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Department of Accountancy
Nnamdi Azikiwe University,
Awka

STRATEGIC MANAGEMENT ACCOUNTING AND COMPETITIVE ADVANTAGE: A SURVEY OF MANUFACTURING FIRMS IN ANAMBRA STATE, NIGERIA

Asoloko, Innocent Zecharia CNA, CIMA[1], Egbunike, Francis Chinedu PhD[2]*, Anah, Amaka Silver

[1] Department of Accounting; Adamawa State University; Mubi; Adamawa State; Nigeria.
[2] Department of Accountancy; Nnamdi Azikiwe University; Awka; Anambra State; Nigeria.
[3] Department of Accountancy; Nnamdi Azikiwe University; Awka; Anambra State; Nigeria.

*Correspondence to: Egbunike, Francis Chinedu, Nnamdi Azikiwe University, Department of Accountancy, Faculty of Management Sciences, P.M.B. 5025, Awka, Anambra State, Nigeria.
E-mail: cf.egbunike@unizik.edu.ng Tel.: +2348132850409

ABSTRACT

This study investigates the nexus of strategic management accounting and competitive advantage in manufacturing firms. The study adopts the survey research design. The sample for the study comprised forty accountants and forty administrative staffs from ten randomly selected manufacturing companies in Nnewi and Awka, Anambra State. The study relied on primary data; obtained from a structured questionnaire. The data were analysed using descriptive and inferential statistics. The formulated hypotheses where tested using one-sample t test. The results showed that strategic management accounting techniques significantly affects cost reduction and product differentiation decisions of manufacturing firms. This supports the fact that manufacturing firms in Anambra State can enhance their ability to achieve competitive advantage via adoption of SMA techniques. Based on this, the study recommends the use of strategic management accounting techniques, such as activity based costing for cost reduction decision making and attribute costing for product differentiation decisions making in manufacturing firms.

Keywords: Strategic Management Accounting, Cost Reduction, Product Differentiation.

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1. Introduction

Competition amongst business organisations have compelled management to seek out techniques and strategies that can enable the maximization of profits (Ndwiga, 2011). More so, changes in the business environment, triggered by global competition, technological innovation and changing demand of customers, have led to innovations in the use of financial and nonfinancial information in organizations (Cardoş & Pete, 2011; Ndwiga, 2011). Thus, business organisations are becoming more aggressive and dynamic in identifying competitive strategies that will ensure profitable existence. This may be achieved through increased sales and reduced cost of production. The optimisation of profits and minimisation of costs may enable an organisation to create a competitive advantage in its industry (Ndwiga, 2011). However, as organisations became larger in sizes and organized across multiple locations, coupled with evolving stakeholder demands financial accounting increasingly became inadequate for satisfying information needs of managers.

Presently, managers are under great pressure to identify new ways to maintain the competitive advantage of their organisations (Ndwiga, 2011), which, inevitably requires sophisticated expert knowledge and skills, as well as quality information support (Stefanović, 2011). In order to respond to this state of flux organizations should develop and install strategic managerial systems that can continuously reflect the growing complexity of the business environment, and monitor organizations own strategic responses to such complexity (Abdul-Rahman, Azhar, Abdul-Rahman, & MohdDaud, 2012). The adoption of management accounting techniques can provide an organisation with a sustainable competitive advantage over its rivals (Thompson, Strickland, & Gamble, 2008). Management accounting is a branch of accounting that provides managers with information regarding internal business operations (BPP Professional Education, 2005). Such information may be in the form of financial or non-financial data from the internal business environments. Thus, most managerial decisions now require information that unifies financial and non-financial data (Astuty, 2015). In response to this, scholars advocated for innovations in traditional managerial accounting techniques (Yazdifar & Tsameny, 2005). It was widely believed that traditional managerial accounting techniques such as absorption costing, budgeting and profit-based performance measures were inadequate to provide management with holistic information.

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The traditional methods were mainly criticised for information weaknesses from over-reliance on historical figures (Hall, 2008). Therefore, contemporary management accounting techniques incorporated the techniques of traditional and strategic costing methods (Ndwiga, 2011). According to Pires, Alves, and Rodrigues (2015), the additional non-financial information focus of contemporary management accounting techniques has always remained a key feature of such techniques. They include such as Lifecycle Costing, Activity Based Costing (ABC), Target Costing, Kaizen Costing, Balanced Scorecard (BSC), etc. (Atrill & McLaney, 2002; Bastl, Grubic, Templar, Harrison, & Fan, 2010; Cardoş & Pete, 2011). These techniques are broadly referred to as 'Strategic Management Accounting' techniques. Strategic management accounting gathers financial and non-financial information needed by internal users; and is, concerned with fulfilling corporate goals, communicating and implementing strategy, and coordinating product design, production, and marketing. There is substantial evidence that strategic management accounting has led to value creation in several companies globally.

