A SURVEY OF THE EXTENT OF STRATEGIC MANAGEMENT ACCOUNTING ADOPTION BY COMMERCIAL BANKS IN KENYA

BY

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DECLARATION

This project is my original work and has not been submitted to any other institution or university for a degree.

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This project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

To my parents:

James and Pauline Kinyanjui,

For instilling in me the value of education.

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ABSTRACT

The researched focused on strategic management accounting adoption by commercial banks in Kenya. It was based on the fact that many changes have occurred in the business environments which have necessitated the adoption of strategic perspectives if businesses are to survive and prosper. Strategic management accounting has been identified as a way forward to ensure that organizations develop and maintain sustainable competitive advantage.

The proponents of strategic management accounting have highlighted the need for a more externally oriented approach. However, there are considerable practical barriers to its implementation such as obtaining competitors' internal cost information, lack of trained personnel among others. The purpose of the study was to establish the strategic management accounting adoption by commercial banks in Kenya. To achieve this, the study was guide by the following research objectives:

i. To determine the extent to which commercial banks in Kenya have adopted strategic management accounting.

ii. To identify the factors that influenced the banks to adopt strategic management accounting.

iii. To establish the problems encountered in adopting strategic management accounting.

A census study was carried out. Primary data was collected with help of self-administered questionnaires to a population of 41 commercial banks in Kenya, 26 of which were filled and returned. The data was analyzed using both descriptive statistics and content analysis.

The findings of the study revealed that strategic management accounting has been embraced by all commercial banks in Kenya. The practices applied to a great extent are Customer Profitability Analysis, Competitors' Analysis and use of Non-Financial

Performance Measures whereas Value Chain Analysis and Activity Analysis have been applied to a little extent.

The key factors influencing the adoption of strategic management accounting in the commercial banking sector are the need to improve management control and facilitate better decision making. The high cost of implementation and inaccessibility to external strategic information were highlighted as the major problems encountered in adopting strategic management accounting.

CHAPTER ONE: INTRODUCTION

1.1 BACKGROUND

Accounting is concerned with the provision of financial and non-financial information to users, both internal and external to an organization, which will help them make good decisions. Drury (2004) defines Management Accounting as the provision of accounting information to people within the organization to help them make better decisions and improve the efficiency and effectiveness of existing operations.

Traditionally management accounting systems focused mainly on reporting financial measures but this has changed as a result of the changing business environment. Financial measures are no longer treated as the foundation of management accounting but as part of a broader set of measures. According to Kaplan and Atkinson (2001) management accounting information enhances decision-making, guides strategy development and evaluates existing strategies and focuses efforts related to improving organizational performance and to evaluating the contribution and performance of organizational units and members.

Service organizations in Kenya have faced major changes in their competitive environment. Prior to the 1990's many organizations operated in a protected environment, and there was little need for firms to improve management practices since cost increases could often be passed on to customers. During this time many services organizations were either government owned monopolies or they operated in a highly regulated, protected and non-competitive environment.

Privatization of government owned companies and liberalization of the Kenyan economy in 1990s changed the competitive environment in which service organizations operate. Now they need to focus on cost management and develop management accounting information systems that will enable them to understand their cost base and determine the sources of profitability for their services, customers and markets (Drury, 2004).

According to Drury (1996), management accounting has been criticized because it is heavily biased towards the internal comparisons of cost and revenues, and relatively little attention is given to the external environment in which the business operates. Glautier and Underdown (2001) argue that the internal orientation of traditional accounting information is too narrow for strategic decision-making.

Traditional management accounting did not provide accounting information that would enable organizations to respond to their competitive environment. However, the competitive positioning of businesses in the world markets requires that management accountants adopt a strategic perspective. To overcome the deficiencies of focusing almost exclusively on internal operations, strategic management accounting has been suggested as a way forward.

Commercial banks, as all organizations, operate within the environment and are therefore environment dependent. They are also significant in the Kenyan economy to virtually all sectors. Over the last fifteen years the banking industry, like all other industries in the country have been faced with challenges arising from changes in the environment such as liberalization, a turbulent economy and government policies.

The banks have thus had to change to ensure they survive in such turbulent environment. The commercial banking sector has been chosen since it's a much more organized sector and has embraced technology that is necessary for the implementation of strategic management accounting. Also being a very key sector to the economy as a whole it is a much regulated sector. This will allow for easier collection of data since information is more readily available.

1.2 STATEMENT OF THE PROBLEM

Since 1980s scholars and practitioners have been developing new management accounting procedures to meet he challenges of deregulated industries and vigorous global competition. These new procedures are designed to support the rapidly changing technologies and new management processes and a never-ending search for competitive advantage. (Kaplan and Atkinson, 2001)

The many changes in the competitive environment have necessitated the adoption of a strategic perspective if businesses are to survive and prosper. This has important implications for management accountants if they are to assist the strategic process. Unlike the traditional management accountant, the strategist is outward looking and concerned with competitive market forces (Glautier and Underdown, 2001).

Due to the widely publicized criticisms of traditional management accounting practices, strategic management accounting has been identified as a way forward to ensure that organizations develop and maintain sustainable competitive advantage. According to Glautier and Underdown (2001), strategic management accounting has developed to assist senior management in taking a genuinely long-term view of their business by providing information, which (a) enables them to monitor and control the organization's activities in a manner measurable against the strategy and objectives and (b) contributes to the strategic decision-making process.

The proponents of strategic management accounting have highlighted the need for a more externally oriented approach. However, there are considerable practical barriers to its implementation such as obtaining competitors' internal cost information, lack of trained personnel among others. Only one study has been done in Kenya on strategic management accounting, Arithi (2001) studied the extent to which large manufacturing companies in Kenya have adopted it. The study revealed that principally, large manufacturing companies based in Nairobi had adopted strategic management accounting techniques with the most commonly applied being target costing and strategic cost analysis.

No study has yet been done to establish the extent of strategic management accounting adoption in the service industry in Kenya. In the light of the above this study seeks to answer the questions; has the service industry in Kenya adopted strategic management accounting and if so to what extent; what benefits or problems have they encountered in applying strategic management accounting. The study seeks to establish whether strategic management accounting has enhanced the contribution of Management

Accounting in the service industry with particular reference to the commercial banking sector.

1.3 OBJECTIVES OF THE STUDY

The objective of this study is:

i. To determine the extent to which commercial banks in Kenya have adopted strategic management accounting.

ii. To identify the factors that influenced the banks to adopt strategic management accounting.

iii. To establish the problems encountered in adopting strategic management accounting.

1.4 SIGNIFICANCE OF THE STUDY

i. The study seeks to highlight the benefits of strategic management accounting to the management of service organizations since many of them have only recently turned their attention to Management Accounting.

ii. The study will also assist academicians to determine the practicability of implementing the approaches advocated by strategic management accounting proponents.

iii. The study will stimulate interest among academicians and encourage further research in strategic management accounting hence reduce the gap between theory and practice.

CHAPTER TWO: LITERATURE REVIEW

2.1 INTRODUCTION

This chapter commences with the definition and importance of management accounting to an organization and the criticisms leveled against it. Then it moves on to define strategic management accounting and the different approaches to it by the various proponents. It highlights the strategic management accounting practices that will be considered by this research. Finally the chapter looks at the strategic management accounting practices in Kenya and an overview of the Kenyan banking sector.

Strategic management accounting is a relatively new area of development in management accounting. As a result there is difficulty in identifying what are generally accepted as constituting strategic management accounting practices. However the key criteria used to identify such practices is that they should be externally and long-term, forward looking oriented. This study seeks to determine the extent to which commercial banks in Kenya have adopted strategic management accounting practices.

2.1.1 DEFINITION AND IMPORTANCE OF MANAGEMENT ACCOUNTING

Hongren, Sundem and Stratton (1996) define Management Accounting as the process of identifying, measuring, accumulating, analyzing, preparing, interpreting and communicating information that helps managers fulfill organizational objectives. Drury (2004) defines it as the provision of accounting information to people within the organization to help them make better decisions and improve the efficiency and effectiveness of existing operations.

Information is vital for the management process. According to Kaplan and Atkinson (2001) management accounting systems provide information to assist managers in their planning and control activities. Unlike the financial accounting systems which provide information for external users, management accounting systems are designed to provide information that will aid decision making within the organization.

Management accounting information enhances decision-making, guides strategy development and evaluates existing strategies and focuses efforts related to improving organizational performance and to evaluating the contribution and performance of organizational units and members (Kaplan and Atkinson, 2001). Therefore the scope of management accounting extends beyond the traditional measures of costs and revenues that have already occurred to include future oriented data.

No single management accounting system is suitable for all organizations since management accounting requirements are dependent upon the individual characteristics of each individual organization (Glautier and Underdown, 2001). Thus the ultimate test of a management accounting system is whether it motivates and assists managers in attaining their organizational objectives in a timely, efficient and effective manner.

