Manager, Corporate Services Manager, Human Resources Manager and Finance Manager. These are the managers who were engaged in day- to- day supervision, interpretation of policies, decision making, and above all, the formulation and implementation process of the KLB strategic plan. These managers also represent all the departments of KLB. On this basis therefore, they were considered most appropriate to provide accurate and quality information required to achieve the objective of the study.

## 3.3 Sampling Design

The research involved a census of the entire population of senior managers since they were few and easily accessible.

### 3.4 Data Collection methods

The researcher used primary data collected through questionnaires. The questionnaires were personally administered and in cases where the respondents were not available, a drop and pick method was used. A semi-structured questionnaire with both open ended and closed ended questions were used to capture both qualitative and quantitative data. The use of Open ended questions was necessary for purposes of obtaining qualitative information which was not captured in the closed ended questions and yet was necessary to assist the researcher identify gaps in application of strategic management accounting in KLB. The questionnaire was structured in seven parts (A, B, C, D, E, F and G,) with each part directed at a specific manager. This is because the managers represent various departments that have unique objectives and activities that cascades from the corporate strategic objectives. Part A contains questions for the managing director, Part B for the Sales and Marketing Manager, Part C For the Publishing and Editorial Manager, Part D for the Production Manager, Part E for the Human Resources Manager, Part F for the Corporate Manager and Part G for the Finance and Accounting Manager. Each and every section of the questionnaire was designed to capture data that relates to the various aspects of a balanced score card model, that is, Financial Measurements, Customer Services, Internal Business Processes and Learning and Innovation Factors.

### 3.5 Data Analysis

Data collected was edited for accuracy and completeness. The data was summarized on the basis of the managers' responses and analyzed further using the balanced score card model.

The balanced score card model was used in the analysis of the results as it is one of the popular strategic management accounting techniques of measuring success factors.

### 3.5.1 Management Responses:

The management responses were summarized as follows:

The Managing Director's responses which were summarized under the following subheadings; Strategic Financial Planning, Monitoring of the Strategic Financial Plan, Growth in Market share and return, Competitiveness, Sustainable return on shareholder investment, Institutional Development, Information system and Participation of Finance and Accounting Department in providing accounting information

The Sales And Marketing Manager's responses summarized under the following subheadings; Marketing Research, Customer Service, Marketing Programmes, Product Pricing Policy, Market Share and Growth, Participation of finance and accounting department in providing accounting information support.

The Publishing And Editorial Manager's responses were summarized under the following subheadings; Product Development, Improvement in Publishing Technology, Participation Of Finance And Accounting Department In Providing Accounting Information Support.

The Production Manager's responses summarized under the following subheadings; Measuring Production Output, Measuring Machine Productivity, Quality Measurement, Re-engineering of Production Processes, Labor and Material Usage, Product Pricing Policy an Participation Of Finance And Accounting Department In Providing Accounting Information Support.

The Human Resources Manager's responses were summarized under the following subheadings; Competency Development, Employee Performance reward system, Employee Satisfaction and Participation Of Finance And Accounting Department In Providing Accounting Information Support.

Corporate Services Manager's responses were summarized under the following subheadings; Procuring goods and services, Value for Money, Resource Utilization and Participation of Finance and Accounting department in providing accounting information support.

Finance And Accounting Manager's responses were summarized under the following subheadings; Financial and Accounting Information System, Informational support to other departments, Strategic Financial Planning, Product Pricing Policy and Participation of finance and Accounting department in providing accounting Information support.

### 3.5.2 Balanced Score Card Model

The following balanced scorecard perspectives were used in analyzing the responses: According to Blocher et al (2002) these are financial measurements which include measurement of profitability, liquidity, sales and market value: Customer service factors such as customer satisfaction, timeliness of delivery and quality of goods and services: Internal business processes as measured by critical success factors such as quality of goods and services, productivity, flexibility in processes set up time and cycle time, equipment readiness and safety: Innovation and Learning perspectives which include product innovation, timeliness of new product, skill development, employee morale and competence.

CHAPTER FOUR

# 4.0 DATA ANALYSIS AND RESEARCH FINDINGS

## 4.1 Responses of the Top management: The Managing Director

### 4.1.1 Strategic Financial Planning

The study found out that KLB prepares forecasted financial statements that cover the entire strategic plan period. The statements prepared included proforma profit and loss, balance sheet and cash flow statements.

### 4.1.2 Monitoring of the Strategic Financial Plan

The study further established that annual budgets were also prepared which were broken into monthly periods for use in the monitoring process. The actual results were usually compared with the budgets and causes of variances were being investigated on monthly basis.

### 4.1.3 Growth in Market share and return

Table 4. 1: growth in KLB sales revenue

| Year | Growth rate (%) |
|---|---|
| 2005 | 11.3% |
| 2006 | 21.2% |
| 2007 | 4.4% |
| 2008 | 11.9% |
| 2009 | 25.8% |

From the findings as shown in table 4.1 the growth in KLB sales revenue was 11.3%, 21.2 %, 4.4%, 11.9% and 25.8% in year 2005,2006,2007,2008 and 2009 respectively. However, the study established that there was no formal survey conducted to determine the KLB's market share in the Kenya's publishing industry and therefore the actual market share was not precisely known. The study found out that the Managing Director receives information on KLB's growth in sales revenue and the report is usually summarized per market segment. region, major customers and the overall total. The information was being provided on monthly basis and was usually compared with the set targets budgets. The cause of the variances where applicable were investigated.

### 4.1.4 Competitiveness

The study found that except for stock out reports, the Managing Director is not provided with most of customer related information such as customer complaints, unfulfilled customer orders, customer profitability, timeliness in processing and delivery of orders to customers. The study further established that the Managing Director did not also receive comparative analysis information on quality of KLB's products and services with those of the competitors. However, costs information on customer activities were being analyzed and provided to the Managing Director and these costs were being compared with the budgets.

On other aspects of competitiveness, which included pricing policy. The study found out that KLB has an established product pricing policy, which included accumulation of costs of bringing the book into being and multiplied by a factor 3. Although the price policy was not reviewed regularly, the study found out that KLB usually reviewed product prices at the time of reprint and/or at the beginning of every year upon approval by the Government of Kenya through the ministry of education. The prices were also compared with those of the competitors. It was further established that the Managing Director was provided with the following information whenever there is a newly developed or designed book: number of redesigned and newly developed products, time taken in developing a product, research and product development costs, and monthly sales performance of the product. However, analysis on projected sales breakeven point and customer and consumer feedback were not being provided. The study further established that KLB had carried out an upgrade of production and publishing technology within the last five years, that is, between 2004 and 2009. This included a purchase of computers and editing software for the publishing department and a decision had been made to purchase a full color printing press and a high-speed sewing machine.

