Carrefours measurement of strategic objectives accounting essay

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Now Strategic Management Accounting or say SME has been distinct as " a form of management accounting where emphasis is placed on data which relates to attributes external to the company, in addition to non-financial and financial information and internally produced information."

According to Ken Smmonds, this is the collection of information related to management accounting which can be used for monitoring and formulating strategies. This has main emphasis on trends of cash flow, costs, revenue structure and stewardship of the property and resources accessible to the business. (Inman, 1999)

We have different Strategic Management Accounting Techniques such as Key Performance Indicators, balanced score cards, value chain analysis etc. (Carrefour, Key indicators, 2010)

Carrefour

Introduction:

Over the last 40 years, the company has grown to turn into one of the globe's leading distribution company. The globe's second-largest retailing company and is also largest in Europe. Carregour group at present operates four main types of store formats: Supermarkets, hard discount, hypermarkets and convenience stores. The Company currently has more than 15, 500 stores which are either franchises or company operated. In UAE, Carrefour has large presence and has the business similar to its international business domain described above.

Business Strategy:

Carrefour is a retail endeavor, having its own manufacturing and distribution chain in Middle East which is innovated by EMKE Group. The business strategy of the company is to provide things of daily necessity to common people at reasonable price and earn profit for increased market share. The profit is supposed to be magnifies and retailing units as a result of low buying price in bulk purchase of material. The company has its own manufacturing unit for number of products to reduce the purchasing cost. (Author, Our group, 2010)

Mission & Objectives:

The ultimate goal of the company is to have highest profit in hypermarket and other business segment. The company wants to manage its supply chain efficiently by implementing ERP. Other objectives include increased sales, ERP implementation, cost reduction and TQM implementation. (Author, Key indicators, 2010)

Type of Manufacturing:

The company has its own manufacturing stream and distribution stream, providing a good choice to carry out this research. The company did not manufactures all of the products it sells but around 70% of the products Carrefour sells comes from its own manufacturing plants. The company has hi-tech plants which are able to produce more than one variety of products at a time.

Carrefour's measurement of Strategic objectives:

The company to achieve its strategic objectives uses the balanced scorecard (BSC) method to check its current level of performance and to bridge between present and desired level of performance. Balanced scorecard is a tactical performance management instrument – a semi-level structured account supported by confirmed plan methods and computerization apparatus that can be utilized by managers to maintain track of the implementation of activities by personnel within their monitor and control the cost arising from these actions.

It is possibly the best known of numerous such frameworks (for instance, it is mainly accepted performance management agenda reported).

The company implemented the balance scorecard model given in the figure below. Plan of a Balanced Scorecard eventually is about the recognition of a little number of non-financial & financial measures and adding targets to these items, so that at time when they are evaluate it is probable to establish whether present performance ' meets prospect. The idea in the rear of this is that by alerting executives to regions where performance diverges from prospect, they can be buoyant to focus their concentration on these areas.

Areas where Strategic Management accounting is useful:

Increasing the performance of the employees and the company:

Performance measures are primarily used to evaluate organizational, as well as employee performance. A PMS develops key performance indicators

(KPIs), or metrics, depending on the nature and activities of the organization. KPIs are used as strategy and incentives to assist the coordination of business unit and manager's objectives, with those of the general corporation objectives, that is, they support goal congruency.

By these metrics, the firm communicates how it desires the workers to act, and how these activities will be evaluated and judged.

Carrefour uses the framework below:

The key performance indicators of the company include:

Number of registered own brands.

Number of quality line product

% of product supplied by the suppliers.

Energy consumption

Water consumption

Recycling

Sales

Profit

Customer base

The company uses these indicators for the overall performance improvement and for performance of the employees, the indicators are:

Feedback from colleagues

Work hours

Quality of service (Gregory, 1995)

Supply chain:

The supply chain in the company is evaluated on the basis of Value chain. The value chain is a methodical way to examining the growth of competitive benefit. It was invented by M. E. Porter in his book named Competitive Advantage (published in 1980). The chain comprises of a series of actions that build and create value.

Value Chain Analysis generally describes the actions that take place in commerce and narrates them to a study of the competitive potency of the company.

