INNOVATION, ENTREPRENEURSHIP, MANAGEMENT SERIES

DIVERSE AND GLOBAL PERSPECTIVES ON VALUE CREATION SET

Volume 2

Value Creation in Management Accounting and Strategic Management

An Integrated Approach

Satoshi Sugahara
Nabyla Daidj and Sumitaka Ushio

iSTE

WILEY

Value Creation in Management
Accounting and Strategic Management

Diverse and Global Perspectives on Value Creation Set

coordinated by
Nabyla Daidj

Volume 2

Value Creation in Management Accounting and Strategic Management

An Integrated Approach

Satoshi Sugahara
Nabyla Daidj
Sumitaka Ushio

iSTE

WILEY

First published 2017 in Great Britain and the United States by ISTE Ltd and John Wiley & Sons, Inc.

Apart from any fair dealing for the purposes of research or private study, or criticism or review, as permitted under the Copyright, Designs and Patents Act 1988, this publication may only be reproduced, stored or transmitted, in any form or by any means, with the prior permission in writing of the publishers, or in the case of reprographic reproduction in accordance with the terms and licenses issued by the CLA. Enquiries concerning reproduction outside these terms should be sent to the publishers at the undermentioned address:

ISTE Ltd
27-37 St George's Road
London SW19 4EU
UK

www.iste.co.uk

John Wiley & Sons, Inc.
111 River Street
Hoboken, NJ 07030
USA

www.wiley.com

© ISTE Ltd 2017
The rights of Satoshi Sugahara, Nabyla Daidj and Sumitaka Ushio to be identified as the authors of this work have been asserted by them in accordance with the Copyright, Designs and Patents Act 1988.

Library of Congress Control Number: 2017948831

British Library Cataloguing-in-Publication Data
A CIP record for this book is available from the British Library
ISBN 978-1-84821-976-2

Contents

Introduction ix

Part 1. The Evolution of the Concept of Value Creation in Accounting and Strategy (At a Theoretical Level) 1

Chapter 1. Value Creation: A Polysemic Concept 3

1.1. Introduction. 3
1.2. The economic concept of value 3
1.2.1. Back to the basics. 3
1.2.2. The concept of value explained by IO scholars 5
1.3. The value concept in strategic management: the evolution of strategic thought of Michael Porter. 11
1.3.1. The first stage: the economical background of Porter 12
1.3.2. The second phase: a shift toward strategic management (1980–2000) 13
1.3.3. The third phase: the role of geographic location (the 2000s), clusters and nations 17
1.3.4. The fourth phase: from the end of the 2000s to the beginning of the 2010s 18
1.4. From value creation to cocreation of value 19
1.5. Conclusion 21

Chapter 2. Strategy and Management Accounting: Theoretical Background 23

2.1. Defining “strategy” 23
2.2. The “prescriptive view” and “postscriptive view” of strategy 25

2.2.1. The prescriptive view of strategy 25
2.2.2. The postscriptive view of strategy 26
2.3. The role of accounting in strategic management 28
2.3.1. Transmitting a prescriptive strategy within an organization 28
2.3.2. Fostering organizational learning as a postscriptive strategy 32
2.4. Making an organization literate about strategy 34

Part 2. The Linkages between Accounting and Strategy Practices in Various Environments 37

Chapter 3. Management Accounting Practices as Organizational Learning: Continuous Value Creation in a Japanese Company 39

3.1. Introduction. 39
3.2. Literature review. 41
3.3. Methodological issues 44
3.4. Research design 46
3.5. Case description: ubiquitous management accounting practices at Kyocera 47
3.5.1. Organizational structure and accounting responsibility 47
3.5.2. Penetrating the Kyocera philosophy 49
3.5.3. Budgeting processes based on Plans. 52
3.5.4. Fractal organizational learning through the budgeting process . . . 55
3.6. Discussions and conclusions: management accounting as an education system 58

