

Strategy management accounting in Vietnamese enterprises: TPP integration and challenges

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Abstract - It is not accidental when Bloomberg has recently appreciated Vietnam as a “new tiger economy of Asia” in coming future. Vietnam now has so good opportunities when the process of negotiation of TPP should be completed within this year. But TPP not only brings chances but also challenges: how Vietnamese enterprises should survive and compete with powerful competitors such as multi-national corporations coming from over the world, when the trend of M&A in Vietnam seems coming to booming stage. Facing this situation, it requires Vietnamese management boards to apply the new management techniques in order to cope with the change of business environments. One of effective management tools is strategic management accounting. The aim of this study is firstly to examine the difficulties when implementing the strategic management accounting – the gap between theory and practice, and secondly to recommend some solutions for the government and related parties in identifying, building and implementing successfully the strategic management accounting for both of teaching direction and practice. The secondary data and official documents were firstly collected from Vietnamese General Statistic Office, Ministry of Industry and Trade of the Socialist Republic of Vietnam, VCCI in order to examine how the strategic management accounting had been implemented in Vietnamese enterprises. After that, using the qualitative method we conduct surveys via interviews with representatives of Vietnamese enterprises’ management board such as CEO, CFO ..., professors in universities. The findings of this study were argued that the major difficulties on implementation of strategic management accounting were related to insufficient Vietnamese executives’ viewpoint about strategic management accounting as well as staff competency.

Index term - strategic management accounting, TPP, management accounting, theory and practice, Vietnamese enterprises.

INTRODUCTION

With the opening market agreements when participating to World Trade Organization – WTO, Vietnamese Government had allowed the foreign investors to open the foreign-owned enterprises since 2009 with maximize contribution capital 50%, but next stage since January 11th, 2015 this percentage opening will be 100% foreign-owned capital. Until now there are some famous retail groups in the world such as *BigC*, *Metro*, *Lotte Mart*, *Seven Eleven*, *Central Group* ... has invested and expanded steps by steps in Vietnamese market. But the stage 2010 to now the Thailand investors have stand out than other competitors with the remarkable brand name such as Charoen Pokphand, TCC Group, PTT, Cement Siam (SCG), BJC, Central Group etc... They have done successfully M&A on almost fields such as retail, construction materials, gas and petrol etc... with total investment is more than ten billion

dollar. And in the latest shaking event, Central Group (Thailand) has declared that the deal of winning the majority of Big C Vietnam has been done. So the question here is how Vietnamese enterprises compete and survive, or stand firm in the face of difficulties before the strong M&A trend, especially the time for TPP will come soon. Not only small and medium enterprises but also large enterprises might come to the verge of bankruptcy such as “shipwrecked Vinashin” if they have not been managed well. But how Vietnamese enterprises can create competitive advantages and increase their performances if their managers are lack of knowledge about strategy management accounting (SMA), which is considered as the most effective management techniques in the world.

LITERATURE REVIEW

Since the early 1980s Simmonds (1981) had addressed the concept of SMA firstly, which being defined as

management accounting developed in support of strategic management. As one of the precursors, he defined SMA as "the provision and analysis of management accounting data about a business and its competitors for use in developing and monitoring the business strategy" (Simmonds, 1981, 26). He had stated that "the traditional management accounting focus on internal factors broadens on external factors", such as market share, costs and prices, and volume. Recently, scholars have called for qualitative studies addressing accounting and strategy in practice (Ahrens & Chapman, 2005, 2007; Chua, 2006).

