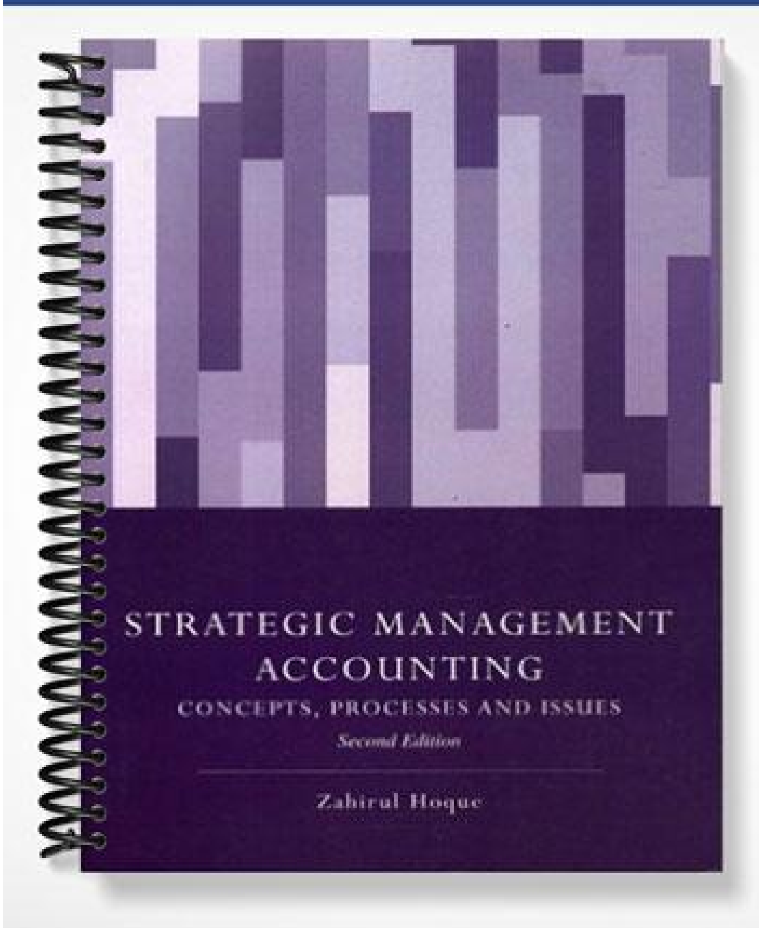
SOLUTIONS MANUAL



Solutions Manual and Teaching Notes

Strategic Management Accounting

Concepts, Processes and Issues

2nd edition

Zahirul Hoque

Solutions Manual and Teaching Notes

Strategic Management Accounting

Concepts, Processes and Issues

Zahirul Hoque
Northern Territory University
Darwin, Australia

SPIRO PRESS

PREFACE

This instructor's manual contains solutions for the questions and exercises for each chapter, and teaching notes on nine cases. A great deal of effort has been expended to ensure the accuracy of the solutions and teaching notes manual. I am particularly grateful to Jodie Moll and Lanita Winata for assistance in preparing this manual. Thanks are also due to John Sands at Griffith University for his continued feedback. I also thank the Institute of Management Accountants (IMA) for granting permission to use its published cases. Suggestions are welcome.

Zahirul Hoque, PhD, FCMA, CPA
Professor of Management Accounting
Northern Territory University
Darwin, Australia
E-mail: zahirul.Hoque@ntu.edu.au

CONTENT

Chapter 1

Accounting for Strategic Management: Introduction and the Conceptual Framework

1-1 How would you define the term "strategic management accounting"? How does it differ from conventional "management accounting"? Explain and give examples.

