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ORIGINAL ARTICLE

"STRATEGIC MANAGEMENT ACCOUNTING-CURRENT APPLICATION Nokia- A Unique case of Success" - Case Study

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Abstract:

During the late 1980s and early 1990s criticisms of traditional management accounting practices were widely publicized and new approaches were advocated which is more in tune with today's competitive and business environment. In particular, strategic management accounting has been identified as a way forward. However, there is still no comprehensive framework as to what constitutes strategic management accounting. In this case we shall examine the elements of strategic management accounting and describe the different contributions that have been made to its development.

KEYWORDS:

Strategic Management , ApplicationNokia , environment. , organization's .

INTRODUCTION

One of the elements of strategic management accounting involves the provision of information for the formulation of an organization's strategy and managing strategy implementation. To encourage behaviour that is consistent with an organization's strategy, attention is now being given to developing an integrated framework of performance measurement that can be used to clarify, communicate and manage strategy.

The Chartered Institute of Management Accountants (CIMA) in the UK defines strategic management accounting as "A form of management accounting in which emphasis is placed on information which relates to factors external to the firm, as well as non-financial information and internally generated information."

Innes (1998) defines strategic management accounting as the provision of information to support the strategic decisions in organizations. Strategic decisions usually involve the longer-term, have a significant effect on the organization and although they may have an internal element, they also have an external element. Adopting this definition suggests that the provision of information that supports an organization's major long term decision, such as the use of activity based costing information for providing information relating to product mix, introduction and abandonment decisions falls within the domain of strategic management accounting.

CASE STUDY- Nokia : A Unique Case of Success

This paper describes case study on strategic management accounting from the telecommunication industry. The study on Nokia telecommunications demonstrates that strategic management accounting is one of the reasons for its global success.

Global success is determined by a large number of factors such as environment management producs stragegy ad management accounting system. Nokia represents an extreme and unique case of achieving global success in telecommunications industry. This study finds out the reasons for its global

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success. The main reason among others is seen in its well designed and implemented management accounting system. In the present study success is defined in terms of growth and profitability but at the same time attention is paid to finance. In a way the case demonstrates how a management accounting system has succeeded in balancing growth and profitability to control finance.

Nokia's history dates back to 1865 when Finnish mining engineer Fredirk Idestam established a wood-pulp mill in southern Finalnd and started manufacturing paper. Since those early days the company evolved first into a conglomerate encompassing several industries ranging from paper to chemicals and rubber products and in the 1990s with a clearly defined strategy into a dynamic global telecommunication company. The groundwork for telecommunications was already laid in the 1960s as Nokia was researching radio transmission in its electronics department. In the late 1970s mobile phones and telecommunications infrastructure products were developed for both domestic and International customers. In the 1990s Nokia became a global leader in digital communication technology. From the very beginning it has faced competition from established international competitors in the open domestic telecommunications markets. Among other factors the ability to exploit the opportunities created by continuous technological and market changes helped Nokia develop into the company that it is today Nokia realized it rather early that value creation in a global fast moving business environment is more important than administrative control of activities. Clearly both are needed but the first must have precedence over the second for the simple reason that the key factor to success is speed. Also in a global and fast moving environment firms have to make assumptions about business environment continuously. At eh same time firm have to test the validity of these assumptions and sense signal of alternative possibilities. The kety is to understand fundamental changes and crucial turning points.

In strategy formulation firms build scenarios around these turning points. This would result in understanding the importance of timing and then deciding the right moment to take action. Nokia as early as in 1987 realized that it should be ready for the time when mobile phones would sell like candies.

Today Nokia is the world's leading mobile phone supplier and a leading supplier of mobile and fixed telecom networks including related customer services. Nokia also supplies solutions and products for fixed and wireless data communications, as well as multimedia terminals and computer monitors.

Nokia comprises three business groups Nokia Telecommunications Nokia Mobile Phones and Nokia Communications Products. In addition Nokia includes a separate Nokia Ventures Organization and Corporate Research Unit the Nokia Research Center. Headquartered in Finaland. Nokia is listed on the

New York Helsinki Stockholm London Frankfurt and Paris stock exchanges. It has sales in over 130 countries and employs more than 47000 people world wide. Nokia has transformed very quickly into a focused telecommunications company. In 1987 Nokia turnover was 2.6 billion USD. It rose in 1997 to 9.8 billion UDS.Duriing the same period the share of telecommunications in the group's activities had grown from 17 per cent to 100 per cent including mobile phones telecom networks multimedia terminals monitors and new ventures. According to its CEO Ollila (1999), clear business focus has led to a very fast global growth. In the company's turnover in 1987. Finland had 40 per cent share and the rest of Europ about 45 per cent. Today the home market Finland represents 5 per cent rest of Europe has 51 per cent. Asia Pacific 23 per cent. America 18 per cent and other countries 3 per cent. Nokia has grown global. The focus on digital and networks has helped to boost its market its market capitalization from 1.5 billion USD in 1988 to 70 billion USD in 1998 when the company edged past Motorola to become the world's leading manufacturer of mobile phones.

