

**TITLE PAGE**

**APPRAISAL OF ACCOUNTANTS' ROLE IN STRATEGIC  
PRICING FORMULATION**

**BY**

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**BEING A PROJECT SUBMITTED TO THE DEPARTMENT OF  
ACCOUNTANCY, FACULTY OF BUSINESS ADMINISTRATION,  
UNIVERSITY OF NIGERIA,  
ENUGU CAMPUS**

**IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE  
AWARD OF MASTER OF BUSINESS ADMINISTRATION (MBA)  
DEGREE IN ACCOUNTANCY**

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MR. S. E. EMENGINI**

**AUGUST, 2012.**

## APPROVAL PAGE

This project “*Appraisal of Accountants’ Role in Strategic Pricing Formulation*” written by SAM-IGBETA FELICIA .A. with Registration Number: (PG/MBA/10/54950) has been approved having met the standards required in partial fulfillment of the requirements for the award of Masters of Business Administration in Accountancy

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## CERTIFICATION

I hereby certify that this project “*Appraisal of Accountants’ Role in Strategic Pricing Formulation*” was carried out by me, SAM-IGBETA FELICIA .A. (PG/MBA/10/54950) for the award of Masters of Business Administration (MBA) in Accountancy at the University of Nigeria, Enugu Campus. I also state that the work is original and has not been submitted for this or any other degree of this or in any other institution of higher learning.

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## **DEDICATION**

This work is dedicated to God Almighty for His endless love, mercy, grace, provision, protection, safety and direction, throughout my stay in the school.

To Benjamin Weke for his unalloyed support and unquantifiable investment in my life, seed of love, sacrifices and belief in me.

## **ACKNOWLEDGEMENT**

In the words of Isaac Newton; “If I must see farther, it is because I am standing on the shoulder of those that have gone before me.” This is why I will not fail to express my profound gratitude to my supervisor; Mr S. E. Emengini for his labour of time, corrections, guidance, contributions throughout this phase of my academic pursuit. Thank you sir!

I want to acknowledge and appreciate the investment, efforts, patient, love, care, understanding, sacrifices and mentorship of my dearest in heart Engr. Benjamin Weke, who went extra miles to impact so much in me and made sure that everything is smoothly done. Thank you so much.

Also to my sweet mother Mrs. I. M Sam-Igbeta, my brothers; Hon. Sam-Igbeta, Lucky and Young Sam-Igbeta and my sisters; Mrs. D Silas-Dikibo, Elora, Betty, Valentina, Mercy, Julie Sam-Igbeta. To all my in-laws, aunties, uncles, nieces, and nephews, I LOVE YOU ALL.

Big thanks to my lecturers; and non academic staff of the department of Accountancy, University of Nigeria, Enugu campus.

I will one day discover that the journey to my destination was accelerated by my wonderful friend, sister and roommate Ugwu Patience, also my friends and course mates; especially Tonia, Amara, Lovelyn, Juliet, Kalu, Nonso, Glory, George, Kingsley, Ikirigo, Paul, Daniel, PGSF, PG Hostel staff and lots more who decided

to be selfless on my journey; thank you all for making my study and stay in the University of Nigeria, Enugu campus worthwhile.

This project will not be complete without showing regards and acknowledging the prayers, love, and assistance of Pastor and Mrs. Success Onuh Alpha, Pastor Moses Cleopas, Dr. Agnes Maliki, Dr. Evans, Mr. Ebi Beredugo and Mrs. Veronica. GOD BLESS YOU ALL.

## ABSTRACT

*In any flourishing business today, pricing has been their key function. This is so because the rate with which modern business is growing coupled with the worldwide inflationary trends, more dimensions will be added to the problem of pricing. In any market economy where goods and services are traded, pricing is very crucial as the prime mover of trade, for instance, pricing ration out scarce good. This is a rise in price of good indicates that the good is in relative short supply. Pricing can be used to discourage unnecessary pressure on some commodities; this is price serving as a gauge. Price indicate the direction of want and also pricing as a means by which factors of production are awarded and as a result, many professionals in business are beginning to play major roles in pricing decision and strategic pricing formulation. This study was done on the appraisal of accountants' role in strategic pricing formulation. Its objectives were: (i) to determine the extent to which accountants participate in strategic price formulation; (ii) to find out if accountants are responsible for the computation of a company's product worth alongside considerations for the company's cost of capital and owners' returns; and (iii) to examine the functions of accountants in strategic pricing formulation development. The design of the study was a cross sectional survey. Primary data were only used and were collected from a randomly selected 95 accounting staff of PRODA and JUHEL Pharmaceutical Co. Ltd. Enugu State Nigeria. All the data collected were presented and analyzed using cross-tabulations, frequencies and percentages. Hypotheses were tested through the use of chi-square ( $\chi^2$ ) and Pearson's Product Moment Correlation Coefficient ( $r$ ), which was run on SPSS version 15.0. The study found that accountants significantly participate in strategic pricing formulation. It further found that they (accountants) are responsible for the computation of companies' product worth alongside considerations for cost of capital and owners' returns. Finally, the study found that accountants have significant functions/roles that they carry out in strategic pricing formulation. It was however concluded that accountants play chief roles in strategic pricing formulation. They were recommended for constant trainings and development.*

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## **CHAPTER ONE**

### **1.0 INTRODUCTION**

#### **1.1 BACKGROUND OF THE STUDY**

Pricing is one of the most powerful levers to increase profitability. Studies over the years have shown on average that, a 1% increase in price leads to a 7-8% increase in profits- making optimal pricing more effective than improving volumes or variables and fixed costs (HSB Consulting, 2008). Also, pricing is one of the first, if not the most significant signals a firm sends to the market place about its product, its business and its competitive positioning (Strickland, 2010). According to this author, the pricing may be developed on a product-by-product basis, as a company-wide strategy, or somewhere in between these. Whatever the approach, the price a firm puts on its product tells everyone where the firm is positioning itself viz-a-viz other players and what it believes customers are thinking, feeling or ultimately valuing its products with. Failing on 'product pricing' can lead to a failure on the entire market opportunity for a product; failure to connect with customers or a market; and not getting any chance to adjust the price and try again. The reality is that, pricing is more art than science (Strickland, 2010). It requires an understanding of market conditions, customers, and competitive factors that matter most to customers, cost structures and many other elements that relatively few businesses have traditionally included in their pricing process.

When a company develops the right pricing for its products, it will be able to maximize its profits, it will effectively match its product price to each market segments with an ability to attract buyers and retain them once they buy, and the right price will aid the company to match its pricing to its strategic objectives. The strategic objectives translated into the language of pricing are sometimes but not always the same language as used for business and strategic plans. Some of which could be maximize current profits, maximize profit margin, (Per unit profit margin), recover direct costs, break-even (survival, stay-in business), remain status quo: maintain price stability, maintain current growth rate, etc (Strickland, 2010). These are strategic pricing objectives. To formulate or set prices that can help to achieve these objectives, thus the roles of accountants must be clearly understood despite that the responsibility is part of the sales and marketing function which has the best knowledge of current pricing in the marketplace.

Griffin (2008) observes that an optimal or strategic price for a product or service cannot be set or decided without knowing the cost of such product or service. It is however, the role of cost accountants who are primarily concerned with ascertainment of costs. There are many other roles that accountants play in the setting of optimal prices. An appraisal of these roles is the essence of this study.

## **1.2 STATEMENT OF PROBLEM**

Managements of most businesses (small, medium and large) in Nigeria seem not to realize how crucial the roles of accountants are especially when setting prices for strategic purposes. The roles commonly known to many of them are financial functions that relate to the collection, accuracy, recording, analysis and presentation of a business, organization or company's financial operation. They (i.e some of the managements) sometimes rely on the rule of thumb when setting strategic or optimal prices and do not involve accountants in the setting of the prices. This therefore constitute the problem that this study seeks to solve by finding out if accountants actually play any significant role in the setting of strategic prices.

Except in some accounting texts, a detailed study on the roles of cost accountants have not been researched into let alone their involvement in strategic pricing formulation in Enugu State Nigeria.

It is against this uneven response that this study has been carried out, at least to evaluate the roles of accountants as useful to managements of businesses in Enugu State in strategic pricing formulations.

### **1.3 OBJECTIVES OF THE STUDY**

The main objective of this study is to evaluate the roles of accountants in strategic pricing formulation. The specific objectives for the study are as stated below:

- (i) To determine the extent to which accountants participate in setting strategic price formulation.
- (ii) To find out if accountants are responsible for the computation of a company's product worth alongside considerations for the company's cost of capital and owners' returns.
- (iii) To examine the functions of accountants in strategic pricing formulation development.

### **1.4 RESEARCH QUESTIONS**

In order to address the above stated objectives, the following research questions were designed for investigation purposes in this study.

- (i) To what extent do accountants play significant roles in the setting of strategic prices?
- (ii) Are accountants responsible for the computation of a company's product worth?
- (iii) Do accountants have any functional roles in strategic pricing formulation?

## **1.5 RESEARCH HYPOTHESES**

- i)  $H_0$ : Accountants do not play significant roles in the setting of strategic prices.  
 $H_1$ : Accountants play significant roles in the setting of strategic prices.
- ii)  $H_0$ : Accountants are not responsible for the computation of a company's product worth.  
 $H_2$ : Accountants are responsible for the computation of a company's product worth.
- iii)  $H_0$ : Accountants do not have any functional roles in strategic pricing formulation  
 $H_3$ : Accountants have functional roles in strategic pricing formulation.

## **1.6 SIGNIFICANCE OF THE STUDY**

This study is significantly educative; aiming to enlighten managements of businesses that do not seem to appreciate the roles of accountants in the formulation of strategic prices; as well as to equip accounting personnel and students of their need to be strategically thoughtful when choosing their careers in accounting.

## **1.7 SCOPE OF THE STUDY**

This study covered the fundamental roles of accountants in very organization but delimited to their costing roles, products worth determining roles, and their involvement in the development of pricing strategies only. The study was carried out in Enugu State in two manufacturing companies from different industries.