2.2 CRITICISMS OF MANAGEMENT ACCOUNTING

During the late 1980s, criticisms of management accounting practices were widely publicized in the professional and academic accounting literature. Management accountants have been criticized for placing an overemphasis on providing managers a means to follow the flow of costs as opposed to providing information that is useful for decision-making planning, control and performance evaluation. Opinions seem to differ as to whether or not significant changes are necessary but many agree that fundamental changes in practice are required if management accounting is to serve its purpose in today's competitive environment (Drury, 1996).

According to Johnson and Kaplan (1987), most of the management accounting practices that were being used in the mid 1980s had been developed by 1925, and for the next 60 years there was a slow down, or even a halt in management accounting innovation. They conclude that this lack of innovation over the decades and the failure to respond to its changing environment resulted in a situation where firms were using management accounting systems that were obsolete and no longer relevant to the changing competitive environment.

Drury (1996) summarizes the principal criticisms of the management accounting practices under the following headings:

2.2.1 Conventional management accounting does not meet the needs of today's manufacturing and competitive environment.

Traditional management accounting systems have been accused for being unable to adapt to modern technologies. With advancement in technologies, many companies found that in order to compete successfully they had to produce innovative products of high quality at a relatively low cost and also provide a first class customer service. Modern technologies have resulted to changes in cost behaviour patterns such that most of the firms' costs have become fixed in the short term. This has caused problems in using traditional management system in terms of how to compute product costs, how to modify control systems and how to measure performance in order to meet the new strategic goals of their organizations.

Traditional management accounting places greater emphasis on reporting direct labour cost and efficiency while giving little attention to reporting and controlling direct material and overhead costs. It also fails to report on such issues as quality, reliability, lead-times, flexibility and customer satisfaction, which have now become a key focus for many organizations.

2.2.2 Traditional product costing systems provide misleading information for decision-making purposes

Traditional management accounting has failed to correctly allocate overheads to products. Full product costs are computed in order to meet financial accounting requirements, hence are not suitable for decision-making. These product-costing systems were designed when most companies had narrow range of products, high direct labour and material costs and relatively small overhead costs. Information processing costs were high thus sophisticated overhead allocation systems were not justified.

However, in today's competitive environment, multi-product companies need to allocate overheads in order to avoid cross-subsidies. Further, overhead costs now form a major component of overall company costs and compared to earlier days, information processing cost has become smaller due to advance in technology. Managers now need more accurate information in order to make better decisions hence gain competitive advantage.

2.2.3 Management accounting practices follow, and have become subservient to financial accounting requirements

Johnson and Kaplan argued that management accounting is influenced by financial accounting requirements. They noted that product costs that were computed for financial accounting purposes were also being used for decision-making. Costs based on principles of financial accounting provide satisfactory estimates for allocating costs between costs of sales and inventories for external reporting purposes. However, it distorts individual product costs through cross-subsidization arising from the misallocation of overheads costs.

A study done in the U.K. by Drury et al (1993), reported that 97% of companies prepared internal profit statements on monthly basis and the vast majority of these companies valued their stocks on absorption costing basis instead of marginal costing which gives better results for decision making. It was further observed that companies adopted financial accounting information to generate management accounting information to ensure that the internal reporting systems are consistent with external financial accounting reporting requirements.

2.2.4 Management accounting focuses almost entirely on internal activities, and relatively little attention is given to the external environment in which the business operates.

Traditional management accounting has been accused of being heavily biased towards internal comparisons of costs and revenues ignoring the external environment in which business operates. Harris Research Center (1990) report on strategy formulation found out that "the use of external information is generally rare…. Company annual reports are the most popular published sources of strategic information". The Traditional approach of measuring profits does not provide the required information for strategic decision-making.

Further, traditional management accounting ignores strategic indicators of performance such as customer satisfaction and competitor's strength, which provide advance signal of the need to change competitive strategy. A successful business strategy requires the development and maintenance of some form of sustainable relative competitive. Therefore management accounting information should highlight the relative competitive positioning of the organization.

2.3 DEFINITION OF STRATEGIC MANAGEMENT ACCOUNTING

Due to the various criticisms of management accounting practice, the Chartered Institute of Management Accountants commissioned an investigation to review the state of management accounting and the various claims being made about it. The report, authored by Bromwhich and Bhimani (1989) identified Strategic Management Accounting, as a potential area that would enhance the future contribution of management accounting hence respond positively to the changing environment.

Though strategic management accounting has been identified as a way forward in enhancing the contribution of management accounting, there is still no comprehensive framework of what it constitutes. Various writers have thus defined strategic management accounting differently. The Chartered Institute of Management Accountants (CIMA) defines it as a form of management accounting in which emphasis is placed on information, which relates to factors external to the firm, as well as non-financial information and internally generated information (CIMA Official Terminology, 2000).

Simmonds (1981) who first coined the term strategic management accounting, views it as the provision and analysis of management accounting data about a business and its competitors which is of use in the development and monitoring of the strategy of that business. Bromwhich (1990) has defined it 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.

More recently, Innes (1998) has defined strategic management accounting as the provision of information to support the strategic decisions in organizations. Thus despite the lack of consensus on what constitutes strategic management accounting there are several elements that are consistent in the various definitions provided. Its major feature is its external emphasis where traditional management accounting has extended its focus to include information about a firm's competitors and environment.

Strategic management accounting is also viewed as providing information that supports an organization's strategic position hence ensuring that it gains competitive advantage over its competitors. Its techniques are therefore designed to support the overall competitive strategy of the organization.

2.4 APPROACHES TO STRATEGIC MANAGEMENT ACCOUNTING

2.4.1 Simmonds (1981, 1982, 1986)

Much of the early work relating to strategic management accounting can be attributed to the writings of Simmonds (1981, 1982 and 1986). He argued that management accounting should be more outward looking and should help the firm evaluate its competitive position relative to the rest of the industry by collecting data on its competitors. Managers require information about their competitors to protect an organizations strategic position and determine strategies to improve its future competitiveness. This information provides advance warning of the need for change in competitive strategy.

To obtain strategic advantage Simmonds suggested the importance of the learning curve for forecasting costs and selling price reductions. He also suggested the use of the firms pricing policy by assessing their major competitors' cost structure and comparing them to their own prices. Further assessment can be done on cost volume profit relationship of competitors in order to predict their pricing responses.

Besides costs and prices, Simmonds also focused on volume and market share. He stressed that organizations need to monitor their major products' market share movements to check whether it is gaining or losing position and also the strength of their competitors. He suggested that market share statements should be incorporated into management accounts.

2.4.2 Porter (1985)

Porter (1985) argues that competition is at the core of the success or failure of firms and that it determines the appropriateness of a firm's activities. Therefore a firm requires a competitive strategy that would enable it establish a profitable and sustainable position. Porter states that two core concepts underlie the choice of a competitive strategy; the first is the attractiveness of industries for long-term profitability and the factors that determine it and the second is the determinants of relative competitive position within an industry.

According to Porter (1985) not all industries offer equal opportunities for sustained profitability, and the inherent profitability of an industry is one essential ingredient in determining the profitability of a firm. He argues that in any industry, whether it produces products or services, the rules of competition are embodied in five competitive forces: the entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers and the rivalry among existing competitors.

The collective strength of these five competitive forces determines the ability of firms in an industry to earn, on average, rates of return on investment in excess of the cost of capital. These forces determine industry profitability because they influence the prices, costs, and required investment of firms in an industry, that is, the elements of return on investment. The strength of the five forces varies from industry to industry and can change as the industry evolves. The result is that all industries are not alike from the standpoint of inherent profitability.

On the other hand in most industries, some firms are much more profitable than others regardless of what the average profitability of the industry may be. Porter argues that positioning determines whether a firm's profitability is below or above the industry average. A firm that can position itself well may earn high rates of return even though industry structure is unfavourable and the average profitability of the industry is therefore modest. The significance of any strength or weaknesses a firm possesses is ultimately a function of its impact on relative cost or differentiation.

Porter (1985) suggests that these two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, leads to three generic strategies for achieving above average performance in an industry.

Cost leadership; whereby a firm 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. The sources of cost advantage may include economies of scale, proprietary technology, and preferential access to raw material among others.

Differentiation; whereby a firm seeks to offer products or services that are considered unique or superior by its customers relative to those of its competitors. Differentiation can be based on the product itself, the delivery system by which it is sold, the marketing approach, and a broad range of other factors.

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. By optimizing its strategy for the target segments, the focuser seeks to achieve a competitive advantage in its target segments even though it does not posses a competitive advantage overall. This strategy has two variants, cost focus and differentiation focus.

Both industry attractiveness and competitive position can be shaped by a firm. While industry attractiveness is partly a reflection of factors over which a firm has little influence, competitive strategy has considerable power to make an industry more or less attractive. At the same time a firm can clearly improve or erode its position within an industry through its choice of strategy and as such firms will place more emphases on particular accounting techniques depending on the strategic option they adopt. Thus there is a need for management accounting to support a firm's competitive strategies in order to achieve sustainable competitive advantage.