Global success may have been impossible without information systems that support management in strategic decision making. Nokia has emphasized the role of knowledge management in global success. Ilkka Tuomi (1998) the chief researcher of Nokia Research Center states that knowledge creation supply and utilization are the most essential tasks in modern business world. Out of all information Tuomi regards tacit (implicit) information as the explosive increase of knowledge intensity. Thus it was extremely important to coordinate all the factors that are associated with knowledge management that is personnel information systems strategy quality and process developers.

According to Tuomi the theory of knowledge management provides Nokia with new ideas about future organizations and their nature of activities. This is very essential because successful new product development is based on strict prioritization of pilot projects which are used to test future vision . In fact Nokia does not predict the future but creates knowledge that can be used to understand when it arrives. The modern knowledge management philosophy underlying all the information systems including management accounting systems I Nokia has played an important role in supporting the realization of global strategies.

The Strategic Manager of Nokia Telecommunications, Mikko Kosoe (1995) described four elements of management accounting system in Nokia that were responsible for excellence in performance. First the atmosphere in Nokia created a culture for continuous improvement. The urgency to change for excellence in performance was emphasized in all activities. The vision and the strategies based on it had a clear focus on global telecommunication high value added business. Nokia values were present in every activity and business. These values are :

Customer satisfaction
Respect for the individual
Achievement and
Continuous learning

These values were communicated to each Nokia employee who understood it well. Secondly performance management was aligned to corporate strategies and Nokia values. This meant that each business unit should define and give priority to its own targets and performance indicators for customer satisfaction (correct time to market price vs performance and features field reliability delivery accuracy and lead time) operative efficiency (cycle time first time pass yield cost efficiency working capital in days) and people's involvement (target setting understanding communication , empowerment, team work)
All these are measured and linked to the three core processes product process customer commitment process and management and support process.
Therefore the performance measurement system forms a matrix where the three core processes are rows and the three performance areas are columns. The performance measurement matrix in Nokia Telecommunications is shown in Exhibit . Each performance area is measured for each core process. The product process includes activities form identigication of needs to developemtn and launching of new systems products and features. The customer commitment process comprises activities fro tendering to order delivery implementation and after sales. The management and support processes include strategy setting (direction setting) finance and control (measuring) and human resource management (HRM) process (competence development). Customer satisfaction is measured by customer surveys and internal measures (like milestones) operative efficiency by internal measures that include traditional financial measures and people's involvement by employee and involvement surreys. The goals for performance improvement are strong market position and good profitability that are consistent with the vision and the strategy. These goal measures are also included in the performance matrix. That means at Nokia telecommunications the performance system is efficiently built to support strategy realization through the core processes.

EXHIBIT 'A'

The Performance Measurement Matrix in Nokia

		Performance Measures		
Core Processes	Customer’s Satisfaction	Operative Efficiency	People Involvement	Market Position and Profitability
Product Process				
Customer commitment Process				
Management and Support Processes				
Overall				

Thirdly the organization was re-engineered create value. The organization consists of software and hardware .Software includes values management philosophy and core competencies while hardware consists of organizational structure processes and management systems. Therefore the organization is used to make the strategy to reach the vision through value creation.

Fourthly controllership was aligned to business development. This means that there should be account teams (dedicated to specific customers) with controllers close to customers that understand their business and help them to draw long-term financial plans. Hence account teams should have strong competencies to evaluate customers ling-term viability and the value of Nokia's solution to the customer over time. This is the key question because Nokia is using value –based pricing.

The controller had strong competencies to evaluate new market opportunities to support account teams and to develop right solutions and to make right products. Global competition and price erosion set extra demands on all functions to better understand profitability and to improve business process and operations. Thus finance and control needs to be embedded in all core processes that mean decentralized controllership. In essence controllership is built to efficiently support product and customer commitment processes as also management and support processes.

The role of the controller is influenced by corporate culture and philosophy that is Nokia values and Nokia way as well as by business environment and dimensions (customers business lines and processes) and changes in all of them.

The performance measurement matrix at Nokia consists of business lines as rows and regions and functions as columns (exhibit B) Through the matrix customer information is highlighted. The controllership partly follows current reporting structure (regions and functions) and partly business environment and dimensions (customers business lines and processes). The core processes within Nokia are product creation product delivery and management processes. The starting point for each process is the customer. Controllers are seen as a part of management not as a cost police or bean-counter. Their roles and tasks are to support strategy implementation based on customer satisfaction understanding the business and processes and decentralized responsibility. The future is more important than the past. However the past helps in understanding the dependencies and key businesses products and customers

EXHIBIT 'B'
Business Lines as Rows and Regions and Functions as Columns

Performance Measures							
	Regional Measures				Functional Measures		
Business Lines	Region 1	Region 2	Region 3	Product creation Process	Product Delivery Process	Management Process	Customer Information
Business Lines 1							
Business Lines 2							
Business Lines 3							
Business Lines 4							
Business Lines 5							
Business Lines 6							
Business Lines 7							

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