## **1.8 LIMITATIONS OF THE STUDY**

The main limitation of this study was on data collection and collation. Others limitations include:

- Finance: The study should have been made to cover as many companies as possible in Enugu, even in the country at large, but because of inadequate funds, the researcher had to reduce the study to the two manufacturing companies used.
- Time: The allowed time for the completion of this study was inadequate. The researcher could only cover the areas that time could permit.
- Attitude of the respondents towards the survey: Some of the respondents were reluctant at filling the questionnaires. Through this attitude or mind set, there might have been some important data they must have held to themselves which should have been useful for this study.

## **1.9 DEFINITION OF TERMS**

### **Accounting**

This is the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are; in part at least, of financial character and interpreting the results thereof. It can also be defined as the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by the users of information.

### **Accountants**

An accountant is one whose professional duty is to record, classify and summarize and report transactions and events in monetary terms for use of management in decision making (Williams, 2001). There are accountants of different categories, such as Cost Accountant, Management Accountant, Forensic Accountant, Financial Accountant, etc. All of whom have their various crucial areas of impacting the smooth running of a business.

### **Cost Accountant**

This is an accountant whose primary role is to ascertain the cost of an activity, event, project, or product for profitability determination purposes.

### **Financial Accountant**

The financial accountant does the recording, classifying and analyzing transactions in monetary terms and in an orderly manner suitable for reporting and use of outsiders and management.

### **Management Accountant**

Responsible for producing annual budgets and five year rolling estimates, quarterly management accounts and ad-hoc reports as required.

### **Strategic Price**

In this study, strategic price is conceptualized to mean *a price set to achieve a strategic purpose*. It could mean a price set to penetrate into a market (Penetration Strategy); a price set to maintain status quo in a market turbulent environment; or else.

### **Strategic Pricing**

This is the process of setting a purposeful price for a product item.

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*Typhoon Creative Partnership*, p.5

Strickland, O.A., (2010). Formulating Optimal Pricing for Competitiveness.

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*Books Inc.* p.348

## **CHAPTER TWO**

### **2.0 LITERATURE REVIEW**

#### **2.1 THE MEANING OF RELATED CONCEPTS**

According to Uva (2001), pricing is an important tool for effective marketing. It provides income, guides the quantity supplied and demanded, serves as a signal to customers, and transfers ownership. Questions one should ask before determining prices include: How much do the competitors charge? How much are customers willing to pay? Does the product have additional value for which the price may be raised? What is the cost to produce the product? And if one slashes price (below competition), how will one maintain profitability? The most basic element of pricing is to know one's costs, including variable costs and fixed costs. Variable costs are cost items directly related to production – materials, labour, variable overheads, etc. Fixed costs are cost items that do not vary with production volume, such as rent, taxes, management salaries, and cost of capital. The price of one item should at least cover variable costs in the short run and need to cover both variable and fixed costs in the long run. It is important to establish a gross margin that will cover the total costs of growing and marketing the product and provide a satisfactory profit for the business.

From Uva (2001)'s view, it can be deduced that there is more to pricing. The most important of which is its determination, especially Strategic Prices. To

capture the roles played by accountants in the process of determining strategic prices from extant literature and studies, it will be ideal to first begin by defining the related concepts to strategic pricing formulation, accounting profession and accountants themselves.

### **2.1.1 MEANING OF ACCOUNTING AS A DISCIPLINE/PROFESSION**

Accounting is considered as a system which collects and processes financial information of a business. This information is reported to the users to enable them to make appropriate decisions. In other words, it is concerned with the system of collecting, recording, processing and providing financial information to individuals who run firms and to outsiders who need it (Olakunle *et al*, 2006:136; Baker and Tim, 2000). We can, from this simple definition, classify the ‘users’ of accounting information in the following way: the owners of the business (its shareholders), management, other employees, suppliers and customers, lenders and agencies of government such as the tax authorities and various regulatory bodies. Of these, the most important have traditionally been those who provide the cash a firm requires for investment (its capital requirements) and for managing the peaks and troughs in its cash balances caused by trading (its working or ‘operating’ capital requirements (Watson, 2003; Clark, 1998). Accounting is a service activity (Olakunle *et al*, 2006:138). According to these authors, it uses words and symbols to communicate financial information useful for decision making. The terminology and symbols

used have developed from the earliest known accounting records. As a profession, accounting has evolved in response to society's need for economic information to help people make economic decisions (Goldberg, 2001). Accounting is often called the 'language of businesses'. To be effective, the recipient must understand the message that the sender intends to convey. One must learn the meaning of the words and symbols used by accountants. Many people with little knowledge of accounting must interpret accounting data. Accounting has been defined by American Accounting Association as the process of identifying, measuring, recording and communicating economic information to permit informed judgments and economic decisions. The primary purpose of accounting is to help persons make economic decisions. In our society, resources must be allocated among and within all kinds of entities. Accounting information provides the basis for making decisions about resource allocation. To be useful, data must be identified, measured, recorded, classified, summarized and communicated to potential users. These are the critical elements of accounting.

Accounting and finance lie at the heart of every business. It is possible for a firm to survive for a while, at least, without an effective marketing plan, poor human resource management and indeed a poorly designed business strategy. However, if there are serious faults with the management and control of any business's financial system, it will fail. On the positive side, good accounting and

financial management helps keep the business under control; it also provides the owners, management and others with the information and the confidence to make the bold decisions and take the opportunities to help the enterprise grow (Brief, Burke and George, 1999:312).

### **2.1.2 Branches of Accounting**

The increased scale of most businesses' operations has made the management function more complex. This has given rise to specialized branches in accounting. The main branches of accounting are Financial Accounting, Cost Accounting and Management Accounting.

#### **Financial Accounting**

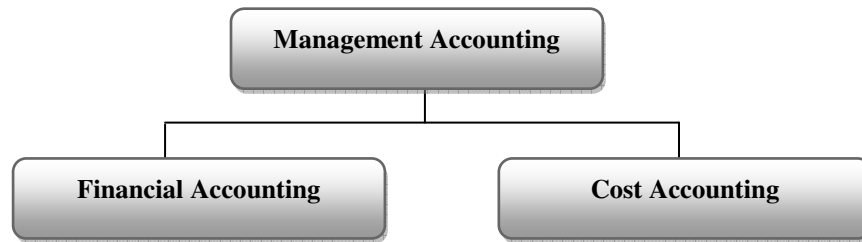
It is concerned with the recording of business transactions in the books of accounts in such a way that operating result of a particular period and financial position on a particular date can be known.

#### **Cost Accounting**

It relates to collection, classification and ascertainment of the cost of production or job undertaken by the firm.

## Management Accounting

It relates to the use of accounting data collected with the help of financial accounting and cost accounting for the purpose of policy formulation, planning, control and decision making by the management.



**Fig. 1: Branches of Accounting**

Sources: Markens. D.E. (2005). Accounts for Managers: A text with cases.  
London: McGraw-Hill Books Inc. pp.84

From the foregoing, we can now deduce the distinction among accountants based on their functions. There are some who are Management Accountants; some are Financial Accountants and finally, Cost Accountants.

### 2.1.3 The Concept of Role

Most researches on accountants' roles focus on the study of their individual characteristics (Such as Costing Function, Book Keeping Function, Auditing Function, Taxation Function, Payroll Function, etc). Surveys of accountants in both the USA (Siegel & Sorensen, 1999) and the UK (Burns & Yazdifar, 2001) indicate a broadening of roles and the importance of both analytical and social skills in these roles. Coad (1999) argues that accountants can live up to demands

for more pro-active involvement and role innovation as long as they possess or can develop a learning goal orientation. Byrne and Pierce (2007) show that a number of individual characteristics—including business knowledge, interpersonal and communication skills, IT skills, technical skills, flexibility, personal qualities, monitoring skills and organisational influence—help explain accountant roles (Byrne & Pierce, 2007). Accountants can exert considerable influence over how their own roles are designed and a management accountant's ability to shape his role is linked to his individual attitudes, personality and initiative (Byrne & Pierce, 2007). These studies take accountants as individuals. However, to fully understand an individual accountant's actions and behaviors and the actual role he plays in a given organisation, we should account for his belonging to a group (the management accounting function) (Anthony, 1988). To a large extent, the overall functions positioning can explain the role played by management accountants themselves (Jarvenpaa, 2007). For example, Jarvenpaa (2007), using a case-study approach, examines how corporate culture affects and facilitates the management accounting functions by growing business orientation in an organizational context, demonstrating that accounting practices are woven into an organization's cultural fabric and into a broad range of diverse practices that make up its business orientation. These findings suggest that accountants belong to the management accounting function and that their individual positioning and role are determined,

to a large extent, by the positioning of the management accounting function within the organization.

#### **2.1.4 Strategic Pricing**

In this study, a *strategic price* is conceptualized to mean a *price set to achieve a strategic purpose*. In other words, in strategic pricing, strategic objectives translated into the language of pricing are sometimes but not always the same language as used for business and strategic plans. Some of which could be maximize current profits, maximize profit margin, (Per unit profit margin), recover direct costs, break-even (survival, stay-in business), remain status quo: maintain price stability, maintain current growth rate, etc (Strickland, 2010). These are strategic pricing objectives. Once a pricing objective has been chosen, a pricing strategy that meets the pricing objective must also be selected. The process of setting this type of price, considering various market conditions, cost structures and other things, is called *strategic pricing formulation* (Friedman and Lyne, 2001).

Thus, in the foregoing, we have seen that all accountants belong to the group of management accountant through whom accounting information are provided for policy formulation, planning, control and decision making, and could be aided either by financial accountant or cost accountant. The roles of these accountants therefore, must be clearly understood in strategic pricing formulation despite that

the responsibility is part of the sales and marketing function which has the best knowledge of current pricing in the marketplace.