To maintain survival in the current business landscape, an organisation should make products or render services that create value (Laverty, 2004). And to achieve competitive advantage, every company inevitably faces the requirements of cost competition (Stefanović, 2011). To evaluate performance and make informed decisions, managers need forward-looking information rather than historical information provided by financial accounting. However, majority of companies have not gained a competitive advantage because they utilise cost systems that are not designed or well suited for the present technological age when speed, quality and performance are highly critical for success (Cardoş & Pete, 2011; Hall, 2008). To survive, managers need to rethink managerial practices, especially in the area of managerial accounting systems. To maintain competitive advantage managers need relevant information on costs and product performance within the organization's activities (Cardoş & Pete, 2011). Porter (1985) observed that firms' can gain a competitive advantage from either of three alternatives: cost leadership, product differentiation, and/or market focus. Strategic management accounting provides managers with strategic long-term financial and non-financial information which enables them design and adopt strategies for competitive advantage (Egbunike, Egolum, & Agwaramgbo, 2015, Ojua, 2016).

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There is a paucity of studies on strategic management accounting techniques in developing countries (Akenbor & Okoye, 2012; Egbunike, Egolum, & Agwaramgbo, 2015; Emiaso & Egbunike, 2018; Osazevbaru, 2014). Specifically, Emiaso and Egbunike (2018) note that with particular reference to Nigeria the subject has not been sufficiently investigated with regards to improved organisational performance. Prior, studies by Olanipekun, Abioro, Akanni, Arulogun, and Rabiu (2015), Akenbor and Okoye (2012) focused on strategic management accounting and competitive advantage in Nigeria; however, failed to disaggregate competitive advantage into its sub-components. Alternatively, studies by Emiaso and Egbunike (2018) focused on the effectiveness of strategic management accounting in improving organisational performance among firms in Delta State. Ojua (2016) focused on strategic management accounting practices on a sample of firms in Ogun State. Oboh and Ajibolade (2017) explored the practicality of strategic management accounting techniques by banks in Nigeria; while, Egbunike, Ogbodo, and Onyali (2014) demonstrated the suitability of using strategic management accounting techniques to achieve corporate sustainability.

Despite the plethora of studies, there is a consensus among scholars that the 'external orientation' of strategic management accounting is a key to achieving competitive advantage and enhance overall organizational performance (Bhimani & Langfield-Smith, 2007; Cadez & Guilding, 2008; Langfield-Smith, 2008; Ma & Tayles, 2009). However, the literature remains largely unexploited in the context of developing countries as a tool for gaining competitive advantage. The manufacturing sector still remains a viable area for sustained growth of the Nigerian economy; however, growth in the sector over the years has been saddled by several challenges more such as fluctuation interest rate, unstable government policies, power supply, and access to raw materials, among others. Against this backdrop, this study investigates strategic management accounting and competitive advantage of manufacturing firms in Anambra State, Nigeria. The study formulates the following hypotheses in the null form as follows:

Ho_1: The application of strategic management accounting techniques has no effect on cost reduction decisions of manufacturing firms.

Ho_2: The application of strategic management accounting techniques has no effect on product differentiation decisions of manufacturing firms.

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2. Review of Related Literature

2.1 Conceptual Framework

2.1.1 Strategic Management Accounting (SMA)

According to Chartered Institute of Management Accountants [CIMA] cited in BPP Professional Education (2005, p.18) management accounting is an 'integral part of the core management function that requires the identification, measurement, accumulation, analysis, preparation, interpretation, and communication of information used by management to plan, evaluate and control within an organisation and to ensure appropriate use of and accountability for its economic resources'. Thus, management accounting should provide a solution for businesses to survive in the current dynamic business environment where competition and changing consumer preferences have restricted profitability (Horngren, Sundem, Stratton, Schatzberg, & Burgstahler, 2009). This greatly stemmed the drive towards 'Strategic Management Accounting'; as traditional management accounting techniques were limited in scope and unable to handle such dynamism. The term 'Strategic Management Accounting' (SMA) was first coined by Simmonds (1981, p.26) who defined it as 'the provision and analysis of information about a business and its competitors for use in developing and monitoring business strategy'. Bromwich (1990) extends this definition, and opine that SMA deals with 'the provision and analysis of financial information on the firm's product, markets and competitors' cost and cost structures and the monitoring of the enterprise's strategies and those of its competitors' in these markets over a number of periods'.

