DESKTOP REVIEW ON THE EFFECTS OF COMPETITIVENESS AND SUSTAINABILITY OF FINANCIAL PERFORMANCE ON FUNERAL ASSURANCE COMPANIES

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ABSTRACT

The purpose of this desktop study was to identify the innovative competitive strategies that management accounting practices can provide while creating a competitive environment in the funeral assurance industry. An important aspect that was highlighted in this discussion was the notion that management accounting techniques play an important function in creating a sustainable competitive advantage for an organisation. This paper analysed literature in an effort to assess the impact of corporate strategies to create sustainability and competitive advantage and continuously improve organisational performance and creating shareholder wealth. Findings indicate that the application of customer profitability accounting and the competitors' profitability accounting were the major influences at Funeral Assurance Companies in the adoption of strategic management accounting techniques. It is recommended that funeral assurance companies establish resting units (caskets/coffins) manufacturing business units to compete on pricing instead of outsourcing as is the current position with most firms. The resting unit and fuel costs constitute the major cost components in honouring claims.

Keywords: Impact, competitiveness, sustainability, Financial Performance, Funeral Assurance Companies.

INTRODUCTION

Many organisations in the past few years have witnessed a dramatic change in their business operation environment. "*Deregulation, combined with extensive completion from across the border products has resulted in a situation where most companies are now competing in highly competitive global market*" Wadesango & Magaya (2021). There has also been a significant reduction in product life cycle arising from technological innovations and the need to meet increasingly selective customer demands. "*To compete successfully in today's highly competitive global environment, companies have made customer satisfaction a high priority. They have also adopted new management approaches, improved their manufacturing systems and invested in state of the art technologies*" (Collier, 2013). The ever increasing competition has reduced margins and more focus is now required to be applied to various aspects of cost management. These changes have had a significant influence on management accounting systems. According to Drury (2016) "*The role of the management accountant is not as the same before, the management accountant has assumed a bigger role in improving the competitiveness of the organisation*". In this study, a comprehensive

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analysis has been undertaken to view the role of management accounting systems in improving the competitiveness of the business organisation.

THEORETICAL FRAMEWORK

There have been several theoretical models of strategic choice proposed by academics and consultants of which the prominent ones are:

Stakeholder Theory

According to Wadesango et al. (2021), under stakeholder theory a company has effect with the community surrounding it and these are defined as any group or individuals who can be affected by the operations of the organisation. In the same vein, Riahi-Belkaoui (2012), noted that in stakeholder theory, corporations disclose social and environmental information as a means to maintain their relationship with its stakeholders. Stakeholder theory framework is defined as a construct having three dimensions which are stakeholder power, strategic posture and economic performance and stakeholder power is an external dimension, consisting of shareholders, creditors and state power affecting the operations of the organisation (Bhimani, 2016). The strategic power factor which is an internal characteristic is the company's capabilities and willingness to use its resources to improve social and environmental performance by integrating them with the corporate strategies. Collier (2013:76) pointed that economic performance as a dimension, is the output of the business processes that arise from corporate strategy implementation using financial indicators such as return on investment (ROI).

Contingency Theory

Bhimani (2016) noted that contingency theory states that organisations' effectiveness's will be contingent upon some factors sometimes known as contextual variables and focus in contingency theory is on fit between organisational characteristics, management practices and contextual variables in achieving the organisation's effectiveness. Shim and Siegel (2015) pointed out that the organisational effectiveness can include economic/financial performance and other criteria like social and environmental performance. Caplan (2010), opined that based on the review of literature, it can be concluded that corporate performances are matching of business environment, strategy, internal structure, and control systems.

Weetman (2010), asserts that of the factors affecting corporate performance, is the strategic behaviours in organisations and in the context of corporate social performance, the concept of strategic behaviours can be extended using the stakeholder theory to explain the variation in the business performance. Riahi-Belkaoui (2012) noted that, the strategic behaviours of the business can be defined into some components such as, customer-oriented behaviour, competitor oriented behaviour, innovation-oriented behaviour and internal cost behaviour. The concept can be extended with components of stakeholder as contended by Chapman (2015) who also noted that supplier-focused behaviour, employee-focused behaviour, society aspect-focused behaviour, and environment-focused behaviour are stakeholder-based behaviour strategies to be expected to improve corporate performance.

Different Strategies that have been Formulated and Implemented by Funeral Assurance Industry

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Collier (2013) suggested that "*strategic choices are made in the light of the organisation's goals and aims, and the evaluation of its internal and external environments and the chosen strategies are intended to meet the principal goals and aims of the organisation in terms of direct stakeholder satisfaction*". According to Riahi-Belkaoui (2012), some strategies are aimed at deflection the completion indirect stakeholders, is implied in the results to be achieved for direct stakeholders. "*The extent to which goals are attained provides feedback for the organisation and may lead to appropriate redefinition of the goals and aims, and then on to a repetition of the planning process*" (Riahi-Belkaoui (2012).

Ogilive (2017) noted that a business enterprise can develop strategies in areas such as product strategies, market strategies, financial strategies and general strategies. "Product strategies may aim to maintain existing products, develop a range of new products, focus on product quality and value for money, continuously improve product performance, employ latest technology in production and distribution processes and reduce costs in all product ranges" Ogilive (2017).

