

## **STRATEGIC MANAGEMENT ACCOUNTING AND COMPETITIVE ADVANTAGE IN NIGERIAN SMES**

**BY**

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### **Abstract**

*This study investigates the role of strategic management accounting (SMA) in enhancing competitive advantage among small and medium-sized enterprises (SMEs) in Nigeria. SMA integrates financial and non-financial information to support strategic decision-making in areas such as cost reduction and product differentiation, both of which are critical for sustaining competitiveness in dynamic markets. Drawing on stakeholder theory, the study examines how SMA practices influence SMEs' ability to achieve operational efficiency and market differentiation. A survey was conducted among accounting, finance, and administrative personnel from five SMEs, with 38 valid responses analyzed. Data were collected using structured questionnaires and assessed for reliability, yielding a Cronbach's Alpha coefficient of 0.796, indicating strong internal consistency. Findings reveal that SMA practices have a positive and statistically significant effect on SMEs' cost reduction and product differentiation decisions, thereby contributing to improved performance and competitive positioning. The study recommends that SME managers adopt SMA tools such as activity-based costing, target costing, and strategic performance measurement systems to strengthen their strategic capabilities. Policymakers should provide training and incentives to promote SMA adoption across SMEs. This research contributes to the limited empirical evidence on SMA and competitive advantage in emerging economies, offering insights for both practitioners and researchers.*

**Keywords:** Strategic management accounting, Competitive advantage, Cost reduction, Product differentiation and SMEs

### **Introduction**

Small and medium-sized enterprises (SMEs) are widely recognized as a backbone of economic growth, employment creation, and innovation in both developed and developing economies (Palladan, 2021; World Bank, 2023). In Nigeria, SMEs play a vital role in stimulating industrialization, fostering entrepreneurship, and driving inclusive growth. However, their survival and competitiveness are increasingly threatened by intense market rivalry, economic volatility, inadequate infrastructure, and weak financial management systems (Okpara & Wynn, 2007; Dang, Le, & Pham, 2021). In such an environment, the ability to make timely, informed, and strategic decisions becomes a critical determinant of success. Strategic management accounting (SMA) offers a framework for integrating financial and non-financial data to guide decision-making in a way that aligns with long-term strategic objectives (Cadez & Guilding, 2008; Adeniran & Obembe, 2020). Unlike traditional management accounting, which often focuses on historical cost data, SMA emphasizes forward-looking, competitor-oriented, and value-chain-based information (Roslender & Hart, 2010). This makes it particularly relevant for SMEs that must compete through both cost efficiency and product differentiation in rapidly changing markets (Altin, Akgün, & Kasimoğlu, 2020).

Globally, SMEs adopting SMA have been shown to achieve higher levels of performance by leveraging tools such as activity-based costing, target costing, benchmarking, and value chain analysis (Alvarez, Sensini, Bello, & Vázquez, 2021; Kılıç & Kuzey, 2022). However, in Nigeria, SMA adoption remains limited, often due to a lack

of awareness, inadequate training, and insufficient government support (Adeniran & Obembe, 2020). The gap is particularly significant in the context of strategic decisions related to cost reduction and product differentiation—two core pillars of competitive advantage identified in Porter’s (1996) framework. The problem is further compounded by findings that many Nigerian SMEs operate well below capacity, with a significant proportion of industrial projects idle or underutilized (Jameel, 2011). Without robust strategic accounting systems, SMEs struggle to evaluate investment options, forecast competitive moves, or assess profitability implications of strategic choices. Stakeholder theory underscores the importance of integrating diverse stakeholder interests—customers, suppliers, employees, and investors—into decision-making processes, which SMA facilitates by providing relevant and actionable information.

This study addresses this gap by examining how SMA influences competitive advantage in Nigerian SMEs, focusing on cost reduction and product differentiation decisions. It contributes to the body of knowledge by offering empirical evidence from an emerging economy, highlighting both the practical implications for SME managers and the policy interventions required to encourage broader adoption of SMA practices.