Roslender and Hart (2003, p. 255) define SMA 'as a generic approach to accounting for strategic positioning, defined by an attempt to integrate insights from management accounting and marketing management within a strategic management framework'. Langfield-Smith (2008, p. 206) opines that SMA 'entails taking a strategic orientation to generation, interpretation and analysis of management accounting information, and competitors' activities provide the key dimension for comparison'. Put succinctly, by Tayles (2011) SMA lies at the interface between strategic management and accounting. The two main forms of analysis in SMA are external and internal value chain analysis (Kozarkiewicz & Lada, 2014); which in turn assist an organisation to gain a competitive advantage (Ndwiga, 2011). The literature documents a lack of consensus on the boundaries that constitute SMA.

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However, it is widely purported that SMA describes a generic approach to accounting for strategic positioning (Kozarkiewicz & Lada, 2014; Ndwiga, 2011; Roslender & Hart, 2010). This generic approach refers to the inclusion of several management control techniques in the SMA framework (Egbunike, Ogbodo, & Onyali, 2014). SMA incorporates the techniques of traditional and strategic costing methods (Ndwiga, 2011). Several authors such as Tillman (2003), Cinquini and Tenucci (2006) observe that a unique feature of SMA is its 'external orientation', i.e., not only on 'competitors' but can also be applied to 'suppliers and customers'. Functions commonly associated with SMA, include (Lord, 1996): (1) Collecting information with regards to competitors; (2) Using accounting information for strategic decisions; (3) Cutting costs based on such strategic decisions; and, (4) Achieving competitive advantage through it. Examples of SMA techniques include lifecycle costing, activity-based costing (ABC), target costing, benchmarking, strategic cost analysis, value chain costing, and Kaizen costing (Atrill & McLaney, 2002; Bastl, Grubic, Templar, Harrison, & Fan, 2010).

2.1.2 Competitive Advantage

Competitive advantage refers to what enables an organisation to maintain a competitive edge over its rivals. It sets an organisation apart from its competitors. Most companies employ either cost leadership or a product differentiation strategy. Cost leadership refers to a company's ability to maintain its competitive edge by undercutting competitor prices. Such companies focus extensively on manufacturing products or providing services at a low cost. Product differentiation refers to a company's ability to offer superior quality products or more distinct services than its competitors. These products and/or services are then sold at a premium. While many companies focus on one strategy or the other; however, many firms focus simultaneously on both strategies at the same time.

Turban, Leidner, McLean, and Wetherbe (2008) observed that an organization seeking competitive advantage in any industry must achieve an edge over competitors in some measures such as cost, quality, or speed. Scholars argue that competitive advantage is at the core of a firm's success or failure (Porter, 1996; Porter & Millar, 1985). There are several ways of gaining competitive advantage; they include:

1. Delivering a product or service at lower costs.
2. Delivering a product or service that is differentiated.

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3. Focus on a specific market segment.
4. Innovation.

Turban, Leidner, McLean, and Wetherbe (2008) identifies several strategies an organisation may use to gain competitive advantage: (1) Cost leadership strategy; (2) Differentiation strategy; (3) Niche strategy; (4) Growth strategy; (5) Alliance strategy; (6) Innovation strategy; (7) Operational effectiveness strategy; (8) Customer-orientation strategy; (9) Time strategy; (10) Lock-in customers or supplier strategy; and, (11) Increase switching costs strategy.