Chapter 4. New Ways to Create Value Integrating Strategic and Accounting Issues in a New Context of Digital Transformation: French Perspectives 61

4.1. Introduction. 61
4.2. The evolution of value chain and business model 62
4.2.1. The extended notion of value chain 62
4.2.2. Business model and value creation 65
4.2.3. Linking business models to other management tools (the balance scorecard) 70
4.3. The digitization and the evolution of accounting practices: French perspectives 71
4.3.1. From digitization to digital transformation 71
4.3.2. Uber, uberization and digitization 73
4.3.3. What digital transformation of accounting activities? 76

4.3.4. From big data to advisory services . . . 78
4.4. Conclusion . . . 78

Part 3. The Notion of Value Creation in the Context of Japanese SMEs . . . 81

Chapter 5. Value Creation from Voluntary Disclosure by Small-and Medium-Sized Entities . . . 83

5.1. Introduction . . . 83
5.2. SME accounting scheme in Japan . . . 85
5.2.1. Accounting Standard Board of Japan Guidelines for SMEs (ASBJ Guidelines) . . . 85
5.2.2. General Accounting Standards for SMEs (General standards) . . . 85
5.2.3. Accounting Rules of Corporate Tax Act (Tax Accounting Standard) . . . 86
5.2.4. The International Financial Reporting Standards for SMEs (IFRS for SMEs) . . . 86
5.2.5. Japanese Generally Accepted Accounting Principles (J-GAAP) . . . 86
5.3. Theoretical foundations . . . 86
5.4. Literature review . . . 88
5.5. Association between SMEs' voluntary disclosure and value creation . . . 92
5.6. Summary . . . 93

Chapter 6. SMEs' Value from Voluntary Disclosure: Deductive Quantitative Approach . . . 95

6.1. Introduction . . . 95
6.2. Research design . . . 98
6.2.1. Participants . . . 98
6.2.2. Questionnaire development . . . 98
6.2.3. Descriptive statistics . . . 99
6.3. Results . . . 102
6.4. Interpretation and discussion . . . 107
6.4.1. CPTAs' perceptions of ASBJ Guidelines . . . 107
6.4.2. CPTAs' perceived values of ASBJ Guidelines . . . 109
6.4.3. CPTAs' perceived values of General Standards . . . 110
6.4.4. Differences in value between ASBJ Guidelines and General Standards . . . 111
6.5. Conclusion . . . 112

Chapter 7. SMEs' Value from Voluntary Disclosure: Inductive Qualitative Approach 115

7.1. Introduction 115
7.2. Research design 116
7.2.1. Participants 116
7.2.2. Data analysis 119
7.2.3. Quality check 119
7.3. Results 119
7.3.1. Accounting competencies 120
7.3.2. Financing needs 126
7.3.3. SMEs' management goals 130
7.4. Discussion and interpretation 135
7.4.1. Trading off between expertise and autonomy 136
7.4.2. Cloud accounting for value creation 136
7.4.3. Accrual versus tax accounting 137
7.4.4. Checklist scheme 138
7.4.5. Growth intentions versus preserving status quo 138
7.5. Conclusion 140

Bibliography 143

Index 163

Introduction

This book is devoted to an analysis of linkages between management (or managerial) accounting and strategic management in order to obtain a better understanding of value creation and capture. Most existing studies and books have adopted a purely account-based approach or a strategic-oriented approach to address this issue. We have chosen to overcome this classical divide.

Several institutes and associations in the accounting and management consulting professions have highlighted these links. According to the Institute of Management Accountants (IMA):

> "Management accounting is a profession that involves partnering in management decision making, devising planning and performance management systems, and providing expertise in financial reporting and control to assist management in the formulation and implementation of an organization's strategy".

