CHAPTER 2 - Vision, mission, strategy, and management accounting

Contents

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2.1 Introduction

A logical starting point for strategy development is the vision and mission of an organization. This chapter explains the strategic rationale behind the development of the vision and mission and how they inform strategy and the management accounting support provided.

The vision and mission set the strategic intent of an organization and determine how it operates. Ideally, the management accounting support is then tailored to the specific strategy. Researchers in management accounting have investigated the extent to which this happens within an organization with respect to the use of traditional and strategic management accounting techniques. This learning resource is based on the premise that management accounting, whether classified as traditional or strategic, should support the strategy of the organization, and the chapter discusses this with reference to some of the academic research.

Management accounting forms part of the overall management control systems employed within an organization, and various types, or levers, of control, are discussed with reference to strategy. Finally, the role of objectives within the strategy development process is reviewed, and reference made to the range of stakeholders that organizations seek to address.

2.2 Learning outcomes

After studying this chapter, you will be able to:

- Explain the purpose of a vision, mission, and strategic objectives
- Evaluate how effective a vision and mission are in communicating the strategic intent of an organization
- Discuss the link between management accounting and strategy
- Discuss different types of management control and how these relate to the control of strategy
- Discuss the role of objectives in the strategy-setting process
- Appreciate that organizations must consider a range of stakeholders when setting strategic objectives

2.3 Vision, mission, and objectives - A good place to start

Active reading. Note the distinction between the vision and mission, and the elements of a good mission statement, as defined by academics. However, notice how the difference has become blurred by the various ways in which organizations present them. Think about how the vision and mission inform the strategy of the organization.

An organization needs to know where it is going in the future and to develop a plan as to how it is going to get there. A logical starting point would be to define a vision and mission and set the strategic objectives. The initial business idea, however, may come from an analysis of the environment, for example, spotting a gap in the market. Alternatively, it may originate from a review of internal capabilities, such as developing a business around a core competence. Wherever the initial idea comes from, the development of the business needs an overall sense of purpose and long-term objectives. Stakeholders also need to know what the organization is about, particularly investors, employees, and customers.

Vision

The vision sets out the possible and desirable future state of the organization (Bennis and Nanus, 1985). It is a statement about what the organization hopes to achieve in the long run. The vision can also serve as a source of inspiration and motivation for employees.

Mission

In contrast to the vision, the mission is more business-focused and sets out the rationale behind the business. Campbell et al. (1990) suggest that a good mission should include four key elements. A purpose, strategy, behavior standards, and values. Lynch (2003) added to this by suggesting that a good mission statement is one that:

- Communicates the nature of the business
- Considers the customer
- Sets out the values and beliefs
- Encompasses a sustainable competitive advantage
- Is flexible to allow for changes in the environment
- Is realistic and attainable

The use of the terms vision and mission is often not that clear in practice. Organizations frequently use the term vision in place of mission. Consider a version from McDonald's provided on their website in 2003.

> McDonald’s vision is to be the world’s best quick service restaurant experience. Being the best means providing outstanding quality, service, cleanliness, and value, so that we make every customer in every restaurant smile. To achieve our vision, we are focused on three worldwide strategies, to be the best employer in each community around the world, deliver the operational excellence to each customer in each of our restaurants, and to achieve enduring profitable growth.
> Source: https://www.mcdonalds.com/us/en-us/about-us.html (accessed May 2003)

In terms of the four elements of the mission set out by Campbell et al. (1990), this contains the purpose (world’s best quick service restaurant), the strategy (worldwide strategies, best employer, operational excellence, profitable) behavior standards (quality, service, cleanliness, value, make every customer smile), and values (customer focus, best employer, communities) and fits well with the criteria suggested by Lynch (2003); therefore, it could be said to constitute a good example of a vision/mission statement.

The current trend, however, is for organizations to focus more on their values than the mission, and to incorporate references to strategy. By 2018 McDonald’s had changed the website information to read:

> McDonald's brand mission is to be our customers' favorite place and way to eat and drink. Our worldwide operations are aligned around a global strategy called the Plan to Win, which center on an exceptional customer experience – People, Products, Place, Price and Promotion. We are committed to continuously improving our operations and enhancing our customers' experience.
> Source: https://www.mcdonalds.com/us/en-us/about-us.html (accessed June 2018)

The statement then goes on to identify and explain the McDonald’s values which are given as:

- We place the customer experience at the core of all we do
- We are committed to our people
- We believe in the McDonald’s System
- We operate our business ethically
- We give back to our communities
- We grow our business profitably
- We strive continually to improve

Note the references to worldwide operations, global strategy, continuous improvement, and clear customer focus. There is also an explicit reference to what marketers call the marketing mix: people, products, place, price, and promotion. Note also how the values encompass a range of stakeholders.

Compare this with Starbucks' mission and values.

> **Our mission**
> To inspire and nurture the human spirit – one person, one cup and one neighborhood at a time.
> **Our values**
> With our partners, our coffee and our customers at our core, we live these values:
>
> - Creating a culture of warmth and belonging, where everyone is welcome.
> - Acting with courage, challenging the status quo and finding new ways to grow our company and each other.
> - Being present, connecting with transparency, dignity and respect.
> - Delivering our very best in all we do, holding ourselves accountable for results.
> - We are performance driven, through the lens of humanity.
>
> Source:https://www.starbucks.co.uk/about-us/company-information/mission-statement (accessed April 2020)

Here the mission statement says little about what the company does. It is more an inspirational statement that fits better with the definition of a vision. However, the current trend of including values provides much more information, and together with the stated mission provides information about the purpose, behavior standards, and values. It addresses a range of stakeholders and includes elements that relate to strategy, although the Starbucks statement is less explicit about strategy than McDonald's.

Whether promoting a vision or mission defining these statements encourages managers to think holistically about the business and consider the core values that underpin the organization's purpose. Collins and Porras (1997: 48) argued that an organization needs a core ideology that is expressed either within the vision or mission, or both together. They suggest that an organization needs, "core values and sense of purpose beyond just making money – that guides and inspires people throughout the organization and remains relatively fixed for long periods of time." The same idea has been put forward by Hamel and Prahalad (2005). They suggested that organizations should express a strategic intent in which the organization envisions a desired leadership position and establishes the criteria the organization will use to chart its progress.

Even as far back as 1957, Selznick saw a mission statement as a means of identifying an organization’s distinctive competence, providing a framework for resource allocation decisions, and a sense of corporate identity. Campbell and Yeung (1991) promoted the idea of the vision and mission statements acting as a kind of corporate cultural glue that binds the organization together, which is particularly useful in the case of a diversified or conglomerate organization. It was also noted that each business unit could have a mission statement, relevant to its own business, but that each business unit’s mission should be consistent with the overall corporate vision and mission – hence, the cultural glue.