## **2.2 CHOOSING A PRICING OBJECTIVE AND ASSOCIATED STRATEGY**

Pricing is one of the major sub-components of a firm's marketing plan which is a component of the firm's full business plan (Ahrens and Capman, 2000: 482). Assigning product prices is a strategic activity (Vaivio, 2006; Jarvenpaa, 2007; Lampel and Shamsie, 2000). The price assigned has an impact on how consumers view the firm's product and whether they will purchase it (Jarvenpaa, 2007). Price also helps to differentiate a firm's product from those of competitors. However, the price assigned must also be in line with the firm's other marketing strategies and product attributes (Ahrens & Chapman, 2000). Whether or not a firm develops a formal marketing plan, carrying out some research necessary for a marketing plan prior to determining the pricing strategies that will be implemented is very important. The knowledge gained from the research will help in assigning appropriate prices to the firm's products or services. For example, a new firm that has just entered an industry needs to find out the least cost of materials and other components that competitors incur before charging their prices. Outside this, the firm is likely to operate at a very high cost of production and would be

unimaginably thrown out of the market. Therefore, the firm's marketing goals and knowledge of the industry, competition, and the market are essential.

Mouritsen (1996:283-303) provides some questions a firm may need to consider which would help to determine the objectives and strategies that will facilitate the choosing of a pricing objective and strategy. These are:

- i. *Who or What is the Firm's Target Market?* The demographics of the target market helps to identify appropriate pricing objectives and strategies. Are target customers interested in value, quality or low cost?
- ii. *What is the estimated Life Cycle of the Firm's Product/Service?* The life cycle of the firm's product can impact on the choice of pricing objectives and strategies. With a short estimated life cycle, it will be necessary to sell greater quantities of product or generate larger profit margins than products with longer life cycle.
- iii. *What is the Projected Demand for the Product?* When demand for a product is expected to be high, then a firm has more flexibility in choosing pricing strategies because customers would be less likely to be concerned with price and packaging since they really want the product.

### **2.2.1 PRICING OBJECTIVES**

Many pricing objectives are available for careful consideration. The one a firm selects will guide its choice of pricing strategy. Management will need to have a firm understanding of product attributes and the market to decide which pricing

objective to employ. The choice of an objective does not tie one to it for all time. As business and market conditions change, adjusting pricing objective may be necessary or appropriate.

How does one choose a pricing objective? Pricing objectives are selected with the business and financial goals in mind. Elements of one's business plan can guide one's choices of a pricing objective and strategies. Consider the business's mission statement and plans for the future. If one of one's overall business goals is to become a leader in terms of the *market share* that one's product has, then one will want to consider the quantity maximization pricing objective as opposed the survival pricing objective. If one's business mission is to be a leader in the industry, one may want to consider a quality leadership pricing objective. On the other hand, profit margin maximization may be the most appropriate pricing objective if one's business plan calls for growth in production in the near future since one will need funding for facilities and labor. Some objectives, such as partial cost recovery, survival, and status quo, will be used when market conditions are poor or unstable, when first entering a market, or when the business is experiencing hard times (for example, bankruptcy or restructuring). Brief definitions of the pricing objectives are provided below.

**Partial Cost Recovery**—a company that has sources of income other than from the sale of products may decide to implement this pricing objective, which has the

benefit of providing customers with a quality product at a cost lower than expected. Competitors without other revenue streams to offset lower prices will likely not appreciate using this objective for products in direct competition with one another. Therefore, this pricing objective is best reserved for special situations or products.

**Profit Margin Maximization**—seeks to maximize the per-unit profit margin of a product. This objective is typically applied when the total number of units sold is expected to be low.

**Profit Maximization**—seeks to garner the greatest dollar amount in profits. This objective is not necessarily tied to the objective of profit margin maximization.

**Revenue maximization**—seeks to maximize revenue from the sale of products without regard to profit. This objective can be useful when introducing a new product into the market with the goals of growing market share and establishing long-term customer base.

**Quality leadership**—used to signal product quality to the consumer by placing prices on products that convey their quality.

**Quantity maximization**—seeks to maximize the number of items sold. This objective may be chosen if one has an underlying goal of taking advantage of economies of scale that may be realized in the production or sales arenas.

**Status quo**—seeks to keep one’s product prices in line with the same or similar products offered by your competitors to avoid starting a price war or to maintain a stable level of profit generated from a particular product.

**Survival**—put into place in situations where a business needs to price at a level that will just allow it to stay in business and cover essential costs. For a short time, the goal of making a profit is set aside for the goal of survival. Survival pricing is meant only to be used on a short-term or temporary basis. Once the situation that initiated the survival pricing has passed, product prices are returned to previous or more appropriate levels.

## **2.2.2 PRICING STRATEGIES**

After selecting a pricing objective, one will need to determine a pricing strategy which can assist when it is time to actually price one’s products. As with the pricing objectives, numerous pricing strategies are available from which one can choose. Certain strategies work well with certain objectives. A careful selection of a pricing objective should lead to appropriate strategies. If the pricing strategy chosen seems to contradict one’s chosen pricing objective, then one should revisit the questions posed in the marketing plan. The diagram at the end of this discussion illustrates which pricing strategies work well with each of the pricing objectives previously discussed.

Additionally, different pricing strategies can be used at different times to fit with changes in marketing strategies, market conditions, and product life cycles. For example, if a firm is operating under a *status quo pricing* objective with *competitive pricing* as a strategy due to poor market conditions, and a year later the firm feels that the market has improved, its management may wish to change to a *profit margin maximization objective* using a *premium pricing strategy*. Brief definitions of some pricing strategies follow.

**Competitive Pricing**—pricing a firm’s product(s) based on the prices its competitors have on the same product(s). This pricing strategy can be useful when it is perceived difficult to differentiate a firm’s product from others.

The strategy of competitive pricing can also be used when the pricing objective is either survival or status quo. When the objective for pricing products is to allow the business to either maintain status quo or simply survive a difficult period, competitive pricing will allow the business to maintain profit by avoiding price wars (from pricing below the competition) or falling sales (from pricing above the competition).

**Good, better, best pricing**—charges more for products that have received more attention (for example, in packaging or sorting). The same product is offered in three different formats, with the price for each level rising above that of the previous level. For example, the manager of a farm market that sells fresh apples

may place some portion of apples available for sale in a large container through which the customers have to sort to choose the apples they wish to purchase. These apples would be priced at the “good” price. Another portion of apples could also be placed in a container from which customers can gather, but these apples would have been pre-sorted to remove less desirable apples, such as those with soft spots. These would be priced at the “better” price. The “best” apples—those priced higher than the rest—may have been pre-sorted, just as the “better” apples, but have also been pre-packaged for customer convenience. As demonstrated in this example, the “better” and “best” levels require more attention by management or labor but, if priced appropriately, may be worth the extra effort.

This pricing strategy can be used when pursuing revenue maximization and quantity maximization objectives. Revenue maximization should occur as a result of quantity maximization. Quantity maximization should occur from the use of this pricing strategy because product is available to customers in three price ranges.

**Loss Leader**—refers to products having low prices placed on them in an attempt to lure customers to the business and to make further purchases. For example, grocery stores might use bread as a loss leader product. If one comes to their store to purchase bread, one is very likely to purchase other grocery items at the store rather than going to another store. The goal of using a loss leader pricing strategy is to lure customers to one’s business with a low price on one product with the

expectation that the customer will purchase other products with larger profit margins.

The loss leader pricing strategy can be paired with either the quantity maximization or partial cost recovery pricing objectives. The low price placed on the product should result in greater quantities of the product being sold while still recovering a portion of the production cost.

**Multiple Pricing**—seeks to get customers to purchase a product in greater quantities by offering a slight discount on the greater quantity. In the display of prices, a price for the purchase of just one item is displayed along with the price for a larger quantity. Pricing in this way offers the customer an apparent discount for purchasing the greater quantity. The multiple pricing strategy works well with the profit maximization and quantity maximization objectives. By enticing your customer to purchase more than one item you are generating more profit since you have set the price for just one item so that you receive a greater profit margin than for which you would typically price.

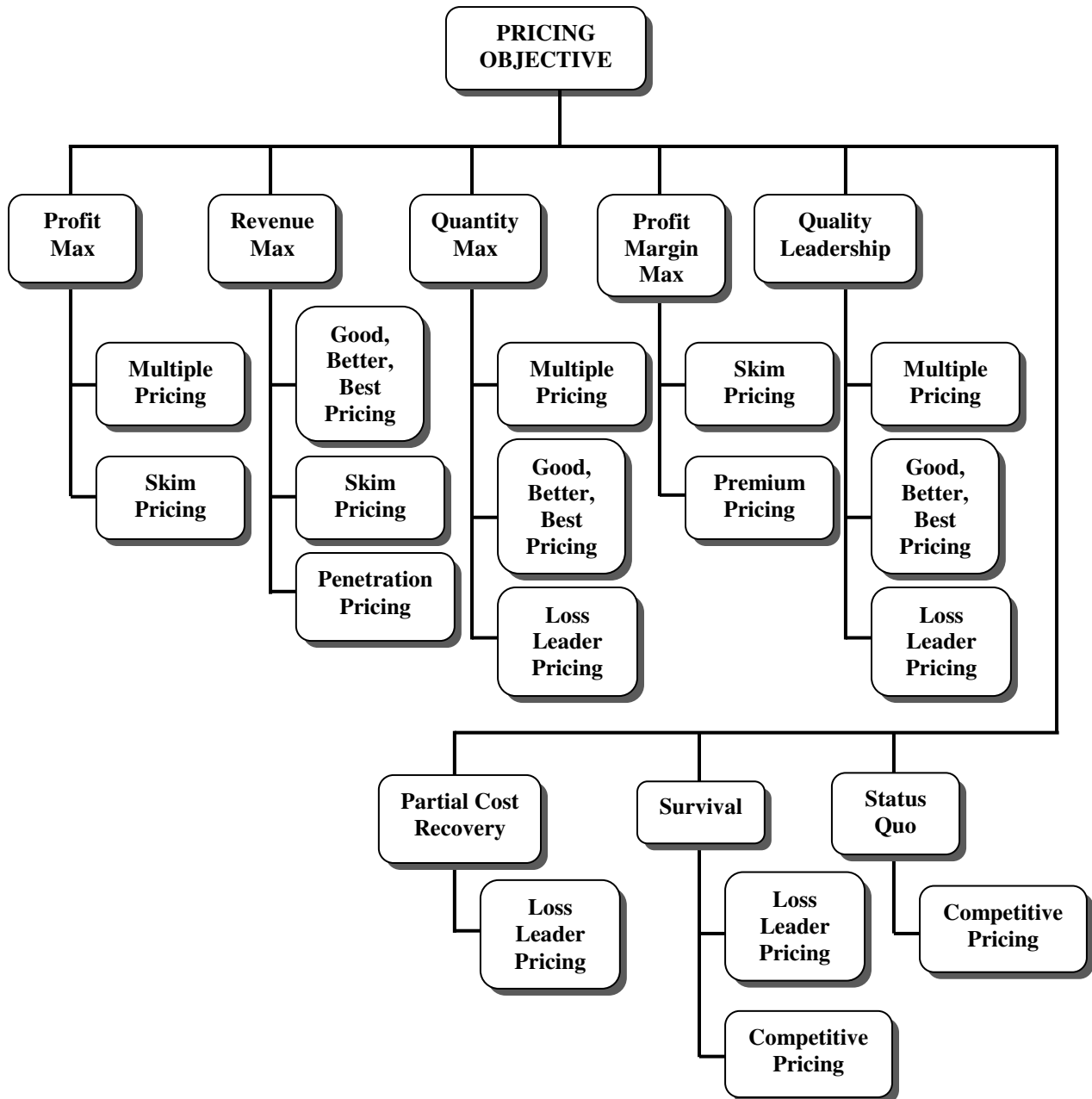
**Penetration Pricing**—used to gain entry into a new market. The objective for employing penetration pricing is to attract and grow market share. Once the desired levels for these objectives are reached, the product prices would be increased. Penetration prices will not garner the profit that one may want; therefore, this pricing strategy can be used strategically.