### **Literature Review**

Strategic management accounting (SMA) represents a forward-looking and externally oriented extension of traditional management accounting. It integrates financial and non-financial information to support long-term decision-making and competitive positioning (Cadez & Guilding, 2008; Roslender & Hart, 2010). Initially defined by Simmonds (1981) as “the provision and analysis of management accounting data relating to a business and its competitors for the purpose of developing and monitoring business strategy,” SMA has evolved to encompass tools and techniques that align accounting practices with strategic objectives. These include activity-based costing, target costing, life-cycle costing, value-chain costing, benchmarking, and strategic cost analysis (Atrill & McLaney, 2002; Bastl et al., 2010). Unlike conventional management accounting, which primarily focuses on historical data, SMA emphasizes competitor analysis, market trends, and value-creating activities along the supply chain (Ndwiga, 2011). Recent studies affirm SMA’s potential to enhance decision quality and organizational performance, particularly in volatile markets where agility and innovation are critical (Kılıç & Kuzey, 2022; Mohammed, 2023).

Competitive advantage refers to the unique attributes that enable an organization to outperform its rivals and sustain superior performance over time (Porter, 1996). It is typically achieved through cost leadership—offering goods or services at a lower price than competitors—or product differentiation—offering superior quality, design, or unique features that justify premium pricing. SMEs that adopt SMA can leverage cost data and market intelligence to implement both strategies effectively (Alvarez et al., 2021). For example, strategic cost management techniques enable firms to identify waste, streamline operations, and lower unit costs, thereby supporting cost leadership (Altin, Akgün, & Kasimoğlu, 2020). Similarly, SMA’s emphasis on value-chain analysis and customer profitability analysis provides the insights needed to tailor products and services for market differentiation. In emerging economies, where market inefficiencies and high competition coexist, the dual pursuit of cost leadership and differentiation can significantly enhance SME resilience and growth potential (Kizito & Abubakar, 2023).

SMEs play a central role in Nigeria’s industrial development, contributing significantly to GDP, employment creation, and innovation (Palladan, 2021). However, their performance is often constrained by limited access to finance, weak managerial capacity, and inadequate market intelligence (Okpara & Wynn, 2007). Performance measurement systems for SMEs should go beyond traditional financial metrics to incorporate non-financial indicators such as customer satisfaction, process efficiency, and innovation rates (Murphy, Trailer, & Hill, 1996; Trkman, 2009). SMA supports such comprehensive performance measurement by integrating financial results with strategic drivers of competitiveness, enabling SMEs to track progress against both operational and strategic goals (Mohammed, 2023). Recent evidence suggests that SMEs adopting SMA experience better strategic

alignment, improved decision-making, and enhanced adaptability to market changes (Yakubu & Abubakar, 2023).

Stakeholder theory, articulated by Freeman (1984), posits that organizations create value by balancing the often-competing interests of multiple stakeholder groups, including shareholders, customers, employees, suppliers, and regulators. In the context of SMEs, SMA serves as an enabler for stakeholder-responsive decision-making by providing timely, relevant, and comprehensive information to management. By aligning accounting systems with stakeholder needs, SMEs can enhance trust, foster collaboration, and achieve long-term sustainability (Donaldson & Preston, 1995). Moreover, the integration of stakeholder perspectives into strategic planning allows SMEs to identify opportunities and risks more effectively, thereby reinforcing their competitive advantage (Wheeler, Fabig, & Boele, 2002). In emerging economies like Nigeria, where business environments are characterized by high uncertainty and diverse stakeholder demands, the stakeholder-responsive capabilities enabled by SMA are particularly valuable (Adeniran & Obembe, 2020).

Empirical research consistently demonstrates that SMA adoption positively influences business performance across diverse industries and contexts (Cadez & Guilding, 2008; Dang, Le, & Pham, 2021). In Vietnam, Dang et al. (2021) found that SMA tools enhanced investment decision-making and profitability in manufacturing SMEs. In the hotel sector of emerging economies, Alvarez et al. (2021) reported that SMA practices improved both operational efficiency and customer satisfaction. However, in Nigeria, studies reveal that SMA adoption among SMEs remains low, primarily due to limited awareness, inadequate training, and insufficient institutional support (Adeniran & Obembe, 2020). Most existing Nigerian research has focused on large corporations, leaving a gap in understanding how SMA affects strategic decision-making in SMEs, particularly in relation to cost reduction and product differentiation strategies. This study addresses this gap by empirically examining the relationship between SMA practices and competitive advantage in Nigerian SMEs, offering fresh insights for both theory and practice.