Strategic management accounting can be defined as:

> *The process of identifying, choosing and analysing accounting data about activities of an organisation and the changing external environment within which it operates for assessing strategic initiatives of the organisation.*

Management accounting refers to the identification, collection, measurement, and reporting of information to help managers make effective decisions. This is commonly known as the technical-rational role of management accounting. It is based on the basic premise that a business has (a) preset unitary goals, (b) utility/profit maximisation goals, and (c) efficiency and effectiveness focus. While conventional management accounting systems are heavily technical and focus mainly on short-run decisions. Different from strategic management accounting, conventional management accounting systems only refers to systems of product costing and quantitative systems of planning and control such as volume-based cost allocations, cost-volume-profit analysis, budgetary control and standard costing. In other words, strategic management accounting is more technical and historical oriented, while strategic management accounting is technical rational and more future oriented.

1-2 What is the role of strategic management accounting?

Today's businesses operate in a dynamic, complex environment. They are affected by *STEP* (Sociological, Technological, Economic and Political) factors, internal competition, and increasingly bargaining power of suppliers and customers. These forces have radically altered the business environment. Businesses are turning to strategic management accounting in order to survive in this changing business environment. The role of strategic management accounting therefore is to align the organisational strategies and goals with these factors. This requires the organisation to monitor and evaluate their operations with those of their competitors and to pay much greater attention to satisfying customer needs. To do this, strategic management accounting provides a range of internal and external information for decision making.

1-3 How do financial accounting, cost accounting, cost management and strategic cost management relate to each other? Explain with examples.

Financial accounting measures and records business transactions and provides financial statements that are based on generally accepted accounting principles, as well as, relevant accounting standards. It mainly concentrates on external reporting. Financial accounting prepares such reports as income statements (or profit and loss account), balanced sheets (or statements of assets and liabilities), cash flow statements and changes in equity.

Cost accounting is a hybrid of financial and management accounting. It provides information on a company's costs and may be used for both external and internal purposes. When cost accounting is used for financial accounting, it measures the cost of production and sales in accordance with accounting principles. When used for internal purposes, cost accounting information provides the basis for planning, controlling, &

decision- making. Cost accounting includes such topics as cost-volume profit (or CVP) analysis, budgeting, relevant costing, job costing, process costing, activity-based costing (or ABC), activity-based management (or ABM) and cost allocation processes.

Cost management requires a deeper understanding of the cost structure of the firm; it combines elements from three older fields: management accounting; production; and strategic planning. Cost management refers to those management activities used for short-run and long-run planning and control of costs. Cost management not only focuses cost reduction, but also on cost control and management. Thus, it has a broad focus.

Strategic cost management provides costing information for strategic decisions. It helps formulate and communicate strategies. It has a long-run focus. It carries out tactics that implement those strategies. It develops and implements controls that monitor success at achieving strategic objectives.

Example: In a manufacturing company, financial accounting records all the transactions including the production cost in general ledger; cost accounting records and calculates the production cost; cost management compares the actual production cost with the budget and analysis the differences. Strategic cost management combines the result of the analysis above with other non-financial factor to make decision for the future.

1-4 What are the two different MAS information discussed in this chapter? Discuss each of them in terms of their importance to managerial decision-making.

The two different MAS information discussed in the Chapter are referred to as the traditional MAS and the broad scope MAS. The traditional MAS relies on financial information to make business decisions. Because of this the information used by the system tends to be historical and short term in nature. The broad scope MAS on the other hand, uses a range of financial and non-financial information to make business decisions. The information is useful for both long term and short-term decision-making. Importantly, the broad scope MAS is future oriented. Through the provision of broad scope information, organisations can more readily adapt to the changing business environment.

1-5 Describe the purpose for which management uses cost information.

Management uses cost information for the following purposes: planning (i.e. budget and target), controlling, evaluation, and decision-making. Besides this cost information is also useful for mapping the future direction; it provides managers with information that is useful for setting strategies and also provides the ability to ensure that inputs, processes, and outputs are aligned to achieve organisational goals. In a public sector context, there is one important additional use of this information – for *external communication* to users (who have a vested interest in the direction and success of the entity). These users fall into three groups: resource providers (employees, lenders, creditors, suppliers), recipient of goods and services (ratepayers, taxpayers and members of professional associations), and parties performing a review of oversight function (parliaments, governments, regulatory agencies, analysts, labour unions, employer groups, media and special interest community groups.

