EXPLORING MARKETING MANAGERS' USE OF ACCOUNTING INFORMATION: A CASE STUDY OF THE PORTUGUESE FASHION RETAIL SECTOR

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RAFAEL ANTÓNIO SERRALHEIRO FRANCO

MANCHESTER BUSINESS SCHOOL

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ABSTRACT

The management accounting literature (e.g., Cooper and Kaplan 1988b; Shillinglaw 1982) argues that cost information is beneficial for marketing management in order to improve the business profitability. Accounting for strategic management also proposes the use of accounting information on cost drivers, business strategy, market and competitors (e.g., Shank and Govindarajan 1993). In the accounting and control literature it is also suggested that a company gains if it includes interactive control systems, with the participation of the various functional areas, including marketing, in addition to the traditional diagnostic systems (Simons 1995b). Moreover, the marketing literature states that there is a loss of influence and stature of the marketing department (Webster Jr et al. 2005) and relates this in part to the lack of performance measures (see Ambler 2003b; McGovern et al. 2004; Nath and Mahajan 2008), particularly the financial ones (e.g., Schultz and Gronstedt 1997). The marketing literature also recognises the usefulness of cost accounting information (e.g., Dunne and Wolk 1977; Kirpalani and Shapiro 1973; Winter 1979), in particular the information from the activity-based costing systems for marketing management (e.g., Goebel et al. 1998; Lere 2001). Although the literature in both accounting and marketing note benefits from using accounting information, the interaction, communication and the exchange of information between marketing and accounting departments is poor (Phillips and Halliday 2008; Srivastava et al. 1998) and little researched (De Ruyter and Wetzels 2000; McManus and Guilding 2008).

The purpose of this research is to understand what influences the ability of the accounting system to meet the managers' demand of accounting information, as well as why and how marketing managers are demanding accounting information. In keeping with the exploratory and explanatory research nature of the research an interpretative case study was conducted (see Lukka and Modell 2010; Mason 2002; Yin 2009). Two companies were selected from the Portuguese fashion retail sector (cf. Perloff and Salop 1985; Snyder 1989; Swartz 1983). The data was collected through semi-structured interviews, observation, and documents.

The analysis and comparison of these two cases revealed that the use of accounting information was influenced by both structural and functional factors. From the structural point of view, it was important for the two companies to have very detailed accounting information in the system and have the financial and non-financial databases integrated. The mentality of the management control staff – oriented towards the real needs of the managers – was also a key factor. From the functional point of view, it was observed that two complementary forms of transmission of accounting information contributed to the effectiveness of its use. The self-service access to updated information and both automated and customised reports, contributed the accounting information being frequently accessed and interpreted by all managers – particularly commercial and sales managers. The face-to-face presentation and discussion of management accounting reports positively influenced the collective use of accounting information – in order to diagnose problems, find solutions and align the various managers in the implementation of plans. As a result, these interactions were still opportunities for mutual learning. Managers learned the potential of the accounting system and accountants perceived the specific needs of each manager. Therefore, it enabled both financial and management accountants to create and to maintain the management accounting system adapted to the managers' demand. Managers in both companies seek information to analyse sales, control costs and manage profitability. In one of the companies the information was also used strategically – the cost drivers, the market situation and the competitors' accounting information were analysed. In one company, the accounting information was also used to protect the marketing department, i.e., the accounting information was used to maintain or increase the funds allocated to the marketing budget. In this particular case of marketing performance measurement, the unit of analysis was the marketing project and the metric was the contribution to profits. In conclusion, the marketing managers in these companies do seek management accounting information. Regular face-to-face, multi-functional and multi-hierarchical interaction is a key factor for the use of the accounting system; this is where managers learn the potential of the accounting system and accountants understand the real managers' needs of accounting information.

DECLARATION

No portion of the work referred to in the thesis has been submitted in support of an application for another degree or qualification from this or any other university or other institute of learning.

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LIST OF ABBREVIATIONS

ABC – Activity-Based Costing

BP – Business Performance

CAPEX – Capital Expenditures

CEO – Chief Executive Officer

CLV – Customer Lifetime Value

CMO – Chief Marketing Officer

CRM – Customer Relationship Management

DCF – Discounted Cash Flow

EBIT – Earnings Before Interest and Tax

EBITDA – Earnings Before Interest, Tax, Depreciation and Amortisation

GR – Grupo Regojo

IT – Information Technology

KPI – Key Performance Indicator

LBITDA – Loss Before Interest, Tax, Depreciation and Amortisation

MAS – Management Accounting System

MD – Marketing Department

MI – Marketing Influence

MPM – Marketing Performance Measurement

PAR – Plan of Actions and Resources

PCG – Planning and Management Control Department
“Planeamento e Controlo de Gestão” in Portuguese

ROE – Return on Equity

ROI – Return on Investment

SBU – Strategic Business Unit

SCM – Strategic Cost Management

SMA – Strategic Management Accounting

SMS – Short Message Service

TMT- Top Management Team

TOC – Theory of Constraints

CHAPTER 1 INTRODUCTION

This chapter describes the scope of the research, its objectives, the methodology used and how the dissertation is organised. The first section contextualises the research based on a review of the extant literature, while the second section lists the research objectives. The research questions are presented in the third section, as well as the methodology. The chapter concludes with an explanation as to how the dissertation is organised.

1.1 Background of the Research

This is an empirical research on the use of accounting information by managers of marketing (i.e., marketing, sales and operations managers) through the study of two cases in fashion retail. The research explores the relevance of accounting information for the management of marketing. It begins by identifying the proposals made in the accounting literature which are potentially useful for marketing managers. Afterwards, the marketing literature is reviewed to identify the applications the accounting information may have from the marketing management perspective. Then the literature is reviewed in what concerns the collaboration between accounting and marketing, i.e., opportunities, problems and challenges.

The interest in studying these topics stems from various situations encountered in the business literature: (1) the accounting literature proposes a number of potentially useful tools and techniques – from the perspective of management accounting – for marketing management both in the short and long run (e.g., Anthony et al. 2010; Drury 2009; Pereira et al. 2010; Robinson 1990); (2) the marketing literature refers to the importance of accounting information in evaluating marketing performance, in order to preserve the image and the influence of the marketing department (MD) within the company (e.g., O'Sullivan and Abela 2007; Verhoef et al. 2011); (3) the related literature refers to the existence of an accounting "information gap" in marketing managers, i.e., there are differences between what marketing managers would like to have in terms of accounting information and what they actually have and use (see Foster and Gupta 1994, p. 65; McManus and Guilding 2008); and (4) the factors that may be limiting the use of accounting information by marketing managers or the reasons why there are communication gaps between marketing and accounting have not been researched so far (see De Ruyter and Wetzels 2000; McManus and Guilding 2008).

From the perspective of management accounting, this research seeks to explore both the marketing managers' demand for accounting information and the factors that influence the ability of the accounting system to meet this demand. This focus responds to two challenges derived from the accounting literature. First, there are calls for more research on accounting in practice (Anderson 2008; Hall 2010; Jönsson 1998; Merchant and Van der Stede 2006). The accounting literature indicates that one function of accounting, in particular management accounting, is to support the managerial work with accounting information (see Horngren 2004; Johnson and Kaplan 1987; Pereira et al. 2010). Moreover, that accounting information helps to increase the knowledge that managers have of their business (Birnberg et al. 2006; Sprinkle 2003), assists them to make operational decisions, e.g., price, product specifications and operations management (Banker and Hughes 1994; Baxendale et al. 2006; Lere 2001), and contributes to strategic decision making (Kaplan and Cooper 1988; Shank and Govindarajan 1993). In addition, all these applications of accounting information – proposed by management accounting – are useful for the management of marketing (Goebel et al. 1998; Lere 2001). In this respect, Goebel et al. (1998, p. 498) state:

> "The traditional role of managerial accounting is to provide financial information for managerial decision making. Marketing has a long history of using accounting information, primarily contribution margins, to improve decision making in segment profitability, marketing mix profitability, and break-even analysis. In addition, accounting information is relevant to product introduction and abandonment and pricing decisions. In all cases, cost accounting information, along with anticipated selling price and volume numbers, is used to provide estimates of the potential profit from a marketing decision."

and Roslender and Hart (2003, p. 255) note:

> "SMA [Strategic Management Accounting] is best understood as a generic approach to accounting for strategic positioning. It is defined by an attempt to integrate insights from management accounting and marketing management within a strategic management framework."

However, though some authors suggest that management accounting has made progress in adapting to the evolving business landscape and meets the needs of managers in terms of accounting information to support management (see Kaplan and Anderson 2004; Lukka and Granlund 2002), other studies report that accounting is not progressing at the pace of business (cf. Bromwich 2000; Bromwich and Bhimani 1994), and that organisations resist change in their accounting systems, particularly when the changes are revolutionary (see Burns and Vaivio 2001; Jermias 2001). Still others suggest that the costs to implement and maintain more complex management accounting systems (MAS) – e.g., cost management in products or services of high customisation – do not justify the benefits (Drury and Tayles 2005, p. 61). There are also studies reporting that the SMA has not evolved as expected and has had little application in practice (Bromwich and Bhimani 1994; Langfield-Smith 2008; McManus and Guilding 2008; Shank 2006). Therefore, there are differences between what is discussed and proposed in theory and what is used in practice (Baldvinsdottir et al. 2010; Johnson and Kaplan 1987, p. 172; Lucas and Rafferty 2008; Ratnatunga et al. 1988). Consequently, in the accounting literature there are calls for more research on management accounting in practice (Anderson 2008; Hall 2010; Jönsson 1998; Merchant and Van der Stede 2006).

Second, the accounting literature refers to the need to gain better knowledge into how the accounting information is collected, transmitted and used by managers (see Anderson 2008; Hall 2008, 2010). Although there are a small number of studies that examine the use of accounting information in practice (e.g., Ahrens and Chapman 2007; McKinnon and Bruns 1992; Preston 1986) none of them observe how marketing managers demand and use accounting information in particular. In this respect, Hall (2010, p. 302) notes:

> “There is also much to learn about how managers engage with accounting information because there are remarkably few studies of what information managers actually use or might use”

This research is also linked to topics discussed in the marketing literature. First, there are calls for research on marketing and accounting interface (De Ruyter and Wetzels 2000; McManus and Guilding 2008). It is suggested in the marketing literature that the use of accounting information can improve decision making in marketing (Goebel et al. 1998; Kumar et al. 2008; Lere 2001; Thomas et al. 2004) and it is useful in evaluating the performance of marketing departments (Barwise and Farley 2004; Gao 2010; Morgan et al. 2002; Srivastava et al. 1998). The theory supports the perspective in which firms may improve their profits if marketing managers make decisions (e.g., on prices, product mix or advertising) using cost accounting information (cf. Cabral 2000; Dubé et al. 2005). It is also reported in the related literature that firms would benefit if there were more interaction between marketing and accounting (cf. Phillips and Halliday 2008; Srivastava et al. 1998).

In this respect, Philips and Halliday (2008, p. 766) comment:

> "We consider that the synergy that could come from the marketing-accounting space being transformed into a genuine interface has the potential to provide the necessary information for much improved, strategic, decision-making."

However, the marketing literature suggests that marketing managers make little use of accounting information and have little interaction with financial staff (Adler 1967; Ambler 2003a; Barwise and Farley 2004; De Ruyter and Wetzels 2000; Gleaves et al. 2008; O'Sullivan and Abela 2007). An explanation offered in the related literature notes that this is not due to a lack of accounting information, but due to the fact that marketing managers do not know how to use and interpret accounting information, for example, McGovern et al. (2004, p. 74) note:

> "[M]arketing executives need (but often lack) a solid grasp of corporate finance to align marketing strategy with financial goals."

Although there is speculation on the causes for weak interaction between marketing and accounting (see Section 2.5.3), there are few empirical studies in the concerning literature about this interaction (De Ruyter and Wetzels 2000; McManus and Guilding 2008).

Second, there are calls in the marketing literature for more empirical research on the use of financial metrics (e.g., Barwise and Farley 2004; Lehmann 2004; Srivastava et al. 1998) and on its application in measuring marketing performance. There are references to conceptual disparities and interpretation differences in marketing and accounting textbooks, related to financial metrics with application in marketing management, e.g., customer profitability analysis (Gleaves et al. 2008). There are also references to the absence of marketing financial metrics in management accounting textbooks, but referred to in marketing textbooks (Bates and Whittington 2009). In this context, there is a call for more research on this topic, and specifically on measuring marketing performance with financial metrics (Gao 2010; Lehmann 2004). For example, Srivastava et al. (1998, p. 14) suggest:

> "Theories of marketing must be extended and broadened to include developments in finance, as indeed, theories of finance must be extended and broadened to include recent developments in marketing."