**Premium Pricing**—employed when the product is unique and of very high quality, but the firm only expects to sell a small amount. These attributes demand that a high, or premium, price be attached to the product. Buyers of such products typically view them as luxuries and have little or no price sensitivity. The advantage of this pricing strategy is that you can price high to recoup a large profit to make up for the small number of items being sold.

Premium pricing can be employed with the profit margin maximization or quality leadership pricing objectives. The premium price charged for the uniqueness and quality of your product allows you to generate large profit margins on each item sold.

**Skim Pricing**—similar to premium pricing, calling for a high price to be placed on the product a firm is selling. However, with this strategy the price eventually will be lowered as competitors enter the market. This strategy is mostly used on products that are new and have few, if any, direct competitors when first entering the market.

The skim pricing strategy can be reserved for when a firm's pricing objective is profit maximization, revenue maximization, or profit margin maximization.



**Fig. 2 pricing Objectives and strategies.**

Sources: Mouritsen, J. (1996).

## 2.3 ACCOUNTANTS' ROLES IN THE PROCESS OF STRATEGIC PRICING FORMULATION

Most organizations need to make decisions about setting or accepting selling prices for their products or services (Ahrens & Chapman, 2000: 483; Richard,

2006: 155). In some firms prices are set by the interplay of the forces of market supply and demand and the firm would have little or no influence over the selling prices of its products or services (Dent, 1991:709; Vaivio & Kokko, 2006). This situation is likely to occur where there are many firms in an industry.

Accounting information is often an important input to pricing decisions (Lampel & Shamsie, 2000:596; Washington & Ventresca, 2004:88). Organizations that sell products or services that are highly customized or differentiated from others by special features, or who are market leaders, have some discretion in setting selling prices (Lampel & Shamsie, 2000:596). In these organizations the pricing decision will be influenced by the cost of the product. The cost information that is accumulated and presented is therefore important for pricing decisions (Lampel and Shamsie, 2000:597; Denzing and Lincoln, 2000:18). Nevertheless, cost information is also of considerable importance in these organizations for determining the relative profitability of different products and services so that management can determine the target product mix to which its marketing effort should be directed (Baldvinsdotti, 2005:728).

In this section, we shall focus on the above situations and consider the role that accounting information plays in determining optimal/strategic selling price of a firm's product offerings. To do this, it should be recalled that the two branches of accounting: *management accounting and cost accounting* seem to contribute to the

price formulation through the product and other activity costs information provided for management's decision making.

### **2.3.1 MANAGEMENT ACCOUNTANTS' ROLES IN STRATEGIC PRICING FORMULATION**

Management Accounting provides significant economic and financial data to the management and the Management Accountant is the channel through which this information efficiently and effectively flows to the management (Vaivio, 2006). The Management Accountant has a very significant role to perform in the installation, development and functioning of an efficient and effective management information system. He designs the framework of the financial and cost control reports that provide each management level with the most useful data at the most appropriate time. He educates executives in the need for control information and ways of using it. This is because his position is unique with respect to information about the organization. Apart from top management no one in the organization perhaps knows more about the various functions of the organization than him. He is, therefore, sometimes described as the Chief Intelligence Officer of the top management. He gathers information, breaks it down, sifts it out and organizes it into meaningful categories. He separates relevant and irrelevant information and then ranks relevant information in an intelligible form to the management and sometimes also to those who are interested in the information in the information

outside the company. He also compares the actual performance with the planned one and reports and interprets the results of operations to all levels of management and to the owners of the business. Thus, in brief, management accountant or controller is the person who designs the management information system for the organization, operates it by means of interlocked budgets, computes variances and exhorts others to institute

### **2.3.2 COST ACCOUNTING AND COST ACCOUNTANTS' ROLES IN STRATEGIC PRICING FORMULATION**

Traditionally, *cost accounting* is considered as the technique and process of ascertaining costs of a given thing. In sixties, the definition of cost accounting was modified as 'the application of costing and cost accounting principles, methods and techniques to the science, art and practice of cost control and ascertainment of profitability of goods, or services'. It includes the presentation of information derived therefore for the purpose of managerial decision making. It clearly emphasizes the importance of cost accountancy achieved during the period by using cost concepts in more and more areas and helping management to arrive at good (Burns and Scapens, 2000:33-35).

Cost accounting therefore, is the process of determining and accumulating the cost of product or activity. It is a process of accounting for the incurrence and the control of cost. It also covers classification, analysis, and interpretation of cost. In

other words, it is a system of accounting, which provides the information about the ascertainment, and control of costs of products, or services. It measures the operating efficiency of the enterprise. It is an internal aspect of the organization. Cost Accounting is accounting for cost aimed at providing cost data, statement and reports for the purpose of managerial decision making. The Institute of Cost and Management Accounting, London defines “Cost accounting is the process of accounting from the point at which expenditure is incurred or committed to the establishment of its ultimate relationship with cost centers and cost units. In the widest usage, it embraces the preparation of statistical data, application of cost control methods and the ascertainment of profitability of activities carried out or planned”. Costing includes “the techniques and processes of ascertaining costs.” The ‘Technique’ refers to principles which are applied for ascertaining costs of products, jobs, processes and services. The ‘process’ refers to day to day routine of determining costs within the method of costing adopted by a business enterprise. Costing involves “the classifying, recording and appropriate allocation of expenditure for the determination of costs of products or services; the relation of these costs to sales value; and the ascertainment of profitability”.

## Scope of Cost Accounting

The terms 'costing' and 'cost accounting' are many times used interchangeably. However, the scope of cost accounting is broader than that of costing. Following functional activities are included in the scope of cost accounting:

1. *Cost book-keeping*: It involves maintaining complete record of all costs incurred from their incurrence to their charge to departments, products and services. Such recording is preferably done on the basis of double entry system.
2. *Cost system*: Systems and procedures are devised for proper accounting for costs.
3. *Cost ascertainment*: Ascertaining cost of products, processes, jobs, services, etc., is the important function of cost accounting. Cost ascertainment becomes the basis of managerial decision making such as pricing, planning and control.
4. *Cost Analysis*: It involves the process of finding out the causal factors of actual costs varying from the budgeted costs and fixation of responsibility for cost increases.
5. *Cost comparisons*: Cost accounting also includes comparisons between cost from alternative courses of action such as use of technology for production, cost of making different products and activities, and cost of same product/ service over a period of time.

6. *Cost Control*: Cost accounting is the utilization of cost information for exercising control. It involves a detailed examination of each cost in the light of benefit derived from the incurrence of the cost. Thus, we can state that cost is analyzed to know whether the current level of costs is satisfactory in the light of standards set in advance.

7. *Cost Reports*: Presentation of cost is the ultimate function of cost accounting. These reports are primarily for use by the management at different levels. Cost Reports form the basis for planning and control, performance appraisal and managerial decision making.

### **Objectives of cost accounting**

There is a relationship among information needs of management, cost accounting objectives, and techniques and tools used for analysis in cost accounting. Cost accounting has the following main objectives to serve:

1. Determining selling price,
2. Controlling cost
3. Providing information for decision-making
4. Ascertaining costing profit
5. Facilitating preparation of financial and other statements.

### **1. Determining selling price**

The objective of determining the cost of products is of main importance in cost accounting. The total product cost and cost per unit of product are important in deciding selling price of product. Cost accounting provides information regarding the cost to make and sell product or services. Other factors such as the quality of product, the condition of the market, the area of distribution, the quantity which can be supplied etc., are also to be given consideration by the management before deciding the selling price, but the cost of product plays a major role.

### **2. Controlling cost**

Cost accounting helps in attaining aim of controlling cost by using various techniques such as Budgetary Control, Standard costing, and inventory control. Each item of cost [viz. material, labour, and expense] is budgeted at the beginning of the period and actual expenses incurred are compared with the budget. This increases the efficiency of the enterprise.

### **3. Providing information for decision-making**

Cost accounting helps the management in providing information for managerial decisions for formulating operative policies. These policies relate to the following matters:

- (i) Determination of cost-volume-profit relationship.
- (ii) Make or buy a component

(iii) Shut down or continue operation at a loss

(iv) Continuing with the existing machinery or replacing them by improved and economical machines.

#### **4. Ascertaining costing profit**

Cost accounting helps in ascertaining the costing profit or loss of any activity on an objective basis by matching cost with the revenue of the activity.