The vision, mission, and values statements serve a communication role. They communicate to external stakeholders what the organization is about, what and how it intends to achieve its purpose, but also acts to transmit the same message to employees, as well as to provide the inspiration and motivation to help the organization fulfill the vision, mission, and objectives (Verma, 2009). Some research studies have suggested that having a clearly stated vision and mission can positively affect financial performance (Bart et al., 2001). This performance benefit, however, is not a universal view, as authors such as Sufi and Lyons (2003) found no such relationship.

In a study across six geographic regions, Nevan Wright (2002) found that eighty-two percent of the organizations surveyed had mission statements, but of these, only forty percent of managers felt that the statements reflected reality. This lack of conviction raises the issue of how seriously organizations take the development of mission statements or whether they are merely established for the benefit of external stakeholders. Many could be said to be published as a public relations exercise, and for the development of a corporate image, as many mission statements contain common words and phrases with no real attempt to clarify, explain, or operationalize the concepts (Cady et al., 2011).

The terms vision and mission are still used extensively by organizations in their published statements; however, other terms such as philosophy, aims, purpose, and principles are now used much more frequently. The corporate values are also taking a much more prominent view on company websites. It is the values that underpin what an organization does and how it does it.

The following example from GSK illustrates how the vision, mission, goals, values, and strategy are incorporated into a single statement.

> **GSK – About us**
> We are a science-led global healthcare company with a special purpose: to help people do more, feel better, live longer.
>
> We have 3 global businesses that research, develop and manufacture innovative pharmaceutical medicines, vaccines, and consumer healthcare products.

Our goal is to be one of the world's most innovative, best performing, and trusted healthcare companies.

Our values and expectations are at the heart of everything we do and help define our culture - so that together we can deliver extraordinary things for our patients and consumers and make GSK a brilliant place to work. Our values are Patient focus, Transparency, Respect, Integrity. Our expectations are Courage, Accountability, Development, Teamwork.

What we do
We aim to bring differentiated, high-quality, and needed healthcare products to as many people as possible, with our 3 global businesses, scientific and technical know-how and talented people.

How we do it
Everyone at GSK is focused on 3 priorities – Innovation, Performance, Trust.

Source: https://www.gsk.com/en-gb/about-us/ (accessed April 2020)

This statement is relatively brief but sets out what the organization does, what it is trying to achieve, and how it operates.

Unilever provides another example of how the vision and values inform the strategy.

Unilever - About us

Our vision
Our purpose is to make sustainable living commonplace.

Our values & principles

Our Corporate Purpose states that to succeed requires "the highest standards of corporate behaviour towards everyone we work with, the communities we touch, and the environment on which we have an impact."
Our values define how we do business and interact with our colleagues, partners, customers, and consumers. Our four core values are integrity, responsibility, respect, and pioneering. As we expand into new markets, recruit new talent, and face new challenges, these guide our people in the decisions and actions they take every day.

> **Our strategy**
>
> We've built a strategy to help us achieve our purpose of making sustainable living commonplace.
>
> **Our strategic focus**
>
> To realise our vision, we have invested in a long-term strategy of divisions and brands that deliver growth to the benefit of all stakeholders.
>
> Source: https://www.unilever.com/about/who-we-are/our-strategy/ (accessed April 2020)

The statements promoted via corporate websites are aimed at a range of stakeholders. There is a strong customer focus to the statements from McDonald's, GSK, and Unilever, but they also highlight a commitment to the communities they serve and their people. Both McDonald's and Unilever mention growth. McDonald's refers to profitable growth while Unilever mentions "growth for the benefits of all stakeholders." The statements, being recent examples, also address the issues of ethical behavior, integrity, accountability, and sustainability.

The vision and mission are primarily intended as statements of long-term intent, illustrated well by Alibaba's statement. The example also provides another illustration of how the statements are used to communicate what the organization does and the strategy for how the vision will be achieved. Notice how the text explains the thinking behind the mission statement.

> **Alibaba Group's mission is to make it easy to do business anywhere.**
>
> We enable businesses to transform the way they market, sell, and operate and improve their efficiencies. We provide the technology infrastructure and marketing reach to help merchants, brands, and other businesses to leverage the power of new technology to engage with their users and customers and operate in a more efficient way.
>
> Our businesses are comprised of core commerce, cloud computing, digital media and entertainment, and innovation initiatives. In addition, Ant Financial, an unconsolidated related party, provides payment and financial services to consumers and merchants on our platforms. A digital economy has developed around our platforms and businesses that consists of consumers, merchants, brands, retailers, third-party service providers, strategic alliance partners and other businesses.

Our Vision

We aim to build the future infrastructure of commerce. We envision that our customers will meet, work, and live at Alibaba. We do not pursue size or power; we aspire to be a good company that will last for 102 years.

The website later states.

For a company that was founded in 1999, lasting at least 102 years means we will have spanned three centuries, an achievement that few companies can claim. Our culture, business models and systems are built to last, so that we can achieve sustainability in the long run.

Source: https://www.alibabagroup.com/en/about/overview (accessed April 2020)

The link between vision, mission, and strategy is never more evident than in the strategy statements that are included on corporate websites. For example, compare the three strategy statements of GM, Walmart, and Royal Dutch Shell, taken from websites in January 2018.

GM strategy

GM's purpose begins with a few simple but incredibly powerful words: We are here to earn customers for life. Our purpose shapes how we invest in our brands around the world to inspire passion and loyalty. It drives us to translate breakthrough technologies into vehicles and experiences that people love. It motivates the entire GM team to serve and improve the communities in which we live and work around the world. Over time, it's how we will build GM into the world's most valued automotive company.

Source: https://www.gm.com/investors/corporate-strategy.html (accessed January 2018)

Walmart strategy

Every Day Low Price (EDLP) is the cornerstone of our strategy, and our price focus has never been stronger. Today's customer seeks the convenience of one-stop shopping that we offer. From grocery and entertainment to sporting goods and crafts, we provide the deep assortment that our customers appreciate -- whether they're shopping online at Walmart.com, through one of our mobile apps or shopping in a store.

Source: https://corporate.walmart.com/our-story/our-business (accessed January 2018)

Royal Dutch Shell strategy
Our strategy
Shell's strategy seeks to strengthen our leadership in the oil and gas industry, while positioning the company for growth as the world transitions to a low-carbon energy system. Safety and environmental and social responsibility underpin our business approach.

In February 2016, Shell completed the acquisition of BG Group, adding significantly to our activities in liquefied natural gas (LNG) worldwide and deep-water oil and gas production in Brazil.