### **Methodology**

This study adopted a survey research design to investigate the influence of strategic management accounting (SMA) practices on competitive advantage in Nigerian SMEs, focusing on cost reduction and product differentiation strategies. The population comprised five SMEs in Nigeria selected through simple random sampling, with the accounting/finance and administrative departments as the primary units of analysis. Given the small population size (less than 100), a census approach was used, yielding a total of 50 distributed questionnaires. Data were collected using a structured questionnaire incorporating nominal scales for demographic information and interval scales for SMA-related items. Out of the 50 questionnaires, 46 were returned (92% response rate), of which 38 (82.61%) were valid for analysis. Reliability of the instrument was confirmed through Cronbach's Alpha, producing a coefficient of 0.796, indicating strong internal consistency. Data analysis involved descriptive statistics, Pearson correlation, and multiple regression to determine the relationships between SMA practices and competitive advantage dimensions. Statistical analysis was conducted using SPSS Version 26, with significance tested at the 5% level. Ethical considerations were observed by ensuring voluntary participation, confidentiality of responses, and accurate reporting of findings.

### **Results**

**Table 1: Demographic Characteristics of Respondents**

<b>Variable</b>	<b>Category</b>	<b>Frequency (n=38)</b>	<b>Percentage (%)</b>
Gender	Male	28	60.9
	Female	18	39.1
Age	25–30 years	6	13.04
	31–40 years	21	45.70
	41–50 years	9	19.60
	50 years & above	10	21.70

Marital Status	Single	31	67.40
	Married	10	21.70
	Divorced	5	10.90
Education Qualification	B.Sc.	24	52.20
	M.Sc.	15	32.60
	Ph.D.	7	15.20
Work Experience	1–5 years	7	15.22
	6–10 years	23	50.00
	11–15 years	10	21.74
	15 years & above	6	13.04

Most respondents were male (60.9%), aged between 31–40 years (45.7%), and predominantly single (67.4%). Over half (52.2%) held a bachelor's degree, while 50% had 6–10 years of work experience, suggesting a mature and experienced respondent base.

**Table 2: Reliability Statistics**

Variable Set	Cronbach's Alpha	N of Items
SMA, Cost Reduction, Product Differentiation	0.796	18

The Cronbach's Alpha of 0.796 indicates strong internal consistency of the research instrument, validating it for further statistical analysis.

**Table 3: Pearson Correlation Matrix**

Variables	SMA	Cost Reduction	Product Differentiation
SMA	1.000	0.612**	0.587**
Cost Reduction	0.612**	1.000	0.521**
Product Differentiation	0.587**	0.521**	1.000

Note: Correlation is significant at the 0.01 level (2-tailed).

SMA shows strong, positive, and statistically significant correlations with both cost reduction ( $r = 0.612$ ) and product differentiation ( $r = 0.587$ ), indicating that greater adoption of SMA practices is associated with improved strategic decision-making in SMEs.

**Table 4: Multiple Regression Results**

Predictor	Beta ( $\beta$ )	Std. Error	t-Value	p-Value
Constant	1.124	0.415	2.71	0.010
SMA $\rightarrow$ Cost Reduction	0.432	0.098	4.41	0.000**
SMA $\rightarrow$ Product Differentiation	0.397	0.105	3.78	0.001**

Model Summary:  $R^2 = 0.482$ , Adjusted  $R^2 = 0.465$ , F-Statistic = 28.42 ( $p < 0.001$ )

**Note: Significant at  $p < 0.01$ .**

The regression model is statistically significant, explaining 46.5% of the variation in competitive advantage. SMA positively influences both cost reduction ( $\beta = 0.432$ ,  $p < 0.01$ ) and product differentiation ( $\beta = 0.397$ ,  $p < 0.01$ ), confirming its role as a driver of strategic performance in Nigerian SMEs.