As time of Simmonds's definition of SMA had been offered for the first time, Shank & Govindarajan (1993) also developed a similar idea, which they refer to as Strategic Cost Management (SCM). Their approach is based on Porter's works, in particular the generic strategies and value chain (1980, 1985). SCM is defined as "the managerial use of cost information explicitly directed at one or more of the four stages of the strategic management cycle" (Shank, 1989, 50), with those being "formulating strategies, communicating those strategies throughout the organization, developing and carrying out tactics to implement the strategies and developing and implementing controls to monitor the success of the implementation steps and hence the success in meeting the strategic objectives" (Shank, 1989, 50; Shank & Govindarajan, 1993, 6). Three SCM underlying concepts have been identified: value chain analysis, strategic positioning analysis and cost driver analysis (Shank, 1989; Shank & Govindarajan, 1993; Shank, 1996), which in combination are suggested to produce strategy-relevant cost data. The first offers "a broad focus, external to the firm" (Shank, 1996, pg. 193) for effective cost management, and is discussed further later on. The second is addressed by the question: "What role does cost management play in the

firm?" (Shank, 1989, pg. 55; Shank & Govindarajan, 1993, 17). Cost analysis differs according to the strategy chosen, that is cost leadership or differentiation as proposed by Porter (1985). There are a number of differences according to Shank (1989), for example strategic emphasis relevant to cost leadership is irrelevant to differentiation and vice versa. Marketing cost analysis is perceived as critical to success for product differentiation, however not very important for cost leadership (Shank, 1985, 55). The third concept does not refer to the conventional idea of what drives cost volume, but takes a broader approach. Cost drivers are split into two categories (Shank, 1989, 56), structural and executional. The former category contains five possible cost drivers regarding a "firm's underlying economic structure" (Shank, 1989, 56), which are (investment) scale, scope of operations, (past) experience, (process) technology and product/service-complexity (Shank, 1996, 194). The second category is executional cost drivers, for which the more the better applies, according to Shank (1989, 1996). An extract of the most important ones is employee participation, total quality management, capacity utilization, product/service configuration and exploitation of customer/supplier linkages (Shank, 1989, 57). In this context, the term "cost driver" could be understood as a reference to ABC as developed by Cooper & Kaplan (1988); however this approach was regarded as too volume-focused (Shank & Govindarajan, 1993).

The traditional concepts of management accounting encompass controlling, planning, budgeting and costing, although these functions have also been employed for strategic use (Chapman, 2005; Simons, 1987, 1990, 1991, 1994). But next stage due to increased global competition as the result of globalization, called as "flat world" (Friedman, 2005), the strategy increased in importance and so did

strategic management accounting (Shank, 1989; Shank & Govindarajan, 1993). The general idea in the case of SMA was to support decision-making and to respond to global organisational strategic changes. The nature of SMA is less restricted and more holistic with regard to organisational activities, as models and theories were designed with the scope of activities, the environment and resource capabilities of an organisation in mind. One of the most important differences is that SMA is future-orientated rather than historical compared to conventional methods (Wilson, 1995). As Tomkins & Carr (1996a) state - "it entails the management accountant's contribution to corporate strategy". A number of approaches have developed under the heading of SMA which each propagates a future-orientated approach but may focus on different details (Lord, 1996).

Competitive position as a major influence on profits, as opposed to purely firm-internal factors (Simmonds, 1981), was emphasized for the first time with regard to accounting practices. Since then, various practices have been developed under the heading of SMA to support organisational outlooks and operations. Bromwich stated the need for competitiveness in order to keep business alive and thriving (Bromwich, 1990). Bromwich (1990) has advocated managing costs with a "broad, long-term and proactive" scope (Shields & Young, 1992, pg.17) in particular for competitive markets. He propagates a Porterian stance towards strategy, SMA and strategic management (Bromwich, 1990, 2000), contemplating accounting's role in either of the generic strategies but considering economic theory influences in the context of SMA developments. Bromwich (1990) concludes in the first publication that management accountants can contribute to strategic management. However, in his publication 10 years later Bromwich (2000) is disappointed