2.4.3 Bromwhich (1990)

Bromwhich (1990) looked at strategic management accounting from the perspective of considering the benefits, which products and services, offer to customers. He sought to compare the relative costs of the attributes with what the customer was willing to pay for them. He argues that it is the attributes, which need to be the subject of appropriate analysis, and the purpose of the analysis would be to match costs to the benefits they provide to the customer for each of the attributes that are believed to be of strategic importance.

Bromwhich concluded that information about a number of demand and cost factors appertaining to attributes possessed by a firm's products and that of its competitors is needed for optimal decision-making. Management accountants should therefore play an important role here in costing the attributes provided and in monitoring and reporting on these costs regularly.

2.4.4 Roslender (1995, 1998)

Roselender (1995) identified target costing as falling within the domain of target costing because of its external focus since it's a market driven approach to product pricing and cost management. In addition it involves the diffusion of management accounting information throughout the organization and active involvement of staff from across a broad spectrum of management functions.

According to Roslender et el (1998) the defining characteristic of strategic management accounting is its external focus. He argues that within this emphasis, there are three focuses: competitors, customers, and linking them, products and that strategic management accounting seeks to produce a range of information about these three focuses.

2.5 STRATEGIC MANAGEMENT ACCOUNTING PRACTICES

Although Strategic management accounting has been identified as a way forward there is as yet no comprehensive framework as to what it constitutes. However various practices have been suggested as forming strategic management accounting by the different contributions made to its development. The practices discussed below will be considered in this research.

2.5.1 Customer Profitability Analysis

In increasingly competitive markets, it is critical to know customer, market and channel of distribution profitability. Companies' need to be able to quantify and present the implications of their trading relationships so that they can add real value to commercial decisions. According to Glautier and Underdown (2001), such an approach should answer key questions which conventional accounting fails to address, questions such as:

1. Does selling to company x meet our profitability criteria? Can it ever? If so, how?
2. Which customer or market segment generates our greatest profit contribution? How best can we protect it?
3. What are the maximum discounts or after sales servicing packages that we are prepared to allow in the next round of negotiations?

4. Do our largest accounts earn us reasonable contribution, or are the advantages of volumes offset by the costs of promotional activity, distribution and discounts?
5. Should we drop a customer or customer group?

Customer costs are often determined from the distribution, marketing and sales costs that are incurred after the product is manufactured. For decision making purposes, activity based approaches may be used to assign post manufacturing costs to customers. Allocating these costs reflects the different ways in which customers consume resources. Such differences have an overall impact on the profitability of serving different customers. Without accurate customer profitability information, a company may make strategic errors. Failing to price differences in service levels provides incentives for customers to use what appear to be 'free' services and impose the cost on other customers.

2.5.2 Competitor Analysis

According to Glautier and Underdown (2001) a competitor analysis starts with identifying competitors and potential competitors. After competitors are identified the focus shifts to attempting to understand them and their strategy. What are the competitors' objectives? What strategies are the competitors pursuing and how successful are they? What are the competitors' strengths and weaknesses? The identification and evaluation of competitors' strengths and weaknesses is at the very heart of a well-developed competitive strategy.

Competitor analysis enables competitors' moves to be anticipated, thereby allowing an enterprise both to plan the defense of its territory and to prepare for opportunities that result from competitors' mistakes and weaknesses. According to Bromwich and Bhimani (1989),

"The need to consider the firm's comparative advantages relative to competitors and the benefits for which customers are willing to pay their costs is the main theme of strategic management accounting providing the relevant accounting information

configured in a way in which it can be used for strategy is thought by many commentators to be a major contemporary challenge to accountants"

2.5.3 Competitive Position Analysis

This is 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.

2.5.4 Activity Analysis

Porter (1985) suggests that firms can be viewed as a flow of activities performed to provide products or services to customers. Activity analysis views the business as a set of linked activities that ultimately add value to the customer. It focuses on managing the business on the basis of the activities that make up the organization. Besides providing information on what activities are performed, it provides information on the cost of activities, why the activities are undertaken, and how well they are performed (Drury, 2004). This view enables management to judge each activity as value-added or non-value added.

Value added activities contribute something that is worthwhile to the organization and its customers. Such activities are important to the organization's success. Where an activity increases the worth of a product or service to the customer, the customer is willing to pay for the service and it is, therefore value added. Non-value added activities represent waste; these activities can be reduced or eliminated without decreasing the enterprise's ability to compete and meet customer demands. Armed with a list of non-value added activities, the organization can create teams to find innovative ways to eliminate, reduce, or re-engineer those activities (Glautier and Underdown, 2001).

2.5.5 Value Chain Analysis

Increasing attention is now being given to value chain analysis as a means of increasing customer satisfaction and managing costs more effectively. The value chain is the linked set of value creating activities all the way from basic raw materials sources for component suppliers through to the ultimate end-use product or service delivered to the customer. A value chain analysis is used to analyze, coordinate and optimize linkages in the value chain (Drury, 2004). The linkages in the value chain express the relationships between the performance of one activity and its effects on the performance of another activity.

Shank and Govindarajan (1992) advocate that a company should evaluate its value chain relative to the value chains of its competitors or the industry. They suggest that the following methodology should be adopted:

1. Identify the industry's value chain. This is composed of all the value creating activities within the industry, beginning with the basic raw material and ending with delivery of the product to the final customer. Based on the industry's value chain, a company's internal value chain should be identified. This is composed of all value creating activities within a company. They represent activities that are the building blocks with which company in the industry have created a product that buyers find valuable. Costs, revenues and assets should than be assigned to activities to ascertain their value.

2. Diagnose the cost drivers regulating each value activity.

3. Develop sustainable cost advantage, either through controlling cost drivers better than competitors or by reconfiguring the chain value. By systematically analyzing costs, revenues and assets in each activity, a company can achieve low cost. This is achieved by comparing the firms value chain with the value chains of a few major components and identifying actions needed to manage the firms value chain better than competitors manager their value chains.

Porter (1985) advocated using value chain analysis to gain competitive advantage. The aim of value chain analysis is to find linkages between value creating activities, which result in lower cost and/or enhanced differentiation. These linkages can be within the firm or between the firm and its suppliers and customers. The value chain comprises of five primary activities and a number of support activities. The primary activities are defined sequentially as inbound logistics, operations, outbound logistics, marketing, and sales and services. The secondary activities exist to support the primary activities and include the firms' infrastructure, human resource management, technology and procurement.

2.5.6 Target Costing

Target costing is a customer-oriented technique that is widely used by Japanese companies and which has recently been adopted by companies in Europe and the USA (Drury, 2004). A major feature of target costing is that a team approach is adopted to achieve the target cost. The aim is to achieve the target cost specified for the product at the prescribed level of functionality and quality.

The major advantage of adopting target costing is that it is deployed during a product's design and planning stage so that it can have a maximum impact in determining the level of locked-in costs. It is an iterative process with the design team, which ideally should result in the design team continuing with its product and process design attempts until it finds designs that give an expected cost that is equal or less than the target cost. Thus, the aim is to design a product with an expected cost that does not exceed target cost and that also meets the target level of functionality.

2.5.7 Strategic Cost Analysis

This entails the use of cost data based on strategic and marketing information to develop and identify superior strategies that will sustain a competitive advantage. It also includes an analysis of strategic factors in the pricing decision process. These factors may include: competitors price reaction; price elasticity; market growth; economies of scale and experience.

2.5.8 Non-financial measures of Performance

More recent contributions to strategic management accounting have emphasized the role of management accounting in formulating and supporting the overall competitive strategy of an organization. To encourage behaviour that is consistent with the organization's strategy, attention is now being given to developing an intergraded framework of performance measurement that can be used to clarify, communicate and manage strategy implementation (Drury, 2004).

Prior to the 1980s management accounting control systems tended to focus mainly on financial measures of performance. During the 1980s greater emphasis was given to incorporating into the management reporting systems those non-financial performance measures that provided feedback on the key variables that are required to compete successfully in a global economic environment. Previous systems that incorporated non-financial measurements used adhoc collections of such measures, more like checklists of measures for managers to keep track of and improve than a comprehensive system of linked measurement.

The need to integrate financial and non financial measures of performance and identify key performance measures that link measurements to strategy led to the emergence of the balanced scorecard - an integrated set of performance measures derived from the company's strategy that gives top management a fast but comprehensive view of the organizational unit. The balanced score card philosophy assumes that an organization's vision and strategy is best achieved when the organization is viewed from the following four perspectives:

1. Customer perspective (How do customers see us?).
2. Internal business process perspective (what must we excel at?).
3. Learning and growth perspective (can we continue to improve and create value?).
4. Financial perspective (How do we look to shareholders?).

The balanced score card is a strategic management technique for communicating and evaluating the achievement of the mission and strategy of the organization. A critical assumption of the balanced scorecard is that each performance measure is part of a course and effective relationship involving a linkage from strategy formulation to financial outcomes. The assumption that there is a cause and effect relationship is necessary because it allows the measurements relating to the non-financial perspectives to be used to predict future financial performances

Non-financial measures provide fast feedback, for instance, the operators can detect many problems on the spot if they are provided with training and equipment that enables them to monitor quality, rate of flow, set up time, etc. Performance measurement reports, based on non-financial measures reports may be provided daily, twice daily, or as required.

