THE RELATIONSHIP BETWEEN STRATEGIC MANAGEMENT ACCOUNTING TECHNIQUES USAGE AND FINANCIAL PERFORMANCE OF COMERCIAL BANKS IN KENYA.

BY

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DECLARATION

This research project is my original work and has not been presented to any other institution for examination

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Abstract

Strategic Management Accounting can be defined as management-oriented accounting or accounting in relation to management function. The rapid changing of business environment lately is significantly changing the management accounting practices and the role of management accountant in an organization. The main focus of management accounting has always been to improve the organization performance and profitability by providing relevant information for planning, controlling and decision making.

The research Population was 43 Commercial Banks throughout Kenya. This study aimed at investigating the link between the practice of strategic management accounting as strategic initiatives and the improvement in Banks financial performance in Kenya.

Multiple Regression analysis is used to test the association between strategic management accounting techniques usage and the improvement in ROA as a mean of financial performance which is associated with the initiatives. Analysis shows that 95.26% of the Commercial Banks in Kenya under consideration use at least one of the strategic initiatives. In addition, strong evidence emerges that the use of strategic initiatives leads to improvement in financial performance of the Commercial Banks in Kenya under consideration.

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Contents

LIST OF ABBREVIATION

ABC	Activity Based Costing.
AC	Attribute Costing
ATM	Automated Teller Machine.
BM	Benchmarking
BSC	Balance score card.
BVM	Brand Value Monitoring
CA	Customer Accounting
CBK	Central Bank of Kenya.
CCA	Competitor Cost Assessment
CPAPFS	Competitor Performance Appraisal Based on Public Financial Statement
CPM	Competitive Position Monitoring
IIBF	Indian Institute of Banking and Finance.
IPMS	Integrated Performance Measurement System.
IRR	Interest Rate of Return.
JIT	Just in Time
KCB	Kenya Commercial Bank.
MA	Management Accounting.
NPV	Net Present Value.
NSE	Nairobi Stock Exchange.
QC	Quality Costing
ROA	Return on Asset.
ROE	Return on Equity.

SMA	Strategic Management Accounting Technique.
SP	Strategic Pricing
SPSS	Statistical Packages for Social Science.
TC	Target Costing.
TQM	Total Quality Management.
UGL	Uganda Microfinance Limited.
UK	United Kingdom.
VCC	Value Chain Costing.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Competition in the Kenyan banking industry has risen so much that even international banks like Barclays and Ecobank have been hawking their services. Banks haven't been competing blindly as profitable growth and efficiency have displaced the traditional emphasis on volumetric targeting (Howcroft, 2005). Kenyan banks have had to develop strategies to respond to competition, to both safeguard their niches and to enlarge their market share.

Defining the industry in which competition actually takes place is important for good industry analysis, not to mention developing strategy and setting business unit boundaries (Porter, 1998b). Kenya Commercial Banks competition extends beyond the banking industry to cover competitors like SACCO movement, government financial institutions, merry go rounds, NSE, Mutual funds, and micro finance institutions.

Strategic Management accounting practices is a move from reporting historical information, especially on variance analysis, to taking part in the strategic planning process of an organization (Kiesler and Sproull, 1982). These authors contend that strategic management accounting skills are actively applied in the business environment where both market intelligence is sought and evaluated, and strategic decisions are made and competitive strategies put in place.

These are factors which Ittner and Larcker (1997) argue that they enable an organization to gain an advantage in the ever demanding competitive business environment where innovative management accounting practices need to be employed. The management accountants, especially those in the banking sector, should therefore be at the forefront in the search and development of innovative competitive strategies that may enable an organization to remain profitable and competitive.

Durand (2003) notes that, as an essential part of international business thinking, competitive advantage takes a strategy from broad vision to an internally consistent configuration of activities within an organization. These activities provide a framework to understand the drivers of cost in an organization and the organization's relative cost position within the value chain. The value chain enables managers to isolate the underlying sources of buyer value that command a premium price and the reasons why one product or service substitutes another (Porter, 1998b).

In this view, activities that add value, deliver a unique competitive edge and set a pace for innovation all need to be identified if building a successful competitive advantage is to be achieved. This study therefore seeks to investigate the application of strategic management accounting techniques in creating and sustaining a competitive advantage and their relation to financial performance in the Kenya banking industry.

1.1.1 Strategic Management Accounting Techniques

Strategic management accounting can be defined as "a process of identifying, gathering, choosing and analyzing accounting data for helping the management team to make strategic decisions and to assess organizational effectiveness" (Hoque, 2001). Normally, the development and use of strategic management accounting techniques is related to strategic issues regarding the external information needs in order to face the uncertainties of economic environment and to support strategic decisions.

This external orientation may relate to competition (information regarding the competition plays a key role in achieving competitive advantage), business partners (from the value chain perspective, the external information usefulness exploits the link with the suppliers and customers) and market (assumes the orientation toward offer of services in order to meet customer needs) (Cinquini & Tenucci, 2007).

The quantum of this research provides support for the view that management accounting plays a pivotal role in the development and execution of business strategy (Chenhall and Langfield-Smith, 1998). The accumulated body of evidence also suggests that tailoring an organization's management accounting control system to its strategy may result in enhanced performance.

The nature of commercial banks and competing financial institutions is constantly changing. Koch and MacDonald (2006) supports this argument by noting that savings, loan and credit unions, brokerage organizations, insurance companies and investment banks offer products and services that were traditionally associated with commercial banks. Commercial banks in turn offer a variety of insurance, real estate and investment banking services that they were denied.

Saunders and Cornett (2008) points out that the differences between these institutions are eroded by competitive forces, deregulation and the changing financial and business technologies. Hence, to remain competitive, an organization should identify the products with which it has a market advantage and provide customer services that distinguish it from its competitors.

In addition, Carenys and Sales (2008) note that deregulation, which has been the general standard in the financial sector, has facilitated the entry of new competitors. They contend that deregulation has given financial institutions a higher degree of freedom with regard to pricing and the product mix that they offer. They note that companies in the banking sector have witnessed the disappearance of the protectionist environment of regulated prices and the entrant of new competitors whilst at the same time these companies have been faced with both threats and opportunities. Therefore the management of an organization needs a comprehensive knowledge of the markets, customers, products and must have the drive to search for new competitive advantages in order to remain attractive to customers.

Koch and MacDonald (2006) have outlined important bank management issues that may enhance competitiveness. These issues will now be discussed in turn. Adapting to the New Changing Banking Environment: Changes in the banking environment arise from financial innovation, deregulation, securitization, globalization and technological developments. The strategic management accounting function has the responsibility to develop strategies that may enable a bank to exploit financial innovations in creating a sustainable competitive advantage. The function may also evaluate strategies that may be applied to reduce the effect brought about by the challenges of deregulation and globalization.

The management focuses on measuring interest rate risk and monitoring performance. They also set policies to stabilize or increase the net interest income and conduct sensitivity analyses. This is done across different assumed interest rate environments to assess the potential variation in market value of shareholder's equity. In addition, the interest rate on loans should be competitive enough to attract valuable customers who base their decision on the competitiveness of a bank. Banks should therefore manage interest rates in such a way that it reduces risks and creates a competitive advantage with the help of the strategic management accounting function.

The funding decisions that influence a bank include the cost of funds, liquidity risk, interest rate risk and profitability. Furthermore, Koch and MacDonald (2006) suggest that accurate measures of the cost of financing a bank's operations allow a bank to compare prices between alternative funding sources and to ensure that assets are priced high enough to cover and pay shareholders the required return. As a result, proper liquidity management ensures that cash needs can be forecasted accurately and arrangements made for readily available sources of cash at minimal costs. This can help a bank to avoid any negative publicity that may cause deposit runs. Furthermore, Singh and Singh (2008) state that impulsive liquidity management can put a bank's earnings and reputation at serious risk. Therefore, the bank's management needs to be based on a dynamic and integrated risk management system and process.

Credit risk may arise because of the possibility that the expected cash flows on financial claims held by a financial institution will not be paid in full (Saunders and Cornett, 2008). However, although lending is the most risky bank activity, loans dominate the assets of most banks and generate the bulk of operating income (Koch and MacDonald, 2006). They suggest that management should analyze the nature of risks carefully before extending credit to customers.

The IIBF (IIBF, 2008) notes that the effective management of credit risk is an important component of comprehensive risk management and is essential for the long-term success of any banking organization. Banks uses strategic management accounting practices that provide strategies for identification, measurement, monitoring and control of credit risk exposure, generating a sustainable competitive advantage in a situation where the majority of the customers are the low-income and the unbanked

Koch and MacDonald (2006) note that the changing competitive banking environment may compel commercial banks to manage investment portfolios more aggressively. These authors argue that suitable portfolio management enhances returns by taking advantage of perceived changes in interest rates and required adjustments in portfolio composition. Therefore, a bank may use its investment securities to manage risk exposure and at the same time generate more revenue which may lead to a competitive advantage.