Finally, the marketing literature refers to the need to investigate the mediators and explain – using qualitative studies – the statistical relationships identified in extant quantitative studies between marketing performance measurement and MD influence (e.g., O'Sullivan et al. 2009; Verhoef et al. 2011). The concept of MD influence "is seen as the marketing function's ability to persuade others to develop, shape and implement strategies based on its advice" (Merlo 2011, p. 1153). Some authors state that marketing has been losing power and influence within the organisation (e.g., Schultz 2003, 2005; Webster Jr et al. 2005); i.e., the marketing executives cease to be invited to participate in the senior management meetings, they leave the top management teams, or their importance is not being recognised by other managers or general managers (see Ambler 2003a; McGovern et al. 2004). This loss of the MD's influence has been linked to a lack of ability to measure marketing activities' return, particularly in using financial metrics (see Lehmann 2004; Moorman and Rust 1999; O'Sullivan and Abela 2007; O'Sullivan et al. 2009; Rust et al. 2004; Schultz and Gronstedt 1997; Seggie et al. 2007; Verhoef and Leeflang 2009; Verhoef et al. 2011; Webster Jr et al. 2005). It is also suggested that this produces negative impacts on each firm's performance (see Cano et al. 2004; Kirca et al. 2005; Verhoef and Leeflang 2009; Verhoef et al. 2011). In this regard, Phillips and Halliday (2008, p. 752), commenting on the recommendations of Kotler (2006, p. 17), say:

> "Kotler is currently telling marketers that to have the influence that the function is due, they must respond to ''increasing pressure for financial accountability'' with ''smarter marketing''."

In conclusion, it is suggested in the literature that marketing managers, and the company as a whole, would benefit from using accounting information; however, it is also reported that marketing managers do not use, do not know how to use, or do not know how to interpret accounting information. This research aims to contribute towards an improved understanding of how managers use and communicate accounting information. It will also seek to understand the factors that influence the ability of the accounting system to meet the managers' need of accounting information. The research focuses on two specific cases from the Portuguese fashion retail sector. In the next section the research objectives are described and explained.

1.2 Research Objectives

The aim of this research is to explore how accounting information is relevant – in theory and in practice – to management and in particular to the management of marketing. This research starts by identifying the proposals potentially relevant for the management of marketing in the literature of management accounting. Then the marketing literature is explored in order to find references to the relevance of accounting information for marketing management.

It is stated in the accounting literature that there are differences between what is discussed and suggested in theory and what is used in practice (Baldvinsdottir et al. 2010; Lucas and Rafferty 2008; Ratnatunga et al. 1988). Although many applications from the accounting system to current and strategic management are proposed in the related literature, it is also reported that in practice many of these proposals have not been implemented or maintained in operation (Bromwich and Bhimani 1994; Langfield-Smith 2008; McManus and Guilding 2008; Shank 2006). It is also reported that marketing managers have difficulties in both using accounting information and interacting with the accounting department (Bates and Whittington 2009; Gleaves et al. 2008; McManus and Guilding 2008; Roslender and Hart 2010). Although some studies propose (hypothetical) explanations for both the low utilisation of the accounting system (see Table 2-7) and the weak interaction between accounting and marketing (Foster and Gupta 1994; McGovern et al. 2004; O'Sullivan et al. 2009; Schultz 2003; Verhoef and Leeflang 2009), none of these explanations comes from research that observes and interprets management accounting in practice. De Ruyter and Wetzels (2000, p. 209) note:

> "Not much is known about the relationship between marketing and finance departments. Yet, this interface seems particularly relevant as it is viewed as instrumental to the firm's efficiency and profitability. Strong interdependences between marketing and finance exist. For instance, the marketing-finance interface has a direct impact on such issues as: product-investment decisions, brand valuation, and working capital."

In this context, the aim of the research is to understand the factors that influence the ability of the accounting system to meet the managers' demands in terms of accounting information. That is, to realise in practice what prevents information from being communicated and used by marketing managers in particular. The aim is to capture the perceptions of managers and accountants regarding the use of the accounting system. Another motivation is to understand which organisational factors may boost the relevance of accounting information in managers' work, in the context of management accounting systems (see Ambler 2003b; Chenhall 2008; Johnson 1992; Johnson and Kaplan 1987; Wall and Greiling 2011).

On the importance of investigating management accounting techniques and methods, considering their importance for accounting in practice, Baldvinsdottir et al. (2010, pp. 79-80) state that “there is a need to retain a focus on the technical core of practice” in management accounting research, and conclude:

> “Over recent years, management accounting has become an innovative practice and consequently the potential exists for the researcher to play a supportive role in the development of the discipline at a practical level, at least, by assessing the new practices being introduced.”

The research has other objectives derived from both this first one and the literature review. One objective is to understand what kind of information is sought by managers, particularly marketing managers. This objective relates to the fact that although it is said that, potentially, the accounting system has useful information for marketing management (from the perspective of accounting), there is little use of accounting information by marketing managers (Bates and Whittington 2009; Gleaves et al. 2008; McManus and Guilding 2008; Roslender and Hart 2010). Therefore, this research aims to find out if in practice managers seek information that is not being prepared by the accounting system.

Another aim is to understand the perspective of accountants in relation to their role in supporting management, and to what extent it affects both the production of accounting information geared to management and their relationships with managers, particularly with marketing managers. In realising the perspective of accountants, one can also better understand why accounting in practice differs from accounting in theory and why there are difficulties in the interaction between marketing and accounting staff (Gleaves et al. 2008; McManus and Guilding 2008; Srivastava et al. 1998). On the difficulties between finance and marketing disciplines, Srivastava et al. (1998, p. 3) state:

> “[T]he marketing community historically has found it difficult, if not nearly impossible, to identify, measure, and communicate to other disciplines and top management the financial value created by marketing activities. [...] At the same time, the finance literature has all but ignored the contribution of marketing activities to the creation of shareholder value. Consequently, financial appraisals of marketing strategy seldom involve trying to value long-term marketing strategies with uncertain outcomes.”

Finally, another objective is to understand what kind of financial metrics marketing managers seek in practice. This objective relates to the fact that in the literature it is stated that the marketing discipline is more interested in financial metrics that the accounting discipline (see Bates and Whittington 2009; McManus and Guilding 2008). This study, originating in the discipline of accounting, tries to identify the needs of marketing managers regarding the financial metrics for marketing performance measurement. It is a contribution to the current literature of accounting, as no study was found on what marketing managers seek in terms of financial metrics for performance evaluation. Although there are quantitative studies (surveys) that research the financial and non-financial metrics actually used in marketing (e.g., Ambler et al. 2004; Barwise and Farley 2004), there are no qualitative studies exploring the interest of marketing managers regarding accounting information, financial metrics and performance measurement. In this regard, McManus and Guilding (2008) suggest that further research should be made – from the accounting perspective – on the use of financial metrics in marketing. In addition, Verhoef et al. (2011) and Verhoef and Leeflang (2009) call for more research in order to complement existing quantitative studies on the topic of marketing performance measurement, MD's influence, and the relationship between these two topics with business performance and its mediators.

For the aforementioned reasons and as an exploratory study it also meets other challenges made in the accounting literature. For example, Johnson and Kaplan (1987, p. 172) mention "that the major developments in cost accounting and cost control" occurred in practice and suggest that there should be further studies of what is used in practice by making reference to "systems actually in use" or to the "systems installed in well-known [organisations]". These authors call for more research on management accounting systems tested on or developed for actual enterprises. Johnson (1992) states that the influence of the methodology used in economics and psychology has led research in management to seek the rigor of theoretical models, based on quantitative studies on large samples, and away from concrete realities with all their richness and specificities, thereby losing its relevance to business management. Johnson (1992, p. 180) notes:

> "[T]he emphasis on mathematical modeling and large-sample statistics drove business school research farther and farther away from studying the problems of real business organizations and real business people."

Merchant and Van der Stede (2006) also note that statistical analysis can give wrong explanations of cause and effect and that the major advances in management accounting came from practice, e.g., activity-based costing (ABC), strategic cost management (SCM), Japanese management practices, non-financial measures of performance and balanced scorecards, economic-value added (EVA) and economic profit. And Lucas and Rafferty (2008, p. 149) "called for further research, using case studies, to provide insights into why accounting practice differs from accounting theory".

To conclude, the research objectives develop from two aspects found in the literature:

- First, while the extant literature proposes several applications of accounting information in marketing management, it also reports difficulties both in marketing managers using accounting information (e.g., McGovern et al. 2004) and accountants producing marketing oriented accounting information (e.g., McManus and Guilding 2008). This study aims to explore the situation and to understand the factors that may influence the ability of accounting systems to meet the managers' demand of accounting information;
- Second, there is a lack of empirical research on how managers use and communicate accounting information (Hall 2010); and, in the accounting literature, there are calls for exploratory empirical research to explain and understand management accounting in practice (cf. Johnson 1992, p. 180; Johnson and Kaplan 1987, p. 172; Merchant and Van der Stede 2006).

The following section describes the research questions and methodology.

1.3 Research Questions and Methodology

This research aims to answer five questions. They are:

1. What factors influence the ability of the accounting system to meet the information demand of marketing managers?
2. Why are (not) managers of marketing demanding accounting information?
3. How are accountants supporting managers with accounting information?
4. How is accounting information communicated?
5. How do marketing managers want to measure marketing performance?

To answer these questions, an exploratory qualitative method was chosen. The literature suggests that the qualitative method is most suitable when one attempts to understand and explain social phenomena in a holistic manner, considering the environment in which it operates, with all its richness and details (Mason 2002).

This research attempts to understand the perspective of managers regarding the usefulness of accounting information and the perspective of accountants in their role of supporting management of marketing. Access to this information was obtained through conversations with managers and accountants through face-to-face in-depth interviews, thus seeking to understand the managers' perspective regarding the social reality in which they participate and which they construct. Beyond this, the present study also tries to understand the factors that influence the ability of the accounting system to meet the managers' demand of accounting information. It is an exploratory approach as it seeks to identify aspects not defined *a priori*; these are aspects that result from both an extrinsic interpretation of observations and the interpretation of the participants in their social reality.

Regarding the choice of the sector and the companies observed, the fact that the literature suggests that the product differentiation, branding, advertising and price management are characteristics of clothing industry – and are therefore considered in the marketing management of fashion retail – was taken into account (cf. Keller 2002; McCracken and Roth 1989; Snyder 1989; Sun 2005; Swartz 1983). Therefore, two companies were chosen from the fashion retail sector, to observe how the managers of marketing used the accounting information in that context. The first case is Dimoda Difusão Internacional, Lda., a Portuguese family owned company that has been operating since 1984 in the fashion retail industry. It belongs to a conglomerate of companies owned by the Grupo Regojo (GR), which has been operating in Portugal since 1919. The second case is Modalfa Comércio e Serviços, S.A., another Portuguese company that has been operating in the fashion retail industry since 1995. The company belongs to the Grupo Sonae. Sonae is a retail company with shopping centres, real estate and telecommunications interests. Twenty interviews were carried out in these organisations between February 2011 and March 2013. Documents were also collected, and four visits to stores were made between June 2011 and April 2012.

1.4 Structure of Dissertation

This dissertation is organised in eight chapters. The next chapter contains a review of the extant literature on (1) management accounting and control systems for marketing management, (2) marketing management perspectives on accounting information applications, and (3) marketing and accounting interaction. The third chapter is devoted to explaining the methodology used. It describes the qualitative method used, the criterion for the selection of cases, and how the data were collected and analysed. The fourth chapter describes the fashion retail sector in Portugal in order to contextualise the two cases chosen. In chapters 5 and 6, the cases are described. Both chapters have the same structure, to facilitate comparison and analysis. They begin by describing the economic groups that own the companies studied, their objectives and strategies. This is followed by details of each company in terms of profitability and business objectives. Afterwards, the focus is on the uses that marketing managers gave accounting information, and the factors that influence the ability of the accounting system to provide accounting information according managers' demand. The cases also include a description of what was observed as regards the MD influence in each organisation. Chapter 7 analyses and compares the cases. It begins by summarising, for each case, the factors that influenced the managers' use of accounting information, the managers' demands of accounting information, the demand for marketing metrics, and the communication of accounting information. Comparative analyses were also conducted for the same topics as well as for the role of the accounting department, and the influence of each MD. Chapter 8 contains the conclusions, which begins with a summary of the findings, followed by the contributions of the research, its limitations, and suggestions for future research.

CHAPTER 2 LITERATURE REVIEW

2.1 Introduction

In this chapter the topic of management accounting information for marketing management is explored and reviewed. In the management literature it is considered that one of the objectives of management accounting is its contribution of accounting information for decision making (Anthony 1960; Cardinaels et al. 2004; Horngren 1962; Kaplan and Anderson 2004; Shillinglaw 1959), and that the management of marketing involves accounting information (Goebel et al. 1998; Lere 2001). One may expect, therefore, that there will be some overlap between the two disciplines; i.e., the marketing literature discussing the usefulness of accounting information in the management of marketing (e.g., Beik and Buzby 1973; Farris et al. 2010; Lambert and Sterling 1987; Petersen et al. 2009), and the management accounting literature proposing tools and systems to support marketing management (e.g., Cooper and Kaplan 1988b; Kaplan and Anderson 2004; Shank and Govindarajan 1993; Simons 1995b). This literature review seeks to compare the perspectives of marketing and accounting regarding the relevance of accounting information for the management of marketing and to identify the topics that deserve further research.