Shell's strategy is now centred on creating a simpler company, one that delivers higher, more predictable returns and growing free cash flow per share. By investing in compelling projects, driving down costs and selling non-core businesses, we will reshape Shell into a more resilient and focused company.

Source: https://www.shell.com/investors/shell-and-our-strategy/our-strategy.html (accessed January 2018)

Bear in mind that strategies change over time in response to changes in the environment. However, at the time the statements were accessed, they illustrate that each company has a slightly different focus and could be said to target different stakeholder groups.

- GM appears to emphasize the customers for life and communities as important stakeholder groups. There is also a focus on breakthrough technologies. The emphasis on technology and improving communities is how it hopes to become the most valued company (in its sector), potentially referring to shareholders.
- Walmart is very much a focus on the strategy of low price, convenience, and depth of product range – all of which are aimed at customers.
- Royal Dutch Shell appears to place more emphasis on maintaining its leadership position in the industry and providing predictable returns for investors and also generating cash flow which will enable investment in compelling projects.

There is an implication that the different strategic focus of these three companies will require a different emphasis of management accounting information. Therefore, the vision, mission, and strategy of an organization could be said to determine the style of the management accounting system, the management accounting information required, and the accounting techniques that are the most appropriate for the organization.

Learning activity. Search online for the vision, mission, and strategy statements of organizations with which you are familiar. Compare them with the examples provided in this section. Are there any common themes that emerge from the published statements? A criticism of vision and mission statements is that they have become remarkably similar and full of common phrases. Do you agree with this viewpoint?

2.4 Management accounting and vision, mission, and strategy

Active reading. Note the criticism of traditional management accounting and the suggested need for strategic management accounting to focus support on strategic management. Also, note the definition of strategic decisions, how strategy is articulated, and the level at which it is defined, as these are also relevant to the choice of management accounting information required.

In the 1980s, there was considerable criticism of traditional management accounting in that it was predominantly financial, internal, and short term (Johnson and Kaplan, 1987; Bhimani and Bromwich, 1989). While it was useful for operational decisions, management accounting was criticized for being of little use to aid organizations in making strategic decisions. Johnson (1987: 4-5) characterized strategic decisions as being "concerned with the long-term direction of the organization, the scope of an organization's activities, the matching of organizational activities to its environment and resource capabilities, the allocation of major resources with the organization, and consideration of the expectation and values of the organization's stakeholders." The essence of these attributes is encapsulated within the vision and mission of an organization. This sentiment echoes the views of Selznick (1957), who suggested that the vision and mission set the priorities for strategy formulation and provides a framework for resource allocation.

Dixon (1998: 273) suggests that "the identification, formulation and implementation of strategy by management is carried out using the techniques and language of the management accountant." Despite the criticism of traditional management accounting information being predominantly financial, organizations invariably articulate, evaluate, and communicate their strategy in financial terms.

Quattrone (2016: 118) identifies the narrative and persuasive nature of accounting in that it can be used, in part, to convince users that a given strategy is the right decision. While it should be recognized that strategic decisions should never be taken based on numbers alone, the financial narrative helps "organizations to imagine visions and strategies and to construct and evaluate different courses of action from which to choose." Of course, one of the principal stakeholders with an interest in the organization's strategy is the shareholders, so it is not surprising that corporate strategies invariable include objectives that are expressed in financial terms, such as profits growth and shareholder value.

Perhaps in response to the criticism of traditional management accounting researchers began to suggest that accounting should take a more external focus and that accountants become more involved in the strategic management process (Simmonds, 1981; Bromwich, 1990, 1994; Kaplan and Norton, 1992; Roslender et al., 1998; Cadez and Guilding, 2008). Allied to this thinking, a body of literature emerged promoting and evaluating the use of techniques under an umbrella term of strategic management accounting (Bromwich, 1988; Govindarajan and Shank, 1992; Dixon, 1998; Roslender and Hart, 2003). Indeed, books have been written titled strategic management accounting (Smith, 1997; Hoque, 2003; Ward, 2016; Stein Smith, 2017; Joannidès de Lautour, 2018; Li, 2018).

This emerging field of strategic management accounting included the development of some new techniques but also emphasized the need for a change of focus in the accounting systems. Brouthers and Roozen (1999: 311-312) suggest that information provided by a strategic accounting system should support: "environmental analysis; strategic alternative generation; strategic alternative selection; planning the strategic implementation; implementing the strategic plan; and controlling the strategic management process." This suggestion fits comfortably with the description of strategic decisions provided by Johnson (1987) and encapsulated within the vision and mission.

The idea of a strategic accounting system raises the question as to whether the strategic intent set out in the vision, mission, and strategy of an organization influences the management accounting information required, and whether the techniques employed would differ depending on the strategy adopted. Miles and Snow (1978) argued that the management information must be aligned to strategy.

For example, GSK included within their information in the *About us* section of their website:

> We aim to bring differentiated, high-quality and needed healthcare products to as many people as possible, with our 3 global businesses, scientific and technical know-how and talented people.
> Source: https://www.gsk.com/en-gb/about-us/ (accessed April 2020)

Walmart included in its strategy:

> Every Day Low Price (EDLP) is the cornerstone of our strategy, and our price focus has never been stronger.
> Source: https://corporate.walmart.com/our-story/our-business (accessed April 2020)

GSK emphasizes differentiation as a strategic focus, whereas Walmart focuses on low prices, implying a low-cost base. Does this difference in strategy, therefore, require different management accounting techniques to be employed?

In terms of strategy, it is worth taking a moment to consider the difference between corporate strategy and business strategy. A corporate strategy, according to Schendel and Hofer (1979: 12), is concerned with "determining what business the organization chooses to compete in and the most effective allocation of scarce resources among business units." The reference to business units can be viewed as managing a portfolio of businesses. Each business unit could then have a separate business strategy, which according to Andrews (1980: 18), is concerned with "how an organization competes in a given business and positions itself among its competitors." Therefore, the implication is that different levels of management are concerned with different levels of strategy and require different information.

Campbell and Yeung (1991) noted that different business units could have a mission relevant to their business, albeit consistent with the overall corporate vision. If each business unit has a mission, it implies that the management information provided to the managers of each business unit could have a different emphasis. Tailoring the management accounting to the mission, and hence the strategy, of each business within a corporate entity adds to the complexity of the management information systems required.