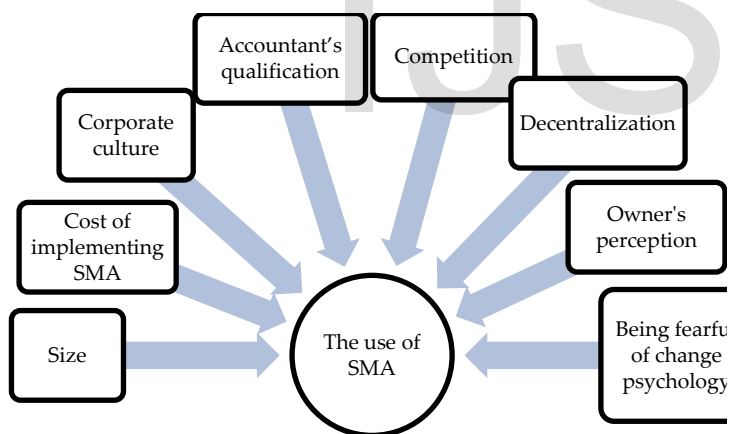
with SMA's developments and states that accountants are not necessary for SMA undertakings. Other scholars have further insights to add the concept of SMA. Dent (1990) firstly provides an outline of various strategic management practices, as outlined above, and discusses management accounting against this backdrop as he propagates the combination of future-oriented outward-looking strategic management and accounting *per se*. Dermer (1990) also addressed the strategic agenda with regard to accounting and viewed their relationship as an ecological one, which means that it does not search for one truth or true objective structure but rather accepts a multitude of conflicting interests. Stakeholders seek to further their interests within this system, and make use of accounting as a means of reality constructing (Dermer, 1990) to achieve their strategic goals. Even if competitors' data is obtained, the question remains whether market leaders use this kind of information or whether they are very innovative and reinvent themselves constantly. "New forms of internal analysis and accounting/process roles that will help management devise better strategies" are needed in addition to competitor data (Tomkins & Carr, 1996a, 165). Roslender (1995) has also reviewed the SMA literature and concludes practitioners have difficulty to decide which approach to adopt. In general, the author concludes that there is no unified approach to SMA, and that management accounting scholars should gather to determine the shared aspects. Lord (1996) has provided a classification of SMA approaches, and like Roslender, comes to the conclusion that there is no unified approach but rather several approaches that share attributes.

In Vietnam, there is rare research about SMA due to late in implementing management accounting since 2003, when the Vietnamese Accounting Law being valid. In 2010 in his research about factors impact to the use of SMA in medium

and large enterprises in Vietnam, Doan Ngoc Phi Anh had stated that factors including competition and decentralization affected to the use of SMA in Vietnamese enterprises (Doan, 2010). And in the conference about management accounting in Vietnam in 2014, Doan & Trinh (2014) had summed up the development about SMA and the raised the problem and direction about SMA in Vietnam.

FINDINGS AND DISCUSSION

In order to examine how the SMA had been implemented, which factors being considered to be barriers to the use of SMA in Vietnamese enterprises, we use the qualitative method by conducting deep interviews with representatives of Vietnamese enterprises' management board such as CEO, CFO and professors in universities (see the Annex attached). The research model as below:



The discussion of interviewed experts had listed these variables impact to the use of SMA as size, cost of implementing SMA, corporate culture, accountant's qualification, competition, decentralization, owner's perception, fearful of change psychology with detailed content as below:

- ❖ **Size of enterprises:** in the prior researches it is apparent that more sophisticated management

accounting system tends to increase in line with the level of size of enterprise. In Vietnam the number of small and medium enterprises is about 97.6% of all (PCI2015), and all interviewed experts had the same consideration about this factor that it impacts strongly to the use of SMA in Vietnamese enterprises. The facts in recent surveys concerning to management accounting in Vietnamese SMEs show that only medium and large enterprises care about implementing management accounting. For the SMA, it is far from familiar with Vietnamese enterprises – only 7% already applied BSC and 37% intended to do that among top 500 largest Vietnamese enterprises (VNR Quarterly Report 2009). So almost management tools of SMA seem impossible to implement in small and medium enterprises, the rate is may be optimistic for large enterprises in Vietnam.