2.6 FACTORS INFLUENCING STRATEGIC MANAGEMENT ACCOUNTING ADOPTION

2.6.1 Improved Management Control

Management control is the process that links strategic planning, that is, setting overall corporate strategies and objective over the long term, and operational control, that is, the process of ensuring that specific and immediate tasks are carried out (Drury 1996). The purpose of management control is to control the day-to-day activities and to ensure that the resources of responsibility centers are used effectively and efficiently in pursuit of the goals of the organization.

Management control requires a feedback cycles so that appropriate corrective action can be taken if actual outcomes differ from planned outcomes. Such a system should not confine itself solely to accounting measures of performance. Some activities are controlled by physical and technical measures and others cannot easily be measured in quantitative terms. Therefore it is also necessary to resort to other non-accounting forms of control (Otley 1995)

A control system is a communication network that monitors activities within the organization and provides the basis for corrective action in the future. Effective control requires that corrective action be taken so that the actual outputs conform to the planned inputs in the future. This comparison should result in a review of the long-term plan and an assessment of what progress has been made towards the realization of the organizations objectives. In addition the comparison enables management to review the long-range objectives in the light of new circumstances that may have rendered those objectives unrealistic.

2.6.2 Better Decision Making

Accounting is a language that communicates economic information to people who have an interest in an organization. There are many users of accounting information, for instance managers, require information that will assist them in their decision making and control activities. Management accounting is concerned with the provision of information to people within the organization to help them make better decisions. Before good decisions can be made there must be some guiding aim or direction that will enable the decision makers to assess the desirability of favouring one course of action over another.

Decision-making entails identifying objectives or goals of the organization, and once identified, a search for a range of possible courses of action or strategies that might enable the objectives to be achieved is carried out. Next data is gathered about the alternative strategies and the most appropriate alternative is selected and implemented. Strategic management accounting facilitates this process by enabling the provision of both internal and external information thus ensuring better decisions are made.

2.6.3 Better Performance Measures

Performance reporting systems should not focus entirely on cost control. There is a danger that if performance reports include only those items, which can be expressed in monetary terms, managers will concentrate on only these variables and ignore other important variables that cannot easily be quantified in monetary terms. Performance reports should therefore be broadened to incorporate other variables besides costs and revenues. In recent years there has been a shift from treating financial figures as the foundation for performance measurement and control to treating them as one among a broader set of measures.

Changes in the cost structure and competitive environment were responsible for this change in emphasis. In today's worldwide competitive environment organizations are competing in terms of product quality, delivery, reliability, after sales service and customer satisfaction. None of these variables is directly measured by the traditional responsibility accounting system, despite the fact that they represent major goals of organizations (Drury 1996). These changes have resulted in much greater emphasis being placed on non-financial performance measures that provide feedback on the key variables required to compete successfully in today's competitive environment.

2.6.4 Customer Profitability Analysis

In the past management accounting reports have tended to concentrate on analyzing profits by products. Cooper and Kaplan (1991), however, have drawn attention to the need to also analyze profits by customers using an activity based costing approach. Customer-profitability analysis provides important information that can be used to determine which classes of customers should be emphasized or de-emphasized and the price to charge for customer services.

Customer profitability analysis can be used to identify unprofitable customers. Attempts should be made to persuade these customers to modify their buying behaviour away from placing numerous small orders and \ or purchasing non-standard items. If this is not possible, selling prices should be increased to cover the extra resources consumed.

Many firms do analyze profits by customers; however, few have adopted an activity-based approach. It is therefore likely that these firms allocate customers-related expenses on an arbitrary basis.

Activity based costing has highlighted the need for accurate tracing of the resources consumed by different customers, and has also revealed that customers with the same sales value can generate significantly different profits. Activity based customer profitability analysis therefore provides an opportunity for developing a more market oriented approach to management accounting.

2.6.5 External Environment Assessment

A host of external factors influence an organizations choice of direction and action and, ultimately, its organizational structure and internal processes. These factors, which constitute the external environment, can be divided into three interrelated subcategories: factors in the remote environment, factors in the industry environment, and factors in the operating environment (Pearce and Robinson 1991). The remote environment comprises factors that originate beyond, and usually irrespective of, any single organizations firms operating situation. It organizations with opportunities, threats, and constraints but rarely does a single firm exert any meaningful reciprocal influence.

The nature and degree of competition in an industry hinge on five forces: the threat of new entrants, the bargaining power of customers, the bargaining power of suppliers, the threat of substitute products or services, and the jockeying among current contestants. To establish a strategic agenda for dealing with these contending currents and to grow despite them, an organization must understand how they work in its industry and how they affect the organization in its particular situation.

The operating environment comprises factors in the competitive situation that affect an organization's success in acquiring needed resources or in profitably marketing its goods and services. Among the most important of these factors are the organization's competitive position, the composition of its customers, its reputation among suppliers and creditors, and its ability to attract capable employees. The operating environment is typically much more subject to the organization's influence or control than the remote environment. Thus, firms can be much more proactive (as opposed to reactive) in dealing with the operating environment than in dealing with the remote environment.

2.6.6 Competitor Performance Assessment

Assessing its competitive position improves an organization's chances of designing strategies that optimize its environmental opportunities. Development of competitor profiles enables an organization to more accurately forecast both its short- term and long-term growth and its profit potentials (Pearce and Robinson 1991).

Although the exact criteria used in constructing a competitors profile are largely determined by situational factors, the following criteria are often included: market share, breadth of product line, effectiveness of sales distribution, proprietary and key-account advantages, price competitiveness, advertising and promotion effectiveness, location and age of facility, capacity and productivity, experience, raw materials costs, financial position, relative product quality, R & D advantages/position, caliber of personnel and the general image.

The process of developing such profiles is of considerable help to an organization in defining its perception of its competitive position. Moreover comparing the organization's profile with those of its competitors can help its managers in identifying factors that might make the competitors vulnerable to strategies that the organization might choose to implement.

2.7 PROBLEMS IN STRATEGIC MANAGEMENT ACCOUNTING ADOPTION

The proponents of strategic management accounting have highlighted the need for a more externally oriented approach. However, there are considerable practical barriers to its implementation. These barriers include the following:

Inaccessibility to External Strategic Information: An organization needs to match its strategies to the environment in which it operates and thus pursue strategies it is capable of sustaining. In particular management must decide what resources and skills are required for each potential activity and which ones the organizations currently possess. In addition management should assess the capabilities of competitors and by comparing its own capabilities with those competitors it will be possible it will be possible to determine the areas where it is outstanding or deficient (Drury 1996) Accessing competitors' internal information is difficult and requires a lot of networking.

Inadequate Training and Support: This is a major constraint in adopting the strategic management accounting practices. Given that strategic management accounting is a recent approach to management accounting there are no professional institutions in Kenya that are offering specialized training in this area. Our professional accounting exams have only begun examining the area by including a few questions in management accounting papers. There is a need for organizations to retrain their management accountants.

Lack of Trained Personnel: Due to the fact that strategic management accounting is a recent approach to management accounting, there have been no professional institutions in Kenya offering specialized training and thus there are no trained personnel that could be used to implement the system. This also emphasizes the need for organizations to retrain their management accountants in order to ensure that such accountants play their key role of providing relevant information for decision-making.

Lack of Computer Resources: For an organization to implement strategic management accounting successfully it requires having in place an efficient automated system. Such a system allows for effective and efficient collection, analysis and utilization of information. This also ensures that all events and transactions are recorded in time thus ensuring that the needs of the customer are met in the most efficient manner. Such computer resources are quite expensive and not many organizations are able access all of the necessary items.

High Cost of Implementation: Strategic Management Accounting Implementation requires heavy investment in terms of financial resources, physical resources and even human resources. The cost of availing these resources is quite high and not many organizations are able to provide them. This poses a major barrier in the adoption and implementation of strategic management accounting.

Lack of Top Management Support: Strategic management accounting entails an organization taking a strategic perspective to ensure its survival in the competitive environment. This therefore calls for top management support to ensure successful implementation of strategic management accounting. In cases where the top management is not convinced of the importance of strategic management accounting in today's competitive environment then such a organization would not successfully adopt strategic management accounting.

Resistance to Change: Human beings are more often than not resistant to change. They would rather continue doing things the way they have always done them instead of taking their time to learn new ways and methods. This is especially so when such new methods are imposed on them without being consultation. Therefore it is very important that all those people that will be required to implement and apply strategic management accounting practices be involved right from the conception stage all the way to the implementation stage. This allows them to the own the whole process and thus will be less resistant to change.

2.8 STRATEGIC MANAGEMENT ACCOUNTING PRACTICES IN KENYA

Developments in strategic management accounting practices have tended to reflect business circumstances in developed countries. Little research has been undertaken on the extent to which companies in Kenya apply strategic management accounting practices. Arithi (2001) conducted an exploratory study to find out the types and extent to which strategic management accounting systems are applied in large manufacturing companies in Nairobi.