Value Chain Analysis is single way of recognizing which activities are finest undertaken by a company and which are finest provided by another business. According to that, the finest category of Carrefour's supply chain is Information Networks. Here as the task is distributed to individual units (like transportation, distribution etc) and innovation can be diffused at any stage. Talking about supply chain, the Carrefour is currently using " allocating gaming policy" to hand out the products. Under this strategy, when the supply is low, the suppliers place fewer products on allocation. This signify that that supplier will not provide the order of the downstream fully but will decrease the volume to be supplied downstream in order to make certain that all the downstream nodes get at least some part of demand. In this way, Value chain analysis helps Carrefour to make a best in industry supply chain. (Gregory, 1995)

Areas where Strategic Management accounting is not successful

Inventory

The company tried in past to use SMA for inventory management but the results were not fruitful. The key failure was because of short term nature of inventory management which is not been provided by strategic management accounting. Thus to ensure emergency and constant supply of stocks, the company also maintains warehouses at its allocation centers. The company currently utilizes " build to stack" approach in its inventory management policy.

Replacement of SMA in inventory

To ensure a centralized approach in inventory, Carrefour hypermarket has EPR implemented but is not federal yet. The ERP needs to be implemented in complete set of outlets and warehouses of the company.

The responsibility to ensure inventory lies in hands of warehouse manager who has to ensure a particular fixed quantity of stock at anytime of the year. The information needed in ERP is to be supplied by various managers at distribution centers, manufacturing units etc.

Master plan scheduling:

Again because of short term nature of scheduling, Carrefour is not able to schedule its activities with the help of Strategic Management Accounting.

Scheduling is thus done by correct coordination between varieties of departments. As mentioned previously, the company maintains around 7 days inventory in its warehouses to provide flexibility next to the always changing demand of people. If the material in the warehouses is lesser than that of 6 days, a buying order form manufacturing plant is placed. In the same way, if the inventory in the outlets is lesser than that of 3 business days capacity, again inventory is enthused for warehouse to the outlets. (Gregory, 1995)

Strategic Managemetn Accounting in Various Departments

Operations

The company did not have a probable forecasting model for maintaining the inventory. It needs a better method for this purpose. The present method for supply planning goes with the need of the customers. Production is governed by the customer needs and Bullwhip effect (covered later in the report). In order to support the production in accordance with customer needs, the company utilizes Kano model as a strategic management accounting tool. A short explanation is given below.

Kano model shown at this point is the most fundamental conceptualization of client requirement. " The red line shows innovation" while the blue shows expected and spoken requirement and green line signifies expected and unspoken requirements.

Kano model relies on a supposition that a clients buys when he or she Need something, however is it not totally right, an organization must flood the client needs. This can be implicit as a " Voice of the customer" concept.

Value chain analysis:

At every step, proper documentation is done and coordination is maintained which is a part of value chain analysis to ensure that overall supply chain works properly.

Finance

A balance score card method is used here. The key ingredients of the balance score card method are as follows:

Cost Control

Senior leadership manages operating expenses and costs through cyclic budgets/ plan. A budget/ plan is a essential management accounting instrument because it assists top management and subdivision heads set spending thresholds and limits.

correct financial reporting

SCA or Strategic cost accounting assists top management report complete and accurate accounting data summaries. Sufficient cost accounting schemes ease monetary reporting work as corporate controllers can rapidly relocate cost accounting figures into financial accounting instruments like ledgers.

Variance analysis

Variance study is a necessary profit management instrument. Variances, often called contingency, are differences among actual costs and budget amounts. A positive discrepancy indicates that budget total exceed real costs. Higher management pays concentration to negative discrepancy because these indicate insufficient cost control operations in operating activities.

Marketing

In marketing department, SMA is generally used to forecast the demand. In marketing department, Carrefour is currently employing allocating gaming policy (as mentioned previously too) to distribute its products. In this strategy, in case when the supply goes down, the suppliers place fewer products on allocation. This signify that the supplier will not provide the order of the downstream fully but will decrease the volume to be supplied downstream in order to make certain that all the downstream nodes get at least some part of demand. For example if 1, 00, 000 Carrefour products are meant for distributed to 4 equally vital downstream nodes band there is difficulty in reliable supply, then the company will supply only 12, 500 products to the downstream nodes, irrespective of its capacity and even when it can provide more to assure that each node get a little and stock is not unfilled.

