Linking Strategic Management Accounting and Quality Management Systems

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• Quality Management is becoming increasingly relevant for Management Accounting

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• The combination of these disciplines is being analyzed in literature

• The combination of these disciplines is common in Japan (Japanese Management Accounting)
General purpose

“To explore the relationship between MA and QM and provide guidelines for their joint consideration through the analysis of two specific frameworks:

✓ Strategic Management Accounting (SMA)

✓ ISO 9000 Quality Management System (QMS)”
Outline / Specific Objectives

- Literature review of SMA and QMS.
- Analysis of benefits of their simultaneous application.
- Identification of their theoretical commonalities.
- Design of an approach for their combination in practice.
During the 1980s:

✓ Management Accounting was becoming obsolete
  ▪ Costing methods no longer appropriate
  ▪ Excessive focus on financial indicators
  ▪ Neglect of strategic matters

✓ Some new techniques and models emerged:
  ➢ Activity-Based Costing (ABC)
  ➢ Balanced Scorecard
  ➢ **Strategic Management Accounting (SMA)**
Strategic Management Accounting: Definition

❖ There is no consensus on the definition of SMA

❖ In general, it is “the use of management accounting techniques in support of the strategy”

❖ It is considered a cluster of techniques (more than a discipline in itself) derived from two movements:
  ▪ Strategic Management Accounting (SMA) (UK)
  ▪ Strategic Cost Management (SCM) (US)
Strategic Management Accounting: Tools

Costing:
- Attribute Costing
- Life-cycle Costing
- Quality Costing
- Target Costing
- Value-chain Costing

Planning, control and performance measurement:
- Benchmarking
- Integrated performance measurement

Strategic Decision Making:
- Strategic Costing
- Strategic Pricing
- Brand Valuation

Competitor Accounting:
- Competitor Cost Assessment
- Competitive Position Monitoring
- Competitor Performance Appraisal

Customer Accounting:
- Customer Profitability Analysis
- Lifetime Customer Profitability
- Valuation of Customers as Assets
Despite,

– High expectations after its emergence,
– Strong support from scholars,
– Solid theoretical framework,
– Successful application of its individual tools;

SMA as a whole discipline has been scarcely adopted

There is not a comprehensive framework that provides guidelines for the systematic, simultaneous and coordinated use of its individual tools.
ISO 9000 QMS: Origins

**Quality Control:** Product inspection at the end of the production process

**Quality Assurance:** Root cause analysis and failure prevention activities

**Total Quality Management (TQM):** Continual improvement in every process and consideration of all stakeholders

ISO 9000 Quality Management System (QMS) is a framework promoting TQM principles
ISO 9000: QMS Principles

- Customer focus
- Leadership
- Engagement of people
- Process approach
- Improvement
- Evidenced-based decision making
- Relationship management
ISO 9001: QMS - Requirements

- Organization context (4.1)
- Interested parties (4.2)
- QMS scope (4.3)
- Process approach (4.4)

SUPPORT (7)
- People (7.1.2)
- Infrastructure (7.1.3)
- W. Environment (7.1.4)
- Documented Info. (7.5)

OPERATION (8)
- Comm. with customers (8.2)
- Design and D. (8.3)
- Purchase (8.4)
- Production / Provision (8.5)
- Delivery (8.6)
- Non- (8.7) Conformities

PERFORM. EVALUATION (9)
- Customer Satisfaction (9.1.2)
- Monitoring and Measurem. (9.1.3)
- Internal Audit (9.2)
- Management review (9.3)

PLAN
- PLANNING (6)
  - Risks and opportunities (6.1)
  - Quality objectives (6.2)

DO
- LEADERSHIP (5)
  - Commitment (5.1.1)
  - Policies (5.2)
  - Responsibilities (5.3)

CHECK
- IMPROVEMENT (10)
  - Improvement opportunities (10.1)
  - Corrective actions (10.2)

ACT
ISO 9000 QMS: Limitations

<table>
<thead>
<tr>
<th>External Motivations</th>
<th>Internal Motivations</th>
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</thead>
<tbody>
<tr>
<td>❖ Obtain quality certificates</td>
<td>❖ Improve internal communications</td>
</tr>
<tr>
<td>❖ Advertise products</td>
<td>❖ Raise employee satisfaction</td>
</tr>
<tr>
<td>❖ Enlarge market share</td>
<td>❖ Increase resource productivity</td>
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With internally motivated firms being more likely to attain sustained success

The motivations for adopting ISO 9001 are usually external (its original purpose was to facilitate trade)

Managers need further, more tangible information to “internalize” their ISO 9000 QMS
Reasons for combining SMA and ISO 9000 QMS

✓ Provide individual SMA tools with a general framework for their systematic and coordinated use, to promote their utilization among firms.