- ❖ **Cost of implementing SMA:** this factor is considered to impact to the use of SMA, but it is also affected by the size of enterprises, in which the larger enterprises are willing to spend more for SMA than small and medium enterprises. The obstacle is that implementing SMA techniques takes not only time but also resources for both of human and finance. In addition, it is clear that SMA is not compelled by law, so that the cost – benefit relationship always is considered when choosing implementing SMA or not.
- ❖ **Corporate culture:** in Vietnamese business community the concept “corporate culture” is not so familiar like before because almost of enterprises have paid attention on building corporate culture in order to save business in difficult stages. Strong corporate culture help

employees understand each other, have deep understanding about their enterprises' goal, strategy etc. And this is a good condition to implement SMA as a management technique.

- ❖ **Accountant's qualification:** in Vietnam the subject of management accounting had been taught since 1994 in some universities, and SMA only being taught in higher level – master degree. So that the lack of competence of accountants is real headache for implementing SMA in Vietnamese enterprises. Because of the knowledge of SMA is not familiar with all accounting students, so that it is not easy to ask fresh accountants to consult or help their managers in SMA.
- ❖ **Competition:** In order to compete effectively and successfully in today's highly competitive global environment, enterprises should make customer satisfaction a prevailing priority, adopting new management approaches, changing their manufacturing systems, and investing in new technologies. Management accounting techniques, as part of the company's system, are significantly influenced by such changes. So when participating in TPP, with more fierce competition, this factor will impact Vietnamese enterprises to implement SMA techniques soon.
- ❖ **Decentralization:** One of important functions of management accounting is performance evaluation. But performance evaluation only means when responsibility ties together with decentralization. So with the sophisticated techniques of SMA need the high decentralization in enterprises.
- ❖ **Owner's perception:** A good signal for Vietnamese enterprises that the owner's education level is

improved (PCI2015), with more than 60% of interviewed owners graduated from university. It means that their knowledge about management accounting also is improved nowadays. It is apparent that if the owners perceive management accounting techniques well, they are willing to spend or invest in use of them, including most sophisticated SMA techniques also.

- ❖ **Being fearful of change psychology:** The last considered factor in this discussion is being fearful of change psychology, for both of employees and owners. For employees, when implementing sophisticated SMA techniques, it also means that they must learn the new things, new techniques, work under higher pressure but not being sure about higher incomes. For the management level they must face with higher criteria when they evaluate their performance by management accounting techniques. And for the owners, they always feel indecisive when implementing new things because of being unsure about cost – benefit relationship etc. So this factor is considered as a real barrier for the use of SMA.

Basing on findings above, the study suggests some solutions to concerning parties in order to increase the possibility of implementing SMA in Vietnamese enterprises. Firstly Vietnamese enterprises should associate in order to increase the size and minimum the operating cost. In addition, the owners – entrepreneurs, should change their mind and upgrade themselves about managing knowledge, including SMA. They must be eager to change in order to catch up the new trend in booming globalization trend nowadays. Besides, the managers should both increase the decentralization level to their employees and help to increase their employees'

competence. This will help them to have timely decisions and apply continuous improvements in order to meet the changes of business environment and make more convenient to implement SMA. Secondly, for the Vietnamese government, they should support Vietnamese enterprises by specific guides, especially such as the terms of TPP agreements. They should help the Vietnamese enterprises find out the new market through Vietnamese commercial counsellors in the world. In addition, The Ministry of Finance should cooperate with Vietnam Association of Accountants and Auditors – VAA to issue the specific guidelines to help implement SMA tools successfully in Vietnamese enterprises. Thirdly, universities should bring the most update contents about SMA on the teaching program. They should also coordinate with enterprises in order to have the specific and right vocational guidance. This will help avoiding

redundant graduated students and increasing qualified accountant forces.

CONCLUSIONS

The heat of TPP participating agreements becomes pervasive deeply in Vietnamese business community, and being commented in almost Vietnamese current mass media recently. But the fact shows that a few Vietnamese enterprises know well about TPP agreements and enclosed conditions. Moreover, it seems that they are not equipped enough management techniques to stand firm in the face of TPP integrating. Throughout deep interviews with some experts in management accounting field, this study just examine firstly about some factor which impact to the use of SMA in Vietnamese enterprises. In coming research in future, authors suggest to have these factors being measured with quantitative methods, in order to recommend practically to related parties.

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