COST LEADERSHIP STRATEGY

Noreen et al. (2012) observed that cost leadership means being the lowest cost producer in the market and the least cost producer is able to compete effectively on price, by offering its products at a lower price than rival products and it can sell its products more cheaply that competitors and still make a profit.

Caplan (2016) further stated that companies with a cost leadership strategy must have excellent systems of cost control and should continually plan for further cost reduction in order to remain the cost leaders in the market. The source of their competitive advantage is low cost and they must never lose sight of the fact. Wadesango et al. (2021) pointed that "*the cost leader in the market is a large company, because large companies can benefit from economies of scale that smaller companies are unable to enjoy*".

DIFFERENTIATION STRATEGY

Horngre et al. (2012) noted that a differentiation strategy means making a product different from rival products in a way that customers can recognise. Noreen, Brewer and Garrison (2021) stated that differentiation strategy means finding one or more unique attributes for which customers are prepared to pay a premium price, and positioning the firm to provide those attributes. This differentiation can be based on the product itself, on its delivery system or on the way it is marketed (Wadesango et al., 2021). According to Crosson, and Needles, a firm that can achieve, and sustain differentiation will be an above average performer in its industry, so long as its price premium exceeds the extra costs incurred in providing the unique features. According to Wadesango et al. (2021) customers might be willing to pay a higher price for the product, because they value its unique and different features and therefore companies pursuing a differentiation strategy need to offer products and services that are perceived as better as or more suitable than those of their competitors. To deliver better products and services usually requires investment in innovation.

FOCUS STRATEGY

Maher et al. (2012) noted that a cost leadership strategy and a differentiation strategy can be pursued in a market that is not segmented and many markets are segmented, and companies might select one or more particular segments as target markets for their products. This is a focus strategy concentrating on selling the product to a particular segment of the

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market and to a particular type of customers. Within a market segment, a business entity might seek competitive advantage through cost leadership within the market segment or product differentiation within the same market segment.

Maher et al. (2012) pointed out that focus strategy means choosing a market segment with a view to attaining competitive advantage in meeting the wants of that segment and a focus strategy can be broken down into two sub-strategies, one focusing on obtaining a cost advantage, and the other based on developing a differentiation advantage. If a firm can achieve sustainable cost leadership or a differentiation in its segment, and if the segment is structurally attractive, then it will become an above-average performer in its industry according to Maher et al. (2012). They further stated that being structurally attractive means there is a reasonable balance of power between the five forces of rivals, potential entrants, buyers, suppliers and substitutes.

THE PROSPECTOR STRATEGY

This strategy is where a company continue to apply innovation by seeking and exploiting research and development for new products and new opportunities in the market (Maher et al., 2012). According to Wadesango et al. (2020) the prospector's competitive strength is its ability to scan the ever changing environmental conditions and produce new products and services that fit the new dynamic environment. This creates challenges for the company's competitors as they may not be able to imitate the prospector's initiatives. Maher et al. (2011) noted that sustainable competitive advantage can be attained if the market and the customers are willing and able to demand the new products and services. The development of innovative products, market segmentation and market development can be some strategies that will be used to create a sustainable competitive advantage for the funeral assurance industry (Ogilvie, 2017). The modern management accounting system provides mechanisms that can help in the identification and implementation of adequate competitive advantages.

THE ANALYSER STRATEGY

Ogilvie (2017) pointed that this strategy involves analysis and imitations and companies using this strategy will be looking out for, analysis and mimicking the new ideas of the established prospers. The direction started by prospers being the analyser's competing platform. Analysis of the competitors' value chain permits a company to find new ideas that can be utilised in the development of competitive products and policies (Ogilvie, 2017). This can be important in the funeral assurance industry in which competitor analysis and copycats may identify products or services that may lead to harnessing a huge competitive advantage (Wadesango et al., 2020).

Analyse Factors that Influence Companies in the Funeral Assurance Industry to Adopt Strategic Management Accounting Techniques

Customer analysis can be used to create a competitive advantage and explore issues concerning customer satisfaction (Chapman, 2015).

Customer Profitability Analysis

Ogilvie (2017) notes that customer profitability analysis enables a company to report and analyse income earned from customers and the expenses incurred to earn that income.

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Riahi-Belkaoui (2012) argues that customer profitability analysis can be a process for evaluating the profitability of the present account relationships with customers and it likens revenues received from fees, investments from customers' deposit balances and interest on loan to expenses of providing credit services and the target return to stockholders. Wild, Shaw and Chiappetta (2012), notes that management reports concentrate on profit by products and more attention is also being paid to analysing profits generated from customers employing the activity-based approach and that customer profitability analysis may either be used at the individual level or at customer segment level.