His study revealed that principally these companies had adopted strategic management accounting techniques and the most commonly applied were target costing and strategic cost analysis. The study also revealed that other techniques such as the value chain analysis did not appear to have taken root in the manufacturing companies.

Arithi (2001) identified the need of assessing business environment and competitors' performance as the main factors that influenced the adoption of strategic management accounting in large manufacturing companies while inaccessibility to external strategic information was highlighted as the major challenge in strategic management accounting systems implementation.

No study has yet been done on strategic management accounting adoption in the service industry in Kenya. There is a need to establish the extent to which the Kenyan service industry has adopted strategic management accounting practices. This study seeks to find out what practices are applied in the commercial banking sector in Kenya and the factors that influence them to adopt such practices. It also will aim to identify the benefits and problems associated with implementing strategic management accounting practices in commercial banks.

2.9 OVERVIEW OF THE KENYAN BANKING SECTOR

The last twenty years of the twentieth century culminated in major changes in commercial banking sector globally. The globalization of financial markets meant that banks belonging to a given country faced stiffer competition for market share from foreign owned banks. Thus banks like other organizations have had to pay close attention to the external environment to ensure their survival.

As at the end of the year 2004, the Kenyan commercial banking sector was made up of 44 banks. However, only five banks account for about 60% of the total banking industry's assets and deposits. These major banks listed in descending order were, Barclays Bank of Kenya, Kenya Commercial Bank, Standard Chartered Bank, Citibank and National Bank of Kenya. These large banks are commonly referred to as "The Big Five" within the banking industry. Any decision made by these large banks has a substantial impact on the total industry (Market Intelligence, 2002)

The banking industry has been dogged by a lot of controversies in the past. For a long time banks have been accused of making immoral profits from customers through charging exorbitant fees for their services instead of making money from their core business of lending. The general public has consistently complained that the banks have been exploiting them in all manner of ways. Also a number of banks have closed down due to operational and liquidity problems.

In the 1990's the Kenyan government accelerated the implementation of economic reforms whose intended effect was to achieve an economic turnaround in the country (Aosa 1995). Two major changes were effected: (1) there was a change in legislation which created safeguards to ensure stability in the sector and (2) there was a change of structure of the sector by encouraging non-banking and financial institution to convert to full fledged commercial banks.

The Central Bank of Kenya is the regulatory authority charged with the task of monitoring and supervising the operations of commercial banks. Owing to past incidences of bank failures, new regulations were enacted which established strict reserve capital guidelines. These required commercial banks to increase their non-interest earning, non-operational deposits to Kenya Shillings 500 million by the end of 2002. This was however lowered to Kenya Shillings 250 million for the financial year starting June 2003 due to tighter regulatory, monetary and fiscal policies.

There was also the reintroduction of laws whose objectives was to control among other items, interest rates and bank charges that for a long time had been left to market forces to determine. These were positive developments as banks had always justified their high charges and interest rates partly on the erosion of trading capital due to the high reserve requirements.

Commercial banks in Kenya have thus had to re-think their strategies in face of the challenges from the environment. They now need to respond faster and accurately to customer queries and also to maintain flexibility and convenience in their operations (Aosa 1995). Therefore, this is a time of challenge and opportunity for management accounting in the banking sector. Strategic management Accounting is increasingly becoming an important knowledgebase in product line decisions. Its no longer sufficient to be aware of one's own cost structure, there must also be an awareness of the competitive market place, including the cost structures of rival firms.

2.10 SUMMARY

This chapter reviewed the literature on strategic management accounting. It focused on criticisms of management accounting as a discipline and the various strategic management accounting approaches that have been proposed to remedy the situation. It also highlights the factors influencing and problems encountered in strategic management accounting adoption. Finally it provides a review of the strategic management accounting practices in Kenya and ends with an overview of the Kenyan banking sector.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 INTRODUCTION

The objective of the study was to establish the extent to which commercial banks in Kenya have adopted strategic management accounting practices, the factors that have influenced the adoption and any benefits and problems associated with it. This chapter sets out the methodology that was used in carrying out the study thus achieving its objective. The chapter is organized into four parts: research design, population, data collection and data analysis.

3.2 RESEARCH DESIGN

The research design applied in this study was the descriptive study. Descriptive Studies are used to describe phenomenon associated with a subject population or to estimate proportions of the population that have certain characteristics. (Cooper and Schindler, 2000). The objective of a descriptive study is to learn the, who, what, where and how of a topic (Cooper and Emory, 1995). This design was considered appropriate for this study since it enabled the researcher to obtain information that helped determine the extent of strategic management accounting adoption by commercial banks in Kenya.

3.3 POPULATION AND SAMPLING DESIGN

The population constituted all the commercial banks in Kenya. According to the February 2005 Kenya Monthly Economic Review in the Central Bank of Kenya website, there were 44 commercial banks in operation in January 2005. During the time of the research (June – July 2005), Daima Bank was in liquidation, Industrial Development Bank had sold of its commercial banking division to Equity Bank while First American Bank had been taken over by Commercial Bank of Africa. This therefore reduced the population to 41 banks as at the time of data collection.

The population elements were quite different from each other in terns of net assets, which in effect, affects their general operations and management. Since the population was also small, a census study was carried out. According to Cooper and Schindler (2000), two conditions are appropriate for a census study:

1) a census is feasible when the population is small; and
2) a census is necessary when the population variability is high.

Out of the 41 banks visited, 26 banks accepted and responded to the questionnaires. Among the 15 banks that did not respond, 9 declined on the basis of too much work on the part of the respondents while the other 6 cited confidentiality of the information required. Thus the response rate was 63% and this was considered high enough to provide representative results for the commercial banking sector.

3.4 DATA COLLECTION

For purposes of this study, primary data was used. This was collected through the use of self-administered questionnaires where the drop and pick method was used. The approach was considered appropriate since it allowed respondents time to think about the questions and also allowed contact with otherwise inaccessible respondents. The questionnaire had both open ended and close-ended questions that helped capture both qualitative and quantitative data. It was divided into two parts; part A provided general information about the banks while part B provide the necessary information to answer the research questions.

The questionnaires were addressed to the head of management accounting department if the department was in place and if not, the head of the general finance and accounting departments of the banks. It was believed that these respondents had more knowledge about the strategic management accounting practices in their banks and the factors that led to their adoption. This was so because they were more likely than any other respondents to have been directly involved in the implementation of such strategic management accounting practices.

3.5 DATA ANALYSIS

The data collected was first edited to remove any inconsistencies to ensure accuracy, uniformity and completeness. The data was then coded keyed into Microsoft Excel spreadsheet for ease of analysis. The Quantitative data was analyzed by use of descriptive statistics, while qualitative data was analyzed by use of content analysis where data was grouped into similar themes. According to Cooper and Emory (1995) content analysis measures the semantic content or the "what" aspect of a message. The analysis was tailored to respond to the set objectives. The information analysed was presented in form of tables for ease of interpretation and comparison.

3.5 SUMMARY

This chapter describes the research methodology applied in the study. The research design applied was the descriptive study. The population and sampling design have been highlighted where a census was carried out due to the variability and small number of the population elements. Finally it considers data collection and analysis in the study. Primary data was collected through the use of self-administered questionnaires, with quantitative and qualitative data analyzed by use of descriptive statistics and content analysis respectively.

CHAPTER FOUR: DATA ANALYSIS AND RESEARCH FINDINGS

4.1 INTRODUCTION

The purpose of the study was to establish the extent of strategic management accounting Adoption in commercial banking industry in Kenya. This chapter summarizes the data collected and discusses the findings of the study. It is organized into six parts: overview of banks general information, nature of management accounting systems in use, strategic management accounting practices in use, factors influencing strategic management accounting adoption, problems encountered in its implementation and the respondents' general views on strategic management accounting.

4.2 OVERVIEW OF BANKS GENERAL INFORMATION

Tables 1 to 8 shown below give a summary of the responses on the questionnaire about the general information on the banks interviewed.

Table I: Summary of Banks as per Number of Branches

Number of Branches	Frequency	Percentage
Less than 5	10	38
5 - 20	11	42
21 - 50	3	12
Over 50	2	8
Total	**26**	**100**

Source: Research Data

Table 1 indicates that of the 26 banks that responded to the questionnaire, 38% had less than 5 branches, 42% had between 5 and 20 branches, and 12% had between 21and 50 branches while only 8% had over 50 branches.

Table 2: Summary of Banks as per their ownership

Type of Ownership	Frequency	Percentage
Foreign owned	1	4
Locally owned	17	65
Part local and part foreign	8	31
Total	**26**	**100**

Source: Research Data

Table 2 shows that of the 26 banks that responded to the questionnaire, only 4% is foreign, 65% are locally owned, while 31% are jointly owned. The nature of ownership was important to the study because it gave the general characteristics of the banks. The foreign bank is a subsidiary of bank registered in Dubai and has no local share ownership. The locally owned banks are those that are fully owned by Kenyans, while the part local and part foreign banks were mostly multi-national banks owned partly by Kenyans.