1.1.2 Financial Performance

The management accountants apply their skills to assist financial managers in evaluating profitability prospects thereby creating a competitive advantage. There are various measures of organizational performance. However the most used is profitability. Profitability measures the extent to which a business generates a profit from the factors of production such as labor, entrepreneur and capital. Profitability analysis focuses on the relationship between revenues and expenses and the level of profit relative to the size of the investment in the business (Gilbert and Wheelock, 2007).

Four useful measures of firm profitability are the rate of return on firm assets (ROA), the rate of return on the firm equity (ROE), operating margin and net firm income. The ROA measures the return to all firm assets and is often used as an overall index of profitability and the higher the value, the more profitable the firm business. The ROE measures the rate of return on the owners equity employed in the firm business. It is useful to consider the ROE in relation to ROA to determine if the firm is making a profitable return on their borrowed money. The operating profit margin measures the returns to capital per shilling of gross firm revenue. The net income comes directly off the income statement and is calculated by matching firm revenues with expenses incurred to create those revenues, plus the gain or loss on sale of the firm capital assets (Crane, 2011).

1.1.3 Relationship between Strategic Management Accounting Techniques and Financial Performance

The relationship between strategy, management accounting based control systems and performance has commanded significant attention in the accounting and management research domains (Tucker et al. 2009). In management accounting research, multivariate approaches covering major dimensions of performance have been used to capture firm performance (Chenhall and Langfield-Smith, 2007). Organizational effectiveness research, which has a long tradition in measuring organizational performance (Georgopoulos and Tannenbaum, 1957), suggests that indicators covering past performance as well as future performance are relevant (Seashore, 1983).

From the Profit Impact of Market Strategies project and its related critiques we know this to be a reasonable approach as past activities (or performances) may affect future financial performance of the firm in both the short term and long term (Tellis and Golder, 1996). Examples of past activities that may have a long-term impact on financial performance include marketing campaigns that aim to improve the image of a company or development of a product that leads to higher sales in subsequent years (Vakratsas and Ambler, 1999).

The competitive strategies discussed below can be applied by an organisation in order to create and sustain a competitive advantage especially in the banking industry where innovative competitive strategies define profitability .Organizations may use different strategies to adapt to their uncertain business environments (Coulter 2010). (Coulter 2010) outlines the following strategic models:-

The Prospector Strategy is where an organisation continually innovates by exploiting new products and market opportunities. Therefore, the development of innovative products, market segmentation and market development could be among the strategies that may be applied in creating a sustainable competitive advantage for banking organizations.

The Defender Strategy is characterized by the search for stability and concentrates primarily on efficient directed at a narrow segment of the total potential market (Coulter, 2010). This is important especially in the banking industry where products and services offered are similar in the majority of the banks.

The Analyzer Strategy is where Porter (1998b) argues that analysis of the competitor's value chain allows an organisation to discover good ideas that can be applied in the development of competitive products in their organisation. This is important in the banking sector where competitor analysis and imitations may identify products and services that may lead to the building of a significant competitive advantage.

Porter (1998a) suggests that cost leadership, differentiation and focus strategies are strategies that should be applied in the creation of a competitive advantage. These strategies are discussed below.

Cost Leadership involves an organisation focusing much of its effort on reducing its economic costs below those of competitors in its industry (Jones and George, 2010). This aspect of cost leadership is important in the banking sector where it may create a competitive advantage for a bank.

Product Differentiation as argued by Jones and George (2010) point out that it is a business strategy where organizations compete on the basis of providing unique products that customers value and are ready to pay a premium for. Management accountants, especially in the banking sector, should be innovative in the development of unique products that attract more customers as well as keeping the existing ones satisfied.

Podder and Gadhawe (2007) view that focus strategy seeks to serve a narrow strategic target market efficiently and effectively. These aspects of differentiation and focus strategies may be applied by an organisation in the banking sector which serves clients of diverse economic ability in the creation of a competitive advantage.

Strategic Alliances as a Competitive Strategy is where (Thompson et al. 2009) contend that many companies use strategic alliances (mergers and acquisitions) and collaborative partnerships (joint ventures) to help them build a global market image and be a leader in the industries of the future. A bank that enters into strategic alliances increases its chance for market growth and also constructs broader business systems by linking the bank's internal core competencies with the best of its allies (IIBF, 2008).

1.1.4 Commercial Banks in Kenya

The banking sector comprised of the Central Bank of Kenya, as the regulatory authority, 43 banking institutions (43 commercial banks and 1 mortgage finance company), 7 representative offices of foreign banks, 9 Microfinance Banks), 2 credit reference bureaus and 101 forex bureaus. Out of the 43 banking institutions, 30 locally owned banks comprise 3 with public shareholding and 27 privately owned while 14 are foreign owned. Only nine commercial Banks are listed in the Nairobi Stock Exchange (Barclays Bank, CFC stanbic Holdings, Diamond Trust Bank, Equity Bank, Kenya Commercial Bank, National Bank of Kenya, NIC Bank, Standard Chartered Bank and the Co-operative Bank of Kenya). Credit Bank and Family Bank have also privately issued their shares to the public investors (CBK, December 2013).

1.2 Research Problem

Despite the benefits offered by the Strategic Management Accounting techniques there is less application in the banking sectors of all the techniques as they depends on the variable such as the strategy adopted. The Banking industry faces stiff competition in Kenya due to the fact that their services face challenges of technological innovation. With this in mind, therefore, Banks are not only required to focus on their internal information but to as well externally orient themselves in order to attain a competitive advantage.

Lino and Andrea (2007) study focused on the characteristics at the heart of SMA techniques that may help in classifying and grouping them and on the investigation of variables that may influence the use of SMA techniques within companies. Company size, industry and strategy (in the sub -dimensions of pattern, mission and positioning) were the variables considered in their exploration.

Lino and Andrea (2007) findings revealed that SMA techniques appeared to be extensively used. Attribute costing, Customer accounting, Strategic Pricing and Competitive Position Monitoring represented the most widely used SMA techniques. Four features of the pattern of Strategic Management Accounting practice emerged clearly from the factor analysis that include competitor analysis, long run process and customer orientation. In the correlation analysis only strategic positioning is weakly found to play a contingent role in SMA technique usage, while strategic pattern, strategic mission, company size and industry variables do not provide any results. Such finding revealed that, surprisingly, SMA techniques adoption doesn't seem to be "strategy -driven".

The research by Lino and Andrea (2007) on Italian companies was broad based covering the various industries in Italy which present a knowledge gap as limited by geographical areas and the relationship of SMA usage to organizations financial performance.

The research work by Murithi (2001) focused on the application of Strategic Management accounting techniques in the large manufacturing companies in Kenya. He considered various variables that affects the implementation of the SMA techniques that's includes company sub sector whether Agro-based, mineral and industrial or engineering and construction , the year of establishment, company ownership, the average turnover of the firm, the size of the firm based on the number of employees, the nature of the accounting system (manual or computerized), extent of use of external strategic information in decision making and factors that's influence the adoption of SMA techniques.

However, it is possible that the effect of contextual factors used in Murithi (2001) study of large manufacturing industries in Kenya yield different results for other types of industries i.e. service etc. The research work carried out by Murithi (2001) on Kenyan manufacturing companies provided a research gap as it did not look at the other industries in the economy like the Banking sector and the relationship of SMA usage to financial performance. His research work done in 2001 and the conclusion drawn by him that target cost is extensively used while balance score card and value chain analysis had not gained root in the manufacturing industries may have change due to passage of time.

Murithi (2001) didn't investigate the extent of use of most SMA techniques as he concentrated on a few of them hence the need for consideration of other SMA techniques that were not considered in his Research work. Therefore, the research problem is-:

1. What is the level of usage of strategic management accounting technique in commercial Bank in Kenya?
2. What is the relationship between strategic management accounting technique usage and financial performance of commercial Bank in Kenya

1.3 Objective of the Study

The Research objective is to Provide an up-to-date description of the level of usage of strategic management accounting technique in commercial Bank in Kenya and to Investigate the associations between Bank's financial performance and the level of using strategic management accounting technique.

1.4 Value of the Study

The study will add value to the Bank managers on the extent of their use of the strategic management accounting techniques that will stir them up to increase their adoption as they will be in a position to understand where their competitors have a strong competitive advantage that has impact on their financial performance.

The current study may as well add value to the Banks top management in their policy and procedure formulation especially on structure. Strategic management accounting tools calls for a more decentralized system than centralized system as it requires external orientation and swift decision making at the strategic business unit with the customer needs at the heart.

