

STRATEGIC MANAGEMENT ACCOUNTING

UDK 658.15

THE PARTICULARITIES AND PROBLEMS OF SMA IMPLEMENTATION IN CONSULTING COMPANIES OF THE RUSSIAN FEDERATION

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Abstract. The necessity of strategic management accounting for consulting service organizations is considered. Based on a statistical analysis, the modern trends of consulting are presented. Based on practical experience authors demonstrated five issues that impede the implementation of BSC (as a part of SMA) in Russian companies. It is concluded that in order to be both knowledge-based and technology-based, consulting companies needs to rebuilt strategic objectives and key performance indicators. The proposed link is presented through connection of four perspectives (financial, customer, business process, learning and growth), strategic objectives and KPI.

Keywords. *management, strategic management accounting (SMA), consulting companies, trends, KPI, balanced scorecard.*

Modern business environment is increasingly competitive and dynamic. It is important for companies to develop coherent and consistent business strategies and to utilize management accounting tool to support strategic planning, decision-making and control. In response to the modern sophisticated business environment, management accounting practices help to emphasize the use of accounting data and related information regarding business strategies and operations. Business strategies

and management accounting tools integrated together becomes strategic management accounting. That is why it is reasonable for companies to implement strategic management accounting (SMA). However, SMA tools and techniques were originally developed for manufacturing industry. For that reason, investigation and research on implementation of strategic management accounting in consulting service organization is relevant.

The market for consulting services in Russia began to develop in the 1990s. The development of the Russian consulting services market cannot be characterized as uniform, being directly related to country's economy.

At the end of 2019, the number of consulting and IT companies (legal entities) in Russia has decreased by 7.6% and amounted to 314 689. Nevertheless, from 2016 to 2018 there was a positive dynamic in the number of consulting and IT companies. On the contrary, the number of individual entrepreneurs in consulting and IT sector has been steadily increasing from 2016 to 2019, and amounted to 298 773 in the year 2019, having increased by 7.9% in comparison to 2018 [43]. The total number of specialist consultants for the year also increased, but only by 6% (to 22 709 people), which indicates an increase in the labor productivity in this service sector [1].

In terms of revenue, the total consulting market in 2014 amounted to 116.4 billion rubles, in 2015 - 126 billion rubles, and in 2017, Russian organizations paid 120 billion rubles for consulting services [1]. Over the past 10 years, the consulting services market has grown by 73%. However, this achievement is not only provided by the market leaders: 120 out of 170 companies participating in the ranking have an increase in revenue. The positive dynamics is also a characteristic of the vast majority of consulting services segments, where the most dynamic development over the past year was shown by HR consulting services (Figure 1).

Currently, the domestic market for consulting services is divided into the following largest areas, they are: IT consulting, management consulting, HR consulting, investment consulting, valuation consulting, tax consulting, accounting consulting, and legal consulting.

IT consulting implies the usage of modern technologies, the development and

implementation of new software, testing and improving existing software, providing the necessary protection and security in the field of computer technology.

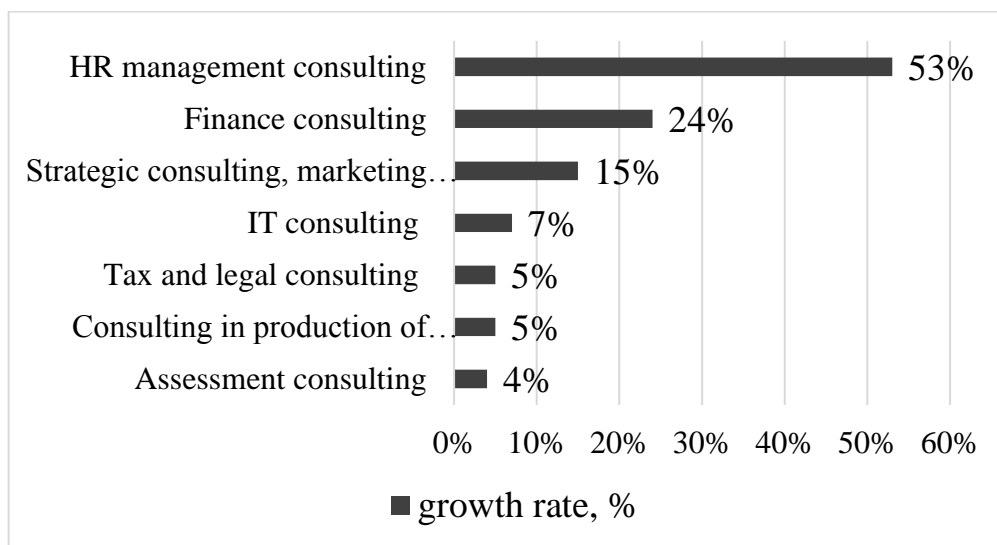


Figure 1 – Change in revenue by consulting service type in 2018 [2]

Management consulting is focused on achieving positive dynamics of the main indicators of the company, overcoming the crisis, reducing enterprise costs. In 2015, this direction occupied 5% of the domestic consulting market, and in 2018 the share decreased to 2.5% [1; 2] (Figure 2).