2.2 Theoretical Framework

2.2.1 Stakeholder Theory

Stakeholder theory was propounded and developed by Freeman (1984). Stakeholders are defined as "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984). According to stakeholder theory, a firm's goals and objectives can be achieved through balancing the conflicting interests of all participating stakeholders, including employees, customers, suppliers, communities, managers, and shareholders (Ansoff, 1965; Davis, Schoorman, & Donaldson, 1997; Donaldson & Davis, 1991; Freeman, 1984). According to Wheeler, Fabig, and Boele (2002), stakeholder theory originated from a combination of sociological and organizational disciplines. Stakeholder theory is an extension of the agency perspective because it widens the responsibility of the managers from protecting only shareholders' interests to cover other stakeholders' interests (Smallman, 2004). According to Donaldson and Preston (1995), the theory focuses on managerial decision making to balance the interests of all stakeholders. Unlike, the agency theory which focuses on the interest of shareholders, stakeholder theorists suggest that managers in organizations have a network of relationships to serve – such as include suppliers, employees, the society, government, etc.

2.3 Empirical Review

Several studies have been conducted both locally and globally on the issue of strategic management accounting. While a vast majority have focused on SMA adoption and application; others, examine the effect on organisational performance or alternatively on competitive advantage.

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Emiaso and Egbunike (2018) examined the relationship between the application of strategic management accounting practices and organisational performance of manufacturing companies in Delta State, Nigeria. The study adopts the survey research design. The sample comprised of fifteen manufacturing firms randomly selected from all manufacturing firms in Delta State. The study relied on primary data; obtained from a structured questionnaire administered to the respondents. The data were analysed using t-test and regression analysis. The results showed that the application of strategic management accounting tools is positively related to organisational performance. Secondly, the results revealed a difference in the effectiveness of decision-making based on strategic management accounting techniques and traditional management accounting techniques.

Oboh and Ajibolade (2017) examined the extent of application and contribution of strategic management accounting to strategic decision-making in banks. The sample consisted of twenty registered banks; and, the respondents comprised of seventy-one (71) bank managers from the studied banks. The study relied on primary data; obtained from a structured questionnaire. The data were analysed using Pearson Chi-square test and simple regression technique. The results showed that strategic management accounting had a significant influence on strategic decision-making in the area of competitive advantage and increased market share.

Ojua (2016) examined strategic management accounting practices among indigenous manufacturing firms in Nigeria. The study utilised the survey research design. The sample comprised of ten manufacturing firms in the Agbara Industrial Estate, Ogun Estate, Nigeria. The study relied on primary data; obtained from a structured questionnaire. The data were analysed using Pearson Product Moment Correlation Coefficient and multiple regression techniques. The results revealed that there is no significant relationship between the adoption of SMA practices by Nigerian manufacturing enterprises and operational effectiveness.

Olanipekun, Abioro, Akanni, Arulogun, and Rabiu (2015) investigated the impact of strategic management on competitive advantage and organisational performance. The study utilised the survey research design. The sample comprised of two hundred employees of Nigerian Bottling Company, Ilorin Plant. The study relied on primary data; obtained from a structured

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questionnaire. The data were analysed using descriptive statistics and inferential statistics. The hypotheses were tested using Pearson Chi-square. The results showed that the adoption of strategic management practices by a firm gives it a competitive advantage; and, a significant relationship between the adoption of strategic management practices and organisational performance.

Egbunike, Ogbodo, and Onyali (2014) investigated whether the utilization of SMA techniques can provide managers with information for corporate sustainability performance. The study utilised the survey research design. The study relied on primary data; and, questionnaires were administered to a sample of eighty-one accountants in manufacturing organisations. The data were analysed using descriptive statistics and multiple regression techniques. The results showed that SMA provides managers with information on diverse areas of corporate environmental, social and economic performance; which in turn translates to sustainability performance.

Oyewo (2013) undertook a study titled 'strategic cost management as a recession survival tool in the Nigerian manufacturing and financial service industries'. The study relied on primary data; obtained from a structured questionnaire administered to two hundred and twelve respondents from both the manufacturing and financial sectors. The data were analysed using Mann-Whitney test. The results revealed that business survival during recession depends on strategic cost management; and, the SCM techniques were more implemented in manufacturing firms than financial service firms.

Akenbor and Okoye (2012) investigated the application of strategic management accounting with a view to determining the extent to which it influences competitive advantage. The sample comprised of one hundred manufacturing firms; and, a total of three hundred respondents were selected. The study relied on primary data; which was obtained from a structured questionnaire. The data were analysed using descriptive statistics. The result revealed that strategic management accounting enhances the competitive advantage of manufacturing firms.