The research will increase interest to the academician and encourage them to find the relevance that strategic management accounting offers to the body of knowledge by adding value to the traditional management accounting that impact on financial performance.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Strategic management accounting is an extension of traditional management accounting. “It is a development in accounting that acts as a framework for various strategic elements” (Holloway 2006).

2.2 Theoretical Review

Strategic management accounting came to prominence in the late 1980s as one of the range of new techniques and approaches designed to restore the lost relevance of management accounting. It did so principally in the UK, with Bromwich as one of its main academic advocates at that time (Bromwich, 1990). With respect to the first facet of SMA, strategically-oriented management accounting techniques can be distinguished from conventional management accounting techniques by their environmental (outward-looking) or long-term (forward-looking) orientations (Hoque, 2003).

The term SMA has a longer history, however, having been introduced into management accounting some years earlier by Simmonds (1982). It was again used to identify an externally oriented approach that entailed collecting and analyzing data on costs, prices, sales volumes, market shares, cashflows and resource utilisation, for both a business and its competitors. What was being sought was some indication of the relative competitive position of a business in an industry. Within this competitor position analysis framework, less importance was placed on financial accuracy than upon deriving insights that might inform the future strategy of a business.

Bromwich (1990), in redefining SMA, drew relevant insights to Porter's work on business strategy that had identified three generic strategies: cost leadership; product differentiation; and focus, each of which had different implications for both management and accounting (Porter, 1985). Like SMA, target costing also exhibited a strong external emphasis, not simply on competitors but also on customers and the marketplace (Sakurai, 1989). In addition, the economic theories of Lancaster, on product attributes (Lancaster, 1979), on contestable markets (Baumol, 1982), enriched themix, something that was evident in Bromwich's (1990) definition of SMA as: "The provision and analysis of financial information on the firm's product markets and competitors' costs and cost structures and the monitoring of the enterprise's strategies and those of its competitors in these markets over a number of periods".

It was in this light that Roslender (1995) identified SMA as a generic approach to accounting for strategic positioning, characterized by the attempt to integrate insights from the marketing literature into management accounting. In addition to the work of both Simmonds and Bromwich, Roslender argues that the generic SMA approach encompasses Porter's competitive advantage theory, and in particular, his strategic cost analysis technique (Porter, 1985), together with both target costing and life-cycle costing. All are viewed as exhibiting a strong marketing management emphasis.

The extension of the SMA designation to include strategic cost management framework (Shank and Govindarajan, 1992,) would now seem unwarranted. However, despite being heavily informed by Porter's earlier work on value chain analysis, it lacks SMA's defining marketing management interface. In common with Simons (1990), Shank et al (1992) focus on the interface between strategy theory and management accounting, a perspective also evident in later work on the balanced scorecard (Kaplan and Norton, 1996). For these authors 'strategic management accounting' amounts to integrating elements of strategy theory into management accounting while being externally focused on the marketplace. SMA seeks to integrate insights from management accounting and marketing management within a strategic management framework.

There is a distinction between the various SMA and those associated with the longer established marketing accounting tradition. Ultimately, the latter tradition entails the application of the (management) accounting paradigm within the marketing management function, i.e. the application of financial management disciplines within the sales and marketing function. Irrespective of the desirability of such practices, and their resultant benefits for the continued profitability of the business, they provide a reaffirmation of the pre-eminence of the accountancy profession within the organizational hierarchy (Armstrong, 1987).

By contrast, the pursuit of SMA requires that the two parties involved begin to dismantle traditional functional boundaries and to engage in cooperative activities. It entails more than simply integrating insights from two literatures in the search for a more 'relevant' approach to management accounting (Roslender, 1995). SMA, therefore, commends itself as a thoroughgoing interdisciplinary development consistent with the necessity of providing the more organic insights required for the successful accomplishment of strategic management. It is in this way that SMA is viewed throughout this research as an attempt to integrate insights from management accounting and marketing management within a strategic management framework.

2.2.1 The Marketing Content of Strategic Management Accounting to Business Performance

Productivity and quality are the watchwords in today's business competition. Companies are not only measuring productivity and insisting on improvements but also insisting that quality means bringing to market products that satisfy customers, improve sales, and boost profits. With greater competition in the Banking environment defined by cost, quality and technological innovation, there exists a prevalent conviction that conventional accounting-based measures of organizational performance are outdated (Nixon 1998). Hence, there are moves to adopt newer techniques due to greater needs to be more responsive to investor and customer needs.

It is argued that the traditional approaches of managerial accounting have limited evidence of technical development in response to the major changes in banking technology. Management accounting was the captive of financial reporting. It had limited value by its focus on the factory floor. Consequently there was a need for developing a management accounting project oriented towards the strategic accounting rather than the management control process. Some of the strategic initiatives techniques are Activity Based Costing System, target costing and attribute costing.

Pricing decisions are usually based on an accurate calculation of the costs of service and units produced. This is in turn calls for creating an effective costing system. The most appropriate system in this regard is strategic management accounting Costing System. In fact, the strategic management accounting Costing System is an alternative system that can replace the conventional systems used for allocating common costs. However, the growing interest and tendency to use this system is attributed to various advantages achieved through the system. Perhaps, most prominent of these advantages involve improving performance measures, providing more accurate and appropriate measures for pricing decision-making, rationalizing production costs, choosing the optimal production mix and market orientation.

In this view, commending a market orientation is not intended to inflate the importance of the marketing function. By definition a market orientation makes marketing the responsibility of all departments in the organisation. The formulation of the market orientation concept advanced by Narver and Slater (1990) reinforces the inclusive nature of strategic marketing, identifying interfunctional co-ordination, along with a competitor orientation and a customer orientation, as its defining behavioral components.

Within the sphere of marketing practice, interest in measuring marketing performance was associated with the search for greater marketing accountability. KPMG (1996) had raised the question of a lack of marketing accountability. Among the shortcomings identified in these reports were that marketing comprised an ill-defined mixture of activities; had become characterized by a lack of specific responsibilities and accountabilities; rarely led the drive to enhance business performance; was often shortsighted in outlook; and was increasingly becoming marginalized from other parts of the business.

Shaw (1998) reports that research by The Marketing Council found that three quarters of organizations were actively reviewing the future role of their marketing staff. As the term itself suggests, marketing accountability offers a mechanism for demonstrating that the marketing management function continues to add significant value to the business. The task facing the profession was to develop a stock of marketing performance metrics commensurate with the wider currency of business performance measurement that simultaneously illustrate marketing management's continued contribution to the overall performance of businesses.

2.2.2 Strategic Management Accounting Techniques

SMA has remained just a collection of academic texts and has had insignificant impact on managerial theory and practice (Seal, 2010). Whereas, Bhimani & Bromwich (2010) found in their study that there is a wide application of management accounting tools within organization and the low recognition of the SMA.SMA is the future of management, its functions cover the collecting of information about the competitors, reducing the costs and gaining competitive advantages (Shah et al. 2011). SMA and MA offer similar functions at an operational level. However SMA tries to develop the ideas of MA and refines them. It uses financial and nonfinancial information (Sami, 2011).

The definition of SMA techniques derives from the literature, in particular they represent an elaboration of Cravens etal (2001); according to the external orientation, fourteen SMA techniques have been identified

Activity Based Costing (ABC): Activity-based costing recognizes that in modern businesses, most of the costs are determined by the number of activities related to a product or service (Seal et al. 2006). He contends that ABC emphasizes activities that drive costs instead of direct labour being the cost driver. Therefore, the activities that drive costs are likely to be some of the aspects of interest for the management accounting function whether in a manufacturing sector or in a service organisation such as in the banking sector. With regard to the applicability of the activity based costing (ABC) system to banking institutions, Carenys and Sales (2008) are of the view that there are no substantial differences between the implementation of ABC in cost centres belonging to a manufacturing organisation and costs centres of a service organisation.

Horngren et al. (2006) contend that a bank may implement ABC in its retail banking operations. In this case, the bank calculates the costs of activities such as performing ATM transactions, opening and closing accounts, administering mortgages, performing mobile phone banking and processing credit card transactions. These authors add that the bank may use the activity cost rates to calculate the cost of various products such as cheque accounts, mortgages, credit and debit cards. Therefore, ABC can help a bank to improve its processes, develop competitive products and identify profitable customer segments that would bring a competitive advantage to the bank.