The American Institute of Certified Public Accountants (AICPA) states that management accounting as a practice extends to the following three areas:

– strategic management: advancing the role of the management accountant as a strategic partner in the organization;

– performance management: developing the practice of business decision making and managing the performance of the organization;

– risk management: contributing to frameworks and practices for identifying, measuring, managing and reporting risks to the achievement of the objectives of the organization.

This book looks at management accounting changes and at the emerging role of management accounting in strategy making. One of the main purposes of management accounting is to help an organization achieve its strategic objectives. The book appraises how closely related accounting and strategic management could create value for companies operating their activities in a dynamic and unforeseeable business environment.

What is management accounting and what strategic role does it play in an organization? Since the 1980s, many changes have occurred and companies have focused their strategy more and more on value creation. Consequently, new strategic directions have emerged, especially for managerial accounting. Management accounting and alignment with strategy can improve performance.

The topic is related to the evolution of the objectives of management accounting based on a strategic approach (external and internal diagnosis), in order to make successful long-term decisions, to ensure a sustainable competitive advantage and to create value. According to [HIL 05], management accounting is able to:

> "'add value' to a business, through the following five major goals: providing information for decision making and planning, and proactively; participating as part of the management team in the decision-making and planning processes; assisting managers in directing and controlling operational activities; motivating managers and other employees toward the organization's goal; measuring the performance of activities, subunits, managers, and other employees within the organization; assessing the organization's competitive position, and working with other managers to ensure the organization's long-run competitiveness in its industry".

This book is divided into three parts.

Part 1 discusses the various meanings of value (creation) according to several theoretical corpus including mainly economics and strategic management in Chapter 1 and opens the debate on linkages between management accounting and strategy in Chapter 2.

Part 2 describes the evolution of the conditions of value creation from different aspects. Chapter 3 explores how management accounting systems and their practices contribute to continuous value creation by encouraging

organizational learning and presents a Japanese case study. Chapter 4 raises the question of how value will be created in a context of digital transformation that reshapes value chains, business models and more broadly business practices including accounting activities. The chapter identifies structural changes relating to the advent of digital technologies and several implications of digitization in the French economy.

Part 3 investigates the factors to determine the voluntary choice of accounting standard for small and medium entities (SMEs) in Japan in order to get a more comprehensive overview of value creation. Chapter 5 summarizes the SME Accounting Scheme in Japan, the theoretical foundations of the voluntary disclosure choice including a literature review. In Chapters 6 and 7, based on empirical tests, Japanese SMEs' strategic behaviors are addressed by focusing on their choice of accounting standards. The choice of accounting standards is regarded as one of the strategic activities implemented by the firms.

This book is an attempt to adopt a cross-disciplinary approach and to explore two combined approaches (strategy and accounting) to improve our knowledge of value creation in various contexts. It draws upon a number of well-defined theoretical and empirical backgrounds and methodologies. This book encourages further thought and reflection on these issues and should be pursued in the future as firms should face new challenges with the acceleration of the digital transformation:

> "A digital transformation strategy impacts a company more comprehensively than an IT strategy and addresses potential effects on interactions across company borders with clients, competitors and suppliers" [HES 16].

Part 1

The Evolution of the Concept of Value Creation in Accounting and Strategy (At a Theoretical Level)

1

Value Creation: A Polysemic Concept

1.1. Introduction

This chapter builds a bridge between mainstream economic theory and strategic management regarding the concept of value. Economics has for a long time been an important source of ideas for developing mainstream strategic management theory. More specifically, industrial economics (known also as industrial organization [IO]) has inspired numerous scholars in strategic management. IO is related to the structure of, and boundaries between, firms and markets. The IO approach is based on economic theory and deals with issues such as competition, rivalry and resource allocation. IO is a branch of economics that emphasizes interdependence that characterizes the firms' decisions in their markets.

"Traditional" insights from economics are closely related with the use of "common" concepts such as value. This chapter is dedicated to a discussion of the concept value and its extension in the field of strategy. The design of this chapter is as follows. We begin by explaining the basics of the notion of value from the economic perspective before developing its main meanings in various contexts.