1-6 What are the major differences between Management Accounting and Financial Accounting?

Financial Accounting measures and records business transactions and provides financial statements that are based on generally accepted accounting principles as well as relevant accounting standards. It mainly concentrates on external reporting. Financial accounting prepares such reports as income statements (or profit and loss account), balanced sheets (or statements of assets and liabilities), cash flow statements, and changes in equity. These statements are auditable and they are also objective and reliable.

Management accounting identifies, collects, measures, and reports information that is useful to managers in planning, controlling, and decision-making. It is important to recognise that individuals within the organisation use management accounting information. Management accounting information can contribute to the following management areas: policy formulation, planning and controlling the activities of the firm, decision taking on alternative courses of action, and so on. Management Accounting has traditionally taken a short term focus. It focuses on the technical orientation and ignores human-relation aspects and the business context. Examples of management accounting include costing systems, budgeting systems, and performance measurement systems. There are no accounting standards or rules that management must adhere to.

1-7 What is meant by the term "technical rational choice models" of organisations? Briefly discuss its relevance to management accounting.

The "technical rational choice model" refers to the use of management techniques and procedures such as accounting to help the organisation to make rational types of decisions that maximise the goals of the organisation. In particular the technical-rational approach has the following key features. First, it assumes a pre-set goal or consistent goal sets. There is the view that rationality emphasises consistency among goals and objectives concerning a particular action, and consistency in the application of principles to select the optimal alternative. Technical-rational perspective also assumes that alternatives are mutually exclusive, separate and easily identified. Thus, this approach deals with unitary goals, identification of the range of possible options, their likely consequences and the selection of an alternative that maximises the goal of the organisation. Most management accounting textbooks are built on these assumptions. To be clear, management accounting systems provide the computational decision making tools used to help the organisation to achieve their goals.

1-8 What are the main issues discussed in "Contingency Theory" of organisations? Briefly, discuss.

According to the "Contingency theory" the type of accounting and control system varies according to the specific circumstances or situations in which the organisation operates. There is the view that "there is no universally "best" design for a management control system, but that "it all depends" upon situational or contextual factors." So far, researchers have identified a range of variables implicated in the design and use of accounting and control processes in organisations. These include the influence of the organisation's culture, technology and market on budgetary control systems; the size of an organisation, its technology and structure; decision-making styles; organisational values and motivation; management aspiration for profit growth. Notwithstanding, contingency theories have been criticised because they are based on a highly technical view of organisational choice. To further explain, the conceptualisation, definition and measurement of key variables within contingency theory have not been adequately elucidated - they require greater theoretical and empirical attention. In addition to this, correlations reported in most contingency studies are small and not always consistent; and, finally, contingency theory fails to incorporate the wider context of the organisation, that is the social, political, economic and institutional aspects.

1-9 Discuss, with examples, how contingency theory differs from institutional theory?

"Contingency theory" assumes the type of accounting and control system varies according to the specific circumstances or situations in which the organisation operates. There is the view that "there is no universally "best" design for a management control system, but that "it all depends" upon situational or contextual factors." So far, researchers have identified a range of variables implicated in the design and use of accounting and control processes in organisations. These include the influence of the organisation's culture, technology and market on budgetary control systems; the size of an organisation, its technology and structure; decision-making styles; organisational values and motivation; management aspiration for profit growth.

"Political economy theory", on the other hand, helps understand the mutual relationships between polity, state, economy and organisational processes such as the design and use of management accounting systems. Issues of power, conflict, historical, social, economic, political, cultural, and institutionalised rules and regulations are key variants of the PE approach. The PE approach explains how these affect or dictate the operation of management processes in organisations. There is the view that be adhering to policy, state, and economic pressures, organisations will be viewed as legitimate. Accounting research suggests that a PE approach can better capture these phenomena by tracing the socio-political underpinning of economic phenomenon to patterns of state involvement and the interaction between legal and economic processes upon and within the organisation. Several themes have emerged from accounting studies using a PE approach including: how accounting systems are shaped by the interrelationships between political and economic forces in organisations and society; and, how the meanings, culture, ideology, and the organisational contexts dictate the operation of accounting and control systems in the organisation.