Attribute Costing: This is external orientation with the customer in mind to produce products with features that's meets their taste Bromwich (1990). The attribute cost is the benefits that's convinces the customer to buy a given product at the expense of a similar product offered by the competitor. The Kenyan Commercial banks achieve this by offering alternative banking platforms such as; setting up mobile banking platform, upgrade internet banking technology with more features, integrate with all the Telco's and tap their money e.g. Safaricom money and Airtel Money, Deepening cross-Selling leadership business through strong enhanced Relationship Management, Branch Expansion and Agency Banking (Ndambuki, 2014)

Benchmarking: Benchmarking is the identification and adapting to outstanding practices of an organization that has ideal performance (Kumar & Dhakar 2006). Benchmarking and continuous improvement may therefore be avenues through which an organisation can create a competitive advantage. This may be important especially in the banking sector where customers can easily compare the level of services offered by various banks which could compromise their loyalty and encourage them to switch to the best service provider.

Competitive Position Monitoring: Du Plessis (2004) notes that competitor analysis assists the management to identify its competitors, the goals and target achievements of competitors, the success of competitor strategies, competitors' strong and weak points and their probable reaction to an organization's strategies. This is important because most commercial banks offer homogenous products and services to their customers which could make competition a major challenge in the banking sector.

Competitor performance appraisal based on public financial statements: The analysis of the published financial statements of the competitors provides strategic information as one is able to know the competitors core competence in terms of asset base and profitability (Moon etal, 1993).

Customer accounting: Koch and MacDonald (2006) note that customer profitability analysis is a procedure for analyzing the profitability of existing account relationships of customers. It compares revenues generated from fees, investment income from a customer's deposit balances and loan interest to expenses associated with extending credit and providing non-credit services plus a target return to shareholders. Drury (2004) notes that management reports in the past concentrated on profit analysis by product. However, more attention is now paid to analyzing profits generated by customers using an activity-based approach.

Integrated Performance Measurement: The balanced scorecard was designed to complement financial measures of past performance with measures of the drivers of future performance (Kaplan and Norton, 1996). They argue that traditional financial accounting measures such as return-on-investment and payback period analysis offer a narrow and incomplete picture of business performance and that reliance on such data can hinder the creation of future business value. Accordingly, they suggest that additional financial measures be added in order to reflect customer satisfaction, internal business processes and the ability to learn and grow. Kaplan and Norton (1996) outline the four dimensions of this model and their associated enablers and these will now be discussed.

Financial Perspective: Kaplan and Norton (1996) argue that the balanced scorecard financial data is valuable in calculating the readily measurable economic consequences of previous actions of an organisation. They note that measures of financial performance indicate whether a company's strategy, implementation and execution contribute to bottom-line improvement. Kaplan and Norton (1996) suggest that alternative financial objectives can include rapid sales growth or generation of cash flow. In the banking industry, the financial indicators that the banks may regularly review include customers' market share ratio, the ability to achieve profitability and cost management.

Customer Perspective: (Kaplan and Norton, 1996) the organizational management should identify the expected target and market segments for operational units and monitor the performance of operational units in the target segments. In this regard, the core performance measures in the banking sector may include customer satisfaction, customer retention, new customer acquisition, market position and market share in targeted segments.

Internal Business Process Perspective: Kaplan and Norton (1996) contend that in determining the objectives and measures to be taken, the first step is to incorporate value-chain analysis. This may be followed by an outmoded operating process which can be adjusted to factor in financial and customer dimension objectives. In addition they suggest that a complete internal business-process value chain that meets current and future needs should be constructed. With this in mind, banks may evaluate organizational performance on the basis of innovation in system programming, certification of a financially-integrated professional platform, operating quality of a group of customers, internal customer satisfaction and management stratum support.

Learning and Growth Perspective**:** This indicator is arguably the most critical of the balanced scorecard's perspectives for addressing the future needs of an organisation (Kaplan and Norton (1996). In devising the learning and growth perspective, banks may consider the following possible measurements: employee professional knowledge, education and training of employee, employee scale of team, employee complaint systems and the appropriateness of performance policies for rewards and punishments.

Life Cycle Costing: Lifecycle costing takes into account all the costs incurred throughout a product's life Seal et al (2006). He note that lifecycle costing recognizes that the manager's ability to influence the cost of manufacturing a product or offering a service is at its best when the product or the service is at the design stage of its lifecycle. This is because small changes to the product or service design may lead to significant savings in the cost of manufacturing an item or offering a service. Based on this, the management accounting function in an organisation such as a bank should evaluate precisely the cost of offering a product or a service in order to offer a product that is cost effective and that creates competitiveness for the organisation. Horngren et al (2009), note that periodic comparisons between planned costs and revenues and actual costs and revenues allows managers to assess the true profitability level of a product, determine its current lifecycle stage and modify the strategy.

Quality Costing: According to Guilding *et al.* (2000) quality costing includes analysis of the four categories of costs namely; prevention costs, appraisal costs, internal failure costs and external failure costs. The quality of the product is a restrictive factor to market share attainment as most of the organization are competing in terms of quality with the development in technology. Quality of services is a major competitive platform of the Banking sector given their product is homogeneous and customers have the tendency to shift to other banks that offers the best services.

Competitor Cost Assessment: McLaney and Atrill (2002) acknowledge that knowledge of a competitor's cost structures would enable a business organisation to make estimates of the effect on the competitor's profit after a change in the volume of their turnover. It would also make it possible to assess how well placed each competitor might be in reacting to changes in sales volume and price. In addition, they note that businesses which have Competitor cost assessment provides regular updated estimates of a competitor's costs based on the appraisal of facilities, technology, economies of scale, personnel structure and research and development. The information obtained from the analysis assists the organisation in decision making processes and strategic planning as noted by du Plessis (2004). Producing cost effective products and offering cost effective services enables an organization to compete favourably and earn higher units of profit (Jones and George,2010).

Strategic Pricing: This does not reflect on the conventional model of pricing that entails cost plus a markup but considers the competitor's reaction to prices, economies of scales, the demand and supply and the price elasticity in the pricing method (Simmonds, 1982).
Target Costing: Implementing TCs' tool requires defining the product, setting the product price and achieving competitive costs. To compete effectively, company must redesign its products in order to shorten product life cycle, because Planning, developing and designing product stages are a critical in managing product costs (Sukarai, 1989).

Business organizations, particularly banks, face continuous pressure to reduce their service costs in order to remain attractive to customers. In the calculation and management of the cost of products, Horngren et al. (2006) contends that the management accounting function of an organisation need to investigate the tasks and activities that cause costs to rise. The authors note that managers use the management accounting function to achieve the target costs by eliminating some activities and reducing the costs of performing activities in all the value chain functions.

Value Chain Costing: VCC's tool depends on allocating costs to the activities required; designing, producing, marketing, distributing, and the providing service after sale. VCC tool is developed from value chain analysis that added value to products or services (Kirli and Gumus, 2011). Using VCC tool helps company in assessing, developing strategic position; evaluate competitive cost position, reducing time, and costs (Yang and Shang 2007).

The value chain concept is divided in to two main strategies; lower cost strategy and differentiation strategy. The low cost strategy is to achieve the lowest cost comparative to competitors while the differentiation strategy aims to create unique product (Shrank and Govindarajan 2012). Assigning operating costs and assets to each activity in the chain value helps on cost estimating. The combined costs of all activities in the chain define the cost structure of the company (Thompson et al. 2005).

Brand value monitoring: “Brand is a combination of different features which are associated with a product to give it a unique identification” (Rao et al., 2001).Brand value can be used as a basis for managerial decisions on allocation of resources to support a brand position. This concept links accounting information with brand improvement and customer loyalty in both manufacturing and service industries such as banks.

2.3 Empirical Studies

According to Alkhadash & Feridun (2006) management accounting continues to evolve and become more involved in the strategic management of the firm, it is important for management accountants to understand not only how to account for strategic initiatives (e. g., ABC), but also how these initiatives should be implemented and managed to achieve maximum benefit for the firm. His study investigated whether the financial managers of the Industrial Jordanian Shareholding companies are aware of the importance of using the initiatives and whether strategic initiatives are associated with improvement in financial performance in the manufacturing sector or not.

The primary goal of the firm is to achieve and improve financial profitability and it is vital that firms have empirical evidence of the effectiveness of strategic initiatives. This is particularly true in the case of ABC, JIT and TQM since there is considerable doubt as to the efficacy of ABC, JIT and TQM as initiatives that can assist in achieving improved financial performance.

Based on the empirical results, it was found that 26.8% of the Industrial Jordanian Shareholding Companies were using at least one of the strategic initiatives. Moreover, the empirical evidence shows that the awareness level of the importance of using the strategic initiatives was high among the financial managers, but such a high level was not associated with the level of adopting those initiatives. Furthermore, it was found that there was a strong positive association between using ABC, JIT and TQM and improvement in financial performance. This was consistent with prior research such as Venkatachalam (1996).