### 4.1.5 Sustainable return on shareholder investment

Table 4. 2: Rate of return on investment

| Year | Rate of return on investment |
|---|---|
| 2005 | 2% |
| 2006 | 8% |
| 2007 | 7.10% |
| 2008 | 8.8% |
| 2009 | 10.9% |

The study found out that information on rate of return on investment was being provided to the Managing Director and in the last five years, the rates were –2%, 8%, 7.10%, 8.8% and 10.9% in year 2005,2006,2007,2008 and 2009 respectively. These rates were being compared with the budget/targets and cause of variances was investigated. However, the rates were not compared with those of the competitors.

### 4.1.6 Institutional Development

The study found out that the Managing Director receives cost information on staff skill development, staff recruitment, staff rewards/compensation and staff satisfaction survey. These costs were also being compared with the budgets and causes of variances were investigated.

### 4.1.7 Information system

The study found out that KLB had not established a system of gathering and processing information on external environment, which includes competitor activities, government policies and the publishing industry in general.

### 4.1.8 Participation of Finance and Accounting Department in providing accounting information

The study found out that finance and accounting department was rated 80% in its perceived participation in providing strategic management accounting information to the Managing Director. However, the Managing Director expected active participation by finance and accounting department in the area of analyzing competitor information such as published financial statements, marketing information such as sales, market share, unit costs and return on sales of the competitors and KLB customer profitability analysis.

## 4.2 The Sales and Marketing Department

### 4.2.1 Marketing Research

The study found out that independent consultants carried out the marketing research annually and from time to time by the filed sales team. The costs of research were captured, compared with the budget and causes of variances were investigated.

### 4.2.2 Customer Service

The study further established that analysis on customer complaints, time taken in processing orders and deliveries were being carried out on monthly basis to enable the management establish trends, make administrative changes where necessary, change the processes and take other necessary remedial actions. However, analysis of customer profitability and the costs of providing services to the customers were not carried out.

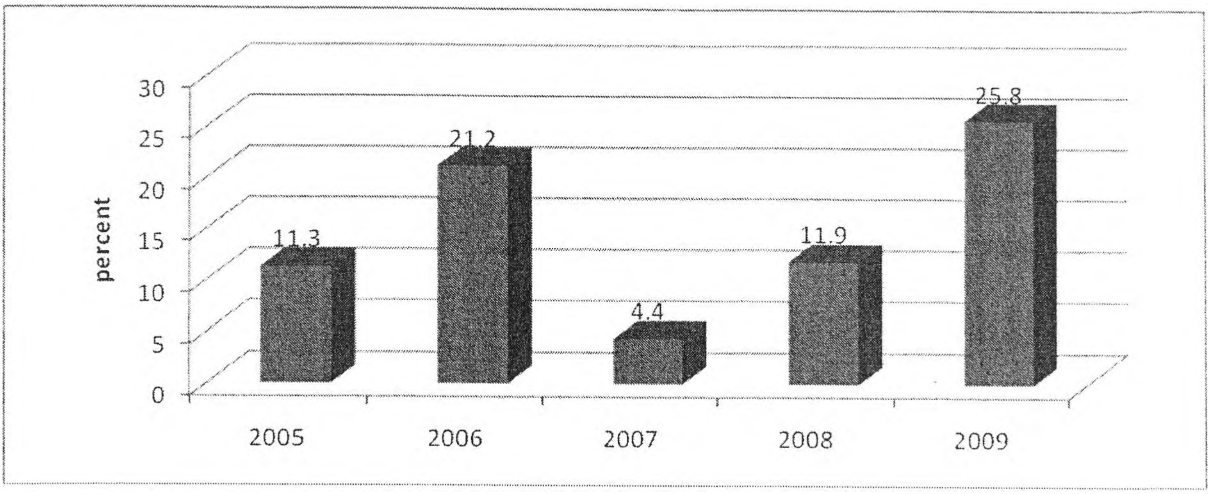
### 4.2.3 Marketing Programmes

The study established that marketing programmes which included bulk order offers, seminars, conferences, book fairs, teachers' seminars and school visits by the permanent and casual sales representatives of the KLB were developed. The developed programmes were also being compared with those of the competitors in the industry for the purposes of benchmarking to ensure KLB is more visible and competitive. The costs budgets for the programmes were prepared and compared with actual expenditure. Investigations on the causes of variances were carried out periodically ranging from monthly, quarterly, semi-annually and annual basis. Some of the cited causes included inflation and unforeseen events.

### 4.2.4 Product Pricing Policy

The study established that there was a KLB product pricing policy but has not been reviewed in the last five years. However, it was established that prices of individual books are reviewed and compared with those of the competitors on an annual basis except for new and redesigned editions whose prices are compared at the time of release to the market.

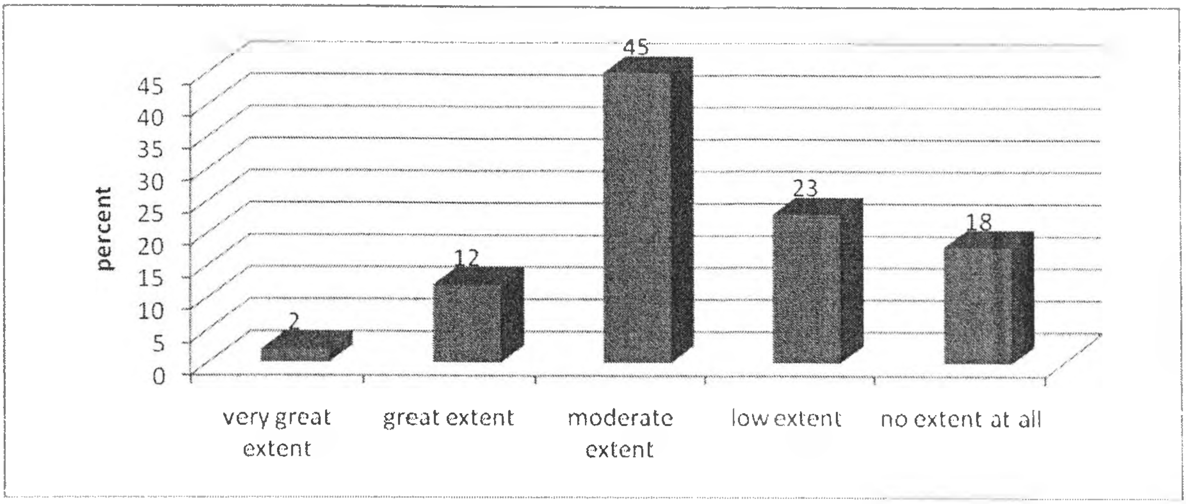
Figure 4. 1:**Market Share and Growth**




From the findings as shown in the table above the growth in sales revenue was computed annually which stood at 11.3%, 21.2%, 4.4%, 11.9% and 25.8% in year 2005 to 2009 respectively. The study found out that KLB market share in the Kenyan publishing industry was not precisely determined. However, the respondent indicated that it was only determined by comparing performance of its best products against the competition and this information was obtained via the major booksellers. On the other hand, the study established that monthly and annual analysis of sales revenues were carried out on the basis of regions, major customers and field sales persons. However, the analysis on the basis of market segments (i.e. pre-primary, primary, secondary and general readership) was not done