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3. Design and Methodology

The study adopts the *survey* research design. According to Chukwuemeka (2006) 'survey research tries to unravel the essential elements or characteristics of any phenomenon. It is research that is concerned with the collection, presentation, analysis and interpretation of data for the purpose of describing practical beliefs, attitudes, on-going process etc.' The population of the study was drawn from ten randomly selected manufacturing companies in Nnewi and Awka, Anambra State with a capital base of above 5 million naira. The companies are as follows: Cento Group of Companies, Chicason Group of Companies, Coscharis Group, Cutix Plc., First Express Aluminium Co. Ltd., Ibeto Group, Innoson Vehicle Manufacturing Co., Jezco Oil Nigeria Ltd., Louis Carter Group, and, Uru Industries Ltd. The unit of focus in the companies was the Accounting & Finance Department and the Administrative Dept. of the respective companies. The total number of respondents for the study was eighty (80). The sample was therefore taken as eighty (80) since the population is less than a hundred; thus, often referred to as a census study (Astuty, 2015).

The study is based on primary data. The instrument of data collection was a structured questionnaire administered to the respondents. Research instruments allow us to systematically collect information about our object of study (Akindele, Nassar, & Owolabi, 2008). The structured questionnaire consists was designed using both nominal and interval scales. The nominal scale was used for bio-data collection while the interval scale was used for questions on the issue to be addressed in the study.

4. Data Presentation and Results

4.1 Demographic Profile

The number of questionnaires distributed was eighty, while the number retrieved were seventy-seven (77). Of the returned copies, 67 (87.01%) copies were valid and usable; while, 10 (12.99%) were invalid and/or partly completed. The study employs the Cronbach Alpha (α) to check for the internal consistency of the instrument. The Cronbach Alpha (α) for the items relating to SMA, cost reduction and product differentiation were displayed as 0.765. The results suggest the presence of a reasonable level of reliability of the research instrument. The table below shows the bio-data of the sample.

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Table 1: Demographic information of the respondents

	N	%
Gender:		
Male	26	38.8
Female	41	61.2
Age:		
25 – 30	10	14.9
31 – 40	22	32.8
41 – 50	15	22.4
50 & Above	20	29.9
Marital Status:		
Married	57	85.1
Single	10	14.9
Divorced	-	-
Academic Qualification:		
BSc	39	58.2
MSc	25	37.3
PhD	3	4.5
Years of Work Experience:		
1-5	8	11.9
6-10	43	64.2
11-15	16	23.9
15 & Above	-	-

Source: Field Survey (2019)

4.2 Descriptive Statistics

Table 2: Perception of respondents on cost reduction decisions

	SD [1]	D [2]	U [3]	A [4]	SA [5]	Mean
Cost reduction decisions are best implemented in an environment of SMA techniques.	3 [3]	6 [12]	3 [9]	1 [4]	54 [270]	4.45
SMA techniques enable managers are useful for budgeting, planning and controlling operational costs.	2 [2]	3 [6]	3 [9]	54 [216]	5 [25]	3.85
SMA techniques provide managers with tools for managing complexities in the current operational environment.	2 [2]	2 [4]	9 [27]	36 [144]	18 [90]	3.99
SMA techniques such as competitor position monitoring can be used to drive customers from going to competitors for economic reasons.	10 [10]	4 [8]	7 [21]	36 [144]	10 [50]	3.48
SMA enhances the competitive advantage of manufacturing firms.	5 [5]	2 [4]	16 [48]	27 [108]	17 [85]	3.73

Source: Field Survey (2019)

The frequency distribution shown in the Table above showed that 82.1 % of the respondents agreed that cost reduction decisions were best implemented in an organisational environment of SMA techniques. 13.4% disagreed with the statement. 88.1% of the respondents concurred

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that SMA techniques are useful for managers in budgeting, planning and controlling operational costs; while, 7.5% disagreed with the statement. 80.6% were of the opinion that SMA benefit was mainly in the area of tackling complexities within the operational environment of the business; 13.4% were undecided. 6% disagreed on this statement. 68.7% found support for the use of SMA techniques such as competitor position monitoring to driver customer patronage in the business environment; 10.4% were undecided. 20.9% disagreed to the use of SMA techniques to drive customer patronage. 65.7% agreed to the fact that SMA enhances the competitive advantage of manufacturing firms; 23.9% were undecided. 10.4% disagreed that the use of SMA enhances the competitive advantage of manufacturing firms.