Ndwiga (2011) study of Equity bank found that a Strong competition compels management functions to develop business techniques and strategies that would guide an organisation towards the maximization of profits. The analysis of the findings of his study revealed that management accounting practices may be useful in identifying strategies that lead to the maximization of profits. However, the practices have not been completely accepted in providing solutions that create competitiveness especially where the focus is on the integration of strategies that relate to the internal business environment and the external business environment when creating a competitive edge.

The analysis of his findings supported the idea that strategic management accounting practices provide important knowledge and skills that lead to the building and sustaining of a competitive advantage in an organisation. The findings were aimed at encouraging managers to appreciate and apply management accounting practices in building a competitive advantage for their organizations.

Adler et al (2000) conducted a survey that asked management accountants, in New Zealand manufacturing businesses, to indicate the techniques adopted in their business. While many studies have focused on particular techniques such as ABC or target costing, Adler et al. (2000) provided a questionnaire that included a vast array of management accounting techniques to provide a fuller set of response options. Traditional management accounting techniques, such as full costing, direct costing and standard costing were found to be used more often than advanced management accounting techniques, such as strategic management accounting. The study by Adler et al. (2000) is generally consistent with the lack of adoption of advanced management accounting techniques as stated by the Ainikkal (1993) studies but inconsistent with respect to individual techniques. It was found that firms in Australia adopted ABC, and cost of quality techniques and also those big firms were more likely to use modern accounting techniques.

Rehman (2010) empirical study on which management accounting techniques influence profitability in the manufacturing sector of Pakistan found that traditional management accounting techniques were frequently used by the Pakistani manufacturing firms. Pakistani companies showed preference for payback period, capital budgeting technique considered most simple in application. At the other extreme, these companies did not shy away from NPV and IRR methods as the reported usage was significant; a comparatively complex technique.

The Respondent companies in Rehman findings was that the perceived usefulness of accounting data is critical to decision making which strengthens management accounting as a discipline. Return on sales was used to evaluate divisional performance by the majority companies in the manufacturing sector. Over 80% percent of the firms surveyed found the going tough as they indicated strong to severe conditions of competition.

Rehman (2010), analysis provided significant empirical evidence to support certain claims of the study; traditional MA techniques were popular in Pakistani manufacturing firms, Advanced MA techniques were still in an evolving stage and are modestly used by the manufacturing firms. Variety of product influences the usage of life cycle costing an advanced management accounting techniques. Sector location influences the usage of variable costing; a traditional management accounting technique. Higher usage of variable costing, a traditional accounting technique is reportedly used by about 50% of the respondent firms. Of those reported high usage of variable costing, textile and cement sector comprised 68%. It was found that the profitable firms using two management accounting techniques; target costing and activity based management had significant impact on profitability at 6.4% and 8.2%, respectively.

Liaqat (2006) carried out an empirical study to find out the application of contemporary management accounting techniques in Indian industry through a survey of 530 member companies of the National Association of Financial Directors and Cost Controllers. Sixty three companies responded which constituted the sample; a response rate of about 12%.

The sample was stratified in two segments; ABC user firms and Non ABC user firms. The focus of the study was to find evidence on how widely traditional and contemporary management accounting practices were adopted by Indian industry. The investigations revealed that improvement of overall profitability and cost reduction were the motivating factors for using management accounting in Indian companies. The researcher found a positive association between the adoption of ABC and company characteristics (e.g. degree of customization, pressure of competition, business size, and proportion of overhead to total cost).

2.4 Summary

Alkhadash & Feridun (2006) found that there is a strong positive association between using ABC, JIT and TQM as some of the SMA techniques and improvement in financial performance. This was consistent with prior research such as Venkatachalam (1996) .A fruitful direction for further research would include replicating similar models on more SMA tools in service industry in a geographical different environment like Kenya and see whether these results continue to hold.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter deals with how my detailed explanation of how my study has been implemented. It deals with my sources of data, the population, sampling design, data collection and design of collection instrument, data analysis, analytical model research reporting and adherence to research ethics.

3.2 Research Design

This is design that holds the research project together as it is used to structure the research and show how all the major parts of the research project work together to address the central research question. A descriptive survey research is a research design that attempts to show the status quo of study items (Cooper and Schidler, 2006). My descriptive study has entailed the survey study that's describes the status quo and the relationship between ROA and the independent variables SMA techniques.

3.3 Population

Population means the entire cluster of people, objects, events or thing of concern that the researcher desires to examine .A population refers to a whole group of individuals, events, objects, things having a regular observable feature (Mugenda & Mugenda, 2003).

The population in my study has considered all the 43 Commercial Banks justified by the fact that it's small hence necessitate the use of census.

The respondent from accounts and finance departments in the Banks were suited to fill in the questionnaire to get the primary data.

3.4 Data Collection Procedure

There are different methods used to gather data but my study work has used the questionnaire as discussed by Mugenda & Mugenda (2003). Both primary and secondary data has been used and the primary data was obtained through the use of questionnaire while secondary data for population of Kenya Commercial bank was obtained from annual reports and used to collect information about the ROA in order to test to what extent the initiatives are related to the level of financial performance (ROA) from the Central Bank of Kenya supervisory annual report of year 2013.

3.5 Data Analysis

The following statistical methods have been used in this study:

Measure descriptive statistics based on the statistical packages for social science (SPSS) to describe the characteristics of the sample of study. For the purpose of analyzing the data and testing the research problem, the current study used the descriptive statistical analysis such as the percentage, mean and the standard deviation has been used to analyze the level of use of SMA.

3.5.1 Analytical Model

Multiple regression analysis has been used to identify the improvement in ROA as a mean of financial performance which was associated with the strategic management accounting techniques usage. Furthermore two tailed t-test was used to test whether significant difference exists between the financial performance of Kenya Commercial Banks which use at least one of the initiatives of strategic management accounting techniques and those companies which do not use any of such initiatives conducted at 95% level of confidence (α=0.05)

$$Y=\alpha+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+\beta_5X_5+\beta_6X_6+\beta_7X_7+\beta_8X_8+\beta_9X_9+\beta_{10}X_{10}+\beta_{11}X_{11}+\beta_{12}X_{12}+\beta_{13}X_{13}+\beta_{14}X_{14}+\varepsilon$$

Where;

Y= represents the change on return on assets,

X= represents the level of adopting Activity Based Costing (ABC

X_2= represents the level of adopting the Attribute Costing

X_3= represents the level of adopting the Benchmarking

X_4= represents the level of adopting the Competitive Position Monitoring

X_5= represents the level of adopting the Competitor Cost Assessment

X_6= represents the level of adopting the Competitor Performance Appraisal on public financial statements

X_7= represents the level of adopting Customer Accounting

X_8= represents the level of adopting the Integrated Performance Management Systems

X_9= represents the level of adopting the Life Cycle Costing

X_{10}= represents the level of adopting Quality Costing

X_{11}= represents the level of adopting Strategic Pricing

X_{12}= Value Chain Costing

X_{13}= represents the level of adopting Target Costing

X_{14}= represents the level of adopting the Brand value monitoring

ε=the stochastic error term

In the model, α constant term while the coefficient β_i=1……14 was used to measure the sensitivity of the dependent variable (Y) to unit change in the predictor variables. ε is the error term which captures the unexplained variation in the model. Collinearity Diagnostics test was used to measure how much regressors are related to other regressors and how this affects the stability and variance of the regression estimates.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Data collection

Data was collected using a Hand-delivery questionnaire survey to respondents and were collected later. The initial population comprised 43 Commercial Banks in Kenya obtained from Central Bank supervisory report 2013. The questionnaire was accompanied by the University of Nairobi cover letter, and was delivered after introducing the purpose of the research to the relevant authority of the targeted respondent Commercial Banks in Kenya and a questionnaire was left to those who agreed to participate.

After one week, those who agreed to participate were visited to collect the questionnaire that had been left. Two participating Commercial Banks in Kenya returned unfilled questionnaire claiming they were too busy at the moment. From the first introduction contact 13 Commercial Banks in Kenya declared they would not participate, so they were classified as “non participants”. The reasons for not participating were divided in a “too busy at the moment” (2), the company policy does not permit us to compile research questionnaire” (11) .The final Population size was made up of 30 Commercial Banks in Kenya. Twenty-eight responses were received (65.12 %). Only one was partially completed. Table 1offers a summary of the research process.

Table 1 – Survey sample summary

Initial Population	43
Non Participant	13
unfilled questionnaire	2
Total respondent	28
Response rate	65.12%

4.2 Strategic Management Accounting Techniques Usage Rate Measurement

The following main question was included in the questionnaire: "To what extent does your Bank (or business unit) use the following accounting techniques?" Then the list of the 14 Strategic management accounting techniques followed. Next to each one, a Likert scale ranging from 1 ("never") to 5 ("always") was provided. Next to each accounting technique a link to the glossary permitted a clear understanding of their significance. Appendix II provides the definitions of the accounting techniques included as glossary in the questionnaire.