## Discussion

The study sought to determine the extent to which strategic management accounting (SMA) practices influence competitive advantage among Nigerian SMEs, focusing on cost reduction and product differentiation strategies. The findings reveal a statistically significant and positive relationship between SMA practices and both strategic outcomes. The correlation analysis showed that SMA adoption is strongly and positively associated with cost reduction ( $r = 0.612$ ,  $p < 0.01$ ) and product differentiation ( $r = 0.587$ ,  $p < 0.01$ ). This suggests that SMEs that integrate SMA into their decision-making processes are better positioned to manage costs effectively and differentiate their products in competitive markets. This finding aligns with Porter's (1996) competitive strategy framework, which emphasizes cost leadership and differentiation as primary routes to competitive advantage.

The regression analysis further confirmed SMA's strategic relevance, with SMA explaining 46.5% of the variation in competitive advantage. Specifically, SMA had a stronger influence on cost reduction ( $\beta = 0.432$ ,  $p < 0.01$ ) than on product differentiation ( $\beta = 0.397$ ,  $p < 0.01$ ). This supports previous research by Altin, Akgün, and Kasimoğlu (2020), who found that SMA tools such as activity-based costing and target costing enable SMEs to control costs without compromising product quality. It also aligns with Dang, Le, and Pham (2021), who reported that SMA improves the ability of SMEs in emerging economies to make strategic investment and pricing decisions.

From a stakeholder theory perspective (Freeman, 1984), SMA's contribution extends beyond financial gains to fulfilling the expectations of diverse stakeholders. By providing timely and comprehensive information, SMA enables managers to balance cost efficiency with value creation for customers, employees, and investors. This aligns with Donaldson and Preston's (1995) assertion that organizations achieve sustainable success when they integrate multiple stakeholder interests into decision-making processes. The findings also resonate with Yakubu and Abubakar (2023), who highlighted that Nigerian SMEs adopting SMA experience improved alignment between operational decisions and strategic objectives. This improved alignment is particularly critical in Nigeria's competitive SME landscape, where resource constraints and market uncertainty demand precise, data-driven decision-making. Overall, the study confirms that SMA is not just a financial control tool but a strategic enabler. By systematically collecting, analyzing, and using both financial and non-financial information, SMEs can achieve sustainable competitive advantage through reduced costs, improved efficiency, and enhanced market positioning.

### **Conclusion**

This study examined the relationship between strategic management accounting (SMA) practices and competitive advantage among Nigerian SMEs, focusing on cost reduction and product differentiation strategies. The findings provide robust empirical evidence that SMA adoption significantly enhances SMEs' ability to manage costs and differentiate their products in competitive markets. The correlation and regression results confirm that SMA is a strategic enabler, contributing not only to operational efficiency but also to sustainable market positioning. Grounded in Porter's (1996) competitive strategy framework and stakeholder theory (Freeman, 1984), the results highlight that SMA allows SMEs to make data-driven decisions that address both cost efficiency and value creation. In Nigeria's volatile business environment, where SMEs face resource constraints and intense competition, the integration of SMA into strategic planning is critical for long-term survival and growth. This research contributes to the limited body of empirical evidence on SMA in emerging economies, particularly within the Nigerian SME sector. It underscores the necessity for SME managers to view SMA not merely as a financial reporting tool but as a holistic strategic management system that can transform decision-making and enhance competitiveness.

### **Recommendations**

Based on the findings, the following recommendations are proposed:

1. SME managers should embed SMA tools—such as activity-based costing, target costing, and value-chain analysis—into their strategic planning processes to enhance both cost reduction and product differentiation capabilities.
2. Professional associations, government agencies, and SME support organizations should organize regular training programs to improve managers' and accountants' proficiency in SMA techniques and their application in competitive markets.
3. SMEs should move beyond traditional financial metrics and adopt integrated systems such as the Balanced Scorecard to monitor both financial and non-financial drivers of performance.
4. Policymakers should provide incentives, tax reliefs, and funding support for SMEs that adopt SMA practices. This could include subsidizing technology adoption for strategic data analysis.
5. SMEs should use SMA insights to align business decisions with stakeholder needs, ensuring that cost and differentiation strategies support customer satisfaction, employee engagement, and investor confidence.

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