### 4.2.5 Participation of finance and accounting department in providing accounting Information support.

Figure 4. 2: Participation of finance and accounting department in sales and marketing department




On the extent to which finance and accounting department participate in tracking, analyzing and provision of the information on finance and accounting issues, 45% indicated that the department participated to a moderate extent, 23% indicated that it participated to a low extent, 12% indicated that it participated to a great extent and 18% indicated that it participated to no extent at all. From these findings we can deduce that finance and accounting department participated in tracking, analyzing and provision of the information on finance and accounting issues to a moderate extent.

## 4.3 The Publishing and Editorial Department

### 4.3.1 Product Development

The study found out that product quality standards or attributes were identified when developing a product which included the font size and type, book size, paper gramage, opacity, gluing, stitching, conformity with the syllabus and authorship composition. However, estimations of products development costs were not made and for this reason, the costs of developing a product are also not compared with the competition.

The study further found out that duration targets for developing a book or product are set and are compared with the actual duration taken and where applicable, the variances were investigated. The Publishing Manager also confirmed that there was a pricing policy but it is not reviewed regularly. However, the prices of individual books were reviewed to the market whenever the government allowed a review in prices of school curriculum books. The study noted that the government controls price increases for schoolbooks.

### 4.3.2 Improvement in Publishing Technology

The study found out that there was an improvement in publishing and editorial technology during the plan period 2004 and 2009. The improvement involved equipping the department with modern computers resulting to increased computer usage ratio of 1:1. The members of staff were also trained in application of the modern design operating system. The study further established that a cost and benefit analysis had been carried out prior to introduction of the new technology. The achievements of introducing the new technology was also measured by the increase in number of books developed over a period of time, reduction in time taken to develop a book, reduction in development costs and improved product quality standards or attributes.

### 4.3.3 Participation of Finance and Accounting Department in Providing Accounting Information Support

The departmental head gave a rating of 40% to finance and accounting department in terms of information support to the department. However, the Publishing department expected finance and accounting department to actively support in the following areas: - Assist in carrying out cost and benefit analysis of various book development Projects. Comparison of input costs and returns per every book developed so as to establish the viability of a project. Monitor sales to establish the breakeven point of a product after which KLB would begin earning profits.

## 4.4 The Production Department

### 4.4.1 Measuring Production Output

The study established that production annual targets were prepared and broken into smaller periods, that is, daily, weekly, monthly and quarterly. The actual results were also analyzed on daily, weekly, monthly, quarterly and annual basis. The targets and the actual results were compared and the variances investigated on daily and monthly basis. Some of the causes of the variances were identified as quality raw materials, human errors and state of machines.

### 4.4.2 Measuring Machine Productivity

The study further found out that analysis on machine utilization were carried out on daily, weekly, monthly, quarterly and annual basis. The analysis report captures the fundamental machine operation performance measures such as machine downtime hours, unit output, machine running hours and the maintenance and repair costs. These measures were compared with set targets and the causes of variances were investigated. Some of the citied reasons included; increase in machine downtime due to breakdown, temporary redeployment of operators to assist in other duties and delays in getting supply of machine spare parts. However, it was established that utilization targets and results were not compared with the competition.

### 4.4.3 Quality Measurement

On this objective, the study established that there was a system of measuring quality, which involved analysis of defective books based on among others, the type and causes of the defects and the year of production. After the analysis, corrective measures were taken which included ensuring proper maintenance of machines, inspection of raw materials for good quality and increased surveillance by supervisors and machine operators at various production process points.

### 4.4.4 Re-engineering of Production Processes

On re-engineering of production system, the studies established that there was an improvement on book size, which was increased from A5 to B5. However, in spite of the purpose of this change being to reduce cost of production in materials, labor and overheads, the actual analysis was not carried out to evaluate the actual savings in cost of materials.

### 4.4.5 Labor and Material Usage

The use of labor and materials was being monitored by comparing the actual and set standard usage. The causes of variances were investigated which included supply of less quality papers which were under size and being underweight and aged machines which broke down so often.

### 4.4.6 Product Pricing Policy

The study found that there was a product pricing policy in KLB but it was not being reviewed regularly. However, the respondent intimated that product prices were being compared with those of the competitors.

### 4.4.7 Participation of Finance and Accounting Department in Providing Accounting Information Support

Figure 4. 3: Participation of Finance and Accounting Department in the production department