4.3 Methods of Data Analysis

For the purpose of analyzing the data and testing the research problem, the current study used the descriptive statistical analysis such as the frequency, mean and the standard deviation. Multiple regression analysis is used to identify the improvement in ROA as a mean of financial performance which was associated with the initiatives. Furthermore two tailed t-test is used to test the level of significant difference that exists between the financial performance of Commercial Banks in Kenya which use at least one of the SMA and those companies which do not use any of such initiatives.

4.4 The Models of the Study and Analyzing the Results

As mentioned earlier, the survey questionnaire was intended to gather information about the level of using the well-known strategic management accounting techniques. Also annual reports were used to collect information about the ROA in order to test to what extent the strategic management accounting techniques are related to the level of financial performance (ROA). As expected, and as has been noted by some other studies such as Venkatachalam (1996) in their discussion of strategic initiatives, a firm's pre-adoption operating efficiency will influence its ROA response to the increased efficiency of SMA use.

The strategic management accounting techniques implementation variables measure the extent to which a firm is actually practices the SMA philosophy. The variables are expressed as a percentage of total possible SMA implementation, and calculated using the responses to the management practices questions from the survey with never considered as Non user response while rarely, sometimes, often and always as user responses. As tabulated in table 2, it is noted that (95.26%) of the selected Commercial Banks in Kenya showed a use of at least one of the strategic management accounting techniques. Consequently, the first Research problem is resolved and we can say that the Commercial Banks in Kenya are using the strategic management accounting techniques.

Table 2 Non-users vs. formal users of initiatives

Strategic management accounting techniques	Number of response	percentage
Users	362	95.26%
Non Users	18	4.74%
Total	380	100%

Source: Research Data 2014

4.5 Strategic Management Accounting Techniques Adoption and Intensity of Use

Table 4 provides frequencies and descriptive statistics for the fourteen SMA techniques usage rates that helps in understanding the extent of usage of SMA techniques by Commercial Banks in Kenya. The mean scores range from 4.57 (Competitor Performance Appraisal Based on Public financial statement) to 2.89 (Attribute Costing and Life cycle costing) and the actual range coincide with the theoretical range (1 -5). An apparent sign of huge use of the SMA techniques is evident noticing that twelve of the fourteen mean usage scores are situated above the midpoint of the measurement scale. The provision of frequencies information could help in a deeper interpretation of the results. In particular the first consideration regards the distinction between "non user" and "users" of SMA. Those respondents indicating 1 are classified as "non users" (1 means "never" used) instead of those indicating 2, 3, 4 and 5 are considered "users" of SMA techniques.

Among the “users” two clusters have been created to distinguish the intensity of use of the techniques. The first one collects respondents indicating 2 or 3 (2 means “rarely” and 3 means “sometimes” used); this class indicates a low usage level of the technique. The second cluster collects respondents indicating 4 or 5 (4 means “often” and 5 means “always” used); this class indicates an high usage level of the technique. The last column of the frequencies indicates the number of unfilled questionnaire.

Twelve SMA techniques (Quality Costing, Customer Accounting, Strategic Pricing, Competitive position monitoring, Competitor performance appraisal based on published financial statements, Competitor cost assessment, Target Costing, Benchmarking, Value Chain Costing, Activity Based Costing, Brand Value Monitoring and Integrated Performance measurement system) present the mean score over 3. The addressed techniques are indeed strongly oriented towards the provision of information for decision making involving the two main external actors influencing the strategic success for the firm, i.e. customers and competitors. Attribute costing and Life cycle costing are the only SMA techniques that present low level of usage with the mean score below 3.

The highest “non usage” rates regards attribute costing and target costing of 10% and 19% respectively, that have the lowest mean score in the Population. The highest “high usage” regards Competitor Performance Appraisal Based on Public financial statement and Benchmarking that have 93% and 86% respectively with the highest mean score. The highest “low usage” regards Life Cycle Costing and Attribute Costing that have 70% and 61% respectively accounting for their low mean score.

Table 3- Frequencies and Descriptive statistics of the SMA techniques usage rate

Variable	Number of respondents	Non Users 1	Low users 2-3	High users 4-5	Unmarked	Mean	Standard Deviation
Attribute Costing	28	3 (10%)	17 (61%)	8 (29%)	0	2.89	1.100
Benchmarking	28	0 (0%)	4 (14%)	24 (86%)	0	4.46	.744
Competitive Position Monitoring	27	0 (0%)	4 (15%)	23 (85%)	1	4.44	.751
Activity Based Costing	28	1 (4%)	13 (46%)	14 (50%)	0	3.54	1.071
Competitor Performance Appraisal Based on Public financial statement	28	0 (0%)	2 (7%)	26 (93%)	0	4.57	.742
Customer Accounting	28	0 (0%)	7 (25%)	21 (75%)	0	4.14	.970
Integrated Performance management Systems	26	0 (0%)	8 (31%)	18 (69%)	2	3.92	1.093
Life Cycle Costing	27	2 (7%)	19 (70%)	6 (23%)	1	2.89	.934
Competitor Cost Assessment	26	1 (4%)	11 (42%)	14 (54%)	2	3.46	1.140
Quality Costing	25	2 (8%)	7 (28%)	16 (64%)	3	3.80	1.354
Strategic Pricing	28	0 (0%)	7 (25%)	21 (75%)	0	4.25	1.005
Value Chain Costing	27	2 (7%)	15 (56%)	10 (37%)	1	3.22	1.251
Target Costing	27	5 (19%)	13 (48%)	9 (33%)	1	3.04	1.400
Brand Value Monitoring	27	2 (7%)	6 (23%)	19 (70%)	1	3.81	1.210

Source: Research Data 2014

4.6Test of Association between Strategic Management Accounting Techniques and Financial Performance

Testing of Research problem number two is achieved through estimation of the following multiple regressions:

$$Y=0.111-0.003X_1-0.004X_2-0.005X_3-0.011X_4+0.011X_5-0.009X_6+0.009X_7+0.000X_8+0.003X_9+0.000X_{10}-0.028X_{11}+0.008X_{12}+0.010X_{13}+0.000X_{14}$$

The result of testing Research problem number two shows a significant relationship between financial performance and the level of using strategic management accounting techniques. Consequently, and based on the figures shown in table 4 and table 5, Research problem number two is resolved, so it is argued that the level of using strategic management accounting techniques has a positive effect with the financial performance. This confirms with the results of the previous studies which found a significant positive association between the use of strategic management initiatives and improvement in financial performance. Furthermore two tail t-test is used to test the level of significant difference that exists between the financial performance of Commercial Banks in Kenya which use at least one of the SMA and those companies which do not use any of such initiatives.

Table 4 The results of Multiple regression model

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.111	.040		2.782	.018	.023	.199
	AC	-.003	.009	-.130	-.303	.768	-.021	.016
	CPM	-.004	.012	-.148	-.293	.775	-.031	.024
	ABC	-.005	.008	-.242	-.540	.600	-.023	.014
	CPAFMS	-.011	.010	-.466	-1.130	.282	-.034	.011
	CA	.011	.012	.572	.918	.378	-.015	.037
	IPMS	-.009	.010	-.520	-.863	.407	-.032	.014
	LCC	.009	.012	.386	.714	.490	-.018	.036
	CCA	.000	.012	-.022	-.032	.975	-.027	.026
	QC	.003	.011	.182	.231	.821	-.022	.027
	SP	.000	.015	.015	.019	.985	-.032	.032
	VCC	-.028	.011	-1.740	-2.477	.031	-.052	-.003
	TC	.008	.010	.563	.797	.442	-.014	.030
	BVM	.010	.010	.653	1.002	.338	-.012	.033