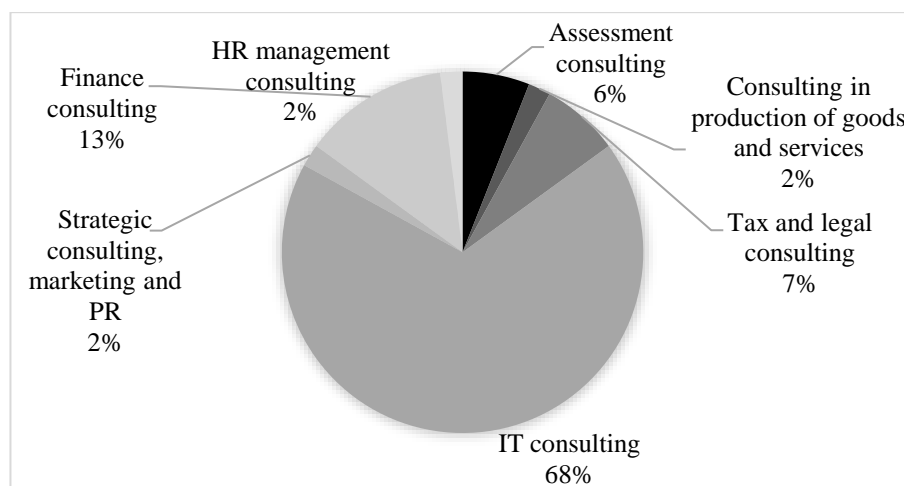


Figure 2 – Distribution of revenue among fields of consulting

Currently, the market for consulting services has four major trends. First, there is stability, and even growth in some areas of consulting services. On the other hand, the stagnation of the economy, the sanctions regime, the projected minimum

economic growth does not allow counting on a significant increase in the consulting market. Third, due to the tightening of tax administration, there has been an increase in the value of accounting and tax outsourcing. Fourth, the entrepreneurs prioritize consulting services that help reducing risks and protecting the interests of business from the actions of state bodies.

There are four levels of management concepts used in Russian companies. First level implies setting up regular management, introducing a budgeting system, standardizing processes, obtaining reliable data for managerial analysis. Second level is associated with long-term budgeting, based on historical data. Companies usually move on to this stage of management when making long-term investments for 3 to 5 years to make a forecast regarding their expediency. At the third level, the planning process is reoriented from past achievements of the company to long-term goals, taking into account the external environment. It is connected with the desire of senior management to reduce the operational and financial risks of company. At fourth level companies close the gap between strategic goals and the current position by creating a management cycle aimed at achieving strategic goals, decomposing strategic goals into day-by-day tasks, considering all the activities of the company under the degree of achievement of strategic goals. At this level of the company development it is advisable to implement a balanced scorecard. It seems that in different levels of company development, management accounting is differently adopted. And it becomes clear, that not every company can implement BSC. If a company has not yet implemented management accounting, it is obviously premature to use a balanced scorecard. However today it is often possible to meet companies that may not have any regular management, and at the same time, they implement a balanced scorecard to solve their problems. There are a number of issues that impede the implementation of BSC in Russian companies.

First, Russian companies tend to use top-down strategy in implementing BSC, which can lead to inconsistency in accounting systems and business processes. The generally recommended way is to use “bottom – up” approach, that is facilitated by a transparent, comprehensive management system with effective information

support for operational and managerial processes, and a high level of staff training.

Second, Russian companies tend to use Balanced Scorecard for tactical planning, rather than strategic planning. Indicators like capital profitability, increase in market share value, return on investment, factors of growth in business value, issues of matching segments, customers, and assets with strategic goals are practically not used in Russian companies. Instead, they mostly use short- and medium-term indicators such as revenue and profit.

The third issue is lack of complete and reliable data on management reporting necessary for decision-making [3]. The available data does not seem appropriate to use when developing strategic goals and in operational management. This is a result of common business reality in Russia, where not all transactions are reflected so as to minimize tax payables.

The fourth issue is lack of descriptions of key business processes, poor regulation of work performed, lack of norms of indicators, lack of management reports [4], lack of coordination of the activities among departments, the presence of duplicate and mutually exclusive functions.

The fifth issue is that at Russian enterprises labor productivity indicators are not calculated, and employee motivation is based on revenue indicators.

Another problem in implementation of SMA system at all is related to the setting of performance measures. Shareholders often set unrealistic goals without participation of the majority of managers and not being interested in the opinions of top managers. After that, top managers are fired for not managing to reach the goals. The same problem applies to the indicators identified for line employees.