2.5 Strategic typologies and management accounting

Active reading. Notice that the discussion of the research into the link between strategic typologies and management accounting techniques that support the adopted strategy is not clear cut. The view taken depends to an extent on the degree to which the typologies are defined and applied. As you read, think about what the research is telling us about *when* specific accounting techniques are appropriate. Some researchers say adopting a strategy of differentiation requires the use of strategic management accounting. However, it might be more helpful to think about management accounting as consisting of a range of techniques, traditional and strategic, that need to be applied as appropriate when the information they provide would assist management whatever the strategy adopted?

Some research studies seek to identify whether organizations following a specific strategic typology are predisposed to using certain accounting techniques. The research into whether there is a positive relationship between the strategy adopted by an organization and the management accounting system predominantly looks at strategy from three different typologies, which are outlined in Table 2.1.

The typologies are:

- Miles and Snow (1978) - defenders, prospectors, analyzers, and reactors
- Porter (1980) - cost leadership, differentiation, focus
- Gupta and Govindarajan (1984) - build, hold, harvest

Table 2.1 Strategic typologies

Authors	Typologies	Key features
Miles and Snow (1978) Strategy based on pattern	Defender	Stable environment, limited product range, efficiency, and productivity focus, cost control important, favor low-risk strategies preserving the status quo, centralized structure
	Prospector	Complex and dynamic environment, focus on product and market development, willing to take risks, innovation, flexible structure
	Analyzer	Exhibits elements of both defender and prospector, but undertakes new strategies only after a full analysis of future viability, can be slow to respond to environmental changes, possibly adopts a matrix structure
	Reactor	Lacks coherent strategy, tends to follow others, the structure may be inappropriate for the environment in which it operates
Porter (1980) Strategy based on the market position	Cost leadership	A focus of low price, high market share, economies of scale, cost control, standard product range, prefers a stable environment
	Differentiation	Focus on product/service uniqueness, value-added, higher prices, marketing strategy vital factor to emphasize the point of differentiation
	Focus	Focus on defined buyer group, product line, or geographic market.
Gupta and Govindarajan (1984) Strategy based on mission	Build	Strategy to increase market share, invest in capacity, best in high growth industries
	Hold	Strategy to maintain existing market share, competes by effective marketing campaigns, minor product developments to keep market interest, best in mature industries
	Harvest	Focus on short term earnings, minimizing investments, relatively high market share, best in declining industries

Many studies tend to link typologies together in terms of the general characteristics ascribed to each strategy. This linking creates a split into two broad groups that fall between those following strategies of a defender—harvest—cost leadership, and those following strategies of a prospector—build—differentiation. The basic premise behind the research is that defenders—cost-leaders would favor more traditional accounting techniques, with the emphasis being on internal control of costs. In contrast, prospectors—differentiators would be more inclined toward the strategic management accounting techniques taking note of external information such as market trends and competitor products (Figure 2.1).

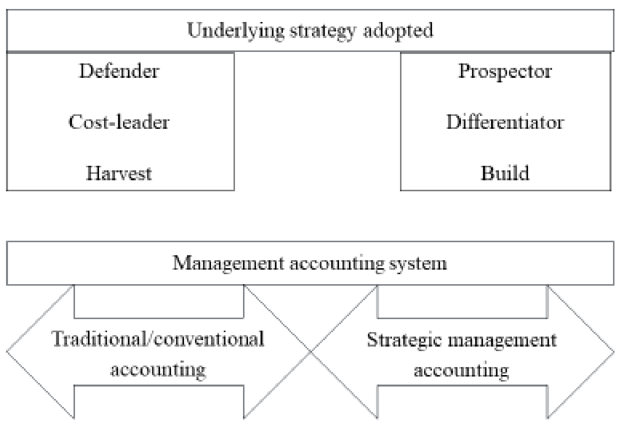

Figure 2.1 Broad grouping of strategic typologies and accounting focus

The logic would suggest that there is a benefit to be gained by directly tailoring the management accounting information to the chosen strategy. Much of the research tends to investigate the degree to which strategic management accounting has been adopted. The research referred to in chapter 1, section 1.5 (The uptake of strategic management accounting), however, indicates that strategic management accounting to date has not been applied widely by practitioners, even though it does appear to be on the increase. This fact needs to be borne in mind when reviewing research into any link between management accounting techniques used to support different strategies.

While there is some confusion as to whether there is a definite performance benefit in linking strategy and management accounting, mainly because financial performance involves so many contingent factors, not least how well managers use the information provided, a common theme has emerged. Studies suggest that organizations that adopt a defender—harvest—cost leadership strategy do not require a highly sophisticated information system. Whereas, those organizations adopting a prospector—build—differentiation strategy tend to use a broader range of information and accounting techniques, suggesting these organizations require a more sophisticated information system (Langfield-Smith, 1997; Chenhall, 2003).

In a study focused on the hospitality industry Turner et al. (2017) found that those organizations with a differentiated market orientation to strategy benefited from the use of strategic management accounting and that this did indeed aid the financial performance. Looking at the issue from the opposite direction, Abernethy and Guthrie (1994) found that those organizations which adopted a sophisticated management accounting system would benefit much more if they were also adopting a prospector strategy. They also noted that prospector organizations where the strategy involves continuous product innovation and market development benefited more from a broad scope of information, particularly external, qualitative, and future-oriented information, which was projected over a longer time horizon. This finding aligns well with the concept of strategic management accounting.

Pasch (2019) looked at the use of strategic management accounting from the perspective of the organizational life cycle of birth, growth, maturity, revival, decline. In a study of 377 firms in German-speaking countries, Pasch found that the adoption rates of strategic management accounting increased from the birth to the revival life cycle stages and dropped at the decline stage. He also found that firms that did not adopt strategic management accounting as appropriate through the development stages exhibited a lower performance than those that did, but that this was only significant for firms that did not introduce strategic management accounting to any great extent. This finding implies that as the business develops, it becomes necessary and beneficial for performance to add more sophisticated management controls. Still, he found that there is no detrimental impact of introducing them early in an organization's life cycle. There is a suggestion here that as the organization develops, the use of management accounting techniques and the provision of management accounting information will become more sophisticated to match the changing needs of a growing organization.

Cescon et al. (2019) looked at the influence of environmental factors on the use of strategic management accounting. In their study of manufacturing firms, they found that the use of strategic management accounting did not appear to depend so much on strategy type but was influenced by environmental uncertainty and competitive forces. There is some support for this viewpoint as a study by Costantini and Zanin (2017) found that as perceived environmental uncertainty increases the use and perceived usefulness of strategic management accounting techniques also increases. Chong and Chong (1997) found that more sophisticated management accounting reports can help to reduce uncertainty and improve decision making in changeable environments. Therefore, it implies that defenders who are operating in a stable environment with less need to adapt continually do not need a sophisticated system. Instead, these organizations tend to use information systems with a narrow, internal focus and more quantitative, cost-related information over short time horizons, which aligns well with traditional management accounting.