#### **5. Facilitating preparation of financial and other statement**

Cost accounting helps to produce statements at short intervals as the management may require. The financial statements are prepared generally once a year or half year to meet the needs of the management. In order to operate the business at high efficiency, it is essential for management to have a review of production, sales and operating results. Cost accounting provides daily, weekly or monthly statements of units produced, accumulated cost with analysis. Cost accounting system provides immediate information regarding stock of raw material, semi finished and finished goods. This helps in preparation of financial statements.

In view of the foregoing, it is clear however that Cost Accountants play crucial roles in strategic pricing formulation. The cost accountant is responsible for the ascertainment of the company's product components costs in terms of material, labour input, variable and fixed overheads, etc. The provision of these cost

information readily available for management through the management accountant aids the formulation of the strategic price.

### **2.3.3 MANAGEMENT ACCOUNTING AND FINANCIAL ACCOUNTING**

Management accounting is that area of accounting concerned with providing financial and other information to management in an organization to enable them to carry out their planning, controlling and decision-making responsibilities. Financial accounting is concerned with reporting general-purpose information to users external to an entity in order to help them make sound economic decisions about the entity's performance and financial position. The distinction between management and financial accounting can be identified by reference to (1) the main users of the reports, (2) the types of reports produced, (3) the frequency of reports, (4) the content and format of reports, and (5) external verification.

### **2.3.4 FINANCIAL ACCOUNTING AND COST ACCOUNTING**

In financial accounts, the monetary transactions of the business are recorded, classified and analyzed in an orderly manner, so as to prepare periodic results in the form of profit and loss account or income statement and balance sheet, indicating the financial position of the business at the end of that period. The financial accounting is guided by various rules and regulations, some of which are

mandatory. The system cannot normally deviate from the accepted accounting practices. The object of financial accounting is to provide information mainly to outsiders such as shareholders, investors, government authorities, financial institutions, etc. The analysis and interpretation of financial data contained in the income statement and the balance sheet enable persons interested in the business to make meaningful judgment about the profitability, liquidity and solvency of the enterprise. Besides, income-tax, central excise, banks and insurance companies rely on the data contained in the financial statements. Cost accounting, on the other hand, deals with the ascertainment of the cost of product or service. It is a tool of management that provides detailed records and reports on the costs and expenses associated with the operations, mainly for internal control and decision making. Cost accounting basically relates to the utilization of resources, such as material, labour, machines, etc. and provides information like products cost, process cost, service or utility cost, inventory value, etc. so as to enable management taking important decisions like fixing price, choosing products, preparing quotations, releasing or withholding inventory, etc. The objective of cost accounting is to provide information to internal managers for better planning and control of operations and taking timely decisions. In the early stages, cost accounting was considered as an extension of financial accounting. Cost records were maintained separately. Cost information and data were collected from financial books, since all

monetary transactions are entered in the financial accounts only. After developing product cost or service cost and valuation of inventory, the costing profit and loss account is prepared. The profit and loss figures so derived by the two sets of books i.e. financial accounts and cost accounts, would have to be reconciled, since some of the income and expenditure recorded in financial books do not enter into product cost, while some of the expenses are included in cost accounts on notional basis i.e. without having incurred actual expense. However, a system of integrated account has been developed subsequently, wherein cost and financial accounts are integrated avoiding maintaining two sets of books. The basic difference between financial and cost accounting may be summarized as follows:

| Financial Accounting                                                                | Cost Accounting                                                                                                     |
|-------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| 1. Accounting of monetary transactions of the business.                             | 1. Accounting of product cost or service cost.                                                                      |
| 2. Consists of recording, classification and analysis of financial transactions.    | 2. Consists of developing product or service cost with element wise cost breakdown.                                 |
| 3. Leads to preparation of income statement and balance sheet at periodic interval. | 3. Leads to development of product or service cost, indicating profitability of each product or service as and when |

|                                                                                                                 |                                                                                                                                               |
|-----------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                 | required.                                                                                                                                     |
| 4. Aims at external reporting to the shareholders, investors, Government authorities and other outside parties. | 4. Aims at internal reporting both routine as well as special reporting to managers for internal control and decision making.                 |
| 5. The accounting systems are mandatory and structured as per legal and other requirements.                     | 5. The system is much less structured and is not mandatory, except those covered by cost audit required u/s 233-B of the Companies Act, 1956. |
| 6. Subject to verification by external auditor.                                                                 | 6. Cost audit is not compulsory but selective to some specific industries/products.                                                           |

## 2.4 EMPIRICAL REVIEW ON GENERAL ROLES OF ACCOUNTANTS

Accountants have long played multiple roles variably described as scorekeeping, attention-directing, and problem-solving roles (Simon, Kozmetsky, Guetzkow & Tyndall, 1955). Whereas scorekeeping and attention-directing roles typically focus on compliance reporting and control-type issues respectively, the problem-solving role centre on providing business unit managers with relevant information for decision making (Hopper, 1980; Sathe, 1982). These roles respectively match two

commonly held images of the typical accountant: the bean counter and the business partner (Friedman & Lyne, 2001; Granlund & Lukka, 1998b; Vaivio, 2006; Vaivio & Kokko, 2006). A number of scholars view these two roles as being in conflict (Emsley, 2005; Hopper, 1980; Indjejikian & Matejka, 2006; Maas & Matejka, 2009; Sathe, 1978; 1982; 1983). Others suggest that the problem-solving role has become more predominant as business unit managers face increasingly uncertain environments where new and different information is needed to manage uncertainty (Burns & Scapens, 2000; Burns & Yazdifar, 2001; Friedman & Lyne, 2001; Granlund & Lukka, 1998b; Vaivio, 2006). Since the late 1980s, the literature has examined how these roles have changed (Emsley, 2005; Jarvenpaa, 2007). Reasons for role change are typically linked with business-oriented management accounting innovations, such as strategic management accounting, activity-based costing, strategic cost management, life cycle costing, competitor accounting, customer profitability analysis, economic value added measurement, balanced scorecards, and Japanese target costing (Friedman & Lyne, 1997). Business orientation has also been fostered through implementation of modern financial and operational control systems and software empowerment (Burns & Scapens, 2000; Colton, 2001; Granlund & Malmi, 2002; Jablonsky & Keating, 1995; Siegel, Sorensen & Richtermeyer, 2003). Lastly, the decentralization of management accountants, who increasingly report to their respective business units, is a key

element fostering this business orientation (Granlund & Lukka, 1998b; Jarvenpaa, 2007). Literature foresees new management accounting techniques and changes in organizational and business environments having huge impact on management accountants' roles yet empirical evidence on fundamental shifts in these roles remains relatively scarce (Burns & Baldvinsdottir, 2005). Most research still empirically discerns the bean counter phenomenon (Vaivio, 2006: 69). For example, Jarvenpaa (2001) reports a broadening of the management accountant's duties to include participative business orientation, but a number of features relating to a bean counter profile can still be identified in the study's interview data. Another survey conducted by Malmi *et al.* (2001: 498) could not gather enough evidence to conclude that "a major shift from bean counters to business partners has occurred". Jarvenpaa (2007) identifies the conditions under which management accountants become business partners, suggesting that such a move is neither universal nor easy to implement. We draw two possible explanations from these mixed findings: either historical lag explains the gradual diffusion of this new role within organizations or we may conclude that not all firms need business partners. We argue that comparative analysis is required to understand why management accountants' roles are, or are not, business-oriented and to show what consequences this entails. In this paper, we investigate the following question: to what extent might normative claims about business partners accurately reflect their

roles in practice? Specifically, we give sense to these roles by focusing on two points: the authority delegated to the management accounting function and the involvement/independence dilemma this entails.

## **SUMMARY OF REVIEWED LITERATURE**

Extant literature on the fundamental roles of accountants in organizations revealed that their roles can be best understood from their individualistic roles as belonging to the group under the umbrella of the management accountant. The accountants' roles were broadly looked into as provided in (Jarvenpaa, 2007; Vaivio, 2006; Emsley, 2005; Maas and Matejka, 2009). To address the specific roles the accountants play in strategic pricing formulation, a comprehensive description of strategic pricing formulation was made. From the conceptualization of the term 'Strategic Pricing' which in this study, means *the price set for a strategic purpose*, the various pricing objectives from which various strategies that developed to achieved them were reviewed as given in Mouritsen (1996:283-303). In all therefore, it was obtained that management accountants serve as the channel through which accounting information efficiently and effectively flows to the management for planning, policy formulation and decision making purposes. Also, it was obtained that cost accountants play a more crucial role in strategic pricing formulation. In fact, it can be said that, without the function of cost accountants

who ascertain the base cost of production (ascertainment of company's product worth and costing of other activities and processes), the decision to be reached on any price which may be intended to achieve a desired strategic goal would be futile. Thus, accountants play important roles in strategic pricing formulation.

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## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 INTRODUCTION**

This chapter covers the method(s) used to gather data for this study, describes the research design, sources of data, description research instrument and the population of the study used. Other areas that this chapter covers include sample size determination, sampling techniques, validity and reliability of the instrument and the statistical tools for data analysis.

#### **3.2 RESEARCH DESIGN**

In the view of Agbaeze (2004:56) research design is simply a map or plan of action showing what and how the researcher will carry out the step-by-step procedure for accomplishing the research task. For the purpose of this study, survey research design was adopted.

#### **3.3 SOURCES OF DATA**

The data for this study was obtained specifically from two sources namely: primary and secondary sources.

##### **(a) Primary Source**

In collecting primary data for the work, three devices were employed thus: personal interview, observation and use of questionnaire

## **(b) Secondary Sources**

The secondary sources were involves the use of existing but related literature, which was produced by earlier researchers for the purpose of the study, specifically the materials used for extracting secondary data for this study include journals, magazines, text-books and internet.