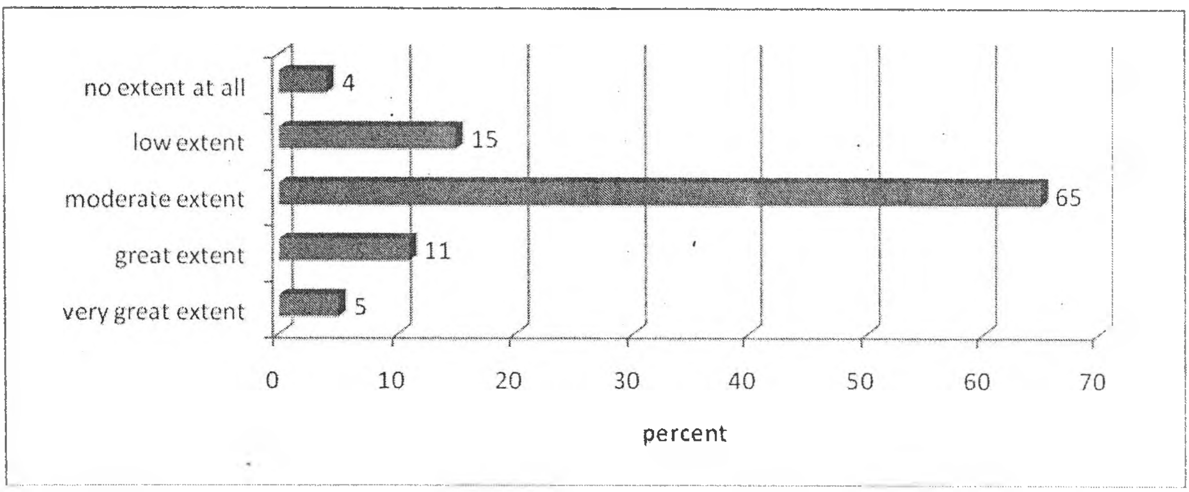



Figure 4.3 above shows the extent to which finance and accounting department participate in tracking, analyzing and provision of the information on finance and accounting issues. From the findings 65% of the respondents agreed to a moderate extent, 15% to a low extent, 11% to a great extent, 5% to a very great extent and 4% to not extent at all. However, the respondent expected finance and accounting department to actively participate in setting and revision of product pricing policy regularly.

## 4.5 The Human Resources Department

### 4.5.1 Competency Development

The studies found out that staff's training needs were assessed annually, which included skills upgrading courses such as team building and financial management for non-accounting managers among others. The associated costs are budgeted which are compared with the actual. The variances are also investigated for management action. However, the study found that the staff skills in KLB are not coppered with those of the competing firms in the industry.

### 4.5.2 Employee Performance reward system

The study also found out that KLB has a staff performance reward system, which included positive and negative rewards such as bonus, salary incremental credits, and letters of commendation, reprimand and caution. The costs of the rewards where applicable were analyzed and the reports were used in comparing among the various performance reward methods used. However, it was established that comparisons with the performance reward systems of the competitors were not carried out.

### 4.5.3 Employee Satisfaction

The study found out that employee satisfaction survey was carried out annually in the last two years, 2008 and 2009 whose indices were 67% and 70.3% respectively. The recommendations of the surveys were implemented and the related costs were captured. The study further found out that costs of other staff related activities were also captured which included staff training, staff reward/compensation schemes, staff recruitment and staff satisfaction surveys. These costs are compared with the budgets and the causes of variances were investigated.

### 4.5.4 Participation of Finance and Accounting Department in Providing Accounting Information Support.

The departmental head gave a rating of 40% to finance and accounting department in terms of information support to the department. The respondent expected finance and accounting department to actively participate in timely posting of monthly employee related costs.

## 4.6 Corporate Services Department

### 4.6.1 Procuring goods and services

The study established that annual procurement plans for the whole organization were prepared, which were compared with the actual quantities consumed. The causes of variances where applicable, were also investigated. Some of the causes mentioned were pilferage, delay in updating the stock management systems at the selling points and the warehouse.

### 4.6.2 Value for Money

The study found out that costs of procuring goods and services were analyzed and were compared to the budgets. The causes of variances were also investigated where applicable. It was further established that the tender prices were also analyzed and compared with the prices prevailing in the market prior to award of tenders. The study further found out that the quality of goods and services were set and the consumers were asked to provide feedback information but this was spontaneous and continuous. The reported weaknesses or gaps were usually attended to.

### 4.6.3 Resource Utilization

The study established that corporate department controls various resources and utilities which included electricity, telephone, water, office supplies, cleaning materials, postal and telegrams and motor vehicles. The actual costs of using the resources and utilities are captured and compared with the budgets. The causes of variances also investigated which included inaccurate forecasts laxity in control measures and the vagaries of the market.

### 4.6.4 Participation of Finance and Accounting department in providing accounting information support

The head of corporate department rated Finance and Accounting department at 60% in providing accounting information support to the department. The respondent expected active participation from accounting department in terms of introducing regular updated circulars to users of their services on financial and accounting matters and also provides progress reports that were customized, to specific users.

## 4.7 Finance and Accounting Department

### 4.7.1 Financial and Accounting Information System

The study found out that KLB has an established accounting system that was both manual and automated.

### 4.7.2 Strategic Financial Planning

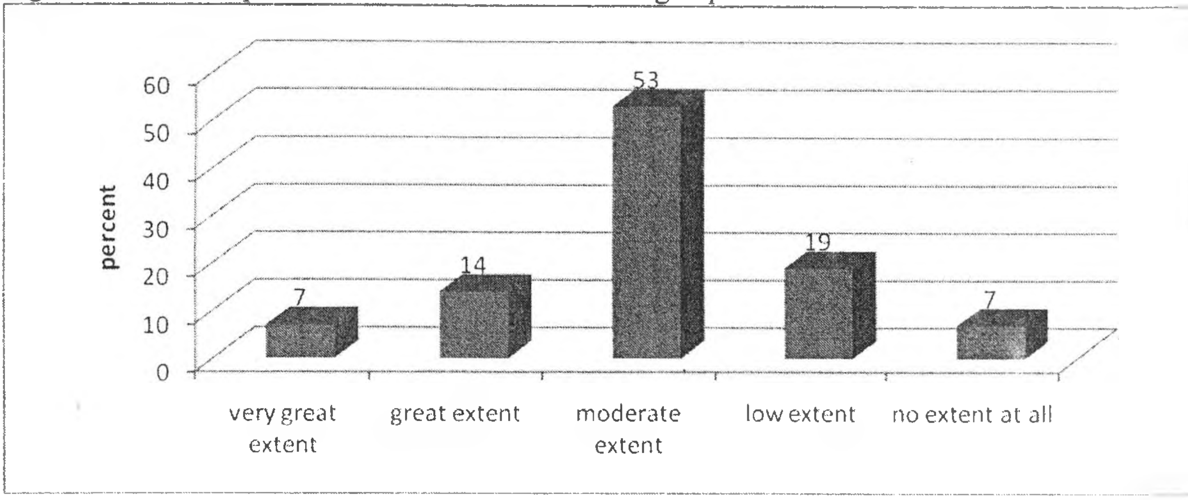
The study found out that KLB prepares forecasted financial statements that cover the entire strategic plan period. The statements prepared included proforma profit and loss, balance sheet and funds flow statements. The annual budgets were also prepared which were broken into smaller periods such as monthly and quarterly basis. The budget contained a summary of departmental activities. The actual results were compared with the budgets and causes of variances were investigated on monthly basis. However, analyses of financial statements of other competing organizations in the industry were not done. The study further found out that the costs of gathering, analyzing and disseminating financial and accounting information was captured and compared with the budgets and the causes of variances were duly investigated.