Competitor Accounting

Management accounting leads to very good techniques in analysing how cost structures of competitors influence a firm's options and modelling the impact of different strategies (Ogilvie, 2017). Maher, Stickney and Weil (2011) noted that knowledge of the competitor's cost structures allow the business to make estimates of the effect on the competitor's profit in line with the trading volumes or their turnover. Artikinson and Kaplan (2012:43) opined that competitor analysis ensures regular updated estimates of a competitor's costs based on the appraisal of the facilities, technology, economies of scale, human resources and research and development. Weetman (2010) states that the information so found from the analysis will help the organisation in decision making and strategic planning.

According to Wadesango et al. (2021) competitor accounting provides a platform on which a company builds competitiveness against competitors while the management accounting system provide techniques and skills that allow the identification of key areas for successful competitor accounting which may be used to create a competitive advantage for the funeral assurance companies.

Measuring the Effectiveness of these Strategies in Creating Sustainability and Competitive Advantage

Business organisations need to measure and verify how their strategies and financial controls are comparing with their organisational objectives are. Crosson, and Needles (2011:65) pointed out that "in order to put strategy into perspective, it will be useful to evaluate the organisation's business strategic planning process which highlights the key areas of concern that organisations must focus on when measuring their strategic performance". They noted that "*the key areas are principally as follows, corporate strategy, i.e. the strategic choices made for the overall success of the business, corporate objectives, i.e. the major objectives or goals set for the business as a whole, corporate policies and review procedures, Strategic Business Unit objectives i.e. major objectives or goals in key product-markets, financial and resourcing*". And efficiency in the use of resources as allocated, especially personnel and physical resources.

PIMS programme

According to Chapman (2015) the term PIMS reflects the core focus of interest in business strategies and business performance and stands for Profit Impact of Market Strategy. "The PIMS programme aims to provide insights of a generic nature about strategy and performance, and thus is only concerned with those aspects of strategy that are (a) of general industrial relevance, and (b) are measurable" (Ogilvie, 2017). In addition, Wadesango, Sitsha and Chirebvu (2020) asserts that "the resulting PIMS database has substantial information, gleaned over a period of several years about performance in the same companies".

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THE BALANCED SCORECARD

Ruppel (2015) argue that the balanced scorecard enables the organisation to achieve its corporate objectives. The dynamic economic environment that the funeral assurance organisations find them in requires management to constantly apply the balanced scorecard. It allows them to always monitor the changing operating business environment in the economy. The balanced scorecard compliments past financial measures and future performance. Jagels and Coltman (2017) argue that traditional financial accounting measures such as return on investment and return on capital employed analysis offer an incomplete assessment of the business performance and the relying on such data can be detrimental to the creation of future value of the business. They further argue that additional financial measures be added to reflect customer satisfaction, internal business processes and the ability to learn and grow. Shim and Siegel (2016) noted that the balanced scorecard reflects the intent to maintain the score on some items that reflect a balance between short-term and long-term objectives of the firm and between financial and non-financial measures.

Customer Perspective

Customers are drivers of business profits and as such satisfying customer requirement must be the main objective of any company. Horngren (2012) noted that from the customer's perspective, the company should identify the expected target customers and the market segment they are in and monitor the performance of the operations in that segment. According to Wadesango et al. (2021) the core performance measures could include, customer's satisfaction, customer retention, new customers acquired, market position and market share maintained. Bragg and Burton (2013) observed that in coming up with customer perspective, the following measurements must be considered, customer acquisition, special customer's certified financial status, customer profitability, customer confidence and customer retention.

Challenges in Formulating and Implementing Management Accounting Strategies for Competitive Advantage

Horngren (2012) argue that the organisations may aim to create a competitive advantage; even with quality management techniques may still experience strong challenges in its industry while it tries to remain strategically competitive. According to Weetman (2010) there are five competitive forces that may cause challenges for an organisation that seek to create competitive advantage and the forces are; the threat of substitute products, the threat of new entrants, the bargaining power of suppliers, the bargaining power of customers and rivalry among competitors. These forces are external influences upon the extent of actual and potential competition within the industry and determine the ability of the organisation to earn a good return (Horngren, 2012).

The management account system must be involved in developing strategies that allow the companies in the funeral assurance industry to guard against the threats that can be posed by these competitive forces according to Horngren (2012).

Threat of New Entrants

The threat caused by new entrants may vary depending on the barriers to entry according to Wadesango et al. (2020). Weetman (2010) observed that the strength of barriers to entry may be found in the economies of scale, product and service differentiation, capital

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requirements, switching cost, access to distribution channels and cost advantages. Weetman (2010) also noted that favourable environmental changes, technological changes and innovative distribution of products and services compromise the entry barriers employed by the companies.

Threat of Substitute Products

According to Weetman (2010) the threat from substitute products may be felt when another industry produces products or services that satisfy the same needs of the customer like the company is producing. Weetman (2010) therefore suggests that the threat by substitute products can be neutralised by creating brand loyalty through marketing, sales promotions and product differentiation.

CONCLUSION

The study highlighted the strategies that can be implemented to achieve the creation of sustainable competitive advantage. It emerged that strategic management accounting practices provide important techniques for identifying the best competitive strategies that may be applied to achieve competitiveness of the companies in the funeral assurance industry. It also emerged that management accounting techniques play an important function in creating a sustainable competitive advantage for an organisation.

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