## **3.4 POPULATION OF THE STUDY**

Two population groups used in this study were the Accounting staff of Project Development Institute (PRODA) and Juhel Nigeria Limited, both situated in Enugu State. The rationale for choosing these two population groups was to see the possibility of ascertaining the actual roles played by the accountants in strategic pricing formulation in the two firms. The numbers of the accounting staff in the two companies are:

|                |           |
|----------------|-----------|
| PRODA          | 74        |
| JUHEL Nig Ltd. | <u>51</u> |
|                | 125       |

### 3.5 SAMPLE SIZE DETERMINATION

Where a sample is a subset of any given population that usually is very large, the procedure employed for the determination of the required sample size from the above population groups is hereby discussed. The adopted formula is a commonly used one in most social science research studies. It states as thus:

$$n = \frac{N}{1 + N(e)^2}$$

Where n = Sample size

N = Population size

e = Maximum Acceptable Margin Error (0.05)

*Thus, in applying this formula to the population described above, we have:*

$$n = \frac{125}{1 + 125(0.05^2)} = 95.23809 \approx 95 \text{ (Sample Size)}$$

A stratified proportionate method of sampling was further adopted to ensure proper representation from the population groups. This involves the use of the below formula.

$$Q = \frac{A}{N} \times \frac{n}{1}$$

Where Q = the number of questionnaire to be allocated to each population group

A = the population of each group

N = the total population of the groups described above

n = the estimated sample size used in this study.

$$PRODA \text{ Accounting staff: } \frac{74}{125} \times \frac{95}{1} = 56.24 = 56$$

$$JUHEL \text{ Accounting staff: } \frac{51}{125} \times \frac{95}{1} = 38.76 = 39$$

### 3.6 SAMPLING TECHNIQUE

A simple random sampling technique was used to select the samples used for this study. This is because it provides the members of the population an equal chance of being selected without any form of biasedness.

### 3.7 DESCRIPTION OF DATA COLLECTION INSTRUMENT

The data required for this study was collected via a cross sectional survey. A structured – undisguised questionnaire was used. It was worded to contain 5 point Likert-Scaled options:

- Strongly Agreed (SA)
- Agreed (A)
- Undecided (U)
- Disagreed (D)
- Strongly Disagreed (SD)

From which the respondents' responses could be coded and use for analyses. The survey took barely four weeks, from research instrument design to actual field survey exercise.

### **3.8 VALIDITY OF THE RESEARCH INSTRUMENT**

A research instrument is said to be valid if it measures what it purports to measure. There are many ways this could be ascertained. This includes: face validity, content validity, etc. The researcher here in this study used both content validity and face validity to find out if the research instrument is valid or not. He did this by testing and re-testing of the questionnaires on the respondents before actual survey for the content validity while through the vetting of the instrument by a research expert, the researcher utilized the face validity.

### **3.9 RELIABILITY OF THE RESEARCH INSTRUMENT**

A research instrument is reliable if it reproducibly and consistently obtains the same or closely related responses from the subjects (that is, the respondents) on whom it is administered. Just as we have in the validity of a research instrument discussed above, there are also many ways in which the reliability of a research instrument can be measured, such as: Test-rest, Split-half, etc.

Here in this study, the researcher adopted the Test-Retest method. In this method, the researcher was required to pretest the research instrument (i.e the Questionnaire) on the respondents in two different times before the actual research survey (as the term “TEST-RETEST” implies). The responses got from the two

pretest exercises were subjected to correlation test, using Pearson's Product Moment Correlation (r) This can be mathematically describe as;

$$r = \frac{n \sum xy - \sum x \sum y}{\sqrt{[n \sum x^2 - (\sum x)^2][n \sum y^2 - (\sum y)^2]}}$$

Where

- r = The strength of reliability of the responses (data) that the instrument is capable of collecting.
- X = Responses got from the First Pretest exercise
- Y = Responses got from second pretest exercise
- n = Number respondents covered in the test-retest exercise

To ascertain the reliability of the instrument, the researcher chose ten (10) respondents randomly from the cross section of the individuals in the above described population group. These respondents were used for the test-retest exercise and their responses are given below.

| S/N | X  | Y  | X <sup>2</sup> | Y <sup>2</sup> | XY   |
|-----|----|----|----------------|----------------|------|
| 1   | 28 | 28 | 784            | 784            | 784  |
| 2   | 28 | 29 | 785            | 841            | 812  |
| 3   | 32 | 32 | 1024           | 1024           | 1024 |
| 4   | 30 | 30 | 900            | 900            | 900  |
| 5   | 28 | 28 | 784            | 784            | 784  |
| 6   | 29 | 28 | 841            | 784            | 812  |
| 7   | 29 | 29 | 841            | 841            | 841  |

|    |     |     |      |      |      |
|----|-----|-----|------|------|------|
| 8  | 29  | 29  | 841  | 841  | 841  |
| 9  | 31  | 31  | 961  | 961  | 961  |
| 10 | 31  | 30  | 961  | 900  | 930  |
|    | 295 | 294 | 8722 | 8660 | 8689 |

$$r = \frac{10(8689) - (295 \times 294)}{\sqrt{[10(8722) - (295)^2][10(8660) - (294)^2]}}$$

$$r = \frac{160}{174.183811} = \underline{0.8947} \approx 0.90$$

**COMMENT:**

With the above result obtained for the value of (r) being the Pearson Product Moment Correlation Coefficient, the rule of acceptability says, the closer the value to 1, the stronger the strength of relationship between the two responses got from the respondents. Hence, we can hereby conclude that, at **0.90**, the research instrument is reliable.

### 3.10 DATA ANALYSIS METHODS USED

The data collected for this study were first presented on Cross-tabulations, Frequencies, and Percentages. Hypotheses were tested against the research objectives using Chi-square (X<sup>2</sup>) and Pearson's Product Moment Correlation (γ) only. The former would be used for hypotheses one and three while the latter would be used for hypothesis two. Statistical Package for Social Sciences (SPSS) version 15.0 software would be used to run all the tests and analyses.

### Decision Rules

- (i) Reject  $H_0$  if  $|X_{cal}| > |X_{tab}|$ . Otherwise, accept it.
- (ii) Given the Pearson's Correlation ( $r$ ) at  $p < 0.05$ , reject  $H_0$ . Otherwise, accept it.

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*Owerri: Canon Publisher,. p.56*

## **CHAPTER FOUR**

### **DATA PRESENTATION, ANALYSES AND INTERPRETATION**

#### **4.1 Analysis of Administered Questionnaires**

**Table 4.1: Survey Response Analysis**

|                                      | <b>PRODA</b> | <b>JUHEL</b> | <b>Total</b> |
|--------------------------------------|--------------|--------------|--------------|
| Copies of Questionnaire Administered | 56(58.95%)   | 39(41.05%)   | 95(100%)     |
| Copies not Returned                  | 8(8.42%)     | 2(2.11%)     | 10(10.53%)   |
| Copies Returned                      | 48(50.53%)   | 37(38.95%)   | 85(89.47%)   |

*Source: Field Survey, July, 2012*

Table 4.1 above presents the response of the respondents (accounting staff) covered in the survey for this study. Out of the 95 copies of questionnaire administered, 10 were not returned. 85 others that were returned give a percentage response rate of **89.47%**

#### **4.2 ANALYSES OF THE RESPONSES OF THE RESPONDENTS AGAINST THE QUESTIONS ON THE QUESTIONNAIRE**

##### **4.2.1 Respondents' Knowledge of Strategic Pricing**

Research Question 1: *Setting prices that reflect strategic objectives is simply what strategic pricing is.*

Table 4.2.1: Response to Research Question 1

|       |                 |           | Respondents |       | Total  |
|-------|-----------------|-----------|-------------|-------|--------|
|       |                 |           | PRODA       | JUHEL |        |
| RQ1   | Strongly Agreed | Frequency | 22          | 14    | 36     |
|       |                 | %         | 25.9%       | 16.5% | 42.4%  |
|       | Agreed          | Frequency | 26          | 23    | 49     |
|       |                 | %         | 30.6%       | 27.1% | 57.6%  |
| Total | Frequency       |           | 48          | 37    | 85     |
|       | %               |           | 56.5%       | 43.5% | 100.0% |

*Source: Field Survey, July, 2012*

On table 4.2.1 above, 36(42.4%) of the respondents strongly agreed that setting prices that reflect strategic objectives is simply what strategic pricing is. In the same way, 49(57.6%) others also agreed.

Research Question 2: *Strategic prices can be set without necessarily knowing or understanding market conditions, customers and competitive factors.*

Table 4.2.2: Response to Research Question 2

|     |                 |           | Respondents |       | Total |
|-----|-----------------|-----------|-------------|-------|-------|
|     |                 |           | PRODA       | JUHEL |       |
| RQ2 | Strongly Agreed | Frequency | 3           | 0     | 3     |
|     |                 | %         | 3.5%        | .0%   | 3.5%  |
|     | Agreed          | Frequency | 1           | 0     | 1     |
|     |                 |           |             |       |       |

|                    |           |       |       |        |
|--------------------|-----------|-------|-------|--------|
|                    | %         | 1.2%  | .0%   | 1.2%   |
| Undecided          | Frequency | 9     | 0     | 9      |
|                    | %         | 10.6% | .0%   | 10.6%  |
| Disagreed          | Frequency | 14    | 11    | 25     |
|                    | %         | 16.5% | 12.9% | 29.4%  |
| Strongly Disagreed | Frequency | 21    | 26    | 47     |
|                    | %         | 24.7% | 30.6% | 55.3%  |
| Total              | Frequency | 48    | 37    | 85     |
|                    | %         | 56.5% | 43.5% | 100.0% |

*Source: Field Survey, July, 2012*

Table 4.2.2 above presents the responses of the respondents regarding research question 2. While 3(3.5%) of them strongly agreed, 1(1.2%) agreed, and 9(10.6%) remained undecided, 25(29.4%) disagreed, and 47(55.3%) strongly disagreed.