This literature review on accounting focuses on the usefulness of the accounting system for management. More specifically, it examines how the management accounting systems are understood to contribute towards business management. It begins by reviewing the literature on management accounting and by identifying the proposals made by the discipline over the past fifty years to support management. Next, a review of the literature in marketing and sales is provided which focuses on how accounting can be useful for marketing management. After identifying the possible areas of intersection and collaboration between the two disciplines, the literature is reviewed seeking to understand to what extent the interaction and interdisciplinarity exists in theory and practice, in order to identify questions and topics deserving further study and reflection.

The accounting literature in the past fifty years has led us to two major and distinct focuses. One is the focus on management accounting, which developed in the period between 1950 and 1980 and replaced the previous perspective that focused primarily on cost accounting (e.g., standard costs, valuation of inventories and allocation of indirect costs) with a "historical" and "internal to the company" cost analysis perspective (Shank 2006, p. 355). This perspective of management accounting is geared essentially towards looking at the decisions within the company (Shank 2006, p. 356). It aims, among other topics, to analyse pricing decisions in marketing, making or buying decisions in operations, and responsibility accounting in organisational behaviour (Shank 2006, p. 356). The second focus, which developed after 1980 is more “strategic”, i.e., develops from a perspective that goes beyond the company boundaries; it looks outwards, to the customers and the competitors (Simmonds 1981, p. 26). One explanation given by Ferrara (in Robinson 1990, p. 1) for this change of perspective is related to changes in industry and the global competitive environment. It aims to use the accounting system to strengthen the firm's competitive position in the market in which the firm operates (see Shank, in Robinson 1990, p. 20).

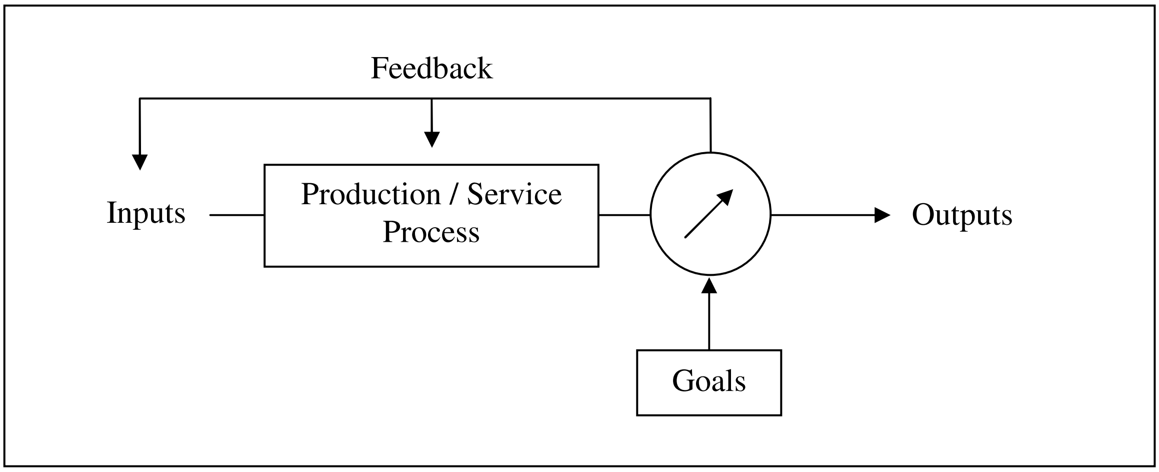
Both perspectives of management accounting – managerial and strategic – include proposals for the use of accounting information potentially valuable for marketing. The first ones help to improve the short-run outcomes; the second ones contribute to strengthening the competitive position in the long run. Both perspectives seek to ensure the survival and growth of business profitably. The following sections discuss both perspectives in detail.

The literature review is structured as follows: first, the literature that addresses the issue of accounting information, its usefulness and how it is used by managers is reviewed, in order to realise what is mentioned in the literature regarding the relevance of accounting information for management. Then, the literature on management accounting is reviewed, covering the topics of cost management, strategic cost management, planning and control – by identifying the proposals made in the last fifty years with potential interest for marketing management. Then, following what is suggested as the functions of management accounting, the marketing literature is reviewed to verify how accounting information is useful for “score keeping”, “problem solving” and “attention direction” in marketing management, from the perspective of marketing. In the last section the various perspectives are related and discussed, as well as the aspects that deserve further research are identified.

2.2 Accounting Information

Information is defined in the literature as “the communication or reception of intelligence or knowledge” (Simons 2000, p. 57). Managers, being responsible for a range of activities and resources within the organisation, need information to manage and achieve their goals (see Simons 2000, pp. 57-74). Business activities can be represented on an input, process and output schema (see Figure 2-1) and the information that comes to managers can be on inputs, processes or outputs (see Simons 2000, pp. 61-62).

Figure 2-1 Management Control System



Source: adapted from Simons 1995, p. 60

Although information on the inputs in many cases is required, it is not sufficient to ensure that the outputs are achieved according to the pre-established figures (goals). For example, although information about the quality of marketing promotional material is necessary for an effective marketing campaign, it alone is not enough to ensure the success of a campaign (see Section 6.3.4.2). Information about the process (if the means were used as planned) or results (e.g., the campaign's impact on the volume of orders) is necessary. The technical impossibility or complexity to monitor and measure processes or results can limit the control process (Simons 2000, p. 63). For example, measuring the impact of marketing campaigns on brand value, customer portfolio, or sales volume is difficult (Ambler 2003b; Ambler and Roberts 2008). It is necessary to understand the cause and effect relations to control the processes and produce information for management (Simons 2000, p. 64). Thus, a controller needs to understand the relationship between cause and effect in marketing activities to create a control system useful for marketing managers. In addition, marketing managers need to understand the relationships of cause and effect in the creation of value and the role of marketing communications in that process. This is necessary to conveniently manage marketing activities in a broader context which is the profit plan of the business in the long run (see Anthony and Govindarajan 2003; Simons 2000).

Simons (2000, pp. 67-70) states that management information can be used for various purposes, and outlines five broad categories: "decision making" on planning and coordinating; "control" of inputs, processes and outputs; "signalling" what is important for top management – as "everyone watches what the boss watches"; "education and learning" through an understanding of the drivers of performance and relations of cause and effect in the process of value creation; and "external communication" with the firm's stakeholders. Commenting on the importance of accounting information related to management control, Simons (2000, p. 69) states:

> "Information in the form of output goals, such as profit plan goals or performance targets, can be a powerful tool to motivate employees to adjust inputs, processes, and outputs to achieve organizational goals."

Recognising the importance of studying communication and use of accounting information in practice, Jönsson (1998) argues that management accounting research should be more aligned with the managerial work. Moreover, he suggests research should observe how the managerial communication – which is central in the managerial work, characterised by "brevity, variety and fragmentation" (Jönsson 1998, p. 411) – uses accounting information. Hall (2010) argues that much is to be learned about the role of accounting information in the managerial work because few studies covered the managers' use of accounting information in their work. While there is research observing the use of accounting information in very specific situations, i.e., specific problem solving situations, the managerial work comprises much more than specific problem-solving situations (see Hales 1986; Isenberg 1984; Kotter 1982; Mintzberg 1980; Stewart 1988; Whitely 1985). Managerial work is diverse and is characterised by "different durations, rhythms, degrees of uncertainty, and origins" (Hales 1986, p. 95). Senior managers rely on though processes such as "using intuition; managing a network of interrelated problems; dealing with ambiguity, inconsistency, novelty, and surprise" (Isenberg 1984, p. 85). Therefore, research that observes how managers use accounting information as it is proposed in theory, e.g., in very specific problem solving situations, specific applications, and delimited contexts, may be restrictive, as managers – including the marketing managers – can use accounting information in dynamic contexts, complex situations, and for distinct purposes (see Hall 2010, p. 302). March (1987) argues that, as managers make decisions in contexts of ambiguity, the microeconomic theories of choice may be incomplete and misleading for designing both the information and the accounting systems. Therefore, more research is required to understand how accounting information is collected, organised, demanded, and used by different managers in different contexts. Anderson (2008) suggests that while information gathering is central in organisational behavioural theories, the research on how managers collect and use information is underdeveloped. For example, while Ahrens and Chapman (2007) observed that the use of management control information contributed to the alignment of functional members with the organisation objectives, they failed to observe in detail how the accounting information was collected, processed, organised and used by managers. Research that covers the organisational-level role of accounting information may be limited in understanding how the accounting information is specifically collected, shared and used – individually or in teams – by different functional managers (Hall 2008).

The interpretative research, by focusing in detail on how accounting information is used and flows between managers, can produce relevant contributions towards understanding and explaining the factors (see Lukka and Modell 2010) – e.g., a financial accounting system tailored to meet the internal clients' needs – that influence the use of accounting information by managers (e.g., Alves 2010; McKinnon and Bruns 1992; Preston 1986; Simon et al. 1954). For example, Simon et al. (1954) observed the consequences of centralisation and decentralisation in the organisation of controllers' departments and the use of accounting information in the managerial decisions at seven companies. They observed that the same accounting information, in some cases, was used by different managers in distinct ways for distinct purposes. Some operational managers used it as a score card, for checking whether they were operating correctly and meeting the targets, other intermediate level managers used it for attention guiding and problem identification; finally others, e.g., general managers, used accounting information for optimising decision-making in strategic issues, e.g., capital expenditures (CAPEX) and price policy. Simon et al.'s (1954) field research also discovered as critical the expertise and autonomy of management account staff in three distinct areas: accounting bookkeeping and reporting, analysis of accounting information, and special reports for decision making. Another example, Preston (1986), in a year-long field study at a plastics containers division located in England, interviewed and observed how the managers collected and used information. He concluded that managers gathered and shared accounting information through informal sources (e.g., observation, personal interactions, and personal records) as the formal information system was insufficient for the managers' requirements (e.g., relevance, timeliness and accuracy) being considered, however, useful as a confirmation of previous informal collected information, as a historical background for daily decision-making, or as a general trend guide. Consequently, Preston (1986) argues that the informal information system is used not because of the failure or limitations of the formal system, but as a complement to it. The other example, McKinnon and Bruns (1992), in their field study covering twelve manufacturing companies from the US and Canada, interviewed managers from different functional areas (e.g., plant managers, marketing directors, accountants and sales directors) to understand which types of information they used for controlling their activities and why. These authors realised that accounting information was a minor element in a vast portfolio of information, such as observations, intuitions, gut feelings and personal interactions. They observed in detail which decisions were made, by different functional managers, and the specific information (financial and non-financial) that supported each type of managerial decision. Finally, Alves (2010) performed a field study using semi-directive (structured) interviews to understand how accounting information was used in the different phases of decision making – she used the four decision phases proposed by Simon (1960): identifying the problem, listing the alternatives, analysing and choosing an alternative, and implementing the decision – covering sales, marketing and production managers, from six Portuguese companies. She observed that accounting information was more relevant, from the users' perspective, in the three first phases of decision making – identifying the problem, listing the alternatives, and analysing and choosing an alternative – moreover, the use of accounting information was most intensive during the first phase of problem identification.

These four examples of field-based research observed the practice of management and the use of accounting information in the workplace. They enlightened previous understandings about the management accounting role within the firm and brought new perspectives besides the conceptual frameworks that were focused on score keeping, problem solving, attention direction and decision-making processes. They allowed to understand that different contexts require different accounting systems, and that different managers may use the same information in different forms for different purposes. Following the previous research line of enquiry, the present research observes in particular how and for what purposes the managers of marketing use accounting information (see Table 2-8). In addition to focusing on how managers (marketing, sales and operations) use accounting information, this study seeks to understand what kinds of accounting information managers (users) seek. Besides understanding how the tools, techniques or methodologies proposed in the management accounting literature in the past fifty years have been applied and used, the demand of marketing managers in relation to the accounting system is also studied; all these aspects are not sufficiently explored in the extant literature reviewed (see Hall 2010; McManus and Guilding 2008; Morgan et al. 2002).

The main proposals from management accounting discipline over the past fifty years, related to accounting information for management, are described in the following sections – in particular for marketing and sales management.

2.3 Accounting Information: Management Accounting Perspectives

2.3.1 Cost Management

One function of the accounting department is to contribute with cost accounting information – that can be specific for each company and distinct from the financial accounting – to support the management of the business, e.g., marketing and sales management (see Clark 1923, pp. 233-244; Johnson and Kaplan 1987, p. 155). Management accounting is defined in the literature (Anthony et al. 2010, p. 456) as:

> "[T]he process within an organization that provides information used by an organization's managers in planning, implementing, and controlling the organization's activities."

It is suggested in the management accounting literature that an adequate identification of costs (e.g., distinguishing what are variable costs and fixed costs, direct costs and indirect costs, contribution margins and relevant costs for decision making) and its use in decision making (e.g., new products, customer and product mix, sales volume and making or buying decisions) contributes to improving the profitability of the business (see Anthony et al. 2010; Drury 2009).