Source: Research Data 2014`

Table 5 Correlation matrix of the study variables

		ROA	AC	BM	CPM	ABC	CPAFMS	CA	IPMS	LCC	CCA	QC	SP	VCC	TC	BVM
ROA	Pearson Correlation	1	-.825	-.557	-.549	-.754	-.521	-.620	-.758	-.816	-.791	-.716	-.571	-.767	-.720	-.632
	Sig. (2-tailed)		0	0	0.003	0	0.004	0	0	0	0	0	0.002	0	0	0
	N	28	28	28	27	28	28	28	26	27	26	25	28	27	27	27
AC	Pearson Correlation	-.825	1	.832	.849	.899	.759	.847	.893	.929	.921	.892	.829	.921	.930	.889
	Sig. (2-tailed)	0		0	0	0	0	0	0	0	0	0	0	0	0	0
	N	28	28	28	27	28	28	28	26	27	26	25	28	27	27	27
BM	Pearson Correlation	-.557	.832	1	1.000	.838	.843	.879	.911	.786	.877	.927	.929	.792	.825	.898
	Sig. (2-tailed)	0	0		0	0	0	0	0	0	0	0	0	0	0	0
	N	28	28	28	27	28	28	28	26	27	26	25	28	27	27	27
CPM	Pearson Correlation	-.549	.849	1.000	1	.839	.841	.876	.911	.786	.877	.927	.927	.792	.825	.898
	Sig. (2-tailed)	0	0	0		0	0	0	0	0	0	0	0	0	0	0
	N	27	27	27	27	27	27	27	26	27	26	25	27	27	27	27
ABC	Pearson Correlation	-.754	.899	.838	.839	1	.766	.886	.886	.879	.921	.891	.835	.910	.902	.889
	Sig. (2-tailed)	0	0	0	0		0	0	0	0	0	0	0	0	0	0
	N	28	28	28	27	28	28	28	26	27	26	25	28	27	27	27
CPAFMS	Pearson Correlation	-.521	.759	.843	.841	.766	1	.860	.822	.804	.809	.903	.895	.764	.748	.879
	Sig. (2-tailed)	0	0	0	0	0		0	0	0	0	0	0	0	0	0
	N	28	28	28	27	28	28	28	26	27	26	25	28	27	27	27
CA	Pearson Correlation	-.620	.847	.879	.876	.886	.860	1	.943	.860	.901	.950	.950	.895	.871	.932
	Sig. (2-tailed)	0	0	0	0	0	0		0	0	0	0	0	0	0	0
	N	28	28	28	27	28	28	28	26	27	26	25	28	27	27	27
IPMS	Pearson Correlation	-.758	.893	.911	.911	.886	.822	.943	1	.888	.897	.941	.911	.907	.906	.954

	Sig. (2-tailed)	0	0	0	0	0	0	0		0	0	0	0	0	0	0
	N	26	26	26	26	26	26	26	26	26	26	25	26	26	26	26
LCC	Pearson Correlation	-.816	.929	.786	.786	.879	.804	.860	.888	1	.922	.882	.841	.944	.915	.900
	Sig. (2-tailed)	0	0	0	0	0	0	0	0		0	0	0	0	0	0
	N	27	27	27	27	27	27	27	26	27	26	25	27	27	27	27
CCA	Pearson Correlation	-.791	.921	.877	.877	.921	.809	.901	.897	.922	1	.908	.918	.923	.934	.892
	Sig. (2-tailed)	0	0	0	0	0	0	0	0	0		0	0	0	0	0
	N	26	26	26	26	26	26	26	26	26	26	25	26	26	26	26
QC	Pearson Correlation	-.716	.892	.927	.927	.891	.903	.950	.941	.882	.908	1	.952	.866	.887	.932
	Sig. (2-tailed)	0	0	0	0	0	0	0	0	0	0		0	0	0	0
	N	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25
SP	Pearson Correlation	-.571	.829	.929	.927	.835	.895	.950	.911	.841	.918	.952	1	.840	.835	.914
	Sig. (2-tailed)	0	0	0	0	0	0	0	0	0	0	0		0	0	0
	N	28	28	28	27	28	28	28	26	27	26	25	28	27	27	27
VCC	Pearson Correlation	-.767	.921	.792	.792	.910	.764	.895	.907	.944	.923	.866	.840	1	.962	.918
	Sig. (2-tailed)	0	0	0	0	0	0	0	0	0	0	0	0		0	0
	N	27	27	27	27	27	27	27	26	27	26	25	27	27	27	27
TC	Pearson Correlation	-.720	.930	.825	.825	.902	.748	.871	.906	.915	.934	.887	.835	.962	1	.912
	Sig. (2-tailed)	0	0	0	0	0	0	0	0	0	0	0	0	0		0
	N	27	27	27	27	27	27	27	26	27	26	25	27	27	27	27
BVM	Pearson Correlation	-.632	.889	.898	.898	.889	.879	.932	.954	.900	.892	.932	.914	.918	.912	1
	Sig. (2-tailed)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	N	27	27	27	27	27	27	27	26	27	26	25	27	27	27	27

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

Source: Research Data 2014

The results of the formal test of the research problem two are reported in table 6. The model is significant with an F-statistic of 4.197 and the level of significance was .011. Consequently, a significance difference exists between the financial performance of Commercial Banks in Kenya which use at least one of the strategic initiatives and those Banks which do not use any of such initiatives. Such results confirm the previous results in terms of the relationship between the usage of SMA and improvement in financial performance.

Table 6 ANOVA analysis

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.007	13	.001	4.197	.011[b]
	Residual	.001	11	.000		
	Total	.008	24			

a. Dependent Variable: ROA

b. Predictors: (Constant), BVM, CPAFMS, ABC, CPM, AC, CA, CCA, LCC, TC, IPMS, VCC, QC, SP,BM

The adjusted R square is 63.4% which is more than 50% thus showing a stronger relationship between SMA usage and Commercial Banks financial performance in Kenya.

Model Summary b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.912 [a]	0.832	0.634	0.01138	0.832	4.197	13	11	0.011

Source: Research Data 2014

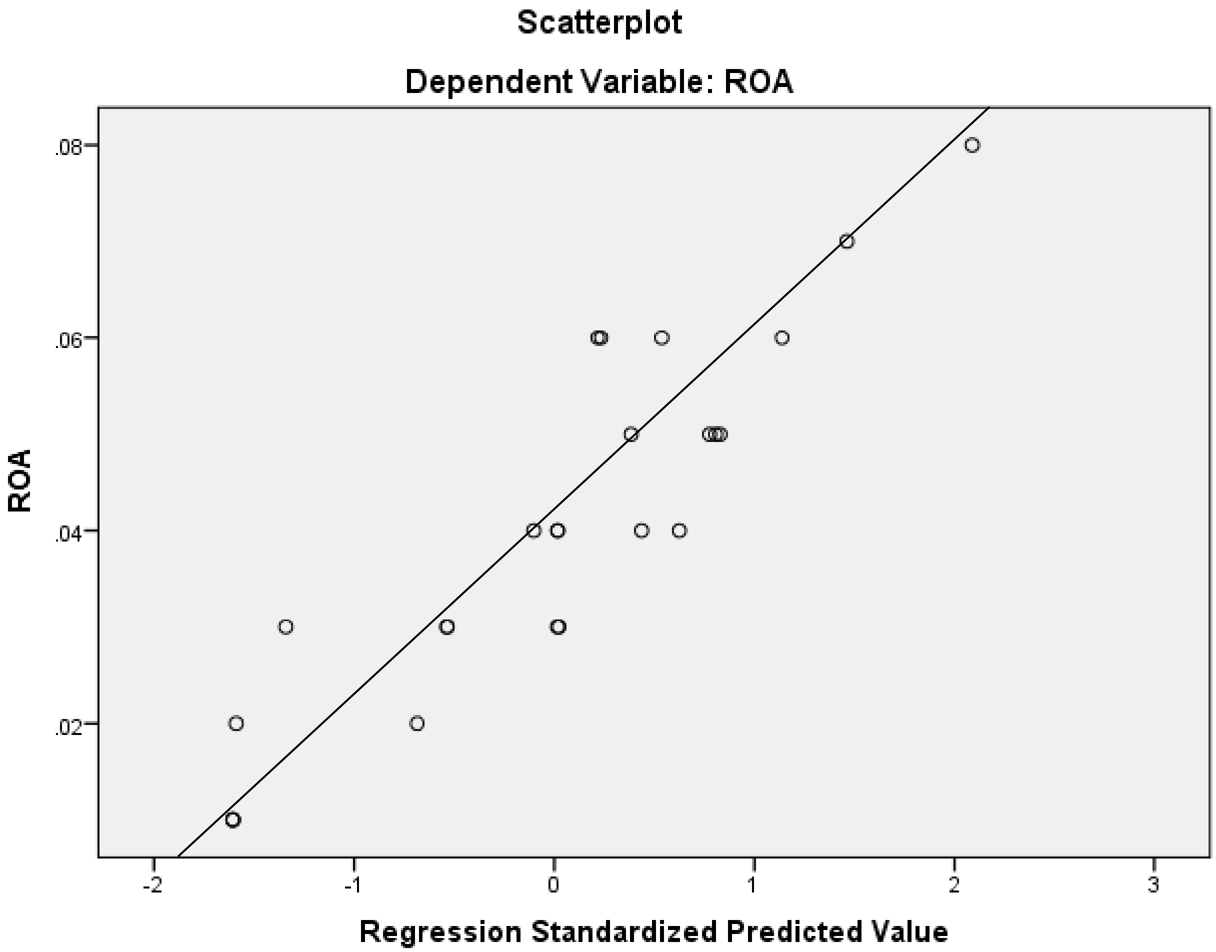
Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions													
				(Constant)	AC	CPM	ABC	CPA FMS	CA	IPMS	LCC	CCA	QC	SP	VCC	TC	BVM
	1	13.767	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	2	0.143	9.812	0.01	0	0	0	0	0	0	0	0	0	0	0	0.01	0
	3	0.025	23.666	0.03	0	0	0	0	0	0	0.01	0	0.04	0	0.02	0.02	0
	4	0.014	30.959	0	0.04	0	0.09	0.01	0	0	0.04	0.04	0	0	0.02	0	0.04
	5	0.012	33.893	0	0.27	0	0.18	0.01	0.01	0.01	0.01	0	0	0	0.02	0	0
	6	0.011	35.292	0.01	0.01	0.01	0.01	0.01	0	0.04	0.08	0.05	0	0.01	0.01	0.08	0.01
	7	0.009	38.811	0.01	0.24	0	0.14	0.01	0	0	0	0.04	0	0.01	0	0.09	0.03
	8	0.006	46.775	0	0.17	0	0.03	0.06	0.05	0.04	0.02	0	0.03	0.01	0.06	0.13	0.01
	9	0.005	52.684	0.02	0.04	0.04	0	0.02	0.06	0.03	0.02	0.07	0.1	0	0.03	0.02	0.15
	10	0.003	69.876	0	0	0.03	0	0.01	0.08	0.24	0.29	0.01	0.08	0.02	0	0.04	0.29
	11	0.002	82.852	0.02	0.01	0	0.03	0.3	0.15	0.03	0.51	0.05	0	0	0.48	0.06	0
	12	0.002	89.894	0	0.09	0.24	0.01	0.15	0.05	0.37	0	0.16	0.06	0.07	0.31	0	0
	13	0.001	129.049	0.77	0.11	0.62	0	0.24	0.47	0.03	0.02	0.02	0.28	0.1	0	0.12	0.16
1	14	0.001	142.117	0.13	0	0.06	0.51	0.19	0.12	0.19	0	0.56	0.41	0.76	0.04	0.43	0.3