Research Question 3: *Cost structure and elements are very important to know and ascertain when setting strategic prices.*

Table 4.2.3: Response to Research Question 3

|       |                 |           | Respondents |       | Total  |
|-------|-----------------|-----------|-------------|-------|--------|
|       |                 |           | PRODA       | JUHEL |        |
| RQ3   | Strongly Agreed | Frequency | 13          | 16    | 29     |
|       |                 | %         | 15.3%       | 18.8% | 34.1%  |
|       | Agreed          | Frequency | 27          | 19    | 46     |
|       |                 | %         | 31.8%       | 22.4% | 54.1%  |
|       | Undecided       | Frequency | 8           | 2     | 10     |
|       |                 | %         | 9.4%        | 2.4%  | 11.8%  |
| Total | Frequency       |           | 48          | 37    | 85     |
|       | %               |           | 56.5%       | 43.5% | 100.0% |

*Source: Field Survey, July, 2012*

29(34.1%) of the respondents on table 4.2.3 above strongly agreed that cost structure and elements are very important to know and ascertain when setting

strategic prices. In the same way, 46(54.1%) agreed while 10(11.8%) others were undecided.

#### 4.2.2 Accountants' Functions/Roles in Strategic Pricing Formulation

Research Question 4: *Accountants in your organization play crucial roles in strategic pricing formulation?*

Table 4.2.4: Response to Research Question 4

|     |                    |           | Respondents |       | Total  |
|-----|--------------------|-----------|-------------|-------|--------|
|     |                    |           | PRODA       | JUHEL |        |
| RQ4 | Strongly Agreed    | Frequency | 22          | 15    | 37     |
|     |                    | %         | 25.9%       | 17.6% | 43.5%  |
|     | Agreed             | Frequency | 19          | 14    | 33     |
|     |                    | %         | 22.4%       | 16.5% | 38.8%  |
|     | Undecided          | Frequency | 7           | 2     | 9      |
|     |                    | %         | 8.2%        | 2.4%  | 10.6%  |
|     | Disagreed          | Frequency | 0           | 4     | 4      |
|     |                    | %         | .0%         | 4.7%  | 4.7%   |
|     | Strongly Disagreed | Frequency | 0           | 2     | 2      |
|     |                    | %         | .0%         | 2.4%  | 2.4%   |
|     | Total              | Frequency | 48          | 37    | 85     |
|     |                    | %         | 56.5%       | 43.5% | 100.0% |

*Source: Field Survey, July, 2012*

On table 4.2.4 above, 37(43.5%) of the respondents strongly agreed that accountants in their organization play crucial roles in strategic pricing formulation.

In the same way, 33(38.8%) also agreed while 9(10.6%) were undecided, 4(4.7%) disagreed and 2(2.4%) others strongly disagreed.

Research Question 5: *Cost accountants ascertain the costs of products, process, labour, materials and other activities in your organization?*

Table 4.2.5: Response to Research Question 5

|       |                 |           | Respondents |       | Total  |
|-------|-----------------|-----------|-------------|-------|--------|
|       |                 |           | PRODA       | JUHEL |        |
| RQ5   | Strongly Agreed | Frequency | 25          | 31    | 56     |
|       |                 | %         | 29.4%       | 36.5% | 65.9%  |
|       | Agreed          | Frequency | 17          | 6     | 23     |
|       |                 | %         | 20.0%       | 7.1%  | 27.1%  |
|       | Undecided       | Frequency | 6           | 0     | 6      |
|       |                 | %         | 7.1%        | .0%   | 7.1%   |
| Total | Frequency       |           | 48          | 37    | 85     |
|       | %               |           | 56.5%       | 43.5% | 100.0% |

*Source: Field Survey, July, 2012*

On table 4.2.5 above, 56(65.9%) of the respondents strongly agreed that cost accountants ascertain the costs of products, process, labour, materials and other activities in their organization. 23(27.1%) also agreed while 6(7.1%) others remained undecided.

Research Question 6: *Financial Accountants keep record of transactions; provide other accountants with the information needed for setting strategic prices?*

Table 4.2.6: Response to Research Question 6

|  |  |  | Respondents |       | Total |
|--|--|--|-------------|-------|-------|
|  |  |  | PRODA       | JUHEL | .     |

|       |                 |           |       |       |        |
|-------|-----------------|-----------|-------|-------|--------|
| RQ6   | Strongly Agreed | Frequency | 18    | 21    | 39     |
|       |                 | %         | 21.2% | 24.7% | 45.9%  |
|       | Agreed          | Frequency | 27    | 10    | 37     |
|       |                 | %         | 31.8% | 11.8% | 43.5%  |
|       | Undecided       | Frequency | 3     | 6     | 9      |
|       |                 | %         | 3.5%  | 7.1%  | 10.6%  |
| Total |                 | Frequency | 48    | 37    | 85     |
|       |                 | %         | 56.5% | 43.5% | 100.0% |

*Source: Field Survey, July, 2012*

On table 4.2.6 above, 39(45.9%) strongly agreed that financial accountants keep record of transactions and provide other accountants with the information needed for setting strategic prices. In the same way, 37(43.5%) also agreed while 9(10.6%) others remained undecided.

Research Question 7: *Management Accountants in your organization collect accounting information from cost accountants and financial accountants for the purpose of policy formulation, planning, control and decision making by the management?*

Table 4.2.7: Response to Research Question 7

|       |                 |           | Respondents |       | Total  |
|-------|-----------------|-----------|-------------|-------|--------|
|       |                 |           | PRODA       | JUHEL |        |
| RQ7   | Strongly Agreed | Frequency | 22          | 13    | 35     |
|       |                 | %         | 25.9%       | 15.3% | 41.2%  |
|       | Agreed          | Frequency | 26          | 20    | 46     |
|       |                 | %         | 30.6%       | 23.5% | 54.1%  |
|       | Undecided       | Frequency | 0           | 4     | 4      |
|       |                 | %         | .0%         | 4.7%  | 4.7%   |
| Total |                 | Frequency | 48          | 37    | 85     |
|       |                 | %         | 56.5%       | 43.5% | 100.0% |

***Source: Field Survey, July, 2012***

On the above table, 35(41.2%) of the respondents strongly agreed that Management Accountants in their organization collect accounting information from cost accountants and financial accountants for the purpose of policy formulation, planning, control and decision making by the management.

#### **4.2.3 Participation of accountants in Strategic Price Formulation**

Research Question 8: *Accounting information from various accounting sections are used in setting strategic prices*

**Table 4.2.8: Response to Research Question 8**

|     |                    |           | Respondents |       | Total  |
|-----|--------------------|-----------|-------------|-------|--------|
|     |                    |           | PRODA       | JUHEL |        |
| RQ8 | Strongly Agreed    | Frequency | 26          | 13    | 39     |
|     |                    | %         | 30.6%       | 15.3% | 45.9%  |
|     | Agreed             | Frequency | 10          | 18    | 28     |
|     |                    | %         | 11.8%       | 21.2% | 32.9%  |
|     | Undecided          | Frequency | 9           | 6     | 15     |
|     |                    | %         | 10.6%       | 7.1%  | 17.6%  |
|     | Disagreed          | Frequency | 2           | 0     | 2      |
|     |                    | %         | 2.4%        | .0%   | 2.4%   |
|     | Strongly Disagreed | Frequency | 1           | 0     | 1      |
|     |                    | %         | 1.2%        | .0%   | 1.2%   |
|     | Total              | Frequency | 48          | 37    | 85     |
|     |                    | %         | 56.5%       | 43.5% | 100.0% |

***Source: Field Survey, July, 2012***

On table 4.2.8 above, 39(45.9%) of the respondents strongly agreed that

Accounting information from various accounting sections are used in setting strategic prices. Also 28(32.9%) agreed while 15(17.6%) were undecided, 2(2.4%) disagreed and 1(1.2%) strongly disagreed.

Research Question 9: *Management accountants are also members of the accounting staff of your company and they contribute their expertise knowledge in strategic prices setting.*

Table 4.2.9: Response to Research Question 9

|       |                 |           | Respondents |       | Total  |
|-------|-----------------|-----------|-------------|-------|--------|
|       |                 |           | PRODA       | JUHEL |        |
| RQ9   | Strongly Agreed | Frequency | 21          | 24    | 45     |
|       |                 | %         | 24.7%       | 28.2% | 52.9%  |
|       | Agreed          | Frequency | 19          | 11    | 30     |
|       |                 | %         | 22.4%       | 12.9% | 35.3%  |
|       | Undecided       | Frequency | 8           | 2     | 10     |
|       |                 | %         | 9.4%        | 2.4%  | 11.8%  |
| Total | Frequency       |           | 48          | 37    | 85     |
|       | %               |           | 56.5%       | 43.5% | 100.0% |

*Source: Field Survey, July, 2012*

45(52.9%) of the respondents on table 4.2.9 above strongly agreed that Management accountants are also members of the accounting staff of your company and they contribute their expertise knowledge in strategic prices setting. 30(35.3%) equally agreed while 10(11.8%) others were undecided.

## 4.3 TEST OF HYPOTHESES

### 4.3.1 Hypothesis One

H<sub>0</sub>: Accountants do not play significant roles in the setting of strategic prices.

H<sub>1</sub>: Accountants play significant roles in the setting of strategic prices.

To test this hypothesis, the responses of the respondents regarding research questions 8 & 9 would be used.

Test method: Chi-square ( $\chi^2$ )

$$\chi^2_{cal} = \sum \frac{(O_i - e_i)^2}{e_i}$$

Where:

$O_i$  = Observed Frequency

$e_i$  = Expected Frequency

$\chi^2_{cal}$  = Chi-Square computed value

$\chi^2_{tab}$  = Chi-square value read from table

#### Decision Rule:

Reject H<sub>0</sub> if  $|\chi^2_{cal}| > |\chi^2_{tab}|$ . Otherwise, accept it.