Cinquini and Tenucci (2010), researching the adoption of strategic management accounting techniques in Italian organizations, grouped the techniques into four categories of costing, competitor, customer, and performance. They found that there was some adoption of the new techniques. However, organizations following a cost leadership type of strategy appeared to be making more use of the techniques they had classified as costing. In contrast, differentiators were making more use of the techniques under the categories of customer accounting, competitive position monitoring, competitor performance appraisal, and cost of quality. This finding confirms the belief that certain types of management accounting systems will be more suited to the different focus contained within the strategy (Langfield-Smith, 1997; Chenhall, 2003). Chenhall and Moers (2015) later identified that for organizations where innovation is a significant factor, which could be true for many firms operating in a competitive environment, the traditional use of financial controls is insufficient, implying that a broader range of controls is necessary.

Kald et al. (2000) challenged the use of the broad classifications of defender and prospector or cost leadership and differentiator. They pointed out that life is often more complicated, and organizations may well adopt a mix of strategies. They argue that to make broad assumptions based on one classification of strategy may lead to erroneous results. For example, certain strategies may be appropriate at different stages of the product life cycle (Figure 2.2), and therefore different accounting techniques would be more appropriate at different stages. Thus, rather than adopting only traditional or strategic accounting techniques, organizations would be employing a range of techniques across the life cycle strategies, some of which could be classified as traditional and some as strategic.

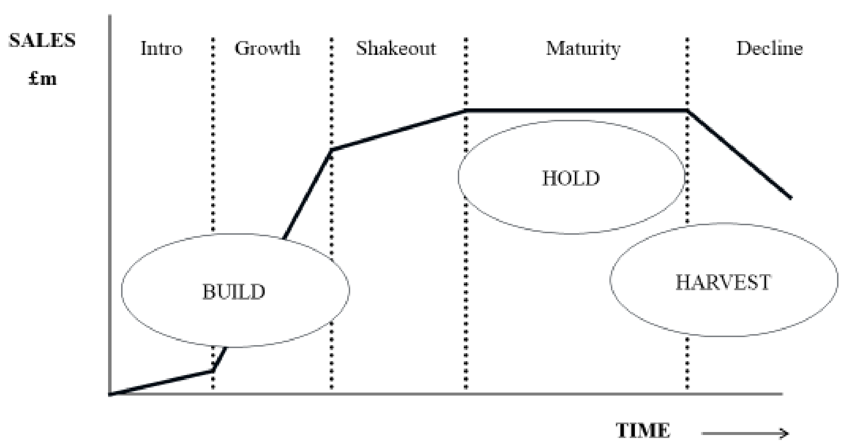

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Figure 2.2 Strategies adopted at different stages of the product life cycle.

As the market grows and the organization is building market share, it may seek to reduce costs to remain competitive, but then adopt more sophisticated techniques, such as competitor analysis, as the market becomes more mature with potentially fewer, but larger competitors. Techniques such as customer profitability analysis and product and market development strategies may be adopted to extend the product's life during maturity. Whereas, the focus on reducing cash outflow and cost control become more relevant at the decline stage. This approach, while criticizing the broad grouping of strategies, does suggest that the techniques used are influenced by the need to support the strategy being adopted during the different stages of the product life cycle.

Kald et al. (2000) also suggested that a defender could follow a strategy of cost leadership or differentiation. Similarly, a prospector could also pursue a strategy of cost leadership or differentiation. They suggest that environmental factors faced by the organization will influence the strategy and that this has implications for the management control systems in place (Figure 2.3).

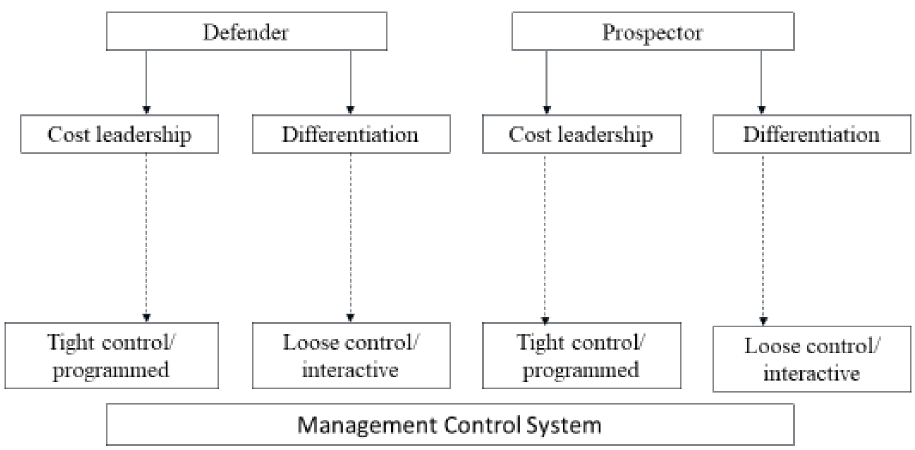

Figure 2.3 Mix of strategies and management control systems

Kald et al. (2000) refer to tight and loose controls. Tight indicates that managers monitor the activities of a business unit frequently and make substantial use of budgetary controls. In contrast, loose control indicates there is limited management involvement in day-to-day operations. Simons (1990) reviews the management control systems at top management levels under the classifications of programmed and interactive, which equate to the tight and loose distinction of Kald et al. Programmed controls are operated at a distance from the front line managers. They are transmitted through formal procedures, whereas interactive controls allow operating managers to challenge and debate the underlying data, assumptions, and action plans.

Simons (1990) reported on a study of two companies of similar size that operated in the same industry, both of which were successful but pursued different strategies. One focused on cost leadership and customer services, selling relatively mature products concentrated in high volume, low price categories. The other competed through product innovation and marketing with premium-priced products having advanced features, virtually a strategy of differentiation. Based on this study, Simons suggested that cost leadership focuses on tight/programmed cost control by close monitoring of operating procedures with actions taken through formal mechanisms. A prospector—differentiation strategy, being more market-focused, arguably requires a more proactive approach, and therefore a looser, more interactive approach to control is needed.

2.6 Management control systems

Active reading. Note how the management accounting controls need to support the strategy but also form part of a coherent package of control systems within the organization.

The management accounting system is part of a broader management control system. The management control system is defined by Anthony (1965) as the process by which managers assure that resources are used effectively and efficiently in the accomplishment of the organization's objectives.