It is also find that is the irregularity in demand is too often, some costumers (downstream nodes of supply chain) order more than the actual need to compensate future disorder in supplies. In this way, the company manages its product strategically.

Transportation:

The company preserves an effectual transportation system from manufacturing unit to distribution centers and then additional from distribution centers to retail outlets. Currently hired motor vehicles are used to diminish the cost of purchasing of vehicles.

Demerits of Strategic Management Accounting

There are some of the disadvantages of Strategic Management Accounting Techniques also. Some of them are:

Lack of Standardization

Monetary accountants follow accounting measures and principles sketched by generally established accounting principles like US GAAP. Management accountants, counting strategic executives, do not have a mix of procedures & policies to follow.

Focus on Quantitative Information

Data based or Quantitative information is information calculated in hard statistics, such as dollars and ponds. A strategic accountant centers a lot of concentration on quantitative data. Information studies by these accountants are very cogent. The difficulty with this is that concentrating only at lucid information, other relevant information is unnoticed.

Biasness:

Strategic accountants generate methods for calculating performance and are prearranged a lot of space for subjectivity and unfairness. This causes a disadvantage to companies because strategic accountants attach their own individual feelings and beliefs into making decisions.

Strategic management process engages the complete range of verdicts. Usually, strategic issues have about 6 identifiable scopes:

Strategic issues engage the allocation of large quantity of company resources

Strategic matter require highest level-management decisions

Strategic issues are probable to have noteworthy impact on the strategic-term success of the company

Strategic issues typically have chief multi business or multifunctional penalty

Strategic issues are often future oriented

Strategic issues require considering aspects in the firm's outside environment.

Usefulness of Strategic management in the company

Meeting the downstream demand by the organization is extremely necessary and most of the organizations (and thus Carrefour) thus lay great weight over their production unit and taking it to best level to attain marked productivity standards. It is involved in strategic guidelines of the company to attain or exceed the requirement in the market. In order to absolute this requirement, business should be spotless in its production and its inventory management. This also need suitable administration of its volume, productivity and cost resources, so as to achieve suitable quality standards. (Inman, 1999)

Relation between demand and Supply side

The demand of the products to be sold is directly dependent on the supply side (for fulfillment). There is a linear relation existing between demand and supply side with negative slope. When the demand increases, the manufacturing side capacity or say the supply decreases and opposite in vice versa case.

One area in which Carrefour is missing is the supply of consumer demand to its customer with appropriate timing. It is the dimension in which system is meeting its prevalent failure. This is highly exaggerated from elasticity that the system possess, and to have correctly timed outcome, Carrefour should have highly appropriate structuring that would be clever to be adequate to all the needs of the customers associated form the company. As a conclusive reason for the failure, we can say that there is lack of co-ordination and management within all the sections operating in the system.

Production:

Production in governed by the Kano model in order to meet the requirement of the customers. The company manages a number of plants for producing the variety offered by the company.

Capacity management:

As mentioned earlier too, to guarantee emergency and constant supply of stacks, the company preserves warehouses at all its distribution centers. The stock maintained in the warehouses depends on the forecasting model of the retailing company. The company depends on two sets of customer (temporary and permanent), the stock necessary for permanent clients is still conventional but that for the temporary set of clientele is not. Thus Carrefour invests blissfully on warehousing extra stocks as it is required to maintain extra quantity to answer the surprises expected form temporary customers.

Why it is crucial?

In a retailing industry like Lulu, a major cost is warehousing or organizing the inventory as mentioned above. If the company fails to understand the actual need of the marketplace in advance, it can counter two kinds of problems: one is the likely unavailability of supply at the stores which affects the quality of the offered service by the company and secondly if Lulu tries to preserves larger amount of stocks, it has to disburse in terms of charge of warehousing. Both the situations are undesirable by the company. (Gregory, 1995)

Comments on Role of SMA in achieving Mission and objectives of the company:

As we saw that the company wants to become the number one retail market company in the world, the activates like Key performance indicators to maintain the performance of employees and the company, Balance scorecard for financial management and related models like Kano model etc helped company to perform its operations in better and cost effective manner. Thus we can say that SMA is helping the company in achieving Mission and objectives