### 4.7.3 Product Pricing Policy

The study found out that KLB has an established product pricing policy, which included accumulation of costs of bringing the book into being and multiplied by a factor 3. Although the price policy was not reviewed regularly, the study found out that KLB usually reviewed product prices at the time of reprint and/or at the beginning of every year upon approval by the Government of Kenya through the ministry of education. The prices were also compared with those of the competitors.

### 4.7.4 Participation of finance and Accounting department in providing accounting Information support

Figure 4. 4: Participation of finance and Accounting department




On the extent to which the of the finance and Accounting department participated in providing accounting information support, 53% of the respondents indicated that the department participated to a moderate extent, 19% to a low extent, 14% to a great extent, 7% to a very great extent and 7% to no extent at all. From these findings we can deduce that the finance and Accounting department participated in providing accounting information support to a moderate extent.

## 4.8 Analysis Based On Balanced Score Card Perspective

### 4.8.1 Financial Measurements

From the responses of the Managing Director, Marketing Manager and the Finance Manager, the study found out that KLB prepares forecasted financial statements such as proforma profit and loss statement, balance sheet and cash flows for planning purposes. Annual budgets were also prepared and the actual results were being compared with the budgets and the variances were investigated. Information on growth in market share and revenue were also prepared and summarized per market segment, region, major customers and products albeit lack of formal survey to determine the KLB's market share in the Kenya's Publishing Industry.

Other information generated included rate of return on investment and were being compared with the budget and cause of variances were investigated. However, the study established that KLB financial measures were not compared with those of the competitors for benchmarking purposes. This was attributed to difficulties in accessing information of the competitors.

### 4.8.2. Customer Service Perspective.

According to the responses of the Managing Director and the Marketing Manager, the study established that information on customer factors were analyzed which included stock out, customer complaints, time taken in processing orders and deliveries. All this information was analyzed and reported on monthly basis for the purposes of enabling management to establish trends, make administrative and process changes and take other remedial actions where necessary.

The study further found that analysis on customer profitability and costs of providing services to the customers were not done. There was also no formal customer satisfaction survey carried out.

### 4.8.3 Internal Business Processes

From the responses of the Managing Director, Marketing manager, Publishing Manager, Production and also Corporate Services Managers, the study indicates that KLB carried out upgrade of production and publishing technology between 2004 and 2009 by purchasing computers and editing soft wares for the publishing department and was in the process of acquiring a full color printing press and high speed sewing machine. The impact of improvement in technology was measured by increased number of books and reduced time taken to develop a book. Marketing programmes were also put in place which included bulk order offers, conferences, book fairs, teachers' seminars and school visits by the permanent and casual sales representatives. The costs of running the programmes were budgeted for and comparisons were made with actual costs periodically.

The study further established that for the purposes of quality control, quality standards of a product were identified at the development stage which included print font size, book size, paper grammage, opacity, gluing, stitching and conformity with syllabus. These attributes were subsequently used in measuring the quality of the final product. However, estimates for development costs were not made and for this reason, the actual costs of developing products were not compared with planned costs or with those of competitors. The study found that the book development process were monitored by setting targets for developing a book which were compared with the actual and variances were being investigated for purposes of improving the development process. The production department also monitored the production processes for the purposes of making necessary improvement. The monitoring process involved establishment of annual production targets that were broken into smaller periods, analysis on machine utilization such as down time hours, maintenance and repair costs and analysis of defective books. Corrective measures were being taken including ensuring machine maintenance plans, inspection of raw materials and supervision of machine operators. Other process analysis carried out included input usage such as materials and labor. Comparisons were made between planned and actual usage and variances were investigated for correction action.

Establishment of annual procurement plans and use of tender system also improved the procurement processes within the corporate department. The costs of procuring goods and services were analyzed and compared with the budgets to ensure there was value for money. Additionally, costs of utilities and actual usage were compared and the resulting variances were investigated for necessary action.

### 4.8.4. Learning and Innovation Perspectives

From responses of the Managing Director and the Human Resources Manager, the study indicates that information on newly developed or redesigned books and the costs of research and development were being generated. Information on staff training need assessment, training plans and cost of training were also generated by the Human Resources Department. The study further indicates that employee performance reward system and satisfaction surveys were in place. The recommendations of the surveys were implemented and related costs were analyzed for monitoring purposes.

# CHAPTER FIVE

# 5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.

This chapter presents a summary of the findings and conclusions of the study in relation to the objective set out in chapter one. It also discusses the recommendations of the study; limitations and suggested areas for further research. The objective of the study was to investigate the extent to which strategic management accounting is applied at Kenya Literature Bureau.

## 5.1 Summary

This study found that KLB prepares and presented financial measurement statements that included forecasted profit and loss, balance sheet and cash flows. Other financial information relating to growth in market and return on investment were also prepared. The actual results were compared with budgets and the resulting variances were investigated for corrective action. However, the study established that KLB did not carryout formal surveys to determine its market share in the Kenya's Publishing Industry. The financial results were also not compared with those of the competitors for benchmarking purposes, a problem attributed to difficulties in accessing information of the competitors.

The study further found out that KLB prepares and analyses information on customer services such as customer complaints, stock outs and time taken to process their orders and deliveries. On internal business processes, the study established that KLB was engaged on a number of activities and aimed at improving internal business processes. Marketing programmes that were run by sales representatives were also developed.

On learning and innovation factors, the study established that KLB prepared data on newly developed or redesigned books. The study also realized that the organizations had reward systems for staff performance

Finally, the study found out that the Finance and accounting department was expected to participate in the area of analyzing competitor information on published financial statements, market share and customer profitability. The finance and accounting department should also assist in developing a model to manage levels such as establishing minimum stock threshold and finance input analysis on marketing related programs

**5.2 Conclusion**

Arising from the foregoing summary of findings, the study concludes that KLB practices strategic management accounting to a great extent.

The study also revealed that KLB prepares and presents financial measurement statements that include forecasted profit and loss, balance sheet and cash flows. Other financial information relating to growth in market and return on investment are also prepared. The actual results were compared with budgets and the resulting variances were investigated for corrective action. The study established that KLB did not carryout formal surveys to determine its market share in the Kenya's Publishing Industry. The financial results were also not compared with those of the competitors for benchmarking purposes, a problem attributed to difficulties in accessing information of the competitors.

The study also concludes that KLB prepares and analyses information on customer services such as customer complaints, stock outs and time taken to process their orders and deliveries. Additionally, other crucial information relating to customers such as customer profitability and direct costs of providing services to customers were not analyzed and also most of the information on customer services analysis was not communicated to the Managing Director.