Simons (1994) provided four levers of control given as:

- Diagnostic use of control systems—ex-post monitoring, corrective action, and management by expectations
- Interactive use of control systems—frequent use and dialog to stimulate organizational learning and change
- Belief systems—communication of core values related to sustainability to trigger a change in mind-sets and support organizational change processes (for example, mission statements)
- Boundary systems—restraining organizational members from entering in an extreme zone (for example, code of conducts, anti-bribery guidelines)

Most traditional accounting systems would fall within the diagnostic control systems, such as budgetary control, formal reporting, and performance measures. While the use of diagnostic controls informs and enables corrective action to be taken, Simons (1994) suggests that the functions of interactive controls are: signaling, surveillance, and decision ratification. Interactive controls, such as sharing of ideas and regular meetings, are used by senior managers and subordinates to enable managers to gain a richer understanding of potential opportunities and threats while simultaneously signaling to junior managers the organizations' strategic position. Junior managers have more freedom to act, and regular interaction between junior and senior managers provides the overview and ratification of actions taken. This freedom to act implies, based on the discussion in the previous section that an organization following a prospector type strategy would benefit more from interactive controls, due to the uncertainty of the environment, allowing employees more freedom to act and develop organizational learning skills. It is not, however, just the controls or techniques that are used, but how well they interact. Note that the mission forms part of the belief systems and acts as a soft control mechanism.

Bouwens and Abernethy (2000) argued that specific management accounting techniques will not aid a prospector—differentiation strategy directly, but that it is the package of systems put together by various functions within the organization which enables the strategy to be successful. This interdependence of management control systems, including the management accounting system, can be challenging to achieve.

There is a distinction made between control systems and control packages. Grabner and Moers (2013: 408) defined a management control *system* as being a set of control practices that are designed to be interdependent, whereas a management control *package* represents the complete set of control practices in place, regardless of whether they are interdependent or individual, and can be composed of a set of management control systems or a set of independent management control practices addressing unrelated problems. For example, the distribution function of an organization may be controlled by a human resource system to monitor staffing levels, an accounting system to control costs, supply chain management system to manage links with suppliers, quality control system, and so on. The totality of the individual, often functional-based systems, represents the *package* of controls related to distribution. The distribution/logistics strategy will be determined by the overall strategy of the organization, as illustrated in Figure 2.4.

Otley (2016) noted that control packages are often developed quasi independently at different times by different people and are often dependent on local functional needs. Potentially each functional strategy will have elements of management control that are relevant to the specific function. For example, marketing may develop a system that collects quantitative data of a financial nature that partly duplicates the accounting information. Therefore, in practice, these systems may only be loosely coordinated with the overall package of controls. It may even be that some functions require tight control, such as operations/production controls in a high tech manufacturing environment. In contrast, functions such as research and product design and development functions might benefit from a system of looser controls encouraging innovation and creativity. Some systems, however, such as human resources and accounting, would span all functions.

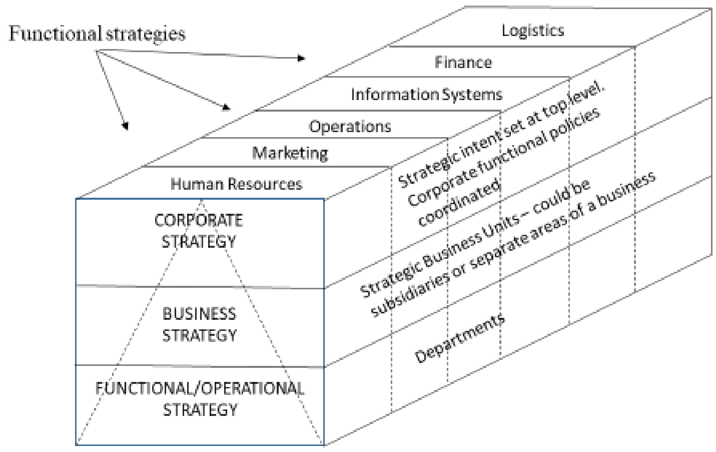

Figure 2.4 Functional strategies as a subset of the overall strategy

There is also a link to organizational structure as a control. For example, the degree to which decision making is centralized or devolved. Bedford et al. (2016: 12) note that "there are multiple ways by which a firm can effectively combine MC [management control] practices in a given strategic context … The results indicate that the effectiveness of accounting control and structural control choices are determined not only by their fit with strategic context but also by how well they fit with each other."

Despite not being able to categorically state that aligning the management accounting system with the strategy will improve performance, the research provides enough evidence to suggest that it is logical and sensible to ensure that appropriate management accounting techniques are employed. Also, that relevant information is provided to aid management throughout the whole of the strategic management process.

The examples of the different strategies from GSK, Walmart, and Royal Dutch Shell given in section 2.3 indicate that the information requirements of the organization will be different based on the different focus within their strategy. It is often suggested that accountants should act as *business partners* to managers, which implies that accountants also need to understand the strategic management process. There is a need to work with other functions such as marketing, HR, and so on, to ensure that the overall package of controls is relevant to the strategy being adopted.

The management accounting systems should be able to respond to the changing needs of the business, and indeed its changing strategy. Often new CEOs bring with them a change of vision, which changes the strategy, requiring a shift in management information provision. Similarly, changes to the business environment to which the organization makes a strategic response, or changes in technology, increased competition, cost reduction and restructuring programs, all impact on the type of information and accounting techniques required to support the strategic management process. Indeed, Messner (2016) notes that there may be industry requirements or practices, established benchmarks, even regulations that dictate that certain elements must be present within the management accounting system. The management accounting system, therefore, should support the strategy and, at the same time, be capable of interfacing with other systems to form a coherent overall package of organizational systems.

2.7 The role of objectives

Active reading: Note the purpose and characteristics of good objectives and the need for consistency.

Organizations often include statements of their strategic aims, goals, or objectives within their publicly available information. Goals tend to be broad statements of their long-term intentions. They are often not quantified, for example, merely stating that a strategic aim is to increase shareholder wealth. An objective, however, should be quantifiable and timebound so that we know when it has been achieved, for example, an objective to increase profitability by 10% over the next five years.

The vision and mission statements can be quite general. Therefore, the role of objectives is to crystallize the strategy into a series of discrete steps. Together they facilitate the realization of the vision and mission. Objectives enable targets to be set and measured that allow a degree of control over the strategy implementation.

The mnemonic SMART is often used (specific, measurable, agreed, realistic, and timebound). The specific, measurable, and timebound elements ensure that targets can be set, and the actual performance against the objective can be monitored. The agreed and realistic features help to motivate employees to achieve the objective. There are alternatives to the A and the R. Some texts and organizations use achievable and results-oriented or other variations. Whatever form is used, the SMT ensures it can be quantified and hence measured, as it is often said that what gets measured gets controlled, while the A and R provide the motivational elements. The objectives follow the same hierarchical pattern as the strategies (see Figure 2.5), that is, functional, business, and corporate, and as with the strategies should demonstrate consistency.