The typical problem is that there is no initiative from employees, when managers are ready to leave enough space for freedom. It is hard to change the employees' attitude towards BSC – they regard it as the tool of control, not as a way of self-control that stimulates their professional development. Additionally, there is no culture of communicating organizational vision to employees for their motivation.

Finally, attempts are often made to automatically perform indicators without

having to analyze and resolve company problems. Such attempts lead to failure.

There are a few researches on the development of strategic management accounting in Russian companies. One of the researches, conducted by MAG consulting, provides an insight into the peculiarities of BSCs implementation in Russian business [5].

For the purpose of the research, the company took the representatives of more than a hundred domestic enterprises, that were divided by their size, according to the number of employees. Generally, the companies of all sizes use BSC, while the most successful experience is observed in small and large companies. It generally takes not less than 4 months to implement BSC, and the time increases for larger companies. The motivation system is generally tied to BSC after half of a year, except small companies – they tend to integrate it during the implementation period. Additionally, the experience of small and medium companies has shown that BSC may be self-implemented without involving the external consultant. Most companies use less than 10 KPIs for the departmental level. The use of a smaller number may be explained by the problem of collecting information in many Russian companies to obtain target values of indicators and monitor their changes. About half of the respondents also reported using personal strategic cards for some employees, which on average contain from two to five indicators. In a number of small companies (group I), personal cards contain six to ten indicators. This is because with a small size of business it is easier to organize the collection, analysis and control of management information. The majority of companies conduct or plan to organize a review of indicators once a year. Some companies do not have clearly defined deadlines for revising indicators.

Consulting industry in Russia is currently growing steadily, which is why for sustainable growth of a consulting company it is very necessary to implement strategic management accounting. Consulting companies need to apply technology to improve their operational efficiency and to enhance customer satisfaction. There are ten technologies: big data analytics, cloud computing, robotic process automation, bionic computing, cognitive computing, virtualization, ubiquitous

connectivity and the internet of things, smart devices, blockchain and the augmented reality.

Those technologies enable the transformation of conventional services to the 4-th generation services (Service 4.0) and promote efficiency gains throughout the value chain. Service 4.0 provides the basis for a step-change in the performance of service providers in all service industries.

Traditionally, consulting companies are knowledge-based, but they need to be both knowledge-based and technology-based. To become a technology-based company it needs to invest on trainings: digitalization, customer attitude, change management etc. These would be the strategic objectives of the learn and growth perspective. That will need for deep reengineering of the existing business processes. A feasible investment must be made in bringing services to the customers on a 24/7 basis. Consulting companies need to invest on talent collection from different fields like IT, Physics, Engineers etc.

Collaboration with IT companies may create future competitive advantages by commoditizing services with 24/7 access to the automated system. So, from business process prospective the following strategic objectives might be defined to fulfil the new era customers' demand: collaboration with consulting platforms for consultants and clients, talent accumulation, continuous service delivery, collaboration with IT companies. These objectives will help understanding clients' technological usage and will ensure customer satisfaction and cause market share growth in customer perspective. That will, on its turn, generate more revenue, sustainable growth and shareholder satisfaction.

The sustainable growth will be measured by return on investment made on information technology, talent accumulation and several trainings on change managements as well as tax consultancy and digital technology carried out inhouse or by external trainers. Sustainable growth of a company can be measured by setting a KPI – return on investment. Investment on talents, trainings, new tools and techniques, internet of things, new devices, new information technology (Software) is crucial in the era of technological disruption driven by digital transformation. An

increase in revenue generation, though deemed to be a tactical objective, would serve as a strategic objective. It is measured by a KPI – monthly revenue growth rate. Shareholders’ satisfaction is measured by earnings per share and is monitored yearly (Table 1).

Table 1 – Strategic objectives and key performance indicators

Perspectives	Strategic objectives	KPI
financial	sustainable growth	return on investment, ROI
	increase revenue generation	monthly revenue growth rate
	shareholder satisfaction	earnings per share, eps
customer	increase market share	number of new clients
	understanding clients’ technological usage	number of 24/7 services
business process	be an active user of it consulting platforms	percentage of clients through ‘IT consulting platforms’
	talent accumulation	number of “design thinking & business thinking” employees
	continuous service delivery	number & cause for system defaults
	collaboration with IT companies	number of automated services
learning and growth	invest in trainings on digital transformation and change management	number of hours of inhouse & external trainings
	enhance employee satisfaction	employee feedback sessions
	invest in trainings on new customer attitude	number of hours of inhouse & external trainings

Due to the difficulty of conventional management accounting to provide relevant management accounting information and as a result of several criticisms, strategic management accounting has emerged as a relatively new concept in place of traditional management accounting. In the recent past, the SMA has produced a number of novel approaches in the fields of costing, performance measurement, strategic control, and strategic investment appraisal. The distinctive characteristic of these newly developed techniques is that they explicitly focus on the issues forsaken by conventional management accounting techniques such as customers, competitors and the long-term implications of strategic decisions.

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