Thus the difference between these two theories lies in their focus. Contingency theory is interested in the factors that shape the Management Control System; PE is interested in the mutual relationships between the MCS and polity, state, and economy. Also, PE assumes the organisation changes for legitimacy purposes; contingency theory does not discuss the 'why' of change it only looks at the factors that have shaped the change.

1-10 Describe some of the changes that have altered the business environment.

The business environment has been altered by a number of factors such as sociological, technological, economic and political (STEP). Socio-cultural changes are those changes in a society's beliefs, attitudes, opinions and lifestyles. Examples of these are demographic trends and skill availability. Political and legal changes on the other hand are usually the result of a change in government when new regulations are imposed that reflects the new government preferences and priorities. Economic conditions include competitors, suppliers, employment rates or changes from public to private ownership. Finally, the introduction of new production processes or the computerisation of processes has changed the business environment.

1-11 What kind of information do organizations require to compete in the new business environment?

To compete in the new business environment organisations require a range of information to management the many areas of their business environment. This information must be timely and relevant to the decision-making requirements of management. Examples include competitor analysis, performance measurement, and quality cost techniques.

1-12 What are the conventional methods of management accounting? Provide examples.

Conventional methods of management accounting were concerned with computational aspects of product costing and quantitative systems of planning and control. These systems ignore the behavioural dimensions of accounting and the business context. Examples of the conventional management accounting system include volume-based cost allocations, cost-volume-profit-analysis, budgetary control, and standard costing.

1-13 Discuss why managers should not rely solely on financial information for maintaining competitive advantage in the new business environment.

No business decision should depend solely on financial information; managers should rely on a wide range of both financial and non-financial information for day-to-day business operations. Traditionally managers used financial information for decision-making. However by relying on financial information, managers fail to capture other important dimensions of company performance, information that is important especially under conditions of managers' greater perceived environmental uncertainty. To maintain a competitive advantage managers need a much broader scope of financial and non-financial information that is both ex post and ex ante.

1-14 What is the difference between information use in the public sector and the private sector?

With the increasing similarity between public sector and private sector organisations there is little difference between the information use in the public sector and the private sector. Notwithstanding it must be noted that the public sector is accountable to a much wider range of stakeholders (e.g. resource providers, recipients of goods and services, oversight parties). They use information to discharge this accountability.

1-15 Explain how the agency view of management accounting applies to the public sector.

Agency theory is concerned with the delegation of decision-making authority by a principal to an agent. In the public sector the agent or manager is kept accountable through various audits (e.g. financial, quality) and the preparation of various reports including an annual report.

1-16 Compare and contrast the technical rational view of management accounting with the contingency view of management accounting. Use examples to explain.

The "technical rational choice model" refers to the use of management techniques and procedures such as accounting to help the organisation to make rational types of decisions that maximise the goals of the organisation. In particular the technical-rational approach has the following key features. First, it assumes a pre-set goal or consistent goal sets. There is the view that rationality emphasises consistency among goals and objectives concerning a particular action, and consistency in the application of principles to select the optimal alternative. Technical-rational perspective also assumes that alternatives are mutually exclusive, separate and easily identified. Thus, this approach deals with unitary goals, identification of the range of possible options, their likely consequences and the selection of an alternative that maximises the goal of the organisation. Most management accounting textbooks are built on these assumptions. To be clear, management accounting systems provide the computational decision making tools used to help the organisation to achieve their goals.

"Contingency theory" assumes the type of accounting and control system varies according to the specific circumstances or situations in which the organisation operates. There is the view that "there is no universally "best" design for a management control system, but that "it all depends" upon situational or contextual factors." So far, researchers have identified a range of variables implicated in the design and use of accounting and control processes in organisations. These include the influence of the organisation's culture, technology and market on budgetary control systems; the size of an organisation, its technology and structure; decision-making styles; organisational values and motivation; management aspiration for profit growth.