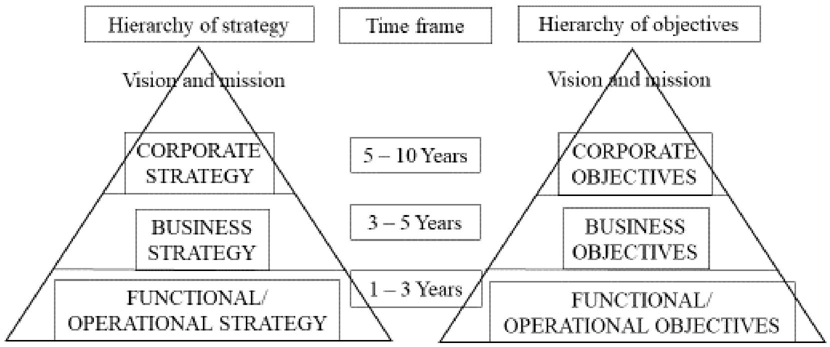

Figure 2.5 Hierarchy of objectives linked to strategies.

The objectives should display:

- Vertical consistency in that the operational strategies help to achieve the business strategies, which in turn help to achieve the corporate strategy and thus meet the overall vision and mission.
- Horizontal consistency in that if marketing sets an objective to sell 100,000 units, production is planning to make enough units, HR can ensure the sufficient employees with the right skills are recruited and available, accounting makes sure adequate finance is available, and so on.
- Consistency over time means that the objectives send a clear and consistent message and are not constantly changing, which could lead to confusing employees, shareholders, customers, and other interested parties.

2.8 Stakeholders

Active reading. Note that organizations have a range of competing expectations from a variety of stakeholders, and objectives are set to satisfy more than just the shareholders.

The vision and mission statement and strategic objectives will seek to address the needs and expectations of various stakeholders. (The concept of stakeholder mapping is dealt with in Chapter

8, section 8.4). The main financial objective of commercial organizations may still be to maximize shareholder wealth, but it is widely recognized that this is now achieved more effectively by addressing the needs of a multitude of stakeholders.

Objectives are often set that address specific stakeholder groups, for example, employees, communities, sustainability issues. A simple and potentially useful way of classifying stakeholders is using the mnemonic ICE, for internal, connected, and external.

Internal

Typically, internal stakeholders are often thought of as employees being split between management and workers. However, employees can be broken down into many different groups who will have different interests, expectations, and degree of power or influence. Consider a hospital in which there are doctors, consultants, administrators, nursing staff, and porters. There may also be groups of workers who are contracted to another organization, such as caterers and cleaners. All groups could have a different view or reaction to a strategic decision taken by the organization, and some groups may be able to influence the success of the strategy more than others.

Connected

Connected stakeholders have a vested interest in the organization, for example, shareholders and loan providers, and suppliers and customers, depending on the strength of the relationship with the organization.

External

External stakeholders might include the central government, the public, pressure groups, and the media.

Potentially each stakeholder group would view the organization's success differently. For example, employees require pay and benefits, job security, and prospects. Shareholders expect dividend return and capital growth. How each reacts to the strategic objective may be different, and how the management team deals with this is dealt with in Chapter 8. It is, for now, enough to note that not all objectives are financial, hence the need for a range of management information and performance measures, including nonfinancial and external.

All objectives need to be crystallized into quantifiable objectives that can be measured and monitored, and strategies formulated to achieve them. Even primarily qualitative objectives, such as increasing customer satisfaction, can be quantified. For example, to increase customer satisfaction so that 90% of customers are happy during the next year. The level of satisfaction can be ascertained via the mechanism of a customer satisfaction survey and compared to the level of satisfaction last year, thus indicating whether the objective has been met. Reasons for deviation, either positive or negative, can be investigated, which may involve looking at the link between other indicators. In the example of customer satisfaction, this could be the number of customer complaints (including the reasons why), customer returns, customer retention rates, new customer acquisitions, lost customers, and so on. The link between objectives and performance measures is explored in more detail in Chapter 10.

The accountant is well place to aid this process and to ensure that the management accounting system integrates with all the other systems such that the organization's overall management control package is compatible with the strategy.

Learning activity. Think of an organization with which you are familiar. Now, thinking about the following stakeholders, what might their expectations be of the organization, and how might they judge its success?

Shareholders
Employees
Customers
Suppliers
Lenders of loan capital such as banks
The public
The government
Regulatory bodies

For example, shareholders are expecting a dividend and capital growth and would judge the organization on how well the organization met these expectations. Employees expect job security, fair and competitive pay and benefits, career prospects, and so on, and would judge these in comparison to other job opportunities.

2.9 An example of corporate strategy

Consider the following elements listed on Unilever's website under the 'Strategy' page in April 2020.

Unilever – Strategy, as shown on the website in April 2020.

<u>Our vision</u>

Our purpose is to make sustainable living commonplace.

<u>Our values & principles</u>

Our Corporate Purpose states that to succeed requires "the highest standards of corporate behaviour towards everyone we work with, the communities we touch, and the environment on which we have an impact."

Our values define how we do business and interact with our colleagues, partners, customers, and consumers. Our four core values are integrity, responsibility, respect and pioneering. As we expand into new markets, recruit new talent, and face new challenges, these guide our people in the decisions and actions they take every day.

Our strategy

We've built a strategy to help us achieve our purpose of making sustainable living commonplace.

Our strategic focus

To realize our vision we have invested in a long-term strategy of divisions and brands that deliver growth to the benefit of all stakeholders.

Vision

Growing the business

- Sales
- Margin
- Capital efficiency

Improving health and well-being

- Nutrition
- Health and hygiene

Enhancing livelihoods

- Fairness in the workplace
- Opportunities for women
- Inclusive business

Reducing environmental impact

- Greenhouses gases
- Water
- Waste
- Sustainable sourcing

Our long-term strategic choices

Portfolio choices

- Category choices
- Active portfolio management
- Building a Prestige business

Brands and innovation

- A focused approach to innovation
- Driving efficiency and margins
- Increased investment in digital marketing

Market development

- Routes to market
- Emerging markets
- E-commerce

Agility and cost

- Zero-based budgeting
- Manufacturing base and overheads
- Leveraging scale

People

- Attracting talent
- Developing talent
- Values-led and empowered

Growth

Consistent
We deliver consistency in underlying sales growth, core operating margin and free cash flow by continuously investing in our supply chain, our brands and marketing, our people and IT.

Competitive
By investing in innovation we can grow our market share while also seeking to enter new markets and new segments.