First, in the short run, proper marketing and sales management considering the contribution margins of each product or service (price less unit variable costs) leads to optimal decisions from the economic point of view (Anthony et al. 2010; Beik and Buzby 1973). In both this direct variable costing perspective and optimisation through contribution margins, it is recommended to separate fixed costs – those that do not vary with the level of production in the short run – from variable costs, i.e., costs that have a proportionality and vary with production levels, e.g., materials, direct labour and eventually an estimate for variable overheads (see Anthony et al. 2010; Robinson 1990). From the perspective of direct costing, indirect fixed costs are not allocated to products and profitability is managed by considering the contribution margin of each product or service (see Beyer and Trawicki 1972; Keller 1967; Marple 1967; McFarland 1966). It is considered that fixed costs are irrelevant to decision making at the product level (see Anthony et al. 2010; Robinson 1990). It is also suggested in the literature that profitability analysis – using the contribution margin concept – can be at the unit of product sold or by unit of scarce resource – aiming at maximising the contribution by the resource that is limiting the business activity (see Drury 2009, pp. 84-85). This perspective on costs also contributes to certain forms of budgeting – flexible budgets – and variance analysis, for the analysis of new business situations – differential cost analysis – and in making or buying decisions (see Anthony et al. 2010). Moreover, the contribution margins at different hierarchies of indirect costs can be calculated, e.g., by unit, by product line, by strategic business unit, by division or at the overall company level (Marple 1967). This approach allows also to manage the marketing and sales efforts by identifying break-even points, i.e., it identifies the sales volume level that delivers a contribution margin (revenues - variable costs) sufficient to cover the fixed costs (see Anthony et al. 2010, pp. 486-491).

Another perspective from Goldratt and Cox (1986) radicalises the perspective of direct costing and contribution margin. According to Goldratt and Cox (1986, p. 41) the company's aim is "to make money". Therefore, the authors argue that the important thing is to increase the throughput through sales promotion – in that behind every sale there is a contribution to the fixed costs. This more radical perspective of contribution margin is defined as the difference between price and cost of purchased materials and other external services arising from the sale. Under this perspective – the Optimised Production Technology and the Theory of Constraints (TOC) – there are three critical values to manage: throughput, inventories and operating costs. It is a cash flow perspective analysis, i.e., the rate at which money moves "in" and "out" of the company is considered as relevant for decision making as well as how the resources are used (operating expenses) to convert stocks in throughput (see Goldratt and Cox 1986; Kaplan, in Robinson 1990, p. 3). The contribution margins are increased by acting on the factors that limit the rate of throughput. It is essentially a tool of profit optimisation in the short run (see Kaplan, in Robinson 1990, p. 3). In this approach there is no concern about assigning structural costs to products, whether the costs are associated with the marketing and sales department, or fixed direct labour costs. The aim is to eliminate the bottlenecks that limit the rate of throughput. In summary, in this model the focus is on increasing sales, where each sale produces a commercial margin (price less material costs) which, in turn, contributes to the fixed operating costs that are supporting the business and sales force.

According to several authors, these perspectives for analysis and decision-making (which consider relevant in all circumstances only the variable costs) are imperfect and lead to management errors with negative consequences in the long run (see Robinson 1990). It is with this justification that other authors (Cooper and Kaplan 1988a, b) propose a cost analysis with a strategic and long-term perspective where all costs are relevant for decision making. Kaplan (quoted, in Robinson 1990, p. 4) summarises his perspective on decision-making that take into account only the price paid by customers and the related variable costs:

> "The problem with the direct costing approach, in both its traditional and TOC versions, is that the fixed costs keep growing. In fact, if you look back over the last two or three decades, the costs that have increased the most within organizations have been those that cost and management accountants have called fixed."

Despite the arguments in favour of using the direct cost analysis and contribution margin in management decisions, companies continue to use the concept of full costing (i.e., direct costs and allocated indirect costs); the situation is explained in part due to the requirements of financial accounting to calculate the value (full cost) of inventories and the cost of goods manufactured (see Johnson and Kaplan 1987; Kaplan, in Robinson 1990, p. 4). While it makes sense to use the contribution margin for short-run analysis and decision making – as the indirect costs were committed and did not change as a consequence of the particular decision – it was also felt that the allocation of indirect costs were relevant for strategic decision making about processes, products and services in the long run (Cooper and Kaplan 1988b). However, the forms used to allocate indirect costs to products, product lines, customers, market segments or business units make no sense in many cases – because they are based on single cost drivers as direct labour rates, value of materials or quantities (see Goebel et al. 1998, p. 499; Lere 2001, p. 589). Although they were sufficient to value stocks, report and analyse aggregated financial data, they were "misleading and irrelevant for strategic product decisions" (Cooper and Kaplan 1988b; Johnson and Kaplan 1987, p. 126).

Finally, it is suggested in the management accounting literature (e.g., Clark 1923; Garrison et al. 2003; Boer, in Robinson 1990, p. 26) that there is no single way to identify and calculate costs for universal applications. Each marketing decision requires specific cost information adjusted to that particular decision (Cardinaels et al. 2004; Goebel et al. 1998; Lere 2001), and "different strategies demand different cost perspectives" (Shank 1989, p. 54).

As notes Boer (Boer, citing Clark, in Robinson 1990, pp. 26-27):

> "Clark [(1923)] says that the decision facing a manager determines which costs are relevant. In other words, a manager can define a cost only in the context of a specific situation. There is no such thing as an absolute cost: a cost value exists only in relation to a decision. […] Management accounting systems should produce a variety of unit costs to fit the different decisions managers make, and accountants do a disservice to managers when they force the system to produce only a single value for product cost."

In the following section the proposals in the literature for cost management from a strategic perspective is reviewed. Particularly, internal and external factors are considered in the analysis and management of costs – market, customers, suppliers and competitors – as well as more sophisticated forms to allocate indirect costs. It is argued that it produces more useful accounting information for both current and strategic marketing management (Cooper and Kaplan 1988a; Shank and Govindarajan 1988a).

2.3.2 Strategic Management Accounting

2.3.2.1 Strategic Cost Management

Linking management accounting to strategic management comes up in Simmonds (1981, p. 26) when referring to strategic management accounting (SMA) as:

> "[T]he provision and analysis of management accounting data about a business and its competitors, for use in developing and monitoring business strategy."

In this context, and based on Porter's (1980, 1985) strategic perspective, Shank (1989, pp. 50-55) proposes a model for cost analysis which helps to formulate, communicate, implement and monitor the business strategy (strategic management cycle) using the concepts of "Value Chain", "Strategic Positioning" and "Cost Driver". Shank (1989, p. 54) also states that "different strategies demand different cost perspectives". In this context, Shank (1989, p. 50) defines "Strategic Cost Management" as:

> "[T]he managerial use of cost information explicitly directed at one or more of the four stages of the strategic management cycle."

The first time the concept of strategic cost management is used in the literature is in a case study (see Shank and Govindarajan 1988a). It is a business situation consisting of a contract to produce an own-brand product, for one year, renewable up to three years. The conclusions arising from a traditional short-run cost analysis – relevant costing, break-even and contribution margin analysis – differ from the conclusions derived from a strategic cost analysis. In the short-run perspective the deal would be accepted by the contribution margin that it generates; however, the long-run strategic risks and economic consequences lead to reject the deal. A strategic cost analysis of this case incorporates concepts from the discipline of marketing and sales: for example, the reaction of the firm’s wholesale distributors and retailers, the value perceived by the customers, the reaction of competitors, price positioning, differentiation, cost structure, among others.

Firstly, Shank (1989, p. 50) using the concept of “value chain” from Porter’s (1980) model, proposes a strategic cost analysis that incorporates this concept. In Porter's (1980) model it is suggested that the company's competitive position could be strengthened through the provision of a specific value to the client for a lower price (cost leadership); or, for the same price (cost), offer the customer more value (product differentiation). In Shank’s (1989) perspective, the cost analysis goes beyond the internal concept of “Value Added” and an analysis that incorporates elements of cost and revenue relating to suppliers and customers is proposed. The costs and prices are managed by looking out of the border of the company. As explained by Shank (1989, p. 51):

> “[The] ‘value chain’ concept is fundamentally different from the ‘value added’ concept. From a strategic perspective, the value added concept has two big problems; it starts too late and stops too soon. Starting cost analysis with purchases misses all the opportunities for exploiting linkages with the firm’s suppliers. Such opportunities can be dramatically important to a firm.”

The strategic cost management “value chain” concept involves analysing the complete value chain, from raw materials to the final product or service. It considers the cost (benefit) from the perspective of suppliers and the benefit (cost) from the perspective of customers, aiming at managing (minimising) costs and (benefits from) opportunities across the complete value chain. Linking this concept of strategic cost analysis to customers, Shank (1989, p. 52) relates it to the concept of “life cycle costing”, i.e., the full cost to the customer throughout the life cycle of the product from the customer’s perspective – purchase price, start-up costs, and maintenance. In this respect, Forbis and Mehta (1981, pp. 32-33) illustrate how the concept of “life-cycle costs” and “economic value to the customer” help to segment the market, to develop products, to improve quality, performance and competitive position. Hergert and Morris (1989, p. 187) also advocate the use of the "value chain" concept for cost management, and mention its application in marketing management :

> "One of the strengths of the value chain analysis is that it forces managers to think about which activities create profits, to choose a generic strategy for each product and to ask of each item of expenditure 'how does it add value to buyers?'."

Secondly, Shank (1989, p. 54) argues that just as the generic strategies of cost leadership or differentiation – suggested by Porter (1980) – assume different "mindsets" they also imply "different cost analysis perspectives" (see also Ambler 2003b, p. 141). For example, it is suggested that the concept of standard cost – and manufacturing cost variance analysis – is more important in a mature industry with strategies focused on lower cost than in a strategy of differentiation in dynamic growing markets. It is also suggested that the analysis of marketing costs is more relevant in a differentiation strategy than in a cost leadership strategy. While the information on costs – about both the company itself and its competitors – is important for pricing in a company that follows a cost leadership strategy, this information is less important when the organisation follows a strategy of product differentiation (Govindarajan 1986; Shank 1989). The authors also suggest that the analysis of marketing costs is "critical to success" in situations where the strategic emphasis is on product differentiation, while in situations of cost leadership the analysis is "often not done at all on a formal basis" (Govindarajan 1986; Shank 1989, p. 55).

Finally, Shank (1989, p. 56) argues that analysing cost behaviour in terms of units, e.g., "fixed versus variable cost, average cost versus marginal cost, cost-volume-profit analysis, break-even analysis, flexible budgets, and contribution margin" does not capture the full complexity of the variability of costs and does not explain them completely. Combining the concepts of cost drivers present in the Riley (1987) strategy literature and the concepts of Scherer (1980) in industrial economics, Shank (1989, p. 56) proposes the distinction between "structural" drivers and "executional" drivers to explain the behaviour of costs and thus support strategic cost analysis and strategic decisions. The five structural strategic choices with cost implications are in Table 2-1. It is said that any of these structural strategic decisions can be in ascending or descending order, depending on the chosen strategy; as regards the "executional" drivers, having them in a greater degree is more favourable for the performance of the organisation (Shank 1989, p. 57).

The "executional" drivers identified by Shank (1989, p. 56) are: "work force involvement", "total quality management", "capacity utilization", "plant layout efficiency", "product configuration" and "exploiting linkages with suppliers and/or customers, per the firm's value chain". It is argued that, from a strategic standpoint, the volume cost driver is not adequate to understand the cost structure of the organisation; the "executional" drivers are those that best explain both the firm's costs and competitive position (Deming and Edwards 1982; Govindarajan 1986; Shank 1989; Simpson and Muthler 1987). These three perspectives from Shank and Govindarajan (1988b, 1993) bind accounting concepts with marketing concepts in the context of strategic cost management. One would expect, therefore, that the two functional areas benefit both from sharing and using mutually available information and interacting in the strategic management process (see Eccles 1991, p. 5).

Table 2-1 Structural Cost Drivers

Structural Drivers	Related to
Scale	The volume of investment on production capacity, R&D or marketing.
Scope	The level of vertical integration.
Experience	The actual level of experience.
Technology	The technology used along the value chain.
Complexity	The level of product or service diversity offered.

Source: adapted from Shank (1989, p. 56)

Johnson and Kaplan (1987, pp. 244-245) argue that marketing, distribution and service expenses are aggregated, by the financial accounting, in a functional category below the gross margin line, and an understanding of the marketing costs related to specific customers, segments and distribution channels is missing. Further research is required on this topic, to understand whether the accounting and marketing functional collaboration is one of the determinants for producing accounting information tailored to marketing decisions; thus contributing to the use of accounting information by marketing managers (see De Ruyter and Wetzels 2000; McManus and Guilding 2008; Morgan et al. 2002).

The next section develops the concept of cost driver and the proposals of management accounting to allocate indirect costs, using the activity-based cost driver concept.

2.3.2.2 Activity-based Costing

Attempts to relate the indirect overhead costs to the levels of the firm's activity, which would not simply be the units produced – due to the simplicity of that driver – go back to 1936. Dean (1936, p. 9) states:

> "[M]arginal cost has many dimensions in addition to the more emphasized output dimension. Since total cost is a function of many variables, cost may be regarded as marginal with respect to each of these variables. Increasing the number of new styles, for example, has a marginal cost analogous to that resulting from increasing the number of units of output."