On internal business processes, the study established that KLB was engaged on a number of activities and aimed at improving internal business processes. These were upgrading of production and publishing technology by procuring and installing computers and editing software, and were in the process of acquiring full color printing press and high speed serving machine at the time of the study. Marketing programmes that were run by sales representatives were also developed. Quality control measures to monitor and ensure goods produced and productivity of machines were also put in place systems for procuring goods and services were also put in place. The results of all the above improvements were measured and compared with budgets; variances were investigated for corrective actions.

On learning and innovation factors, the study established that KLB prepared data on newly developed or redesigned books. Information on staff training need assessment and actual training were also prepared. There were also reward systems for staff performance. Finally, the study found out that a number of top managers had certain information needs that they expected to be provided from the Finance and Accounting department.

### 5.3 Recommendations

This research study recommends that;

KLB management should carry out periodical formal market surveys to determine the KLB market share in the Publishing Industry. This is an important exercise for the purposes of developing marketing strategies. A consultant may carry out the survey annually or such other period as would be convenient to KLB.

KLB management benchmarking or comparing financial and other information with those of competitors, that is, competitor analysis. This may be achieved by developing internal capacity and network of collecting internal and external strategic information of the competitors and other external environmental factors. This information is key for an organization to attain a competitive edge in a competitive and liberalized market

The Finance and Accounting department may facilitate in generation of the following information for managers as pointed out in their responses during the study.

The marketing manager should ensure development of a model to manage stock levels and finance input analysis on marketing related programs. This research study found that KLB had not been using development models to manage stock levels.

The study also recommends that the government should form policies that govern and regulate competition in publishing companies in Kenya. Competition in the publishing industry without regulation can lead to low quality production.

**5.4 Limitation of the Study**

This study was limited to the following considerations:

Time and resources constraint was a major bottleneck. While a more comprehensive study was desirable, this was not possible given the limited time period the researcher was expected to carryout the study and submits the results within the scheduled University Calendar.

The study also used only one model among the many strategic management accounting technique of measurement. Other techniques might have produced different results. Also the researcher had difficult time to choose one among the other techniques.

There were challenges during data collection where some target respondents failed to give required information. The researcher however worked at winning the confidence of those involved in this research by giving them the reasons for the research and assuring them of confidentiality.

### 5.5 Suggestions for Further studies

A similar study can be replicated some years to come in order to evaluate the levels of improvement in application of strategic management accounting and implementation of the recommendations made in this study by the Kenya Literature Bureau Management.

A study can also be conducted on other firms within the publishing industry. This is because the research was conducted on KLB which is just one among the over forty competing firms in the publishing industry as at the time of the study.

The study also recommends that further studies should be done on the role of strategic management accounting in achieving competitive advantage. This study focused of the application of strategic management accounting in organizations but did not investigate the on the role strategic management accounting was playing in achieving a competitive advantage.

## REFERENCES


Anthony Robert N, Reece James S, (1995) "Accounting Principles" 7th Edition Irwin.

Arnold John and Turley Stuart (1996) "Accounting for Management Decisions" 3rd Edition, Prentice Hall Europe.

Blocher Edward, Chem Kung H, Cokins "Cost Management: A Strategic Emphasis" Gary and Lin Thomas W. (2002) 2nd Edition Mc Graw Hill Irwin.

Bromwich Michael (1990) The Case for Strategic Management Accounting: The Role of Accounting in Information for Strategy in Competitive Markets. Journal of Accounting Organizations and Society Vol.15 No.1/2 27-46.

Bromwich, M and Bhimani, A 1994 Management Accounting; Pathway to progress; Chartered Institute of Management Accountants.

Chow, C, Hadded, K & Williamson, Applying the balanced scorecard to small companies management accounting, 21-7

Drury C. (2000)" Management and Cost Accounting" 5th Edition.

Drury Collin (2004) "Management and Cost Accounting" 6th Edition.

El-Shishini, H. & Drury, C,(2001) Divisional performance measurement in UK companies, paper presented to the Annual Congress of the European Accounting Association Athens.

Epstain, M & Manxoni, J.F (1998) Implementing Corporate Strategy; from tableaux de bord to balanced scorecards, European Management Journal, 16(2), 190-203.

Glauntier MWE, Underdown B,(2001) "Accounting Theory and Practice" 7th Edition Prentice Hall.

Harris Research Information for Strategic Management; A survey of leading companies 1990.

Hongren Charles T, Datar Srikant M, "Cost Accounting; A Management and Foster George (2005) Emphasis" 12th Edition.

Innes, J. (1998) Strategic Management Accounting, in Innes J. (ed.), Handbook of Management Accounting, Gee, Ch.2.

Inman Mark Lee (1999) Article on Strategic Management Accounting.

Kald, M & Nilson, F. (2000) Performance measurement at Nordic Companies, European Management Journal, 1,113-27.

Kenya Literature Bureau Strategic Plan (2005).

Malmi, T (2001) Balanced scorecards in finish companies; a research note, management Accounting Research Vol.12, No.2, PP 2007-20.

Oliveras , E & Amat, O. (2002) The Balanced scorecard assumptions and the drivers of business growth, paper presented at the 25th Annual Congress of the European Accounting Association, Copenhagen, Denmark.

Olve, N. Roy, J & Wetter, M (2000) Performance Drivers: A Practical Guide to using the balanced scorecard, John Wiley & Sons.

Pere, T (1999) How the execution of strategy is followed in large organizations located in Finland, Masters Thesis (Helsinki School of Economics and Business Administration).

Porter, M (1980) Competitive Strategy analysing industries and competitors, New York, Free Press.

Russell Michael (2007); Article on Accounting Three areas http://www.inconcertfinancialgroup.com/forte-tax/Accounting.

Shank J.K. & Goviandarjan (1989) Strategic Cost Analysis R.D. Irwin.

Silk, S. (1998) Automating the Balanced Scorecard, Management Accounting May, 38-44.

Hongren Charles T, Datar Srikant M, "Cost Accounting; A Management and Foster George (2005) Emphasis" 12th Edition.

Innes, J. (1998) Strategic Management Accounting, in Innes J. (ed.), Handbook of Management Accounting, Gee, Ch.2.

Inman Mark Lee (1999) Article on Strategic Management Accounting.

Kald, M & Nilson, F. (2000) Performance measurement at Nordic Companies, European Management Journal, 1,113-27.

Kenya Literature Bureau Strategic Plan (2005).

Malmi, T (2001) Balanced scorecards in finish companies; a research note, management Accounting Research Vol.12, No.2, PP 2007-20.