The difference between the technical rational theory and the contingency theory is that the technical rational is concerned with using management accounting information to make rational decisions the contingency theory on the other hand is concerned with how the management accounting system is fashioned.

1-17 Describe the relationships among organizational change, management control systems and management accounting systems.

Management Accounting systems are one of the systems comprising the Management Control System. To be effective, the management control system must respond to changes in their environment. Often changes brought about in the management accounting system have implications for the design of other components of the management control systems such as employee commitment and morale. Thus, when changes occur in the external environment all of the interrelated control systems should be considered so that they continue to be effective.

1-18 Discuss the types of organizational change and provide examples of each.

There are three types of organisational change.

Developmental change is used to improve the organisation through practices such as team building, expanding into other markets, or introducing new technology.

Transitional change refers to the implementation of a new structure or method. For example, if an organisation introduced a balanced scorecard this could be defined as transitional change.

Transformational change is defined as the introduction of a new structure, which also requires a change in strategy and vision. For example, if an organisation enters new product markets, the organisational strategy and vision will have to change.

1-19 Organizational change tends to dominate two organizational properties. What are these? Discuss each property and explain how it is implicated by change.

Organisational change tends to dominate two organisational properties: the structure of the organisation and the cultural characteristics of the organisation. Organisational structures can be defined in terms of centralisation or decentralisation, efficiency or effectiveness, professionalism versus management, control versus commitment and change versus stability. Organisational structures define job activities, responsibilities, and accountabilities. They enable managers to organise and distribute resources, and they also establish the power hierarchy of the organisation. There is the view that organisations change their structures for successful performance and as a coping mechanism for change.

Culture refers to the set of values, guiding beliefs, understandings, and ways of thinking that are held by all organisational members. Such characteristics define one organization from another. Changes to the organisational culture refer to changes in the perceptions, assumptions, and behaviours of employees, the ethical codes, symbols and actions. In order for change processes to be effective, the managers must change the culture so that it is conducive to meeting the organisations initiatives.

Chapter 2
Vision, Mission, Goals, Objectives and Strategy Typology

2-1 Why do you think it would be important for you as a manager to understand issues of strategy choice in organisations?

It is important to understand the issues of strategy choice so that effective strategies are designed. This means they should have a long-term focus (3-5 years), they should evaluate the external environmental opportunities and they should assess the internal strengths of the organisation. From the strategy a specific set of action plans can be devised to accomplish the strategy.

2-2 What factors might influence the way an organisation formulates its business strategy? Discuss.

A business strategy refers to how a company competes in a given business and positions itself relative to competitors. The type of factors that might influence the way the organisation formulates its business strategy includes:

- The bargaining power of buyers;
- The bargaining power of suppliers;
- The pressure from substitute products; and
- Threats of new entrants.

Strategies could be based around low cost or product differentiation.

2-3 Explain how vision, mission and strategy relate to each other. Provide examples.

The *vision* statement describes what top management sees as the reason for the firm's existence. The *mission* statement provides a short, written description of the organisation's overall purpose. It reflects what the organisation is now and the perceived needs of its customers or constituents. *Strategy* is the process by which organisational managers, using a time horizon of three to five years, evaluate external environmental opportunities and also internal strengths and resources to decide on goals, as well as a set of action plans to accomplish these goals. The design of the mission and strategy should be within the scope of the organisational vision. To be effective in formulating strategy the firm must work back from the mission to the strategic goals of the organisation.

2-4 How does the organizational environment affect the organizational strategy?