Other authors have been referring to this form of explaining the behaviour of indirect costs (by activity), particularly the costs of marketing, distribution and sales. For example, Longman and Schiff (1955) refer to functional costing. It is introduced in the context of marketing management. It includes both the allocation of marketing costs and the analysis of sales and profitability by customer or market segment. Another reference to the activity-based costing perspective includes the concept of "traceability" in Shillinglaw (1961) or the concept of "activity costing" in Staubus (1971). Schiff and Mellman (1962) make such references to systems used in practice aimed at assigning indirect costs to products, customer groups or territories on the basis of the activities. Schiff and Benninger (1963, p. 565) list "marketing expense budget and apportionment" with certain factors related to the level of activity (see Foster and Gupta 1994, p. 53), for example:

Table 2-2 Marketing' Costs Allocation Factors

Function	Factor of Variability
Selling - Salaries - Travelling	 Calls Miles
Advertising - Direct mail - Publication	 Pieces Sales value
Take Order	Orders
Deliver	Cwt.
Bill	Lines billed

Source: adapted from Foster and Gupta (1994, p. 53)

However, it was Cooper and Kaplan (1988a) who began a more systematic study on activity-based costing and proposed accounting tools to understand and explain the causes of costs in terms of support activities – outside the scope of unit costs – for example, procurement, manufacturing support activities, marketing, sales and after-sales service. In the first article on activity-based costing from Cooper and Kaplan (1988a, p. 27) it is said:

> "Other costs, however, particularly those arising from overhead support and marketing departments, vary with the diversity and complexity of the product line. The variability of these costs is best explained by the incidence of transactions to initiate the next stage in the production, logistics, or distribution process. A comprehensive product cost system, incorporating the long-term variable costs of manufacturing and marketing each product or product line, should provide a much better basis for managerial decisions on pricing, introducing, discontinuing, and reengineering product lines. The cost system may even become strategically important for running the business and creating sustainable competitive advantages for the firm."

Also in 1988 (September) Cooper and Kaplan (1988b) published a second article where they apply the concept of activity-based costing to a particular marketing management situation. They show the difference between assigning indirect marketing costs based on a generic driver (sales volume) and assigning the same indirect marketing costs using an activity driver, i.e., the consumption each product line makes from different marketing and sales support activities (resources). The profitability analysis of each product line using the revised activity allocation base (ABC) is very different from that depicted by the traditional approach (Goebel et al. 1998, p. 499; Lere 2001, p. 589). The more complex or customised products – low volume products – consume relatively more resources than simple or high volume products. It is suggested that this new cost information would contribute to improving operational decisions (redesigning products or processes), marketing decisions (raising prices of complex or customised products) and strategic or long-run decisions, for example, product mix, customer mix, technology and scale (see Goebel et al. 1998; Lere 2001). Proponents of this system (e.g., Cardinaels et al. 2004; Goebel et al. 1998; Lere 2001) argue that the company knowing the true consumption of resources – and the cost associated with each aspect of the value chain – can assess the extent to which the firm's value proposal is equally valued by the customers. In this analysis, there are products that due to their complexity (or low volume) can be sold for significantly higher prices than those derived from a traditional costing system. These complex products (or services) may still be purchased by customers who consider them valuable in the customer's own value chain. On the other hand, there are products that will no longer be sold because of the resulted increased prices (and the low value from customers' perspective); so these will also cease to be unprofitable products for the firm (see Goebel et al. 1998, p. 505).

The proponents of activity-based costing (e.g., Cooper and Kaplan 1988b; Smith and Dikolli 1995) argue that this system can better identify the profitable customers and segments through an appropriate indirect costs allocation system. It considers different consumptions of resources and distinguishes different hierarchies of costs (e.g., unit level costs, batch level, product level, customer level, segment level, and factory level costs). Therefore, the more demanding customers and the more complex products – which require more of a firm's resources – will have more costs allocated. The activity-based costing can also identify some customer and segment specific related costs that the traditional accounting systems consider as indirect selling, general and administrative business unit costs (cf. Goebel et al. 1998; Johnson 1992, pp. 141-149).

Foster and Gupta (1994, pp. 53-54) refer to the concept of activity-based costing and propose a refinement of the concept in the context of marketing costs allocation. They suggest that the logic of the ABC cost hierarchy (see Cooper and Kaplan 1991, p. 32), i.e., the unit level costs, setup costs, product level costs and costs at the business unit level, be applied in the marketing costs hierarchy. This proposal for assigning marketing costs by hierarchies – e.g., the costs of coupons at the level of units, cost of promotions at the level of campaigns, marketing costs related to product lines, and umbrella brand type costs – would allow improved marketing budgets and more rigorous variance analysis compared with the flexible budgets (discussed in sections 2.3.1 and 2.3.3.1) that use the dichotomy of fixed costs and variable costs (see Foster and Gupta 1994).

This proposal from management accounting to allocate indirect costs to products and services was disruptive to previous methodologies (Gosselin 2006; Innes and Mitchell 1997). It allowed to make decisions in operations, marketing and sales that align the consumption of resources (and the incurred cost for the company) with the perceived value by the customer. However, although this proposal itself seems attractive (particularly for marketing and sales managers) it has not been adopted widely and many companies abandoned it after few years of experience (Gosselin 1997, 2006). Gosselin (2006, p. 666) commenting on the use of ABC states:

> "After all, the ABC paradox remains (Gosselin, 1997): Regardless of the inclusion of ABC in most management accounting textbooks, the large number of ABC seminars, the consulting activities, the ABC softwares, and the large number of articles published on ABC, why firms are not implementing ABC and furthermore why some that have adopted ABC, have decided to abandon it."

In Section 2.4 some applications of ABC from marketing management perspective and to what extent it helped to improve the firm's performance in the short and long run is reviewed. Another proposal from management accounting, potentially useful for marketing management, is reviewed in the next section.

2.3.2.3 Customer Profitability Analysis

The customer profitability analysis involves the use of accounting information on costs and it is important for the management of marketing (see Foster and Gupta 1994; Hope and Fraser 2003a, p. 85). For example, Shapiro et al. (1987, p. 106) comment:

> "Companies with poor cost accounting systems have no way to determine order, customer, product, or market segment profitability. Consequently, their cost control and management systems will be weak, and the result is likely to be above-average dispersion of costs. The sales manager of a large office equipment supplier who lacked adequate cost information described his situation thus: ''It's management by anecdote. Salespeople regularly make passionate pleas for price relief on specific orders. When I press them for reasons, they say 'threat of competitive entry'. When I ask them if a cutback in service would be acceptable to make up for the price decrease, they give me a resounding no! What choice do you have in the absence of cost data, except to go by your judgment of the salesperson's credibility? I've wrongly accepted as many bad price relief requests as I've rejected.'' "

It is frequently said in the literature that not all customers are profitable and, in many cases, 20% of customers (the best ones) generate 80% of profits and 20% of customers (the worst ones) are unprofitable (see Foster and Gupta 1994; Gupta and Zeithaml 2006). On the other hand, it is also said that in many cases companies do not abandon "unprofitable" customers because the revenue they contribute is greater than the costs which would be saved if the customer ceased to buy (Foster and Gupta 1994). Thus, Foster and Gupta (1994, p. 56) propose to improve the study of the variable costs related to customers and "their drivers". They also propose to investigate to what extent the weight of the variable costs in the total costs of customers changes as it broadens the time horizon of analysis. The authors suggest this refinement on the concept of customer profitability analysis because, they say, usually the customer profitability reports assume that "all costs are variable customer costs, and all costs can be assigned to individual customers"; and the analyses are done for a single transaction (or several transactions) on a limited period of time (Foster and Gupta 1994, pp. 55-56). Specifically, Foster and Gupta (1994) suggest improving the customer profitability analysis by making it from the perspective of the customer life cycle, including after-sales costs, customer satisfaction and customer retention information. They exemplify using the insurers' case in calculating the price of life insurance in order to offer competitive entry prices to attract customers. The insurance companies achieve profitability throughout the customer life cycle through retention and dilution of initial acquisition costs.

The long-run perspective that relates profitability to customer satisfaction – through customer retention and repeating purchases – lead to calculate the value of the retained customer base by calculating the present value of cash flows generated by those customers during their active life (see Foster and Gupta 1994; Gleaves et al. 2008; Kumar et al. 2008). This is a subject widely discussed and proposed in the marketing literature (see Ambler 2003b, p. 33). However, there has been resistance from the financial accounting regarding its adoption and inclusion in the balance sheet as an intangible asset, e.g., the customer equity or brand equity concepts (see Ambler 2003b, p. 209; Blattberg 1993; Foster and Gupta 1994; Guilding and Moorhouse 1992). As stated by Foster and Gupta (1994, p. 58), "The CM/MA [cost management/management accounting] literature contains limited discussion of asset or liability valuation of marketing-related assets or liabilities". One reason for that is that accounting standards regulate the registration of marketing expenses as period expenses in the period in which they occur and not its capitalisation as intangible assets (see Johnson and Kaplan 1987; Morgan et al. 2002). Foster and Gupta (1994) suggest identifying and distinguishing marketing expenses with short-run effects, such as point of sale promotions or discounts, from branding expenses which produce effects for longer, e.g., advertising. One proposal in the accounting literature is to capitalise the long-run marketing expenses – with prolonged effects – and amortise them (considering it a cost) over the period corresponding to its effect on revenues (see Foster and Gupta 1994; Peles 1970). In this respect Peles (1970, p. 131) who studied advertising and subsequent demand in three industries, suggests:

> "Advertising expenditures of beer and cigarette firms should be amortized by a declining balance method with an annual rate of amortization of 40-50 percent for beer and 35-45 percent for cigarettes. In the car industry practically all the current expenditures for advertising should be considered expenses in the year of incurrence."

The failure to capitalise some marketing expenses – considering them as period expenses – leads to a level of marketing expenditure below the desired level (see Foster and Gupta 1994; Rayburn 1986; Wilson 1986). The analysis of both marketing performance and returns on marketing spend remains challenging in theory and in practice (see Lehmann 2004; McGovern et al. 2004; Verhoef et al. 2011). It continues to be researched and ways are discussed to analyse the cost and benefit of marketing activities in order to manage the mix of marketing outlays (see Morgan et al. 2002). More research is requested to understand the durability of the effect of advertising campaigns in each specific context – industry, type of marketing campaign and duration – in order to properly register in the firm's accounts what is cost and what is "investment" in marketing (see Foster and Gupta 1994; Persson and Ryals 2010; Seggie et al. 2007).

In the following sections the accounting proposals in the field of planning and management control systems with connection to managers of marketing is reviewed.

2.3.3 Planning and Control Systems

2.3.3.1 Budgeting

Management accounting proposes the budget instrument or profit plan (see Rosanas 2005) – annual or pluri-annual – for planning and management control for both current and strategic management (Anthony and Govindarajan 2003; Simons 2000). The budget may have multiple roles for marketing management (Foster and Gupta 1994). In its simplest form it can be to budget and control marketing costs when the MD is a cost centre – configured as a centre of responsibility (see Anthony and Govindarajan 2003). The budget can also be used for the purpose of planning, to identify opportunities and problems, to innovate, and to test and communicate the strategy from the perspective of management control and strategic alignment (Simons 1995b, p. 92, 2000). Simons (2000, p. 108) says that "[t]he profit plan describes business strategy in economic terms", and Anthony and Govindarajan (2003, p. 410) say that the "budget is a planning and control tool". It is a tool allowing to express in numbers the various possible business strategies. It contributes to selecting the most appropriate one for both the short and the long run. Although several authors (e.g., Hope and Fraser 2003b; Howell 2004; Jensen 2001; Simons 1987b; Stewart 1990) criticise the traditional way of using the budget as a tool of command and control – and as a basis for rewarding performance – they still prescribe the budget as a tool for short and long-run planning. For example, it is useful to communicate objectives within the organisation, to challenge the line directors, to review and align strategies, to learn collectively, to understand competitors, to anticipate customer demand, and to innovate (see Hope and Fraser 2003b; Howell 2004; Jensen 2001; Simons 1987b; Stewart 1990).

The literature proposes two other techniques directly related to planning, budgeting and cost management in marketing management: target costing and lifetime budgeting (see Foster and Gupta 1994).

The technique of target costing (see Cooper 1996a; Sakurai and Keating 1994; Tanaka 1993) aims at to design the product, to define the materials and technology in order to not exceed the target cost that allows proper returns at the market price point – considering other competitors' offers for an identical product, considering its quality and functionality. It is a technique that requires interaction between management accounting, production, product development and marketing (see Cooper and Slagmulder 2004). Initially it requires information about the price point of each product that is to be launched, but it is also considered the product positioning in the market, the perceived quality and the product functionality. In order to calculate the target cost, all expenses needed to deliver the product to the market (e.g., taxes, marketing and distribution costs) and the desired profit are deducted form the price point. The target cost is thus a cost that enables marketing to launch the product ensuring the desired profitability. It is with target costing information that the product is designed in order to obtain a production cost compatible with a profitable placement of the product in the market (Cooper 1996a). Cooper and Slagmulder (2004, p. 46) summarise the objective of target costing as:

> "This technique is applied during the design stage as a feed-forward mechanism through which engineers retool the design of a new product to reduce the costs while maintaining a desired level of product functionality and quality."