Oliveras , E & Amat, O. (2002) The Balanced scorecard assumptions and the drivers of business growth, paper presented at the 25th Annual Congress of the European Accounting Association, Copenhagen, Denmark.

Olve, N. Roy, J & Wetter, M (2000) Performance Drivers: A Practical Guide to using the balanced scorecard, John Wiley & Sons.

Pere, T (1999) How the execution of strategy is followed in large organizations located in Finland, Masters Thesis (Helsinki School of Economics and Business Administration).

Porter, M (1980) Competitive Strategy analysing industries and competitors, New York, Free Press.

Russell Michael (2007); Article on Accounting Three areas http://www.inconcertfinancialgroup.com/forte-tax/Accounting.

Shank J.K. & Goviandarjan (1989) Strategic Cost Analysis R.D. Irwin.

Silk, S. (1998) Automating the Balanced Scorecard, Management Accounting May, 38-44.

Pfriffer, T (2003) implementation of Balanced Scorecards in German-speaking countries, Management Accounting Research, 14(4), 361-88.

Simons, R (1987) Accounting Control Systems and Business Strategy Accounting, Organizations and Society, 12(4), 357-74.

Simmonds K, (1981) The Fundamentals of Strategic Management Accounting, London Press.

Ward, K (1992) Strategic Management Accounting Wikipedia, (2009) http://en.wikipedia.org/wiki/strategy.

Arithi P. (2001) Application of strategic management accounting by large manufacturing companies in Nairobi. Unpublished research project, UON

kiruthi J. (2001); the state of strategic management practices in not-for-profit organizations. the case of public membership clubs in Nairobi, Unpublished research project, UON

Ng'ang'a P. (2001); real time strategic management practices in Kenya's companies quoted in the Nairobi stock exchange, Unpublished research project, UON

Njanja l.W. (2002); strategic management practices in the agricultural sector of Kenya. The case of statutory boards; Unpublished research project, UON

Mugambi M. (2003); the strategic management practices of shipping companies in kenya, Unpublished research project, UON

Kariuki P. (2008); strategic management practices adopted by the Karen hospital Nairobi, Unpublished research project, UON

Mbugua P. (2008); strategic management practices of major advertising agencies in Kenya, Unpublished research project, UON

**APPENDIX I: QUESTIONNAIRE.**

**PART A: Section for the Managing Director, KLB.**

This questionnaire seeks to establish the extent to which strategic management accounting is applied in Kenya Literature Bureau. It is a case study in partial fulfillment of the requirements for the award of master of business administration (accounting option) degree of the University of Nairobi. The information obtained will be treated with utmost confidence and will be used for academic purposes only. Your assistance in completing the questionnaire is highly appreciated.

1. Does KLB have projected financial statements that cover the entire strategic plan period?

   Yes [ ]  No [ ]

2. If yes, is the projected financial statements part of the following (tick as many as applicable)?

   [ ] Projected Profit and loss statement

   [ ] Projected balance sheet

   [ ] Projected cash flow statements

3. Are the annual budgets for the organization prepared?

   Yes [ ]  No [ ]

4. Are the causes of variances in 5 above, if any, investigated?

   Yes [ ]  No [ ]

5. Do you receive information on KLB's growth in sales revenue?

   Yes [ ]  No [ ]

6. Is the above information compared with the targets/budgets?

   Yes [ ]  No [ ]

7. What were the KLB growth in sales revenue in the following years ended in?

June 2005.______________ June 2006 ______________

June 2007 ______________ June 2008 ______________

June 2009.______________

8. Do you receive information on KLB market share in the Kenya's publishing industry?

   Yes [ ] No [ ]

9. How often do you receive the information on market share (tick as applicable)?

   [ ] Monthly [ ] Quarterly

   [ ] Semi-annually [ ] Annually

10. Is the market share compared with the targets/budget?

    Yes [ ] No [ ]

11. What is the KLB growth in market share in the following years ended in?

    June 2005.______________ June 2006 ______________

    June 2007 ______________ June 2008 ______________

    June 2009.______________

12. Do you receive information on quality comparative analysis of KLB products and services with the competition?

    Yes [ ] No [ ]

13. Do you receive cost information on customer service activities (tick as many as applicable)?

    Yes [ ] No [ ]

14. If yes, what do you do with the information obtained in 23 above (tick as many as applicable)?

    [ ] Compare with budget [ ] Compare with sales revenue

    [ ] Increase customer service activities [ ] Compute customer profitability

[ ]Compare with the competition

15. Is the KLB product pricing policy compared with the competitors'?

Yes [ ] No [ ]

16. Do you receive the following information on newly developed or redesigned product(s) (tick as many as applicable)?

[ ] Number of re-designed and newly developed products

[ ] Time taken in the development of a product

[ ] Projected sales break even point

[ ] Research and product development costs

[ ] Timely customer and consumer feedback

[ ] Monthly or quarterly sales performance

17. Have you upgraded production and publishing technology in the last five years?

Yes [ ] No [ ]

18. Were the following analysis carried out after the introduction of the new technology (tick as many as applicable)?

[ ] Reduction in time spent in production

[ ] Reduction in production cost

[ ] Increased output

[ ] Increased capacity utilization

[ ] Reduction in material wastage

[ ] Reduction in book development costs

19. Do you receive information on rate of return on investment (ROI)?

Yes [ ] No [ ]

20. If yes, what is the rate of return on investment in the following years ended in?

June 2005.________________ June 2006 ________________

June 2007 ________________ June 2008 ________________

June 2009.________________

21. Are the actual rates of investment compared with the set targets/budgets?

Yes [ ] No [ ]

22. Are the actual rates of investment compared with the competition?

Yes [ ] No [ ]

23. Do you receive cost information on the following staff related activities (tick as many as applicable)?

[ ] Staff skills development
[ ] Staff recruitment
[ ] Staff rationalization programmes
[ ] Staff rewards/compensation
[ ] Staff satisfaction survey

24. If yes, are the above costs compared with the budgets?

Yes [ ] No [ ]

25. Have you established a system of gathering and processing information on external environment (competitor activities, government policies, publishing industry etc?

Yes [ ] No [ ]

26. To what extent does finance and accounting department participate in tracking, analyzing and provision of the information on finance and accounting issues discussed in the above questions?

[ ] Very great extent
[ ] low extent
[ ] great extent
[ ] no extent at all
[ ] moderate extent

27. If your choice to 45 is either Very Good, Good, Fair or Poor, what areas would you like to see active participation of finance and accounting department?

