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STRATEGIC COST MANAGEMENT ACCOUNTING INSTRUMENTS AND THEIR USAGE IN ALBANIAN COMPANIES

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ABSTRACT

With the entry of the 20th century and the introduction of new economical and technological realities the way of making business was radically transformed. The barriers of communication and geographical distances that previously protected the domestic market dissolved leading to a unified global market. In these conditions, where the global market is becoming a single market without barriers or frontiers the competition among the companies for surviving is at highest levels. To be able to stand the competition now the companies need more complete and sophisticated information to accomplish long-time strategic goals. The traditional management accounting is focused more in the company's costs occurring in activities like marketing, design, assembly, QC inspection, production, distribution, warranty costs etc. As the companies are now considered not a separate unit, but is an integrated part of the global market supply chain, its responsibilities are wider and deeper. In this new reality they have to consider the external costs too like user's costs like life-cycle costs, transportation, maintenance and environmental costs too. With the sophistication of the information required by the managers the traditional cost management account evolved into strategic cost management (SCM) which includes external information and cost drivers as well the processing of the non-financial information. As the study area of SCM is very wide there is a debate regarding the types of instruments and their usage. The aim of this study is to analyze the appliance of the SCM by Albanian businesses and to identify the most used SCM accounting instruments. The methodology used in the preparation of this paper will be the utilization of a wide range of literature and the usage of interviews and questionnaires to the target group.

Keywords: strategic cost management, supply chain.

INTRODUCTION

The traditional management accounting is a system that was designed to determine the price of the products and assist the managers in their decision-making process. For some authors the cost management accounting first appeared in U.S. in textile, iron and steel manufacturing, during the 19th century, (Johnson & Kaplan 1987). The main task of the cost accounting was to assist the managers in their routine decision-making by providing them information regarding the costs of the products, efficiencies of different operations, predicting the financial and operative transactions etc., by taking in consideration the information provided internally, within the company.

With the entry of the 20th century the economical and political environment together with the rapid development of technology induced radical changes that fundamentally affected the companies worldwide. In 20th century the barriers of communication and geographical distances that previously protected the domestic market and the companies in it, dissolved leading its path to a new global economy (Anderson & Young, 1999). In these conditions, where the global market is becoming a single market without barriers or frontiers the competition among the companies to survive is at highest levels. Companies from overseas

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are able to penetrate in domestic market by offering high quality products with lower prices by exploiting the global networks of acquiring raw materials and distribution of final products. Some companies even outsource their routine manufacturing processes like production, assembly, working force etc. overseas to strategically manage and minimize their costs. Now the most successful companies do not gain access to the domestic market only, but to the whole global market, worldwide (Drury, 200). In this situation there is a need for multi dimensional and more sophisticated information in order to for the companies to achieve its strategic goals.

LITERATURE REVIEW

In the global market, characterized by a high intensity of competition the companies are in struggle to maximize efficiency, minimizing the costs and improve the management strategy in order to deliver to their customers the desired products or service with the lowest cost. The competitive pressures derived from the global economy, the growth in the service industry, and advances in information and manufacturing technology have changed the nature of our economy and caused many manufacturing and service industries to dramatically change the way in which they operate. The traditional cost management accounting has in its focus costs reduction. Under these circumstances the traditional cost management accounting is not sufficient to simply reduce costs instead, costs must be managed strategically. Strategic cost management (SCM) is the integration of cost management techniques so that they can improve the strategic position of a firm and reduce costs in the same time (Cooper & Slagmunder, 2004). Managing the cost strategically means that the accountants and managers should not consider only the costs or the events occurring inside their company, the company costs. They have to consider these costs in a wider approach where the costs of the products or services are not only those occurring inside the company. In addition to the company costs which includes all the costs to design and develop a product, now there are other external costs that should be taken in consideration such as users costs and environmental costs. The traditional management accounting is focused more in the traditional company's costs include costs occurring in activities like marketing, design, assembly, QC inspection, production, distribution, warranty costs etc. As the companies are now considered not a separate unit, but is an integrated part of the global market its responsibilities are wider and deeper and already they have to consider the external costs too like user's costs and environmental costs too.

The user costs are external activities which affect the product cost such as life-cycle service, inventory storage, transportation, and disposal or recycle usage duties, further energy or material consumption, maintenance activities etc. The environmental costs are external cost too, but they can affect the overall cost of products when the related company is seen as an integrated part of the global market. In the environmental costs are included activities like recycling, pollution, packaging, health damages, safety etc. that can affect the product cost and should be taken in consideration (Freiberg & Sujova, 2001). In this perspective SCM extend the traditional cost management accounting in several perspective. First of all SCM takes in consideration not only the quantitative data, but analyzes also the qualitative data. In the focus of the SMC is the value chain, where the company is just a part and an intermediary between the supplier and the end user. With the SMC as a future and strategic tool the accountants take a significant role in the process of decision-making as an analyst and consultant. In table 1, are represented the main differences between these two systems.