In the management literature it is reported that the technique is used along with other cost techniques (e.g., product-specific kaizen costing, general kaizen costing and functional group management) in the context of cost management (see Cooper and Slagmulder 2004). It is used throughout the life cycle of the product (from manufacturers' perspective) with results both in terms of cost reduction in the design phase and cost containment during the production phase (see Cooper and Slagmulder 2004). When, for example, a product launch is not viable due to its cost being over the target cost, then it is suggested that an analysis be done comprising the entire product life cycle (from launch until the withdrawal from the market) in order to evaluate the benefit of subsequent cost savings (kaizen costing) throughout the lifecycle of the product. In this perspective, the longer the product lifecycle, the greater the opportunities to reduce costs and make the product profitable – even considering further reductions in selling price over the product life cycle. In other cases a strategic analysis can be taken in order to justify the product launch despite its low profitability in the short and long run (e.g., flagship products) (see Cooper and Slagmulder 2004). This proposal from management accounting is made to improve the strategic marketing decisions. These techniques combine information originating in the accounting system and information originating in the marketing and sales department. Although the planning and budgeting of product costs under target costing focuses on marketing and customers – and therefore may be considered useful in strategic management – it focuses mainly on materials and workmanship cost management (Foster and Gupta 1994, p. 50). The literature states that the technique stimulates and intensifies effort to reduce costs and increase competitiveness (Shank and Fisher 1999); however this effort to manage and minimise costs focuses primarily on the design phase and production, and does not exploit the application of this technique in the domain of marketing costs (Foster and Gupta 1994, p. 50).

When addressing the topic of the marketing budget in the literature, that focuses on cost budgeting – as the MD is usually considered in the literature as a cost centre (see Anthony and Govindarajan 2003; Foster and Gupta 1994). Foster and Gupta (1994, pp. 51-52) review the accounting literature on marketing budgeting techniques and although they note some references to the costs of marketing it "rarely focuses on this area [of marketing costs] in any detail". Therefore the authors conclude "the accounting literature contains very little discussion of approaches to refine marketing budgeting methods". The authors also found that the decisions on the marketing media mix budgeting (e.g., advertising, sales promotion or price allowances) is very little investigated and suggest further research on this topic in particular on the calculation of the contribution margins related to different budgeting models in marketing.

In the next section the management accounting perspective for performance measurement is reviewed. It is another aspect that can connect management accounting and marketing.

2.3.3.2 Performance Measurement

Measuring marketing performance – effectiveness and efficiency – is a much debated topic in marketing and accounting literature (e.g., Foster and Gupta 1994; Lehmann 2004; Moorman and Rust 1999; O'Sullivan and Abela 2007; Verhoef et al. 2011) and it is a topic that can bring the two disciplines closer, both in theory and in practice (see Gleaves et al. 2008). It is so, to the extent that accounting information relating to revenues, costs and profits – both in the short run and in the long run – may be relevant for marketing performance analysis. Effectiveness relates to the achievement of objectives, outcomes or goals proposed; efficiency refers to the ratio of outputs to inputs and processes, i.e., how to achieve the goals with minimum consumption of resources (Foster and Gupta 1994). Although traditionally marketing is able to control its effectiveness, it has more difficulty controlling efficiency (see Lehmann 2004; McGovern et al. 2004; Seggie et al. 2007; Webster Jr et al. 2005). It is reported in the literature that marketing measures its performance by using information on the volume of orders, volume of sales or market shares, but there is less information about costs and profitability (see Foster and Gupta 1994; Lehmann 2004; Seggie et al. 2007). In this context, there are proposals in the accounting literature to measure marketing performance in terms of efficiency, i.e., including information on both costs and profits. For example, Foster and Gupta (1994, pp. 61-62) suggests the use of benchmarking, both internal and external, to the level of marketing costs, i.e., comparing the marketing costs structure of the business unit with the marketing costs structure of other business units, from both organisation's and competitors. The use of relative measures of performance – as preferable to the analysis of absolute budget variances – is also proposed by Hope and Fraser (2003b). It is a perspective for performance evaluation that considers the impact of the economic context – be it positive or negative – and the performance of competitors. Hope and Fraser (2003b) suggest not to assess the absolute performance by comparing it to apriori defined or negotiated targets, but evaluating the performance in a competing context, aiming at improving the firm's competitiveness. Foster and Gupta (1994, p. 62) state that the perspective of the relative-to-competition analysis of marketing costs – external benchmarking – was already used in marketing discipline when the "Sales and Marketing Management" published the annual "Survey of Selling Costs":

> "These surveys report average cost data for individual selling cost items based on member survey reports, e.g., lodging and meals. This cost data can be used to classify the costs of a salesperson as above or bellow average."

The literature of accounting, besides suggesting the importance of financial accounting information on costs and profitability for the assessment of marketing performance, also proposes the use of non-financial indicators and control systems for marketing management – using a strategic perspective (see Anthony and Govindarajan 2003; Simons 1995b). This topic is developed in the next section.

2.3.3.3 Strategic Control Systems

The management accounting and control literature, in addition to what was said earlier on the various applications of accounting information for marketing management, also refers that the financial reports, profit plans, analysis of variances and critical performance indicators – as a system of diagnosis or as a system of performance evaluation – are not enough to manage the business in a balanced and sustainable way in the long run (see Simons 1995b). Especially when there is strategic uncertainty, changes of context or changes in the underlying management paradigm of the organisation. Simons (2000) refers to the need to include other forms of control (levers) that hinged together create tensions that balance innovation and learning with control and efficiency. Simons (2000, p. 311) comments on the limitations of traditional planning, performance measurement and diagnosis systems:

> "To sustain growth, entrepreneurs must first install effective profit plans to support management needs for decision making and control. Other diagnostic control systems linked to critical performance variables must also be established, and incentives should be tied formally to the achievement of diagnostic targets. Top managers can then rely on exception reports and strategic variance analysis to monitor the achievement of key outputs and profit plan targets. As managers introduce these new systems, however, they must also be aware of the risks that they are creating."

Simons (1995b, 2000) mentions three particular types of risks. The first is of managers while defending their own interests harm the interests of the organisation. For example, managers can adversely affect the organisation by appropriation or misuse of company resources, using them for their personal gain. A second risk is the dispersion of management attention and management time caused by unlimited opportunities and limited management time. For example, losing focus on what managers do being distracted by other business opportunities. Third, there is the risk of managers not contributing with new ideas and innovations to business management. For example, focusing on the present (to meet annual budgets, profitability, or performance indicators) forgetting the long-run vision, the changes in context (customers, competitors and market) and the strategic uncertainties. On the basis of Simons' (1995b) strategic control system remains the idea that the important for managers is to maximise the return on management, since opportunities are limitless and management attention is limited.

It is also considered a model of human behaviour with the following characteristics (Simons 2000, p. 307):

> "Humans value contribution and commitment but also exhibit traits of self-interest. In the absence of leadership and purpose, individuals will inevitably become self-interested and work for their own benefit with little regard to the goals of the organization. [...] The model of human behavior adopted in this book reconciles these two views by assuming that people desire (1) to achieve and contribute, (2) to do right, and (3) to create and innovate. We assume lapses in these behaviors are due primarily to organizational blocks, rather than a misspecification of the basic nature of people working inside organizations."

Simons (1995b, p. 5) refers to control as "the formal, information based routines and procedures managers use to maintain or alter patterns in organizational activities" and proposes four control levers to use simultaneously: "beliefs systems", "boundary systems", "diagnostic control systems", and "interactive control systems" (Simons 1995b, p. 7).

The belief systems aim, without limiting, to guide and inspire employees, challenging them to contribute ideas and find solutions (Marginson 2002; Mundy 2010). It regards the strategy as a perspective and communicates through the vision and mission statements. It is based on a system of values and seeks to transmit them to the organisation (Simons 1995b). Roberts (1990) shows that the transmission of values and plans can also be communicated through extended conferences to all staff of the organisation. It is broad and comprehensive, since the aim is to broaden horizons. It can be focused on the customer, quality of service or product, the long-run relations, innovation, and social responsibility. The belief systems besides bearing the planned strategies (intended strategies) contribute to the formation of emergent strategies, stimulating creativity and the employees' desire to contribute.

Considering the risk of dispersion associated with inspiration and desire to contribute encouraged by the belief systems, Simons (1995b, p. 7) proposes one lever of control that limits the boundaries of creativity and action, i.e., the "boundary systems". It controls the strategy as a positioning – for certain products, technologies, markets or market segments (see Simons 1995b). It is the tension between these two levers – beliefs systems and boundary systems – that provides a context of directed creativity by exploring new opportunities, avoiding, at the same time, strategic risks or wastage of resources. It ensures that "realized strategies fall within the acceptable domain of activity" (Simons 2000, p. 303) and "maximizes ROM", i.e., "return-on-management" (Simons

1995b, p. 17). They are concepts, ways of acting, or parameters, placed on the negative form – bans – which if exceeded result in sanctions. This system can be communicated through codes of conduct, “strategic planning systems and operating directives with minimum acceptable bounds” (Hoque and Chia 2012, p. 128). The aim is not to prescribe what should be done, but to enumerate a number of aspects to avoid; it gives freedom to both creativity and innovation, out of the danger zone (Simons 1995b). For example, the financial measures in the boundary systems are used to “address financial risks” and non-financial measures are used to “emphasize strategic boundaries” (Tuomela 2005, p. 300).

Simons (1995b) includes other tools – budgets, key performance indicators, profit plans, and balanced scorecards among others – as elements of diagnostic control systems. The underlying idea is to manage by exception and variance analysis, therefore, to free management time and maximise the “return-on-management” (Mundy 2010; Simons 1995b, p. 17, 2000). The diagnostic control system lever controls the strategy as a plan and contributes to the intended strategy being carried out. The aim is to ensure that the results are obtained, either at the business unit or at the individual level (Simons 2000, p. 303). It is closer to the traditional control systems (see Figure 2-1) as it compares the outcomes with the goals – on inputs, processes or outputs – and controls what is most appropriate in each circumstance in order to achieve the pre-established objectives (Fisher 1995). The control is more on output than processes if one aims at innovation and creativity; the control is more on inputs and processes if one desires safety and risk minimisation (see Simons 2000, p. 65). It is an information system that allows managers to compare the results with plans and budgets as well as establishing appropriate rewards if the performances were achieved (Abernethy and Brownell 1999; Simons 1995b, 1999, 2000). For example, the financial measures can be used to control that “the selected strategy leads to the achievement of financial goals” and nonfinancial measures to control that “performance in critical success factors of strategy is acceptable” (Tuomela 2005, p. 300). The diagnostic control systems are not viewed as only a means of control, limiting or conditioning behaviour. They are also considered as a means of learning, resulting in better decisions and motivating factors for managers to achieve their objectives (Emsley 2001; Ittner and Larcker 1998; Kato et al. 1995; Mundy 2010; Norman 2001). Henri (2006) observes that the diagnostic control system is presented as a negative force for two reasons. First, because it focuses on the errors of the processes or results that deviate from established standards. Second, because it uses a feedback process that seeks to correct processes to minimise errors and deviations (Henri 2006, p. 533). However, the diagnostic control system can also be used as a tool for identifying opportunities for improvement (Simons 1995b); this is seen further on.

The other lever of control with positive forces – and has the potential to connect the various functional areas including accounting and marketing – is the interactive control system. The instruments may be the same as that of the diagnostic control systems but it is proposed to be used differently – with formal debate and communication – aiming at encouraging "experimentation" and "opportunity-seeking" (Simons 2000, p. 303). It is done through multi-hierarchical interaction and face-to-face debate and discussion. It is suggested in the literature that "[m]echanisms such as face-to-face meetings and ''strategydays'' can be used to discuss and resolve problems, rather than to apportion blame" (Mundy 2010, p. 501). It is still a mean that "forces dialogue" and "focuses attention throughout the organization" by the signals sent by top management (Henri 2006, p. 533). The budgeting process and performance measurement if used interactively and discussed among the various hierarchical levels, enable information sharing, strategic "learning and adaptation" and reduce the "knowledge gaps" (Abernethy and Brownell 1999, p. 199; De Haas and Kleingeld 1999; Mundy 2010, p. 501; Shields and Shields 1998). It contributes to explaining the numbers, identifying strategic uncertainties and establishing coordinated action plans. It allows different people to bring different information about the organisation and its activities (Abernethy and Lillis 1995; Mundy 2010; Speklé 2001). Mundy (2010, p. 501) notes:

> "The interactive use of MCS consists of formal two-way processes of communication between managers and subordinates at different levels of the organisation."

Simons (2000, p. 303) suggests that this system is related to the strategy as a "pattern of action" and contributes to the realisation of the emerging strategy:

> "Tactical day-to-day actions and creative experiments can be welded into a cohesive pattern that responds to strategic uncertainties and may, over time, become realized strategy."