Table 3: Summary of Banks as per Years in Operation

Years in Operation	Frequency	Percentage
Less than 1 year	0	0
1 - 25 years	16	62
26 - 50 years	6	23
51 - 75 years	3	12
Over 75 years	1	4
Total	**26**	**100**

Source: Research Data

Table 3 illustrates that majority of the banks interviewed (62%) have been in operation for between 1 and 25 years. This is a result of the formation of many banks in the mid to late 1980's. 23% of the banks have been in operation for between 26 and 50 years, 12% between 51 and 75 years while only 4% for over 75 years.

Table 4: Summary of Banks as per Number of Employees

Number of Employees	Frequency	Percentage
Less than 50	4	15
50 - 100	8	31
101 - 500	8	31
501 -1000	2	8
Over 1000	4	15
Total	**26**	**100**

Source: Research Data

Table 4 indicates that of the 26 banks interviewed 15% had less than 50 employees, 31% had between 50 and 100 employees, another 31% had between 101 and 500, only 8% had between 501 and 1000 while 15% had over 1000 employees.

Table 5: Summary of Banks as per their Net Assets

Net Assets in Millions	Frequency	Percentage
Kshs 0 - 999.9	8	31
Kshs 1,000 - 2,999.9	6	23
Kshs 3,000 - 4,999.9	2	8
Kshs 5,000 - 9,999.9	5	19
Over 10,000	5	19
Total	**26**	**100**

Source: Research Data

As displayed on Table 5, 31% of the banks reported Net Assets between Kshs 0 and 999.9 million, 23% between Kshs 1,000 and 2,999.9 million, 8% Kshs 3,000 and 4,999.9million, 19% between Kshs 5,000 and 9,999.9 million while the rest 19% had over Kshs 10,000 million. The net assets were particularly important for this study since they reflect the size of the bank and thus its general management and operations.

Table 6: Summary of Banks as per their Profit before Tax

Profit Before Tax in Millions	Frequency	Percentage
Kshs 0 - 999.9	22	84
Kshs 1,000 - 2,999.9	3	12
Kshs 3,000 - 4,999.9	0	0
Over 5,000	1	4
Total	**26**	**100**

Source: Research Data

Table 6 shows that majority of the banks interviewed (84%) made a profit before tax of between Kshs 0 and 999.9 million. 12% of the respondents made a profit before tax of between Kshs 1,000 and 2,999.9 million while only 4% made over Kshs 5,000 million.

Table 7: Summary of Banks as per their Main Competitors

Main Competitors	Yes		No		Total	
	Frequency	%	Frequency	%	Frequency	%
New Entrants	1	4	25	96	**26**	**100**
Existing Big Players	20	77	6	23	**26**	**100**
Micro-Finance Institutions	11	42	15	58	**26**	**100**

Source: Research Data

The study revealed that of the 26 banks interviewed, 77% of them felt that the existing big players were the main competitors. This could be so since any decision made by the large banks commonly referred to as the "The Big Five" has a substantial impact on the total banking industry. 42% of those interviewed cited Micro-Finance Institutions, as their main competitors while only 4% felt new entrants were main competitors.

Table 8: Summary of Banks as per their Major Threats

Major Threats	Yes		No		Total	
	Frequency	%	Frequency	%	Frequency	%
Competition	21	81	5	19	**26**	**100**
Lack of Skilled Manpower	2	8	24	92	**26**	**100**
Changes in Technology	17	65	9	35	**26**	**100**
Lack of Capital	6	23	20	77	**26**	**100**
Poor Infrastructure	1	4	25	96	**26**	**100**
Insecurity	3	12	23	88	**26**	**100**
Non Performing Loans	18	69	8	31	**26**	**100**

Source: Research Data

The study revealed that of the 26 banks interviewed, 81% of them felt that competition was major threat to their business. This was followed by Non-performing Loans at 69% and Changes in Technology at 65%. Poor infrastructure and lack of skilled manpower were considered threats by only 4% and 8% of the banks respectively. This could be attributed to the fact that currently, in Kenya the supply of skilled manpower is much higher than the demand for the same.

4.3 SPECIFIC ANALYSIS AND FINDINGS

Tables 9 to 12 shown below give summary response of the questions necessary to provide information to achieve the study's three objectives.

4.3.1 Nature of Accounting Systems Used

Strategic Management Accounting Practices are more efficiently practiced in a computerized environment. The table below summarizes the nature of accounting systems used by the banks interviewed.

Table 9: Summary of Banks as per the Management Accounting System in use

Management Accounting System	Frequency	Percentage
Manual System	0	0
Automated System	14	54
Part Manual Part Automated	12	46
Total	**26**	**100**

Source: Research Data

Table 9 indicates that all the banks interviewed used computerized accounting system with 54% using fully automated systems and the rest, 46% using partly automated system. Computerized systems are more efficient in providing information for decision-making and thus make the adoption of strategic management accounting practices much easier.

4.3.2 STRATEGIC MANAGEMENT ACCOUNTING PRACTICES

Question 12 of the questionnaire sought to establish the type of strategic management accounting practices used and the extent of their application by commercial banks. The table below shows the various practices in use.

Table 10: Summary of Strategic Management Accounting Practices in use

Strategic Management Accounting Practices	Never		Rarely		Sometimes		Often		Always		Total	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Customer Profitability Analysis	1	4	0	0	11	42	5	19	9	35	**26**	**100**
Competitor Analysis	1	4	0	0	4	15	10	38	11	42	**26**	**100**
Competitive Position Analysis	2	8	0	0	4	15	14	54	6	23	**26**	**100**
Activity Analysis	5	19	1	4	5	19	4	15	11	42	**26**	**100**
Value Chain Analysis	8	31	1	4	5	19	6	23	6	23	**26**	**100**
Target Costing	3	12	0	0	8	31	5	19	10	38	**26**	**100**
Strategic Cost Analysis	3	12	0	0	4	15	8	31	11	42	**26**	**100**
Non Financial Measures of performance	1	4	0	0	6	23	11	42	8	31	**26**	**100**

Source: Research Data

From Table 10 above, the study revealed that 42% of the banks sometimes used Customer Profitability Analysis, while 19% used it often and 35% used it always. Cumulatively, therefore, 96% of the respondents applied the practice with only 4% indicating that they never applied it at all. 15% of the banks reported that they sometimes carried out Competitor Analysis, while 38% applied it often and 42 applied it always. Cumulatively, therefore, 96% of the respondents applied the practice with only 4% indicating that they never applied it at all.

Table 10 above also shows that 15% of the banks sometimes analyzed their Competitive Positions, while 54% did it often and 23% did it always. Cumulatively, therefore, 92% of the respondents applied the practice with only 8% indicating that they never applied it at all. 19% of the banks sometimes analyzed their banks activities, while 15% did it often and 42% did it always. Cumulatively, therefore, 77%

of the respondents applied the practice with 19% and 4% indicating that they never and rarely applied it respectively.

The study also revealed that 19% of the banks sometimes applied Value Chain Analysis, while 23% used it often and 23% used it always. Cumulatively, therefore, 65% of the respondents applied the practice with 31% and 4% indicating that they never and rarely applied it respectively. 31% of the banks reported that they sometimes carried out Target Costing, while 19% applied it often and 38% applied it always. Cumulatively, therefore, 88% of the respondents applied the practice with 12% indicating that they never applied it at all.

Table 10 also shows that 15% of the banks sometimes analyzed their costs strategically, while 31% did it often and 42% did it always. Cumulatively, therefore, 88% of the respondents applied the practice with 12% indicating that they never applied it at all. Finally the table indicates that 23% of the banks sometimes used non-financial performance measures in addition to financial measures, while 42% used them often and 31% used them always. Cumulatively, therefore, 96% of the respondents applied the practice with only 4% indicating that they never used them at all.

Thus from Table 10, Customer Profitability Analysis, Competitors Analysis and Non-Financial Performance Measures are the most applied strategic management accounting practices while the Value Chain Analysis is the least applied.

4.3.3 FACTORS INFLUENCING STRATEGIC MANAGEMENT ACCOUNTING ADOPTION

There are various factors that can influence the adoption of strategic management accounting. Question 13 of the questionnaire sought to determine these factors in the commercial banking sector. The table below summarizes the factors analyzed.

Table 11: Summary of Factors influencing adoption of Strategic Management Accounting

Factors	Very Important		Important		Not Important		Irrelevant		Total	
	Freq	**%**	**Freq**	**%**	**Freq**	**%**	**Freq**	**%**	**Freq**	**%**
Improved Management Control	21	81	4	15	0	0	1	4	**26**	**100**
Facilitate better decision making	19	73	6	23	0	0	1	4	**26**	**100**
Better performance measures	18	69	5	19	2	8	1	4	**26**	**100**
Better customer profitability analysis	12	46	10	38	2	8	2	8	**26**	**100**
Need to assess external environment	4	15	16	62	5	19	1	4	**26**	**100**
Need to assess competitors performance	10	38	8	31	7	27	1	4	**26**	**100**

Source: Research Data

Table 11 indicates that 81% of the banks considered Improved Management control as a very important factor in adopting strategic management accounting while 15% considered it important and only 4% felt it was irrelevant. On the other hand 73% of the banks considered better decision-making facilitation as a very important while 23% felt it was important with only 4% considering it irrelevant.