1.2. The economic concept of value

1.2.1. *Back to the basics*

The history of economic thought has been concerned with economic *value*. Economic goods either have use value or exchange value. The use

Value Creation in Management Accounting and Strategic Management: An Integrated Approach,
First Editio n. Satoshi Sugahara, Nabyla Daidj and Sumitaka Ushio.
© ISTE Ltd 2017. Published by ISTE Ltd and John Wiley & Sons, Inc.

value of a commodity is considered as the direct utility that one receives from its consumption.

> "It has reference to the needs which the properties of a commodity as a physical artifact can be employed to cater to" [GID 71]

The exchange value is the quantitative aspect of value, i.e. the quantified worth of one good or service expressed in terms of the worth of another. "Use value" and "exchange value" can be illustrated by the famous "water-diamond" paradox, i.e. that diamonds are naturally more valuable than water *not* because diamonds are more expensive to produce, but rather because diamonds are more scarce than water.

It is worth noting that this debate remains a key issue in the 2000s and 2010s in the field of marketing and strategic management (see section1.2.2). As mentioned by [KRA 11]:

> "A useful contribution to this debate is Bowman & Ambrosini's (2000) distinction between 'perceived use value' (the subjective value perceived by customers) and 'exchange value' (the bargained price that is paid). The distinction is useful because it emphasizes that the use value of a product/service is a perceived value and that this perceived value may differ from the price that is paid".

Ricardo [RIC 51] and Smith [SMI 81] were the first authors to make a distinction between use-value and exchange-value, focusing their attention on the latter. Then, Marx adopted a Hegelian perspective (based on labor theory) and considered use-value and exchange-value as inseparable dialectical aspects of "the commodity". The neoclassical school [JEV 71, MEN 71, WAL 74] highlighted that value should be determined for each commodity taken separately. The exchange value is considered as a function of use value of the utility of the given commodity. Then, the transformation of value into prices must be done. Value reappears in 20th century economics, as in the expression of "value-adding".

Economists have also developed another concept named "economic rent". Ricardo defined rent as "that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil" Marshall added, "the income derived from the ownership of land and other free gifts of nature is commonly called rent".

Modern economists use the word rent as an "economic surplus or transfer earnings that means the earning of a factor of production in excess of the minimum amount necessary to keep it in its present use". Rents can be generated from resources, innovation advances and/or specific market structure (monopoly rents allowing the company to generate significant and exceptional returns).

Schumpeter [SCH 34] is a key figure on technological innovation and is considered "the prophet of innovation" (an expression used by Thomas McKraw in [MCK 10]). He argued that economic development is driven by innovation through a dynamic process in which new technologies replace the old, a process he named "creative destruction". In Schumpeter's view, "radical" innovations create major disruptive changes, whereas "incremental" innovations continuously advance the process of change. Schumpeter [SCH 34] proposed a list of five types of innovations: new products, new methods of production, new sources of supply, the exploitation of new markets and significant changes in workplace organization and management. Schumpeterian competition drives innovation.

From the Schumpeterian perspective:

> "economic logic prevails over the technological" [SCH 34]
>
> "Costs as an expression of the value of other potential employments of means of production constitute the liability items in the social balance sheet. This is the deepest significance of the cost phenomenon" [SCH 34].

1.2.2. *The concept of value explained by IO scholars*

As it has been mentioned in section 1.1, IO takes into consideration several markets (monopoly, duopoly and oligopoly), product differentiation, incomplete information and various strategic variables (price, advertising, R&D, capacity) in order to have a better understanding of strategic interdependence. IO models, to a large extent, adopt an external perspective to explain how the external environment (government decisions, industry) influences firms' strategic actions and interactions between them. There are different approaches to industrial organization: theories of the firm (transaction cost theory, agency theory and economics of property rights), game theory, etc.