In the rapidly changing environment, organisations have turned to strategies to adapt. The type of strategy adopted is dependent on how the managers of the organisation perceive the environment. Managers decide which uncertainties are critical and the accounting information that is appropriate for planning and decision making. For example, if a manager adopts a defender strategy they focus on ways to reduce production and to maximise short-term financial goals. Based on this approach they tend to experience low uncertainty. On the other hand, prospector firms are faced by high levels of uncertainty stemming from the fact that they base their strategies on introducing new products and markets. That is, because they ‘experiment’ to gain market share they are faced with greater uncertainty.

2-5 Assume you are a manager in the hotel industry. Develop your own company vision, mission and strategy.

(Students answers will vary but may be something like this)

Vision:

To be identified as Australia’s best first-class hotel organisation.

Mission:

In the pursuit of our vision ABC hotel is committed to

Integrity:
We will strive to maintain the highest standard of conduct in all our actions and behaviours.

Teamwork:
We will work together to achieve our goals.

Individual Worth:
We will recognise and respect our co-workers and their efforts to achieve the company goals.

Consistent Standard of Excellence:
We will consistently provide guests with a superior quality product and make a conscious daily effort to offer a better service than our competitor

Personalised Guest Service:
We will provide a professional, friendly, timely and enthusiastic service to each guest at all times.

Strategy:

Product differentiation – to produce a superior quality service to guests.

2-6 How would the vision, mission and goals and strategy differ for a non-profit organization?

Unlike profit organisations, the main goal of a non-profit organisation is not to maximise profits. Decisions are not made therefore to increase the profits of the organisation. Usually the non-profit organisation operates with the intention of providing the best possible service with the available resources. Unlike profit organisations most non-profit organisations are restricted in their ability to choose the different ways they can operate and what industry they will operate in. These are normally determined by government organisations. Thus in order to receive continued funding they must conform to the expectations of the government organisation. This has implications for the degree to which the vision, mission, goals and strategies are driven by management decisions and the degree to which they are driven by external expectations. Based on this it would be expected that the vision and mission and goals of non-profit organisations would be based around best service instead of profits.

2-7 What is a strategic business unit?

A Strategic Business Unit (SBU) is an organisational operating or sub unit that has a distinct set of products or services sold to customer/group of customers, facing a well-defined set of competitors, and a mission distinct from those of the other operating units in the firm.

2-8 Explain the type or levels of strategy.

Typical business firms uses three types of strategy: corporate, competitive (or business) and functional (or operational).

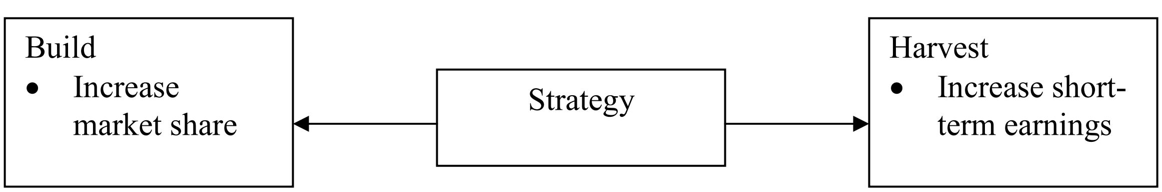
Corporate strategy describes how a company determines what business it wants to be in. Corporate strategy deals with three key issues: directional strategy (growth, stability, or retrenchment); portfolio strategy (industries or market for products); and parenting strategy (systems of allocation of resources and coordinating activities among product lines of business units. An example of a corporate strategy would be whether a big multinational corporation, Coles Myer, periodically considers whether it should continue to operate in both the discount store market (Kmart and Target) and the departmental store (Myer and Grace Brothers) and grocery business (Coles Supermarket and Bi-Lo Supermarket).

Competitive (or business unit) strategy occurs at the business unit, division or product level, and it refers to how an organisation competes within each type of activity and tries to achieve competitive advantage relative to its competitors. Coles Myer's supermarkets may compete on the basis of low price while the Myer departmental stores may focus on providing superior quality products and customer service.

Functional (or operational) strategy is the company's actions of a specific function (e.g. distribution) within particular businesses. Functional strategy pulls together the various activities and competencies of each function so that the organisational strategies and goals are achieved. Coles Myer Supermarket would periodically review its marketing and distribution functions or sales strategy relative to its competitors such as Woolworth.