Concerning better performance measures, Table 11 shows that 69% and 19% of the banks considered it a very important and important factor respectively with only 12% feeling it was either not important or irrelevant. As relates to better customer profitability analysis 46% and 38% felt it was very important and important respectively with 16% considering it either not important or irrelevant.

The study also revealed that 62% of the banks considered the need to assess external environment as an important factor in the adoption of strategic management accounting, while 23% considered it as either not important or irrelevant. Whereas 38% and 31% considered the need to competitors' performance as a very important and important factor respectively, 31% felt it was either not important or irrelevant.

Table 11 therefore shows that improved management control and better decision making were considered to be the key factors in strategic management adoption while the need to assess competitors performance was the least considered.

4.3.4 PROBLEMS ENCOUNTERED IN STRATEGIC MANAGEMENT ACCOUNTING IMPLEMENTATION

There are many problems that organizations encounter when implementing a new system. This section sought to establish the specific problems encountered in the commercial banking sector. This was captured by question 14 in the questionnaire. The table below summarizes the responses on problems encountered.

Table 12: Summary of Problems Encountered in Strategic Management Accounting Implementation

Problems	Great extent		Moderate extent		To a little extent		Not applicable		Total	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Inaccessibility of external information	3	12	10	38	9	35	4	15	**26**	**100**
Inadequate training / support	1	4	10	38	3	12	12	46	**26**	**100**
Lack of trained personnel	0	0	7	27	6	23	13	50	**26**	**100**
Lack of computer resources	0	0	1	4	8	31	17	65	**26**	**100**
High cost of implementation	8	31	11	42	3	12	4	15	**26**	**100**
Lack of top management support	0	0	3	12	2	8	21	81	**26**	**100**
Resistance to change	0	0	3	12	18	69	5	19	**26**	**100**

Source: Research Data

Table 12 indicates that cumulatively 85% of the banks considered Inaccessibility of external information a problem to, a great, moderate or little extent in adoption of strategic management accounting with only15% feeling it was not applicable. As concerns inadequate training or support 54% of the banks considered it a problem to, a great, moderate or a little extent control with the rest 46% feeling it was not applicable

It also shows that 50% and 35% of the respondents, felt that lack of trained personnel and computer resources respectively, were problems encountered in strategic management accounting adoption with the rest feeling the two were not applicable. On the other hand 85% of the respondents felt that the high cost of implementation was a major problem with only 15% feeling it was not applicable

Concerning lack of top management support, Table 12 shows that only 20% of the banks felt this was a problem with the rest, 80% feeling it was not applicable. As relates to resistance to change, 81% felt it was a problem with 69% considering it to a little extent. Only 19% felt it was not applicable at all

As shown by Table 12, the high cost of implementation and inaccessibility to external information were considered to be the major problems while lack of top management support was considered the least applicable problem.

4.3.5 RESPONDENTS GENERAL VIEWS ON STRATEGIC MANAGEMENT ACCOUNTING

The study revealed that all the banks had someone specifically in charge of strategic management accounting. In some banks this responsibility was vested in senior management of the bank for instance the Finance Director while in some it was the middle management that was in charge. This reflects the importance which commercial banks have placed on strategic management accounting to ensure survival in their competitive environments.

The respondents felt that strategic management accounting had greatly improved the quality of information provided for decision making in the bank. Though it is a fairly new approach many respondents felt that it was highly effective wherever practiced. It is also strongly embraced by the big banks since they felt that it enable them achieve and maintain their strong strategic position within the industry. Some respondents felt that the approach faced some resistance from members of staff due to fears of job insecurity as a result of computerization.

Majority of the respondents felt that strategic management accounting in Kenya might be limited to a few multi-national and big companies. The small and indigenous organizations are slowly catching up as they realize the benefits accruing to those companies that have embraced the approach. Respondents felt that whereas the value added from the approach is obvious, organizations are unique and hence care need be exercised in its adoption.

4.4 SUMMARY

This chapter discusses and summarizes the research findings in relation to the study objectives. The study found that, Customer Profitability Analysis, Competitors Analysis and Non-Financial Performance Measures were the most applied strategic management accounting practices in the banking sector, while the Value Chain Analysis was the least applied. The key factors influencing its adoption were improved management control and better decision making while the high cost of implementation and inaccessibility to external information were considered to be the major problems encountered.

CHAPTER FIVE: DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter summarizes the findings of the study. It is organized in six parts: a summary of findings from the data analysis, a discussion of the findings, conclusions, recommendations, limitations of the study and suggestions for further research.

5.2 SUMMARY

Strategic management accounting has been identified as a potential area that would enhance the future contribution of management accounting hence enable organizations respond positively to the changing environment. The purpose of this research was to establish the extent of strategic management accounting adoption by the commercial banking sector in Kenya. The research was designed to meet three objectives namely:

1. To determine the extent to which commercial banks in Kenya have adopted strategic management accounting.

2 To identify the factors that influenced the banks to adopt strategic management accounting.

3 To establish the problems encountered in adopting strategic management accounting.

Data was collected through self administered questionnaires. Since the population was small a census was carried out among the 41 commercial banks in Kenya. Of this 26 questionnaires were returned dully filled for analysis. The responses from the respondents were categorized under banks general information, strategic management accounting practices, factors influencing its adoption, problems encountered in its implementation and respondents' general views on strategic management accounting.

5.3 DISCUSSIONS

5.3.1 The extent to which commercial banks in Kenya have adopted strategic management accounting.

All the respondents interviewed indicated that they used either fully automated or part automated and part manual management accounting systems, with none using fully manual systems. This is a key requirement for the adoption of strategic management accounting since computerized systems are more efficient in providing information for decision-making. Without such systems it would be quite difficult to implement this approach.

The respondents indicated that all the banks had adopted strategic management accounting. However, when it came to the analysis of the various practices, the results showed that, Customer Profitability Analysis, Competitors' Analysis and use of Non-Financial Performance Measures were the most applied practices. The Value Chain Analysis was the least applied practice followed by Activity Analysis in the commercial banking sector.

A previous study in the large manufacturing companies in Nairobi by Arithi (2001), revealed that principally those companies had adopted strategic management accounting techniques and that target costing and strategic cost analysis were the most commonly applied in the manufacturing sector. Just as in the banking sector Value Chain Analysis did not appear to have taken root in the manufacturing sector.

Customer Profitability Analysis is widely carried out since it enables the banks to determine which customers are the best to serve and retain. Many of the big banks have recently introduced products that tend to favour corporate customers while locking out small individual customers since the later are considered to expensive to maintain. This led to the growth of such banks as K-Rep and Equity which mainly serve the small individual customers.

Competitors' Analysis on the other hand is widely used to ensure that each bank achieves competitive advantage over its competitors. Most respondents indicated that they always analyzed their competitors' performance. The use of Non-Financial Performance Measures together with the traditional financial measures is because the former considers all the other key factors that contribute to the general performance of the banks.

The low application of the Value Chain analysis and Activity Analysis could be attributed to the fact that most organizations focus on maximizing profits on services offered while ignoring the linked set of activities carried out in providing the service to the customers.

5.3.2 The factors that influenced adoption of strategic management accounting among commercial banks.

Various factors have influenced the adoption of strategic management accounting among commercial banks in Kenya. The respondents indicated that improved management control and better decision making were the key factors that influenced strategic management accounting adoption, while the need to assess competitors performance was the least considered. On the other hand Arithi (2001) found out that the need to assess business environment and competitors' performance were the key factors in the manufacturing sector.

The need to improve management control is very real among the banks management due to the many bank failures that have been experienced in the past few years in the commercial banking industry. Commercial banks' managements have now to ensure that they run their banks efficiently to avoid such failures. This could also explain why many respondents felt that facilitation of better decision making was one of the key factor that influenced their adoption.

Though Competitor Analysis in one of the main strategic management accounting practices among the commercial banking industry, many of the respondents felt the need to assess competitors performance was the least considered factor in the adoption.

This could be attributed to the fact that all banks are required by the Central Bank of Kenya Act to publish their results and hence these were already available. The banks therefore did not require strategic management accounting to be able to assess their competitors' performance.

5.3.3 The problems encountered by commercial banks in adopting strategic management accounting.

In the implementation of strategic management accounting practices, commercial banks encountered certain problems. Most respondents indicated that the high cost of implementation and inaccessibility to external information were the major problems encountered while lack of top management support was considered the least applicable problem followed by lack of computer resources.

High cost of implementation was considered a major problem because strategic management accounting practices require highly trained personnel, retraining of available staff, and use of computer resources among other which are all expensive exercises. The ability to obtain external information requires the establishment of reliable and efficient networks to provide such information thus the reason why many respondents considered it a major problem.

The reason why top management was not considered a problem could be attributed to the fact that they are the ones concerned with the strategic issues of the banks and hence are well placed to appreciate the value of strategic management accounting. Regarding lack of computer resources, this is because all of them were already using computerized systems and hence did not consider this a major problem.