a. Dependent Variable: ROA

Source: Research Data 2014

The scatter plot below shows there is a strong positive association between strategic management accounting techniques usage and improvement in financial performance.



Source: Research Data 2014

CHAPTER FIVE
Conclusion and Recommendations

5.1 Conclusion

This Research project has investigated whether strategic management accounting techniques are associated with improvement in financial performance in the service sector or not. This is particularly true in the case of strategic management accounting techniques since there is considerable doubt as to the efficacy of strategic management accounting techniques as initiatives that can assist in achieving improved financial performance.

Based on the empirical results, it was found that 95.26% of the Commercial Banks in Kenya are using at least one of the strategic management accounting techniques. Furthermore, it is found that there is a strong positive relationship between using strategic management accounting techniques and improvement in financial performance. This is consistent with prior research such as Venkatachalam (1996).

5.2 Recommendations for Other Research

A similar study can be replicated here in Kenya considering the Large Manufacturing country as the prior research done by Murithi (2001) was concerned with SMA techniques usage and didn't look at the impact on Firms financial performance. His conclusion drawn by him that target cost is extensively used while balance score card and value chain analysis had not gained root in the manufacturing industries may have changed due to passage of time.

5.2 LIMITATIONS

Although the respondents were targeted top accountant and finance officers based at their Head office with knowledge of strategic management accounting techniques, it is possible that their responses did not represent actual Banks practices. From the first introduction contact most of the Banks policy did not allow the receptionist to give the researcher an opportunity to seek authority from the relevant authority of the targeted respondent Bank.

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APPENDIX I: BANK EMPLOYEES QUESTIONNAIRE

Dear Respondent.

The questionnaire is designed to study '**THE RELATIONSHIP BETWEEN STRATEGIC MANAGEMENT ACCOUNTING TECHNIQUES USAGE AND FINANCIAL PERFORMANCE OF COMERCIAL BANKS IN KENYA'** with this regards, you have been chosen to help fill in the questionnaire.

The data I shall gather will be employed for academic reasons only and will be confidential.

Your assistance shall highly be regarded.

Thanks and God Bless you

Section 1: Basic Information

i. Gender: Male ☐ Female ☐

ii. What is the employee demographic characteristic in terms of-:

a. Job(Tick appropriately)

1. Financial Manager ☐

2. Management Accountant ☐

3. Financial Accountant ☐

Section 2:

i. Name of the Bank

____

1. To what extent does your Bank (or business unit) use the following accounting techniques(Tick appropriately)

	Techniques	Never 1	Rarely 2	Sometimes 3	Often 4	Always 5
1	Attribute Costing					
2	Benchmarking					
3	Competitive Position Monitoring					
4	Activity Based Costing					
5	Competitor Performance Appraisal on public financial statements					
6	Customer Accounting					
7	Integrated Performance Management Systems					
8	Life Cycle Costing					
9	Competitor Cost Assessment					
10	Quality Costing					
11	Strategic Pricing					
12	Value Chain Costing					
13	Target Costing					
14	Brand value monitoring					

APPENDIX II: Definitions of the Strategic Management Accounting Techniques Provided in the Questionnaire

Activity Based Costing/Management

An approach where costs are allocated to specific activities based on structural and executional cost drivers. The activities require resources and the product/service uses activities.

Attribute Costing

The costing of specific product features that appeal to customers. Attributes considered may include: reliability, warranty arrangements, after sale service.

Benchmarking

The comparison of company performance to an ideal standard.

Competitive position monitoring

The analysis of competitor positions within the industry by assessing and monitoring trends in competitor sales, market share, volume, unit costs and return on sales. This information can provide a basis for the assessment of a competitor's market strategy.

Competitor cost assessment

The provision of regularly scheduled update estimate of a competitor' unit cost. Such information could derive from different sources such as direct observation, common suppliers or customers or competitors ex-employees.

Competitor performance appraisal based on published financial statements

The numerical analysis of a competitor's published financial statements as a part of an assessment of a competitor's key sources of competitive advantage.

Customer Accounting

Analysis directed to appraise profit, sales or costs deriving from customers or customer segments.

Integrated performance measurement systems (Balanced Scorecard)

A measurement system which focuses typically on acquiring performance knowledge based on customer requirements and frequently encompasses non -financial measures.

Life Cycle Costing

The appraisal of costs along all the stages of a product or service's life. In general these stages may include design, introduction, growth, decline and eventually abandonment.

Quality Costing

Identification and control of the costs associated with the creation, identification, repair and prevention of defects. The target is to direct management attention to prioritize quality problems.

Strategic Pricing

The analysis of strategic factors in the pricing decision process. These factors may include: competitor price reaction, elasticity, market growth, economies of scale and experience.

Target Costing

A method used during product and process design that involves estimating a cost calculated by subtracting a desired profit margin from an estimated price to arrive at a desired production, engineering or marketing cost. The product is then designed to meet that cost.

Value Chain Costing

An activity-based approach where costs are allocated to activities required to design, procure, produce, market, distribute and service a product/service along the entire industry value chain. It embraces the consideration of the linkages with suppliers and customers to attain higher efficiency.

Brand value monitoring:

Brand is a combination of different features which are associated with a product to give it a unique identification

APPENDIX II: Population Kenya Commercial Bank licensed by CBK as at 31st December 2013

	BANK
1	Equity Bank
2	Kenya Commercial Bank
3	Standard Chartered Bank
4	Barclays Bank of Kenya
5	I & M Bank
6	Stanbic Bank Ltd (CFC STANBIC)
7	Imperial Bank ltd
8	Citibank Kenya Branch
9	NIC Bank ltd
10	Prime Bank ltd
11	Commercial Bank of Africa
12	National Bank of Kenya
13	Bank of Baroda ltd
14	Habib Bank AG Zurich
15	Housing Finance Co of Kenya
16	Fidelity Commercial Bank
17	Development Bank of Kenya Ltd
18	Family Bank
19	Chase Bank
20	Transnational Bank ltd
21	Credit Bank ltd
22	Giro Commercial Bank
23	EcoBank k Ltd (EABS Bank)
24	Jamii Bora Bank Ltd
25	Guaranty Trust Bank Ltd
26	Oriental Comm.(Delphis) Bank
27	Victoria Commercial Bank
28	Paramount Universal Bank
29	African Banking Corporation
30	Dubai Bank Kenya Ltd
31	UBA Kenya Bank Ltd
32	Equatorial Commercial Bank
33	Middle East Bank (K)
34	First Community
35	Bank of India Ltd
36	K-Rep Bank Ltd
37	Diamond Trust Bank Ltd
38	Guardian Bank Ltd
39	Consolidated Bank
40	Gulf African Bank Limited
41	Co-operative Bank of Kenya
42	African Banking Corporation Ltd
43	Habib Bank Ltd

Source: CBK (2013)