2-9 What is the difference between the build and harvest strategy?

The objective of the build strategy is to increase market share. The objective of the harvest strategy, on the other hand, is to maximise short-term earnings and cash flow even if it results in a loss of market share.



2-10 Organizations can adopt a number of strategies to compete in the business environment including:

- **Quality**
- **Cost**
- **Customer Service**
- **Product Differentiation**
- **Technology**

Provide examples of companies that may use the strategies for competitive advantage (e.g. McDonald's requires a cost strategy).

Company	Strategy				
	Quality	Cost	Customer service	Product differentiation	Technology
McDonald	X	X			
IBM*	X			X	X
Travel agent	X	X	X	X	
Pizza Hut	X	X	X		
Telstra**	X	X	X		
Energex***	X	X	X		

* IBM is a computer company
** Telstra is a telecommunications provider
*** Energex is a privatised electricity company

Organisations can adopt a number of strategies to compete in the business environment. To be effective, the choice of a particular strategy should consider the organisation, the industry, government regulation, technological advancement and social and political expectations. For example, an effective strategy for McDonalds would be based on cost, quality, and product differentiation strategy rather than technology strategy. It is important that McDonald's keeps their costs to customers to a minimum because the fast food industry is saturated with similar low cost products. In addition to this quality is important for maintaining customer satisfaction. While Telstra's strategy is likely to be more focused on cost, quality, and customer services. Telstra has a number of competitors in the telecommunications industry. The rate of technological advancement in the industry is very high and as such the cost of supplying services tends also to be high. Thus, it is important that they adopt a cost, quality and customer service approach to ensure that their product is comparable, if not better than their competitors so that their customers continue to purchase their services. Different to the fast food and telecommunication industries, IBM strategy includes quality, customer service, and product differentiation. IBM relies on technological advancement and product differentiation to retain their customers. It is important also with the increasing rate at which computer products are developed that their products be of a high quality to convince customers to continue purchasing their products.

2-11 Explain why different companies require different strategies.

Strategies are used to focus the firm's attention on those aspects of its products and services that it must rely on to drive the firm toward achievement of its goals. More simply put, strategy is the process of building defences against competitive forces or as finding positions in the industry where the forces are weakest. Therefore any sensible competitive strategy should be designed to build on the relative competitive advantage of the business. The choice of a particular strategy will depend on the external environment and the characteristic of the type of industry, as well as the internal dynamics of the organisation. There is an association between strategy and environmental uncertainty. For example, since defender (or harvest) firms focus on searching ways to reduce production and distribution costs, to cut marketing expenses, and to improve product quality to maximise short-term financial goals, they tend to experience low uncertainty. While since prospector (or build) firms compete in a broad product market domain by introducing new products and developing new markets, they are likely to face high uncertainty. Thus, the level of uncertainty is high for firms following a "prospector" (or build) strategy and it is relatively low when a "defender" (or harvest) strategy is pursued.

For example, the strategy of IBM, a computer-based company has a technology, quality and product differentiation strategy rather than cost strategy. In this case, price is not as important as product quality and technology. Customers are willing to buy IBM product with higher price because of the perceived quality of IBM products. This strategy is the competitive advantage of IBM. Different from IBM, Burger King, a fast food franchise, for example may be more focus on cost rather than technology. The reason is because Burger King's products do not need a sophisticated technology like IBM does and the products have a high turnover and therefore they can offer lower cost products than IBM.

2-12 Discuss how a company can use strategy to create barriers to entry. Give examples.

Strategy is adopted by companies to compete in the increasingly complex business environment. The right strategy in the right competition environment will create barrier for competitors to entry the industry. For example, the development of long-term partnerships with company customers and suppliers is another example of strategy that effectively create barrier for competitors to enter the competition. Toyota for example, has a strategy by building up relationship with suppliers and customers, so Toyota can control the price, quality and the availability of the product as well as to control the uncertainty of demand. Toyota's competitors difficult to compete with Toyota as they must have strong business network, financial ability, market, and research and development activities.