The greater the strategic uncertainties (changes in the assumptions that led to the formulation of the intended strategy) the more useful this lever of control is (Simons 1995b). The budget can be used as an element of the interactive control system if it is debated, discussed and reviewed in a systematic way (e.g., Simons 1987b). This lever can decisively contribute to the strategic renewal, focusing on context, customers, market and competitors (Simons 1995b). The interactive control is more oriented towards learning than to control (Tuomela 2005), and Jönsson (1998) notes the importance of dialogue and the words used between organisational actors in the monitoring process, to determine what business conditions remain valid. Vaivio (2004) mentions the potential of non-financial information to provoke discussion and, through verbalisation, turning tacit knowledge into explicit knowledge with benefits and advantage to the entire organisation. Being an interactive method, it has more costs, it is more management time consuming, but it has a "positive effect on firm performance" (Widener 2007, p. 757).

The whole management control model of Simons (1995b) is a model that inspires and guides behaviours. It contributes to communicating the mission and the vision of the business (through the core values and beliefs systems) and captures the attention of managers to changes of context – with particular attention to customers and competitors (strategic uncertainties and interactive control systems). From a positive perspective it stimulates innovation and action. It is also a model that, considering the limited management time, controls the business strategy as a positioning and an action plan. It determines boundaries for action (risks to be avoided and boundary systems) and uses critical success indicators and balanced scorecards to communicate and implement strategy (critical performance variables and diagnostic control systems); managing by exception it maximises the return-on-management time. Managing the tension between limiting and inspiring forces, between the search for new opportunities and the efficiency of current plans (with internal and external focus), it is a proposal for strategic management control that implies the involvement and interaction of diverse functional areas, e.g., marketing and accounting among others. There are studies on the joint use of diagnostic and interactive control systems that conclude on their complementarity and their importance to business performance and to the success in competitive environments (e.g., Bisbe and Otley 2004; Henri 2006; Hoque and Chia 2012; Tuomela 2005; Widener 2007).

The integrated control model proposed by Simons (1995b) can also contribute to cross-functional learning in that the interactive dialogue systems assume discussion and dialogue (Vaivio 2004). The functional interaction proposed by the model would allow the functional area of marketing to learn concepts and relationships from the field of accounting, and accounting to learn the concepts and challenges from the area of marketing and sales. The interaction proposed by the model can therefore help to bring together both functional areas and increase the use of accounting information and the role of the controller in the organisational learning process (see Vaivio 2004).

The interaction, debate and dialogue in the design phase of planning, control and diagnostic systems, contribute to the creation and implementation of marketing performance metrics – financial and non-financial – understood and aligned by the two functional areas (De Haas and Kleingeld 1999; Hope and Fraser 2003a).

Finally, the diagnostic control systems, in addition to serving to identify errors in processes or negative deviations in the results – acting by the negative – may also serve to identify process improvements or abnormally positive deviations, generating opportunities for improvement – with replication in other units business – and "cost management opportunities" (Shank 1989, p. 52).

The next section is a review of the literature on the roles and responsibilities of marketing managers, and the extent to which these managers can benefit from using accounting information in their work.

2.4 Accounting Information: Marketing Management Perspectives

In this section the marketing literature is reviewed to understand what the role of marketing managers is and what their responsibilities are. It is also explored the extent accounting information may be relevant to the management of marketing. Webster Jr et al. (2005) in commenting on marketing management responsibilities state that the responsibilities of marketing have evolved from a support function, e.g., sales and brand management responsibilities, to strategic level decisions, e.g., market segmentation, product positioning, customer targeting, product management and pricing (see Appendix 2). In this respect, Webster Jr et al. (2005, p. 36) note:

> "In its earliest organisational forms, beginning in the 1920s, marketing had developed in field sales support and as product and brand-management activities in consumer packaged-goods companies. It would be another three decades before it emerged as a full-blown function in its own right, heralded by the customer-oriented ''marketing concept'' articulated by management scholar Peter Drucker in the 1950s. Marketing management evolved to include key strategic decisions in market segmentation and targeting, product management, pricing, communication (including product positioning and branding) and distribution channels."

Drucker (1954) considered marketing – as well as innovation – to play a key role in business management, in that he sees the business, as a whole, being geared towards customer service and depending on the customer.

Drucker (1954, pp. 37-39) states:

> "A business enterprise is an organ of society. There is only one valid definition of business purpose: to create a customer. […] It is the customer who determines what the business is. For it is the customer, and he alone, who through being willing to pay for a good or service, converts economic resources into wealth, things into goods. […] The customer is the foundation of a business and keeps it in existence. He alone gives employment. […] Because it is its purpose to create a customer, any business enterprise has two – and only these two – basic functions: marketing and innovation. […] Actually marketing is so basic that it is not just enough to have a strong sales department and to entrust marketing to it. Marketing is not only much broader than selling, it is not a specialized activity at all. It is the whole business seen from the point of view of its final result, that is, from the customer's point of view."

By applying the marketing concept to the functions of marketing management, Kotler (1977) suggests that the responsibilities of marketing managers are:

- Profit planning through product and customer mix decisions aiming at market share and profitable sale volumes;
- Long-run trends, threads and opportunities;
- Customer types and segment differences, aiming to add more value to the profitable customer segments;
- Good planning and control systems with market analysis.

There are other definitions for marketing in the literature (see Appendix 2), e.g., meeting needs profitably (Kotler and Keller 2006); "the creation and harvesting of inward cash flow" (Ambler 2003b, p. 5); satisfying customers and thereby maximising net inward cash flow (Ambler and Roberts 2008); or a set of values and processes which are implemented by the whole organisation (Moorman and Rust 1999). These perspectives on the marketing function make explicit references to concepts originating from the accounting and management control systems, e.g., "profitable", "cash flow", "planning" and "control". In the literature there are still studies that report a direct link between the use of accounting information in marketing decisions and positive impacts on profitability, arguing about the benefit of using accounting information in the marketing management (e.g., Dubé et al. 2005; Storbacka 1997; Viscolani 1994; Zhang et al. 2008). For example, marketing decisions about price, promotions, brand image, quantities and costs produce changes in both the market equilibrium and business profitability (Cabral 2000; Hirshleifer 1984; Nueno and Simon 1999; Sloman 2003); i.e., there are optimal decisions (e.g., about pricing) that maximise profits in specific time horizons (e.g., short run and long run) for specific market contexts (see Banker and Hughes 1994; Cooper and Kaplan 1988b; Nueno and Simon 1999).

In the marketing literature, Little (1975) suggests that price, promotion (not price promotions, nor advertising), distribution (e.g., merchandising at the point of sale and customer service) and advertising have independent impacts on sales. Little (1975) argues that adequate marketing management produces positive impacts on business profitability. The model proposed by Little was tested in specific markets (see five examples bellow) and the empirical results confirm the hypotheses of the model. In the first example, Dubé et al. (2005) developed a model of dynamic advertising competition and applied it to the Frozen Entree industry; the results confirm the positive impact of advertisement (i.e., pulse-advertisement) on business profitability. Pauwels et al. (2004) applied a multivariate time-series model to the automobile industry; they claim that both the introduction of new products and promotions are significant performance drivers. Zhang et al. (2008) provide an analytical model for optimising decisions about price, promotions and stock replenishment; the authors demonstrate analytically that, under the assumptions proposed by Little (1975), the firm's profitability can be maximised through the coordination of these three variables. Nijs et al. (2001) performed a multivariate time-series analysis into the effects of price, promotions, new product introduction and advertising, covering 560 consumer products categories over four years in the Netherlands. They claim that the promotions produce short-run effects on demand, but these effects rarely persist; on the other hand, the introduction of new products increase the demand in the product category in a persistent form. Finally, Krasnikov and Jayachandran (2008) perform a meta-analysis on studies about capability-performance relationship; they conclude that the marketing capability, i.e., skills and knowledge for understanding and forecasting customer‘s needs, linking it to the firm's offers, has a strong positive impact on the firm's performance.

These relationships are particularly strong in monopolistic competition situations, i.e., where product differentiation exists and the brand influences buying decisions (cf. Nueno and Simon 1999, pp. 153-205; Sloman 2003, pp. 170-173). The clothing business is an example where differentiation and brand management is relevant in marketing management (McCracken and Roth 1989; Swartz 1983). When the consumers are buying clothes, they are looking for personalised and differentiated articles (Snyder 1989; Swartz 1983). In this case study the companies are from the fashion retail sector.

The economics theory, as explained below, also suggests that adequate marketing management can improve business profitability. The methodology requires the use of cost accounting information and interactions with management accounting for revenue and profitability analysis (cf. Johnson 1992, p. 141; Johnson and Kaplan 1987, pp. 219-221,233,244,247). It is suggested that firms can maximise profit through marketing decisions – e.g., quantities offered, product mix, pricing, advertisements and promotions – and that there is a negative relationship between price and quantity demanded, i.e., in normal conditions, the higher the price, the lower the quantity demanded (see Nueno and Simon 1999, pp. 54-56; Sloman 2003, pp. 30-35). The economic theory also suggests positive impacts of brand image and differentiation on quantities demanded (e.g., through advertisement), i.e., the same quantities can be sold at higher prices, or, at the same prices, more quantities are demanded (see Cabral 2000, pp. 223-235; Sloman 2003, p. 33).

In normal situations, i.e., with decreasing returns, it is suggested in the economics literature that the profit is maximised when the marginal revenue – in competitive markets this is the price, in monopoly or monopolistic competition this is represented by the relation[1] $p(1+\frac{1}{\varepsilon_{x,p}})$ (cf. Cabral 2000; Robinson 1932) – equals the marginal cost (i.e., the cost of one extra unit), as long as the marginal cost is above the average total cost (Nueno and Simon 1999, pp. 83-88).

In the economics literature (e.g., Sloman 2003, pp. 121-125) the firm's short-run cost function is presented as: (1) linear, i.e., the total cost of production increases proportionally to the produced quantities; (2) decreasing (increasing returns), i.e., when the marginal cost decreases with increasing quantities; or (3) increasing (decreasing returns), i.e., when the marginal costs are crescent. Therefore, following this economics theory, firms gain from identifying costs and revenues and decide about marketing accordingly, e.g., price, promotions, distribution and placement, brand advertising, inventories, customer selection and product mix.

It is also suggested in the literature that the support of accounting information for marketing managers' decisions on price, promotions, brand activation (brand advertisement), products and customers, is very important (see Andon et al. 2001; Cardinaels et al. 2004; Howell and Soucy 1990; Petty and Goodman 1996; Thomas et al. 2004). For example, Nordhielm (2006, p. x) proposes a framework for marketing management that links different types of marketing managers' decisions (see Appendix 4)

[1] Key: p is the price; $\varepsilon_{x,p}$ is the price elasticity of demand

with accounting information. She notes that marketing decisions are taken on segmentation, targeting and positioning (see Appendix 2), followed by decisions about the product or service, pricing, distribution and promotion (see Appendix 4) and require the existence of both financial and non-financial indicators. These indicators (1) allow the diagnosis of the situation of the business; (2) support the planning and control of marketing activities, e.g., setting the spending on research and development, promotional campaigns, advertising, and distribution; and (3) measure the performance of marketing management decisions. In this respect Nordhielm (2006, pp. 200-207) notes:

> "In selecting an adequate customer definition, the firm should take into consideration the estimated profitability of serving its customers. While this may be difficult to do initially, over time, the company should develop a customer definition that describes a profitable customer relationship. [...] Also, in the Marketing Objective Module, we will perform a retention/acquisition audit, where we analyze our current budgetary allocations against the revenue contribution of our retention and acquisition activities to determine the optimal level of retention and acquisition spend, current purchases processes, and so forth."

In the marketing literature it is also argued that companies benefit from adjusting the indirect costs allocating systems to the characteristics of the business: namely, when there is complexity and diversity of products or services, as well as complexity of customers or market changes. For example, in the marketing literature, Lere (2001) proposes the use of ABC when the products have different complexities, or when various activities consume shared resources (overheads) in different degrees. He states that this cost allocation method allows for a better understanding of the profitability of each product and thus direct marketing investments to the most profitable products. It also improves the productivity of marketing because the information on profitability is more reliable than in the traditional systems (e.g., plant-wide cost drivers or departmental cost drivers) and contributes to understand the cost of non-productive activities; he notes, for example, that by using ABC it is easier to identify the drivers of customer service and distribution costs, distinguishing them from the manufacturing costs. Lere (2001) also notes that marketers may have an important role in the design of the cost allocation system. He argues that marketers can provide information to accounting staff on the comparison of firm's prices with the competitors' prices and thereby help to find flaws in the calculation of the unit costs (in situations where the price is calculated based on the unit cost).