**PART B: Section For The Sales And Marketing Manager**

1. Do you do marketing research?

   Yes [ ] No [ ]

2. Do you receive information on the cost of carrying out the research?

   Yes [ ] No [ ]

3. Do you receive the following customer related information (tick as many as applicable)?

   [ ] Customer complaints analysis report

   [ ] Customer profitability analysis report

   [ ] Analysis on time taken in processing customer orders

   [ ] Analysis on time taken in delivering orders to customers

4. Are the costs related to customer satisfaction needs analyzed?

   Yes [ ] No [ ]

5. Do you develop marketing programmes?

   Yes [ ] No [ ]

6. Do you compare your marketing programmes with those of the competitors in the publishing industry?

   Yes [ ] No [ ]

7. Do you prepare cost budgets for the marketing programmes named in 15 above?

   Yes [ ] No [ ]

8. Do you investigate causes of the variances determined in 18 above?

   Yes [ ] No [ ]

**PART C: Section for the Publishing And Editorial Manager**

1. Do you set quality standards (specifications or attributes) when developing a product?

Yes [ ] No [ ]

2. Are the estimate costs prepared for developing a product?

Yes [ ] No [ ]

3. Are the actual costs of developing a product compared with the competitors' in the industry?

Yes [ ] No [ ]

4. Do you set time targets for developing a book?

Yes [ ] No [ ]

5. Is there a pricing policy for the KLB products?

Yes [ ] No [ ]

6. Is the KLB product pricing policy compared with the competitors'?

Yes [ ] No [ ]

7. Have you changed the publishing and editorial technology in the last five years?

Yes [ ] No [ ]

8. To what extent does finance and accounting department participate in tracking, analyzing and provision of the information on finance and accounting issues discussed in the above questions?

[ ] Excellent [ ] Very Good

[ ] Good [ ] Fair

[ ] Poor

**PART D: Section for the Prodution Manager**

1. Do you prepare annual targets on number of books to be produced?

Yes [ ] No [ ]

2. Do you receive information on actual number of books produced?

Yes [ ] No [ ]

3. Do you compare the targets and the actual number of books produced?

   Yes [ ] No [ ]

4. Do you also compare the above performance measures with those of other leading publishers in the industry?

   Yes [ ] No [ ]

5. Have you made change(s) to your production processes in the last five years?

   Yes [ ] No [ ]

6. Did you capture the cost of the change(s) made?

   Yes [ ] No [ ]

7. Do you measure the impact of the changes on the production processes?

   Yes [ ] No [ ]

8. Do you have set standards on material and labor usage?

   Yes [ ] No [ ]

9. Is the KLB product pricing policy compared with the competitors'?

   Yes [ ] No [ ]

10. To what extent does finance and accounting department participate in tracking, analyzing and provision of the information on finance and accounting issues discussed in the above questions?

   [ ] Very great extent
   [ ] Great extent
   [ ] Moderate extent
   [ ] Low extent
   [ ] Not at all

11. If your choice to 10 were Very Good, Good, Fair or Poor, what areas would you like to see active participation of finance and accounting department?

.......................................................................................................

**PART E: Section for The Human Resources Manager**

1. Do you assess staff training needs?

   Yes [ ] No [ ]

2. What are some of the staff training needs that you identified in the recent past?

   .......................................................................................................

3. Do you budget for the cost of staff training needs?

   Yes [ ] No [ ]

4. Do you compare your staff skills with those of the leading printers and publishers in the industry?

   Yes [ ] No [ ]

5. Do you have a staff performance reward system?

   Yes [ ] No [ ]

6. Do you compare your performance reward system methods with those of the leading publishers and printers in the industry?

   Yes [ ] No [ ]

7. Do you measure employee satisfaction?

   Yes [ ] No [ ]

8. What was the staff satisfaction index in the following years?

   June 2005.________________ June 2006 ________________

   June 2007 ________________ June 2008 ________________

June 2009.________________

9. Do you compare the satisfaction indices with those of the leading publishers and printers in the industry?

   Yes [ ] No [ ]

10. Do you capture cost of implementing the recommendations for employee satisfaction needs?

   Yes [ ] No [ ]

11. Do you prepare cost budgets on the following staff related activities (tick as many as applicable)?

   [ ] Staff training

   [ ] Staff reward/compensation

   [ ] Staff recruitment

   [ ] Staff satisfaction survey

**PART F: Section for the Corporate Services Manager**

1. Do you analyze costs of procuring goods and services process?

   Yes [ ] No [ ]

2. Are the prices of goods and services supplied through the tender system compared with the prices prevailing in the market?

   Yes [ ] No [ ]

3. Do you set quality standards for goods and services?\

   Yes [ ] No [ ]

4. What resources and utilities does your department monitor and control in KLB (tick as many as applicable?

   [ ] Electricity [ ] Telephone

[ ] Water
[ ] Office supplies
[ ] Postal and telegrams
[ ] Motor vehicles
[ ] Cleaning materials

5. Are costs and usage of the items marked in 17 above analyzed

   Yes [ ] No [ ]

6. What are some of the causes of variances you investigated in the recent past?

7. Are there some services that are rendered by KLB staff but can be outsourced?

   Yes [ ] No [ ]

8. Are the costs of rendering these services captured?

   Yes [ ] No [ ]

9. To what extent does finance and accounting department participate in tracking, analyzing and provision of the information on finance and accounting issues discussed in the above questions?

   [ ] Excellent
   [ ] Very Good
   [ ] Good
   [ ] Fair
   [ ] Poor

**PART G: Section For The Finance Manager**

1. What financial and accounting information processing system do you have (tick as many as applicable)?

   [ ] Manual
   [ ] Automated
   [ ] Both manual and automated

2. Do you generate financial and accounting information for the organization?

   Yes [ ] No [ ]

3. Do you prepare annual budget for the organization?

   Yes [ ] No [ ]

4. Is the annual budget broken down into smaller periods such as monthly or quarterly?

   Yes [ ] No [ ]

5. How do you summarize the budget (tick as applicable)?

   [ ] Activities per department

   [ ] Activities for the organization lumped together

   [ ] Both formats are used

6. Do you compare the actual results and the budget?

   Yes [ ] No [ ]

7. Do you budget for cost of gathering, analyzing and disseminating financial and accounting information?

   Yes [ ] No [ ]

8. Is the KLB product pricing policy compared with the competitors'?

   Yes [ ] No [ ]

9. To what extent does finance and accounting department participate in tracking, analyzing and provision of strategic finance and accounting management information to the managing director and managers of the other departments?

   [ ] Excellent [ ] Very Good

   [ ] Good [ ] Fair

   [ ] Poor