Table1: Traditional cost management VS. Strategic cost management

	Traditional Cost Management	Strategic Cost Management
Focus	Manufacturing focus	Competitive focus
Perspective	Value-added	Value chain
Information	Data oriented	Information oriented
System based	Based on existing systems	Unconstrained by existing systems
Cost driver concept	A single cost driver - cost is a function of volume. Applied too often only at the overall firm level.	Multiple cost drivers.) Each value activity has a set of unique cost drivers.
Target	Value added	Value chain
Primary concern	Cost impact	Cost/Value/Revenue relationship
Key disciplines	Finance/Accounting	Marketing/Economies
Primary role	Scorekeeper	Analyst and consultant

source: Wilson & Chua (1993), Fischer (1993) and McNair (2000)

Strategic cost management is a philosophy of improving cost and revenue; strategic cost management is not only cost management but also revenue management, therefore, its objective is seeking to improve productivity, maximize profit, and improve customer satisfaction. This philosophy plays a vital role in determining the future of the company because it promotes the idea of continually finding ways to help organizations make the right decisions to maximize customer value at lower cost (Kumar & Shafabi, 2011). Through seeing the company as an integrated part of the global market and as an interface between supplier and customer through the supply chain they will be able to resist the intense global competition. The traditional management accounting has evolved in strategic management accounting (SMC) by taking in consideration the external factors that contribute in a value added for the company and that have impact on the products' costs. The SMC makes a wider and deeper analyzes of the economical events that surround the company by using not only quantitative data, but qualitative data too, providing long-term strategic insights to its management. The strategic management accounting will enable the companies to identify their strong and weak points by improving the company's position in among the competitors and in the market. As the SMC analyzes a wide range of aspects regarding the strategic management of the company, there are different definitions regarding it. The existence of various definitions can be interpreted with the wide range of tasks that this discipline covers. According Simmonds (1981) "SMC is the provision and analysis of management accounting data about a business and its competition for the use in developing and monitoring the business strategy, particularly relating levels and trends in real cost and prices, volumes, market share and proportioned demanded of a firm total resources" (Simmonds, 1981). Certified Institute for management Accounting (2005) defines SMC as a form of management accounting in which emphasis is placed on information which relates to factors external to the entity, as well as non-financial information and internally generated information. Langfield & Smith (2008) defines SMC as taking a strategic orientation to the generation, interpretation

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and analysis of management accounting information and competitors activities (Langfield & Smith 2008).[1]

THE ACCOUNTING INSTRUMENTS OF SCM

SCM uses a wide range of instruments in performing its main objectives of delivering customer oriented products with the minimal costs as well as establishing new strategies for increasing the company performance. There is a considered number of accounting related instruments that SCM uses to reach company's strategic goals, but we can classify them into five main categories: costing, planning control and performance management, strategic decision-making, competitor accounting and customer accounting (Cadez & Guilding, 2008). Below we will list some of the most used and popular accounting instruments of SCM from each perspective:

Activity based costing: Is a methodology of "costing" category that attempt to make e detailed analysis of the indirect cost by converting them into direct costs (Cooper & Slagmulder, 1999). According to this method the costs are derived from the activities rather than the products, and the products absorb these costs from the activities. In the ABC method more than one cost drivers are used.

Benchmarking: Is a process included in "*planning control and performance measurement*" category where a company is in a continuous attempt of comparing the business processes with the industry best companies' practices (McNair & Leibfried, 1992). In benchmarking not only quantitative variables are taken in consideration but also qualitative like quality of competitor's products, timing processes, results etc.

Competitive position monitoring: 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 (Cinquini & Tenucci,2010). It is a method of "competitor accounting" category.

Customer accounting: it takes in consideration the cost benefit analysis from the customer's aspects and analysis like customer profitability, customer segment profitability, lifetime customer profitability, valuation of customers or customer groups as assets and customer accounting (Smith & Dikolli, 1995).

Environmental Management Accounting: is an approach that is mostly focused on the external cost drivers of the company that affect the environment and concerning the sustainable growth by increasing material efficiency and reducing the possible environmental costs (UNDSD , 2001). Is a methodology included in "*planning control and performance measurement*".