Profitable
We seek continuous improvement in our world-class manufacturing to drive cost savings and higher returns, providing extra fuel for growth as cash is redeployed in new strategic opportunities.

Responsible
Growth that's responsible involves having a positive social impact and reduced environmental footprint, which is the essence of the USLP [Unilever Sustainable Living Plan] and is essential in protecting and enhancing our reputation.

Our business model

Unilever believes profitable growth should also be responsible growth. That approach lies at the heart of our business model, driven by sustainable living and the USLP. It guides our approach to how we do business and how we meet the growing consumer demand for brands that act responsibly in a world of finite resources.

Our business model begins with consumer insight that informs brand innovation, often with partners in our supply chain, to create products we take to market supported by marketing and advertising across a range of distribution channels.
Unilever operate through three divisions:

In 2019:

- Beauty & Personal Care generated turnover of €21.9 billion, accounting for 42% of our turnover and 52% of operating profit
- Foods & Refreshment generated turnover of €19.3 billion, accounting for 37% of our turnover and 32% of operating profit
- Home Care generated turnover of €10.8 billion, accounting for 21% of our turnover and 16% of operating profit

Source: https://www.unilever.com/about/who-we-are/about-Unilever/ (accessed April 2020)

Some points to note

Note that Unilever quotes the vision, which is a short inspirational statement, and addresses a current concern of sustainability. They do not offer a separate mission statement. Instead, they move straight to the values and principles. The first section addresses the corporate purpose, which again highlights the concerns of corporate behavior and the environment, as well as referring to a range of stakeholders.

There is a strong link between the strategy and vision, both of which refer to sustainable living. This theme appears later under the growth strategy as the Unilever Sustainable Living Plan (USLP). The strategic focus refers to investing in a long-term strategy of divisions and brands that deliver growth to the benefit of all stakeholders. How this will be achieved is expanded within the bullet points listed under the heading of long-term strategic choices. This section does not set out the exact strategy in detail but leaves room to respond and adapt to any changes in the environment. For example, the references to active portfolio management, focused approach to innovation, routes to market, emerging markets, agility, and cost, developing talent, values-led and empowered all indicate a recognition of the need to be responsive to changes in the business environment and customer demands within an overall strategic intent for growth. The business model also recognizes that the growth needs to be profitable and responsible.

Throughout the statement, there are several overt references to financial performance and accounting terminology. For example, under the heading of growing the business, are three bullet points of sales, margin, and capital efficiency. Under strategic choices, the brands and innovation heading include a reference to driving efficiency and margins and increased investment in digital marketing. The strategic choices also include a heading of agility and cost, which includes zero-based budgeting, manufacturing base, and overhead and leveraging scale. Under the heading of growth, there is mention of consistency in underlying "sales growth, core operating margin, and free cash flow … continuous improvement in our world-class manufacturing to drive cost savings and higher returns, providing extra fuel for growth as cash is redeployed in new strategic opportunities."

Unilever's strategy statement merges the overall vision of sustainable living with the recognition that to invest in sustainability and uphold its responsibility to a range of stakeholders, the organization needs to be profitability. It is also possible to predict the use of cost reduction techniques, zero-based budgeting, and investment appraisal, taking into account sustainability issues. Also, new product development where target costing and life cycle costing would be relevant, particularly in light of the statements on consumer insight, innovation, and sustainability. As Unilever applies World Class Manufacturing (Jaap van Ede, 2015), there is a strong case for using lean accounting, and continuously investing in the supply chain would imply that supplier evaluation, both in strategic and financial terms, is highly relevant.

The vision, mission, and strategy, therefore, sets the context in which the management accounting system is developed. If management accounting is going to successfully support the strategic management process from the formulation of a strategy to the achievement of long-term objectives, provide information to enable managers to manage, and be alive to the changing needs of the business as it develops, the strategy and management accounting system needs to be in alignment.

Learning activity. How would you characterize Unilever's strategy according to the typologies discussed in section 2.5?

Based on the financial and accounting references in the strategy statement taken from their website, do you think that there is a case to suggest that Unilever would use both traditional and strategic accounting techniques with equal importance, or would one prevail over the other?

[Note: this is your opinion based on the information provided. You may find the ideas of Kald et al. useful].

2.10 Summary

Management accounting can support the strategic management process in the following ways.

Aid the quantification and monitoring of objectives

Management accountants can aid the crystallization of objectives into quantifiable objectives capable of being used to set targets and monitor performance. Not all objectives are expressed in financial terms, but the skills of management accountants, being grounded in the use of numbers to represent value and actions, are well suited to aiding the development of objectives in quantifiable terms.

Assist in establishing suitable management control systems

The management accounting controls form part of the overall management control package used within the organization. The management accounting controls need to be consistent with the overall culture of the organization, for example, ensuring that an appropriate mix of diagnostic and interactive controls, is employed. The controls adopted must also be capable of developing as the needs of the business change.

Employing suitable management accounting techniques for the strategy adopted

The focus of the management accounting techniques employed needs to support the competitive strategy, for example, a focus on cost control or product differentiation. In short, the adoption of a strategic accounting system that can provide internal and external, quantitative and qualitative, historic, and future-oriented information.

Ensuring that the management accounting information supports strategic change

It is important that the management accounting systems are flexible and adaptable to ensure that the information provided always supports the strategy and, where necessary, supports strategic change. This support may involve developing new performance measures to monitor a shift in strategic focus, using different techniques to support decision making, and working with other managers to ensure the integrity of the overall management information systems.

2.11 Review questions

(1) Briefly discuss the difference between a vision and a mission statement.
(2) Briefly outline the three typologies of strategy discussed in the section on management accounting and vision, mission, and strategy.
(3) Discuss whether you agree with the premise that organizations following a prospector/differentiator strategy require a more sophisticated accounting system than organizations following a defender/cost leadership strategy. Give the reasons for your conclusions.
(4) Discuss with reference to Simon's levers of control the types of controls that you would expect to be present within the management control package of Unilever.
(5) Discuss the role of objectives and stakeholders in the strategy development process.
(6) Access the corporate websites of organizations with which you are familiar and compare the vision, mission, and strategy statements. Do they conform to the characteristics of a good vision/mission, as defined by academics? Do they suggest that the strategic focus is different, which may impact on the management information required?

2.12 Case study activity 2 – HW Inc. Vision and mission

Turn to Appendix A of this learning resource, read the section A1 and attempt the following activity.

- Evaluate the vision, mission, and values statement of HW Inc. (Hint: use the framework by Campbell et al. (1990) or that of Lynch (2003) from section 2.3)
- What does this imply for the management accounting information requirements of the management team at HW Inc.?

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