Virgin Blue, an airline also faced a number of barriers to entry when they first started their operations in Australia. To begin with they were faced with two major airlines that monopolised the industry, Qantas and Ansett. These airlines operated with a large number of planes and flew to most locations in Australia. They offered regular services to these locations (i.e. flights to the major capitals several times a day). They also held leases with the major airports for space allocation. Furthermore, they had established customer reward programs or alliances with other international airlines. Qantas and Ansett provided high cost quality products to their customers. The only way therefore that Virgin Blue could successfully enter the market was to offer a low cost quality product, because the barriers to entry created by the existing airlines were too high.

2-13 'By improving supplier relations the organization can reduce the bargaining power of their supplier.' Critically evaluate this statement.

This statement suggests that when an organisation develops a strong relationship with their supplier the bargaining power of that supplier is reduced. This is particularly the case when a few companies who have multiple suppliers that they can purchase materials from dominate the industry. One of the ways that they organisation can reduce this power is to agree to use the supplier on a long term basis. Usually an organisation would agree to such an arrangement on terms that the products will be purchased at a minimum cost, with minimum delivery time at an agreed level of quality.

2-14 Discuss the relationships among the uncertain environment, strategy, management control system and management accounting system.

The various approaches to strategy formulation differ widely in their advice to management under conditions of greater environmental uncertainty. Management's strategic choices are directly associated with their perceived environmental uncertainty. This linkage, however, is positively associated with management's choice and use of organisational control systems. Scholars also suggest that although firms competing in the same industry face the same set of potential environmental uncertainties, management's strategic choice strongly influences which uncertainties are critical and which accounting information system and management control system are appropriate for managerial planning and decision-making. Below are some examples of the relationship between the environment, strategy, management control system and the MAS.

Environment	Strategy	MCS	MAS
Stable/ low uncertainty	**Defender**	Control, emphasis on efficiency	More focus on financial information Example: budgeted cost and revenue, actual cost and revenue, budget slacks.
		Little change in systems	
		Managers' rewards are related to budget achievement	
Unstable/ high uncertainty	**Prospector**	Functional structure	Focuses on financial and non financial information such as: Technology change Competitor's product Competitor's price Customer complains Time to market number of new product within certain period, etc.
		Flexible structure	
		Emphasis on marketing and research and development	
		Performance measures stress effectiveness in innovation	

Chapter 3
The Basics of Management Control

3-1 What is the management control system? Describe how the components of the control system are interrelated.

The management control system (MCS) is a means of gathering data to aid and co-ordinate the process of making planning and control decisions throughout the organisation.' A number of interrelated components comprise an organisation's MCS including:

- Strategy, strategic planning, and strategic management
- Accountability structure (Corporate governance),
- Responsibility accounting (such as budgeting),
- Performance measurement,
- Direction,
- Motivation, and
- Incentives.

None of the MCS components can effectively be managed without considering their impact on other components and how they support each other.

3-2 Why do you have to consider behavioural views when designing the MCS?

Organisational change inevitable produces a degree of resistance to that change. It is for this reason that the behavioural views must be considered when designing the management control system. If for example the behavioural views are not considered employee may be less likely to work towards the desired goals.

3-3 Discuss the relationships among strategic planning, strategic management and programme planning.

Strategic planning is the process of deciding about the types of businesses and markets that an organisation operates in, and decisions about how those businesses and activities will be financed. Strategic planning helps managers formulate the plans and activities that will bring their organisation closer to its goals.

Strategic management is the process of analysing and practicing of strategy, including the implementation of strategic plans.

Program planning is the process by which management decides how best to implement its strategy, given the resources available to it in a specified time period. If the time period is a year or less, we refer to program planning as budgeting and its output as a budget; for longer periods, the term is long-term planning, and the product is a long-term plan.