Table 3: Perception of respondents on product differentiation decisions

	SD [1]	D [2]	U [3]	A [4]	SA [5]	Mean
Product differentiation strategies are best suited in an SMA environment.	4 [4]	5 [10]	5 [15]	26 [104]	27 [135]	4.00
SMA techniques such as life cycle costing can be used to provide information for product cost analysis and performance monitoring.	5 [5]	4 [8]	12 [36]	32 [128]	14 [70]	3.69
To boost revenue, market segmentation can be used for products/services with distinct features.	3 [3]	3 [6]	6 [18]	42 [168]	13 [65]	3.88
The introduction of distinct products or services can create barriers to entry for new entrants.	2 [2]	4 [8]	11 [33]	44 [176]	6 [30]	3.72
Differentiation strategy gives companies the opportunity to charge higher prices; sell more products, or both.	2 [2]	2 [4]	13 [39]	50 [200]	0 [0]	3.66

Source: Field Survey (2019)

The frequency distribution shown in the Table above showed that 79.1 % of the respondents agreed that product differentiation strategies are best implemented in an SMA environment. 13.4% disagreed with the statement; while, 7.5% were indifferent to the statement. 68.7% of the respondents supported that SMA techniques such as life cycle costing can be utilised to provide information on product cost analysis and performance monitoring; 17.9% were indifferent to this statement. 13.4% disagreed with this statement. 82.1% supported market segmentation as an alternative strategy to boost revenue from products or services with distinct features. 8.95% disagreed with this statement.

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However, 74.6% of the respondents believed that the introduction of distinct products or services create barriers to entry for new entrants. 16.4% were undecided on this statement; while, approximately 9% disagreed entirely on this. Lastly, 74.6% of the respondents supported the fact that differentiation strategy offers companies the opportunity to sell products or offer services at a premium.

4.3 Test of Hypotheses

4.3.1 Hypothesis One

Ho_1: The application of strategic management accounting techniques has no effect on cost reduction decisions of manufacturing firms.

Table 4: One-sample t-test result for hypothesis one

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Effect of SMA on cost reduction	34.708	66	.000	19.493	18.37	20.61

Source: SPSS Ver. 20

The Table above shows that the *t statistics* is 34.708; the significance of 0.000 is less than the level of significance employed in this study (0.05). Thus, the null hypothesis is rejected and the alternative accepted. Therefore the application of strategic management accounting techniques has a significant effect on cost reduction decisions of manufacturing firms. The result supports the study conducted by Olalekan and Tajudeen (2015) in Nigeria. That documented that the major problem facing most manufacturing firms in the country is the high cost of overhead incurred by such companies. Oyewo (2013) also showed support for strategic cost management techniques during periods of recession to aid the survival of manufacturing firms.

4.3.2 Hypothesis Two

Ho_2: The application of strategic management accounting techniques has no effect on product differentiation decisions of manufacturing firms.

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Table 5: One-sample t-test result for hypothesis two

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Effect of SMA on product differentiation	32.083	66	.000	18.95	18.03	20.42

Source: SPSS Ver. 20

The Table above shows that the *t statistics* is 32.083; the significance of 0.000 is less than the level of significance employed in this study (0.05). Thus, the null hypothesis is rejected and the alternative accepted. Therefore the application of strategic management accounting techniques has a significant effect on product differentiation decisions of manufacturing firms. The result is also consistent with that of Emiaso and Egbunike (2018) in Nigeria. That showed that SMA application is positively related to organisational performance. And, Oboh and Ajibolade (2017) on a sample of banks in Nigeria that showed that SMA significantly influences strategic decision-making in the area of competitive advantage and increased market share.

5. Conclusion and Recommendation

The study investigated the nexus of strategic management accounting and competitive advantage of manufacturing firms in Anambra State, Nigeria. The dramatic changes in the business landscape, brought along new challenges and problems that impose the need for a serious reconsideration of past business philosophies. In line with Porter's competitive advantage framework, the study focuses on cost reduction and product differentiation strategies of manufacturing firms. The results showed support for both areas. Based on this, the study recommends that managers should employ strategic management accounting techniques, such as activity-based costing for cost reduction decision making and attribute costing for product differentiation decisions in manufacturing firms. However, within a contingency perspective no SMA system is considered adequate; cognisance should be given to factors such as company size and strategy (Cadez & Guilding, 2008). The use of integrated performance measurement systems such as the balanced scorecard in other to measure financial and non-financial aspect of firm performance is also encouraged.

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