**Table 4.3.1 Test Result for Hypothesis One**

|                    | RQ8 | RQ9 | $O_i$ | $e_i$ | $O_i - e_i$ | $(O_i - e_i)^2$ | $\frac{(O_i - e_i)^2}{e_i}$ |
|--------------------|-----|-----|-------|-------|-------------|-----------------|-----------------------------|
| Strongly Agreed    | 39  | 45  | 84    | 34    | 50          | 2500            | 73.53                       |
| Agreed             | 28  | 30  | 58    | 34    | 24          | 576             | 16.94                       |
| Undecided          | 15  | 10  | 25    | 34    | -9          | 81              | 2.38                        |
| Disagreed          | 2   | -   | 2     | 34    | -32         | 1024            | 30.12                       |
| Strongly Disagreed | 1   | -   | 1     | 34    | -33         | 1089            | 32.03                       |
| Total              | 85  | 85  | 170   |       | 0           |                 | 155                         |

From the table 4.3.1 above,

$$\chi^2_{cal} = \sum \frac{(O_i - e_i)^2}{e_i} = 155$$

$$\text{At } (\chi^2_{df=8, \alpha=5\%}) = \chi^2_{tab} = 15.507$$

Thus,  $(\chi^2_{cal} > \chi^2_{tab})$  given the foregoing computation.

Hence,  $H_0$  would be rejected and the alternate hypothesis ( $H_1$ ) that states “Accountants significantly participate in strategic pricing formulation” would be accepted.

### 4.3.2 Hypothesis Two

Hypothesis two sought to know if accountants are responsible for the computation of a company's product worth alongside considerations for the company's cost of capital and owners' returns. Research question 5 was used to collect the data for this hypothesis. Given the standpoints of the respondents of PRODA and JUHEL on this question, of which majority of them strongly agreed, Pearson's Product Moment Correlation was however used to test the hypothesis and was run on SPSS likewise. Given below is the test result.

Table 4.3.2: Test Result for Hypothesis Two

|       |                     | PRODA    | JUHEL |
|-------|---------------------|----------|-------|
| PRODA | Pearson Correlation | 1        |       |
|       | Sig. (2-tailed)     |          |       |
|       | N                   | 48       |       |
| JUHEL | Pearson Correlation | .635(**) | 1     |
|       | Sig. (2-tailed)     | .000     |       |
|       | N                   | 37       | 37    |

\*\* Correlation is significant at the 0.05 level (2-tailed).

On table 4.3.2 above, the Pearson's correlation (r) of the responses given by the respondents from PRODA and JUHEL regarding accountants being responsible for the computation of a company's product worth, yields **.635\*\*** **p = .000** which indicates that there is a strong positive relationship between their responses. Hence, at  $p < 0.05$ , the  $H_0$  would be rejected and the alternate hypothesis ( $H_2$ ) that states

*“Accountants are responsible for the computation of a company’s product worth”* would be accepted.

### 4.3.3 Hypothesis Three

H<sub>0</sub>: Accountants do not have any functional roles in strategic pricing formulation.

H<sub>1</sub>: Accountants have functional roles in strategic pricing formulation.

To test this hypothesis, the responses obtained for research questions 4, 5, 6, and 7 from the respondents would be used.

Test method: Chi-square ( $\chi^2$ )

$$\chi^2_{cal} = \sum \frac{(O_i - e_i)^2}{e_i}$$

Where:

$O_i$  = Observed Frequency

$e_i$  = Expected Frequency

$\chi^2_{cal}$  = Chi-Square computed value

$\chi^2_{tab}$  = Chi-square value read from table

#### Decision Rule:

Reject H<sub>0</sub> if  $|\chi^2_{cal}| > |\chi^2_{tab}|$ . Otherwise, accept it.

**Table 4.3.3 Test Result for Hypothesis Three:**

|                    | RQ4 | RQ5 | RQ6 | RQ7 | $O_i$ | $e_i$ | $O_i - e_i$ | $(O_i - e_i)^2$ | $\frac{(O_i - e_i)^2}{e_i}$ |
|--------------------|-----|-----|-----|-----|-------|-------|-------------|-----------------|-----------------------------|
| Strongly Agreed    | 37  | 56  | 39  | 35  | 167   | 68    | 99          | 9801            | 144.13                      |
| Agreed             | 33  | 23  | 37  | 46  | 139   | 68    | 71          | 5041            | 74.13                       |
| Undecided          | 9   | 6   | 9   | 4   | 28    | 68    | -40         | 1600            | 23.53                       |
| Disagreed          | 4   | -   | -   | -   | 4     | 68    | -64         | 4096            | 60.24                       |
| Strongly Disagreed | 2   | -   | -   | -   | 2     | 68    | -66         | 4356            | 64.06                       |
| Total              | 85  | 85  | 85  | 85  | 340   |       | 0           |                 | 366.09                      |

From table 4.3.3 above, 
$$X^2_{cal} = \sum \frac{(O_i - e_i)^2}{e_i} = 366.09$$

At  $X^2_{(df=16, \alpha=5\%)} = X^2_{tab} = 18.307$

Thus,  $|X^2_{cal}| > |X^2_{tab}|$  based on the foregoing computation

Hence,  $H_0$  would be rejected and the alternate hypothesis ( $H_3$ ) that states “Accountants have significantly functions/roles they carry out in strategic price formulation” would be accepted.

## CHAPTER FIVE

### SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Summary of Findings

This study was carried out to appraise accountants' roles in strategic pricing formulation. Its findings revealed that: (i) Accountants significantly participate in strategic pricing formulation at ( $X^2_{cal} = 155 > X^2_{tab} = 15.507$ ); (ii) Accountants are responsible for the computation of a company's product worth alongside the company's cost of capital and owners' returns given Pearson's Product Moment Correlation of the respondents' responses of ( $r = .635^{**}$  at  $p < .05$ ); (iii) Finally, this study found that accountants have significantly functions/roles that they carry out in strategic price formulation ( $X^2_{cal} = 366.09 > X^2_{tab} = 18.307$ ) such as ascertainment of product costs, process, labour, materials and other activities; keep records of transactions and provide information needed for the setting of strategic prices.

#### 5.2 Conclusions

Price formulation or setting usually takes different forms depending on the type of product, industry and the rest. For some products, firms or markets, it is set by the interplay of the forces of market supply and demand and the firms in such industry or market would have little or no influence over the selling prices of the products

or services. Unlike what this study has however levered, setting or formulating strategic prices requires accounting information that are often important as input to pricing decisions; and pricing decisions, based on accounting standards are be influenced by the cost of the product. That is, the cost information that is accumulated and presented.

### **5.3 Recommendations**

The management companies as well as accountants, especially those that are yet passed on to the labour market can have the following recommendations useful in their pricing decisions and accounting practices.

- (i) Professional Accountants have expertise knowledge to determine the actual cost of product, process, or activity. Their inclusion in strategic pricing formulation can never bring about derailment rather, it facilitates effectiveness.
- (ii) Accountants need to be subjected to trainings and development time to time because they need to improve and be made equipped in their practices with latest technologies that can help them perform more accurately and faster.

- (iii) Strategic pricing formulating is never a rule-of-thumb practice. Accountants (Professional or Chattered ones) must essentially be involved.

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## **APPENDIX**

Department of Accountancy,  
University of Nigeria,  
Enugu Campus

August, 2012

Dear Sir/Madam,

### **RESEARCH QUESTIONNAIRE ON “APPRAISAL OF ACCOUNTANTS’ ROLE IN STRATEGIC PRICING FORMULATIONIN”**

I am a postgraduate student in the above named department and institution, presently carrying out a research work on “*Appraisal of Accountants’ Role in Strategic Pricing Formulation*”.

This questionnaire is drawn to extract necessary information to enable me write a thesis on the above topic in partial fulfillment for the award of Master of Business Administration (MBA) of the University of Nigeria Enugu Campus. I assure you that the information given will be treated with utmost confidentiality and will be used strictly for academic purpose.

I will be very grateful if you could assist me in this direction. I hereby attach the questionnaire for your completion. Thanking you in anticipation of your cooperation.

Yours faithfully,

**Sam-Igbeta Felicia A.**

**PG/MBA/10/54950**

**MBA Accountancy**

## QUESTIONNAIRE:

**Instruction:** Please complete the attached questionnaire by providing appropriate response or ticking as the case may be.

### SECTION 1:

Please read each of the following statements or questions carefully and tick (✓) the response that best represent your reaction to the statements according to the following scale.

- Strongly agree (SA)
- Agree (A)
- Undecided (U)
- Disagree (D)
- Strongly Disagree (SD)

### SECTION 2:

| <b>A. RESPONDENTS' KNOWLEDGE OF STRATEGIC PRICING</b> |                                                                                                                                 |           |          |          |          |           |
|-------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|-----------|----------|----------|----------|-----------|
|                                                       |                                                                                                                                 | <b>SA</b> | <b>A</b> | <b>U</b> | <b>D</b> | <b>SD</b> |
| 1.                                                    | Setting prices that reflects strategic objectives is simply what strategic pricing is.                                          |           |          |          |          |           |
| 2.                                                    | Strategic pricing can be set without necessarily knowing or understanding market conditions, customers and competitive factors. |           |          |          |          |           |
| 3.                                                    | Cost structure and elements are very important to know and ascertain when setting strategic prices.                             |           |          |          |          |           |

| <b>B. ACCOUNTANTS' FUNCTIONS/ROLES IN STRATEGIC PRICING FORMULATION:</b> |                                                                                                                                                                                                                            |  |  |  |  |
|--------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|--|--|
| 4.                                                                       | Accountants in your organization play crucial roles in strategic pricing formulation?                                                                                                                                      |  |  |  |  |
| 5.                                                                       | Cost accountants ascertain the costs of products, process, labour, materials and other activities in your organization?                                                                                                    |  |  |  |  |
| 6.                                                                       | Financial Accountants keep records of transactions, provides other accountants with the information for setting strategic prices?                                                                                          |  |  |  |  |
| <b>C. PARTICIPATION OF ACCOUNTANTS IN STRATEGIC PRICING FORMULATION:</b> |                                                                                                                                                                                                                            |  |  |  |  |
| 7.                                                                       | Management Accountants in your organization collect accounting information from cost accountants and financial accountants for the purpose of policy formulation, planning, control and decision making by the management? |  |  |  |  |
| 8.                                                                       | Accounting information from various accounting sections are used in setting strategic prices?                                                                                                                              |  |  |  |  |
| 9.                                                                       | Management Accountants are also members of accounting staff of the company and contribute their expertise knowledge in strategic price setting?                                                                            |  |  |  |  |