5.4 CONCLUSION

The findings of the study revealed that strategic management accounting has been embraced by all commercial banks in Kenya. We can thus conclude that strategic management accounting as an approach has been adopted to a large extent but its various practices have been adopted to different extents. This is dependent on the different values placed the different practices by the banks. Customer Profitability

Analysis, Competitors' Analysis and use of Non-Financial Performance Measures have been adopted to a great extent whereas Value Chain Analysis and Activity Analysis have been adopted to a little extent.

The key factors influencing the adoption of strategic management accounting in the commercial banking sector is the need to improve management control and to facilitate better decision making. The high cost of implementation and inaccessibility to external strategic information stand out as the major problems encountered in adopting strategic management accounting.

5.5 RECOMMEDATIONS

The following recommendations were made based on the findings and conclusions of the study.

i. The study revealed that though strategic management accounting has been adopted by commercial banks in Kenya some practices such as Value Chain Analysis and Activity Analysis are not fully embraced. It is recommended that management accountants in banks be retrained so that they can understand and appreciate the value of such practices.

ii. The need to improve management control and facilitate better decision making were considered to be key factors in banks. Senior banks management staff would benefit from strategic management training that would enable them determine which, when and how to adopt the strategies that meets their set objectives and hence gain competitive advantage. This will ensure they do not adopt strategies on a trial and error basis and thus avoid bank failures.

iii. Commercial banks need to establish networks that will enable them acquire external strategic information. This could necessitate the creation of specific departments that would deal with the collection and analysis of such external information. This is important if such commercial banks are to achieve and maintain strong competitive positions in the industry.

5.6 LIMITATIONS OF THE STUDY

The study was limited to the following considerations:

i. Most of the respondents claimed to be very busy. While nine of the respondents declined to fill the questionnaires on the basis of too much work in the office, it is probable that those who filled did not take their time to fill them diligently and hence some vital information could have been left out.

ii. The study relied on primary data collected through self administered questionnaire. The drop and pick method was used and it is likely that some respondents may have misunderstood some questions or gave biased responses.

iii. Time Constraint was a major bottleneck. While a comprehensive study was desirable, this was not given the time constraint.

5.7 SUGGESTIONS FOR FURTHER RESEARCH

i. This research focused on the adoption of strategic management accounting in the commercial banking sector, the factors influencing its adoption and problems encountered. It is recommended that a comprehensive study be carried out to establish the benefits that have accrued to banks due to its adoption.

ii. This study concentrated on several strategic management accounting practices and hence was more generalized. Research could also be conducted to establish the usefulness of specific practices in different sector of the economy, and also for specific organizations.

iii. Further research could be done to establish the extent of strategic management accounting practices in other sectors of the economy other that the commercial banking sector.

APPENDICES

APPENDIX I: LIST OF COMMERCIAL BANKS

As at February 2005

	Bank Name	Bank Peer Group
1.	African Banking Corporation Ltd	3
2.	Akiba Bank Ltd	3
3.	Bank of Baroda (Kenya) Ltd	2
4.	Bank of India	2
5.	Barclays Bank of Kenya Ltd	1
6.	CFC Bank Ltd	
7.	Charterhouse Bank Ltd	4
8.	Chase Bank (K) Ltd	4
9.	Citibank N A	
10.	City Finance Bank Ltd	5
11.	Co-operative Bank of Kenya Ltd	1
12.	Commercial Bank of Africa Ltd	1
13.	Consolidated Bank of Kenya Ltd	4
14.	Credit Agricole Indosuez	2
15.	Credit Bank Ltd	4
16.	Daima Bank Ltd	5
17.	Delphis Bank Ltd	
18.	Development Bank of Kenya Ltd	4
19.	Diamond Trust Bank Kenya Ltd	2
20.	Dubai Bank Kenya Ltd	5
21.	Equatorial Commercial Bank Ltd	4
22.	Equity Bank Ltd	1
23.	Fidelity Commercial Bank Ltd	4
24.	Fina Bank Ltd	2
25.	First American Bank of Kenya Ltd	2
26.	Giro Commercial Bank Ltd	3
27.	Guardian Bank Ltd	3

28.	Habib Bank A.G Zunch	3
29.	Habib Bank Ltd	3
30.	Imperial Bank Ltd	3
31.	Industrial Development Bank	4
32.	Investments & Mortgages Bank Ltd	
33.	K-Rep Bank Ltd	4
34.	Kenya Commercial Bank Ltd	1
35.	Middle East Bank Kenya Ltd	3
36.	National Bank of Kenya Ltd	1
37.	National Industrial Credit Bank Ltd	1
38.	Paramount Universal Bank Ltd	4
39.	Prime Bank Ltd	4
40.	Southern Credit Banking Corp Ltd	3
41.	Stanbic Bank Kenya Ltd	1
42.	Standard Chartered Bank Ltd	1
43.	TransNational Bank Ltd	4
44.	Victoria Commercial Bank Ltd	3

Source: Central Bank of Kenya website – www.centralbank.go.ke

APPENDIX II: LETTER OF INTRODUCTION

Kinyanjui Redempta W.
University of Nairobi
Faculty of Commerce
P. O. Box 30197
Nairobi

June 13, 2005

Head, Management Accounting Department

Dear Sir/Madam

RE: POSTGRADUATE RESEARCH PROJECT

I am a postgraduate student in the faculty of commerce, University of Nairobi. In partial fulfillment of the requirement of the Masters in Business of Administration (MBA) Degree, I am conducting a study entitled **A SURVEY OF THE EXTENT OF STRATEGIC MANAGEMENT ACCOUNTING ADOPTION BY COMMERCIAL BANKS IN KENYA.**

Your bank has been selected to form part of this study. To this end, I kindly request your assistance in completing the attached questionnaire. The information and data collected and the results of the report will be used solely for academic purposes. A copy of research project report will be availed to your bank on request.

Your co-operation will be appreciated. Thank you.

Yours Sincerely

Kinyanjui Redempta W
MBA Student

Dr. Maina Waweru
Supervisor

APPENDIX III: QUESTIONNAIRE

PART A

1) Title of the Respondent ______________________

2) Name of the Bank ______________________

3) How many branches does the Bank have? ______________

4) Ownership:
   a) Foreign Owned ( )
   b) Locally Owned ( )
   c) Partly local and partly foreign ( )

5) Number of years in operation
   a) Less than 1 year ( )
   b) 1 – 25 years ( )
   c) 26 – 50 years ( )
   d) 51 – 75 years ( )
   e) Over 75 years ( )

6) How many employees in the bank
   a) Less than 50 ( )
   b) 50 – 100 ( )
   c) 101 – 500 ( )
   d) 501 – 1000 ( )
   e) Over 1000 ( )

7) Net Assets of the Bank

a) Between Ksh 0 – 999.9 million ( )

b) Between Ksh 1,000 – 2,999.9 million ( )

c) Between Ksh 3,000 – 4,999.9 million ( )

d) Between Ksh 5,000 – 9,999.9 million ( )

e) Over Ksh 10,000 million ( )

8) Last Financial Year's Profit Before Tax

a) Between Ksh 0 – 999.9 million ( )

b) Between Ksh 1,000 – 2,999.9 million ( )

c) Between Ksh 3,000 – 4,999.9 million ( )

d) Over 5,000 million ( )

9) Who are your main competitors

a) New Entrants ( )

b) Existing Big Players ( )

c) Micro-Finance Institutions ( )

d) Others (Specify) ____________________

____

10) What are your major threats

a) Competition ( )

b) Lack of skilled manpower ( )

c) Changes in Technology ( )

d) Lack of capital ( )

e) Poor infrastructure ( )

f) Insecurity ( )

g) Non performing loans ( )

h) Others (Specify) ____________________

____

PART B

11) Describe the nature of your bank's management accounting system.

a) Manual System ( )

b) Automated System ( )

c) Part Manual Part Automated ( )

12) Please indicate the extent to which your bank applies the following strategic management accounting practices.

Practice	Never	Rarely	Sometimes	Often	Always
Customer Profitability Analysis					
Competitor Analysis					
Competitive Position Analysis					
Activity Analysis					
Value Chain Analysis					
Target Costing					
Strategic Cost Analysis					
Non financial measures of performance					
Other (Specify)					

13) Kindly rate in order of importance the reasons why your bank adopted strategic management accounting.

Reason	Very Important	Important	Not Important	Irrelevant
Improved management control				
Facilitate better decision making				
Better performance measures				
Better customer profitability analysis				
Need to assess external environment				
Need to assess competitors performance				
Other (Specify)				

14) Kindly rate in order of importance the problems encountered in implementing strategic management accounting as they apply to your bank.

Problems	Greater extent	Moderate Extent	To a little extent	Not applicable
Inaccessibility of external information				
Inadequate training / support				
Lack of trained personnel				
Lack of computer resources				
High cost of implementation				
Lack of top management support				
Resistance to change				
Other (Specify)				

15) Is there somebody specifically responsible for strategic management accounting in your bank?

____

16) From your work experience, what can you say about the practice of strategic management accounting,

(a) In your bank?

(b) In Kenya?

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