Life cycle costing: Is a technique of "costing" and includes a set of cost evaluation of procedures and production techniques that considers all the lifecycle of the products from its design and manufacturing till the end life or the abandonment of the products, which has in focus the determination of the most optimal cost (Flanagan et.al 1989).

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Quality costing: Quality costs are the costs associated with preventing, detecting, and remediating product issues related to quality. Quality costs *do not* involve simply upgrading the perceived value of a product to a higher standard. Instead, quality involves creating and delivering a product that meets the expectations of a customer. This method takes part in "costing" category of SCM.

Strategic costing: is a "strategic decision making" tool that process and develops cost information to help managers making strategic choices. It examines the basic relationship between the cost of providing a product or a service and the value delivered to sustain competitive advantage (Porter & Michael, 2009).

Strategic pricing: the analysis of different strategic factors in the pricing decision process. These factors may include various data, including qualitative data like competitor price reaction, price elasticity, market growth, economies of scale and experience (Guilding et. Al 2000). This tool is a "strategic decision making" category.

Target costing: Is a "costing" tool techniques. target cost is the maximum amount of cost that can be incurred on a product and with it the firm can still earn the required profit margin from that product at a particular selling price. The estimated cost is calculated by subtracting a desired profit margin from an estimated (or market- based) price to arrive at a desired production, engineering, or market cost. The product is then designed to meet that cost (Takao, 1993).

METHODOLOGY

SCM accounting and techniques is reliable tool that can be used in different companies. We can state that some types of companies cannot have the ability to use all of the SCM accounting techniques. For e.g. a commercial company might have difficulties in adopting life-cycling costing. This is because it cannot control its production cycle and cost, material supplying etc. This accounting technique is used more intensively in production companies. The commercial companies are focused more in the procedures after the production process. The manufacturing companies are predicted to need more detailed and sophisticated information for more effective decision-making that is in accordance with the management long-term vision. The Albanian production and manufacturing industry is mostly based on light industry like textile and footwear factories, food processing factories etc.

For the purpose of this study, in order to have a complete view of all available SCM accounting instruments a group of manufacturing companies was selected and questionnaires were distributed to the corresponding accounting managers. The questionnaire were included general information and a section in which we listed some of the most used instruments of SCM, explained in the previous session of this study, where the interviewers were asked to rate each of the instruments by the density that they use the technique in their routines. To rate the accounting instruments a five-point Likert scale was provided along each accounting instruments where the respondents could express their opinion. The total response rate was 18.3 % , but some of the questionnaires were not available for interpretation as they were partially incomplete. In order to have e better summary of the general situation, in depth interviews were conducted with selected certified public accountants and certified accountants as they have a more general overview of the business' practices and the reasons for choosing these related practices.

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CONCLUSIONS

The changes in technology and marketing perception induced by the high competition of the global market has stressed the need to consider the business activity not as a separated part of this reality, but as an integrated part. In this respect the concepts of costs and management becomes wider by including external factors and cost drivers that can affect or product's costs or company strategic goal. In this perspective there is tendency of shifting from tradition cost management accounting to strategic cost management accounting. SCM considers a wider range of factors to be taken in consideration when reporting to the company's managers, that includes external information's as well as qualitative data processing that previously were not taken in consideration.

The aim of this research is to study the appliance of the SCM and the usage of the accounting instruments that this discipline provides, from the Albanian companies. The low response rate from the questioned accounting managers does not provide sufficient data for a statistical analysis, but considering in depth interviews with certified public accountants we can make some consistent generalizations.

From our analysis we have found SCM is a familiar concept in Albania and its instruments are relatively being adapted successfully by the Albanian business. We state that the SCM accounting instruments are relatively successfully because in the Albanian market there are not too many big industries or factories that would use sophisticated financial information. From this perspective the actual companies are mostly medium sized companies and do not need invest too much in their accounting systems. Anyway, the management and professional accountant are adopting the new ides and instruments of SCM, where the most applied instruments were those instruments that do not need too much investment and that contains market and customer oriented information . Concretely, according to the respondents the most used SCM instruments were: benchmarking with an average of 2.7 Likert scale, strategic pricing 2.4 , customer accounting 1.8 and target costing 1.8. These instruments were the most used instrument by the Albanian manufacturing companies and the reason behind this selection of instruments were primarily related to implementation costs and the usage of the non-financial information, rather than the cost drivers, that can be a very important factor in determining the product price.

This study's finding indicate that in recent years the Albanian business have being successfully adopted to the new economic and technological changes by adopting strategic cost managements instruments to hold or improve their competitive advantage in the market.

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