✓ Provide the ISO 9000 model with a group of strategic financial indicators that allow managers to internalize its principles (performance improvement).

✓ Contribute to the identification and analysis of more general links between Management Accounting and Quality Management.
Theoretical links between QMS and SMA

ISO 9001 QMS requirements
Ch. 4: Quality Management Systems
Ch. 5: Leadership
Ch. 6: Planning
Ch. 7: Support
Ch. 8: Operation
Ch. 9: Performance Evaluation
Ch. 10: Improvement

SMA tools
- Attribute Costing
- Life-cycle Costing
- Quality Costing
- Target Costing
- Value-chain Costing
- Benchmarking
- Integrated Performance Meas.
- Strategic Costing
- Strategic Pricing
- Brand Valuation
- Competitor Cost Assessment
- Competitive Position Monitoring
- Competitor Performance Apprais.
- Customer Profitability Analysis
- Lifetime Customer Profitability
- Valuation of Customers as Assets

I) Process approach and documentation requirements
II) Data provided by QMS records
III) Information for decision making provided by SMA techniques
C.4/4 Process approach and C.7/5 Documentation Requirements, help implement:

- Attribute Costing
- Life-cycle Costing
- Quality Costing
- Target Costing
- Value-chain Costing
- Benchmarking
- Strategic Costing
- Strategic Pricing
- Brand Valuation
- Competitor Cost Assessment
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- Customer Profitability Analysis
- Lifetime Customer Profitability
- Valuation of Customers as Assets
C.5/2 Quality policies, C.6/2 Quality objectives, and C.5/1/2 Target customers help calculating Lifetime Customer Profitability and defining Strategic Pricing.

C.7/2 Training and 7/1/3 equipment maintenance records help calculating Quality Costs and identifying relationships between Integrated Performance Measures.

C.8/3 Design, 8/4 Purchasing and 8/7 Non-conforming records provide information to obtain Attribute Costs, Life-Cycle Costs, and Strategic Costs.

C.9/1/2 Customer surveys and C.9/3 Management Review, provide information to manage Competitors Cost Assessment and Competitor Position Monitoring.

C.10/2 Corrective Actions records help calculate Quality Cost and Customer Profitability.
Costing tools (Attribute, Life-Cycle, Quality Cost, Target Cost, Value Chain) helps improving Product Design (C.8/3) and Production Procedures (C.8.5).

Planning, control and performance tools (Benchmarking, Integ. Perf. Meas.) guide implementation of Corrective (C.10/2) and Preventive Actions (C.6.1).

Strategic decision making tools (Strategic Costing, Pricing, Brand Value) help to manage Relationships with Customers (C.8/2) and Suppliers (C.8/4).

Competitor accounting tools (Costing, Monitoring, Perform.) provide info to redefine Policies (C.5/2) and implement Training Programs (C.7/2).

Customer accounting tools (Customer profitability, etc.) help redefining Target Customers (C.5/1/2) and Sales Terms and Conditions (C.8/2).
Strategic Accounting QMS

PLANNING
- Risks and opportunities (6.1)
- Quality objectives (6.2)

LEADERSHIP AND PROCESS APPROACH
- Policies (5.2)
- Responsibilities (5.3)
- Process map (4.4)
- Documented Info. (7.5)

IMPROVEMENT
- Improvement opportunities (10.1)
- Corrective actions (10.2)

RESOURCES
- People (7.1.2)
- Payroll
- Materials (8.4)
- Purchase invoicing
- Equipment (7.1.3)
- Depreciation calculation
- Financial Resourc. (7.1.1)
- Payments / Collection

PRODUCTION / PROVISION
- Comm. with customers (8.2)
- Production (8.5) Provision
- Delivery (8.6)
- Non- (8.7) Conformities
- Sales invoicing

PERFORM. EVALUATION
- Finan. Statements/ Cost Analysis
- Monitoring and Measure. (9.1.3)
- Strategic Management Accounting (SMA)
- Management review (9.3)

STAKEHOLDERS
- Employees
- Suppliers
- Shareholders
- Competitors
- Society
- Customers
Summary / Conclusions

✓ SMA practices and QMS principles present limitations when applied separately
✓ Their association could help mitigate those limitations
✓ SMA and QMS seem to be theoretically compatible and complementary
✓ They have been consolidated into a single framework.
Thank you for your attention!!!

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