Also in the marketing literature, Goebel et al. (1998) with reference to the accounting literature (e.g., Cooper and Kaplan 1988a, b; Reeve 1991; Robinson 1990; Shank and Govindarajan 1988b) note the benefits of ABC in improving the management of marketing and increasing marketing productivity. Specifically, in relating the causes of costs with the activities performed, it places the origin of the costs not only within the factory but also on the marketing decisions (e.g., products, distribution channels, customers and market segments). This contributes to better marketing decisions, in particular through a cost benefit analysis in expenses related to customer relationship management by identifying the profitable customers that deserve the investments, and the unprofitable ones that do not. It also contributes to better decisions at the product, the distribution channels and the market segmentation levels, insofar as margins can be calculated for these units of analysis individually (cost hierarchies). Comparing ABC with the traditional methods (based on units or on volume and not on transactions) Goebel et al. (1998, p. 500) consider that the traditional costing systems are limited in "providing the accuracy or detail necessary for maximizing effective marketing decision making" and note that from the perspective of marketers, the costs must relate to products or product families – which are the objects of marketing decisions – not to volume or units. Goebel et al. (1998) also note that the ABC is what best serves a market-oriented organisation. Though they acknowledge the gains associated with market orientation, they note that it is important to have a cost benefit analysis that considers the resources consumed to support a market oriented organisation and the benefits derived from it. According to the authors the ABC method is the one that best supports this analysis. Goebel et al. (1998, pp. 500, 501, 509) discussing the appropriateness of the ABC system for the management of marketing, state:

> "[In ABC] [c]ost objects include products, channels, and individual customers, the three core elements with which marketers are most concerned. [...] The emergence of ABC requires that marketers fundamentally rearrange their thinking regarding fixed and variable expenses and the margins that drive marketing decision making. [...] It is our view that only with ABC information can companies fully determine if market-orientated activities are providing the desired benefits in an efficient and effective manner."

In the next section what the marketing literature discusses about the usefulness of accounting information for marketing management is reviewed.

2.5 Managers of Marketing and Accounting Information

2.5.1 Marketing Performance Measurement

This section reviews the marketing literature regarding the measurement of marketing performance. The marketing literature states that there is a relationship between the marketing performance measurement ability and both the influence of the MD and the business performance (O'Sullivan and Abela 2007; Verhoef et al. 2011). This leads one to believe it is in the interest of marketing managers to use the accounting system information to measure the marketing performance. It is therefore expected that the marketing managers demand accounting information from the management accounting system.

In the marketing literature, references to accounting information are frequent with regards to the topic of marketing performance measurement. It is argued that marketing departments and companies would benefit from measuring the marketing departments' performance, particularly with financial metrics. The marketing literature suggests that marketing performance measurement leads to higher marketing influence and stature (e.g., Lehmann 2004; Seggie et al. 2007), higher marketing influence at the board level (Webster Jr et al. 2005) and better business performance (Verhoef et al. 2011). There are several arguments in the literature offering explanations for the relationship between the use of accounting information in marketing performance measurement and both marketing and business performance (see O'Sullivan and Abela 2007).

Firstly, as suggested in the management literature, "what you measure is what you get" (Johnson 1992, p. 105), "companies, by and large, achieve what they measure" (Ambler 2003b, p. 29), "what gets measured gets done" (O'Sullivan and Abela 2007, p. 80), and "you can't manage what you don't measure" (Petersen et al. 2009, p. 95). Secondly, in the absence of marketing performance measurement the influence and the role of the MD in strategic decisions is negatively affected; without a marketing "centre of excellence" the potential customers and customer needs are not properly identified and the firm will be less effective in creating value, communicating and delivering it to the customers (Webster Jr et al. 2005, p. 36). Thirdly, marketing performance measurement helps managers to learn how to better allocate the resources and also enables them to demonstrate, to the corporate level managers, the marketing input-output relations which enable the distinction between what is "expenditure" and what is "investment" in marketing; these factors contribute to improving a firm's performance (Morgan et al.

2002, p. 373). With respect to marketing investments, Johnson and Kaplan (1987, pp. 201-202) argue that the rules for financial accounting reporting – both for profit calculation and intangible assets in the balance sheet – lead to reductions in discretionary and intangible marketing investments, e.g., promotion, distribution and customer relations. They argue that when near-term profit targets are at risk, the managers cut the expenditures in the discretionary items, not considering the negative impact on the value of the discretionary and intangible assets – not included in the balance sheet by the financial accounting – therefore "sacrificing the company's long-term competitive position" and "sacrificing long-term economic health" (see Johnson and Kaplan 1987, p. 201). Fourthly, the performance feedback is considered a stimulus to managerial attitudes and behaviours (Curren et al. 1992). It is suggested that, knowing that the managers will be taking an assessment, they then will be more motivated in the efforts, resulting in better performance (O'Sullivan and Abela 2007; Ouchi 1979). Fifthly, the feedback about attaining the goals produces strong effects on motivation which, in turn, strongly encourages the firm to meet the goals (Locke and Latham 1990). Finally, the measurement of performance improves the decision making, thus improving a firm's performance (Ambler et al. 2004; Morgan et al. 2002).

Several studies report a decrease in relevance of marketing function, marketing departments and marketing managers, attributing this to the lack of marketing performance measurement using financial metrics (see Ambler 2003b, pp. 96-97). McGovern et al. (2004, p. 74) argue that the MD is usually managed by "creative thinkers" who are not experts in numbers or analytics. A caricature of marketing staff is that "they love to spend money and hate to assess the results of that spending" (e.g., Adler 1967; O'Sullivan and Abela 2007, p. 79).

Webster Jr et al. (2005) interviewed Chief Executive Officers (CEO) and senior marketing executives in a diversified group of twelve businesses,[2] and held a two-day interactive forum with 40 senior marketing executives and academics. The discussions focused on the experience of marketing managers regarding the functions of marketing within the organisation. The analysis of interviews and conversations reveals that marketing function is losing importance within the organisation. Webster Jr et al. (2005, p. 35) summarise:

> "In many companies, the marketing function is in steep decline. Over the last decade in particular, there has been a marked fall-off in the influence, stature and significance of the corporate marketing department. The trend

[2] The nationality of the companies was not disclosed.

> toward integrated marketing – much discussed in earlier decades – seems to have been overtaken by a counter trend toward disintegration."

Ambler (2003b) also suggests that the topic of marketing is occupying a small part of the executives' agendas at meetings, and Selden and MacMillan (2006, p. 3) note that marketing has been seen as a channel of "propaganda" instead of a department focused on customer understanding. Two other studies conclude that marketing managers are not participating in strategic decisions and are being confined to tactical activities such as advertising, sales support and institutional communication (see Sheth and Sisodia 2005; Verhoef and Leeflang 2009).

Others, over the past three decades, have found that marketing, as an academic discipline, has also lost influence, by not having devoted attention and participated in research topics related to strategic planning and control (e.g., Anderson 1982; Day 1992; Wind and Robertson 1983). Still others argue that the way marketing has been recognised inside the organisation has driven the marketing functional unit down in the hierarchy and out of the boardroom (Brown et al. 2005; McGovern et al. 2004; Sheth and Sisodia 2002, 2005, 2006). Spencer Stuart, a global executive search firm, estimated that the Chief Marketing Officers (CMO), in the apparel sector, have on average a tenure of 19.4 months, while the CEOs stay in their position for an average of 52 months (cf. Welch 2004).

In another study, Baker and Holt (2004) used focus groups, semi-structured interviews and interactive approaches, involving 81 non-marketing senior managers, largely from UK companies, over a period of three years, to carry out research regarding the image of marketing staff. They conclude that marketing staff are perceived by the senior managers within the organisation as "unaccountable, untouchable, slippery and expensive" (Baker and Holt 2004, p. 557). Commenting on the low reputation of marketing managers, Schultz (2003) gives an explanation for the perception that senior managers have regarding the marketing staff. Schultz (2003, p. 7) claims:

- Marketing has no defined processes nor measures, becoming, therefore, "unaccountable";
- Marketing justifies the failure of marketing activities by a lack of involvement of other units, thus being seen as "untouchable";

- The marketing criteria for rating the top brands is their budget size, without taking into account the return on investment, and therefore considered "expensive" by other non-marketing executives;
- Marketing over-promises and under-delivers, thus seems "slippery".

Similarly, McGovern et al. (2004) offer an explanation for the decreasing importance of marketing, saying that CEOs delegate to CMO the responsibility of marketing decisions, and, with a lack of marketing accountability, the financial returns of marketing investments are difficult to track and marketing becomes abstract to both the board and the CEO. McGovern et al. (2004, p. 73) argue:

> "With a high-profile CMO in place, business unit managers may lose control of or, at best, share responsibility for the marketing communications that touch their customers. CEOs expect their CMOs to drive marketing decisions, but no one is singularly accountable for the results. This lack of accountability makes it very difficult to track the financial impact of marketing investments. And so marketing becomes abstract to both the CEO and board."

The tendency to the loss of recognition and to the loss of marketing influence within the organisation suggested by the studies cited above, was not confirmed in two other situations. For example, Homburg et al. conducted a survey covering marketing managers from strategic business units (SBU) in three industry sectors (i.e., consumer packed goods, electrical equipment and components, and mechanical machinery) operating in Germany and the US, and found that the CMO influence inside the company was substantial. It was very influential in advertising messages, customer satisfaction measurement and customer satisfaction improvement programs. It was also strongly influential on decisions about expansion to new geographic markets, strategic directions of the business unit, distribution strategies, choices of strategic partners, new product development and design of customer service.

Another study that covered 167 companies[3] revealed that although the CMO were not always present in top management teams (TMT), the likelihood to be present was associated with "innovation, differentiation, branding strategy, the CEOs operational experience in the firm, the diversification strategy and size of a firm, and, to some extent, the TMT's functional experience [in marketing]" (Nath and Mahajan 2008, p. 76). Other authors argue that the marketing influence is associated with its ability to demonstrate the

[3] Multi-industries from the COMPUSTAT database with a turnover above $250 million, over a period of five years, i.e., 2000-2004.

contribution of marketing activities to the firm's profitability (Lehmann 2004; Moorman and Rust 1999; Verhoef et al. 2011). Verhoef and Leeflang (2009) suggest that the lack of an adequate marketing performance measurement reduces the possibility of reporting (to the top management) the contribution of marketing tactics to the business performance; and that an adequate marketing performance measurement could improve the perception of marketing productivity. McGovern et al. (2004) also argue that summarising and communicating the main performance indicators to the other executive directors can bridge the distance between the various functional departments. However, Ambler (2003b, p. 24) argues that "what marketers can be expected to change should be assessed within the context of what they cannot".

Marketing performance measurement is defined in the marketing literature as the assessment of "the relationship between marketing activities and business performance" (Clark and Ambler 2001, p. 231). Most of the research on this topic is quantitative, i.e., surveys (Gao 2010). Some studies find a direct positive relationship between marketing performance measurement ability and business performance (O'Sullivan and Abela 2007; Verhoef et al. 2011); other studies find an indirect positive relationship between marketing performance measurement ability and business performance – mediated by marketing influence (Moorman and Rust 1999; Verhoef and Leeflang 2009).

In a survey at the European high-tech sector, O'Sullivan et al. (2009, p. 850) – motivated by the pressure to account for the marketing contribution to firm performance in the sector – find a positive relationship between "[marketing performance measurement] MPM ability" and both "firm performance" (objective and subjective) and "CEO satisfaction with marketing" (marketing stature and influence). Moorman and Rust (1999) suggest that the MD can improve its contribution to the company if it goes beyond the customer-product approach and moves towards accountability with financial metrics. They claim that the marketing's ability to manage the connection between the customer and the financial accountability contributes to the perceived value of MD within the firm. Moorman and Rust (1999) consider the marketing customer-financial accountability connection concept as the marketing knowledge, skills, ability and effectiveness to link customer satisfaction and retention rates with financial outcomes. In this respect, Verhoef and Leeflang (2009) conducted a two-stage research project covering Dutch firms. In the first stage, they applied qualitative methods, interviewing 25 marketing and finance executives; in the second stage, they used a quantitative analysis method. Verhoef and Leeflang (2009, p. 20) claim that marketing "accountability appears to be a particularly important driver of marketing influence".

O'Sullivan and Abela (2007, p. 80) consider the ability to measure marketing performance as "the ability to measure performance across a range of marketing activities"[4] (see Appendix 2). The literature review, on the metrics used in marketing performance measurement, identified a list of thirteen metrics (see Table 2-3), of which five are financial (see Ambler et al. 2004; Barwise and Farley 2004; Rust et al. 2004; Srinivasan and Hanssens 2009).

Table 2-3 Ranking of Marketing Metrics

Financial	Used by	Non-Financial	Used by
1. Profit/Profitability	92%	4. Brand Awareness	78%
2. Sales, Value and/or Volume	91%	5. Market Share, Volume or Value	78%
3. Gross Margin	81%	6. Number of New Products	73%
7. Relative Price	70%	8. Number of Customer Complaints	69%
12. Marketing Spend	65%	9. Customer Satisfaction	68%
		10. Distribution/Availability	66%
		11. Total Number of Customers	66%
		13. Perceived Quality	64%
		14. Customer Loyalty/Retention	64%
		15. Relative Perceived Quality	63%

Source: Ambler et al. (2004) (This is a sample from the UK, in 2004)

Table 2-4 Empirical Research Published

Research	Industry	Country or Region
Foster and Gupta (1994)	Chemical, Steel, Timber, Edible Oil, Cotton Processing, Wine, Defence Products, Pharmaceuticals, Haulage, Electricity, Natural Gas, Software, Banking, Consulting, Legal, and Health Care	Australia, Canada, United Kingdom, and the United States
Homburg et al. (1999)	Consumer Package Goods, Electrical Equipment and Components, and Mechanical Machinery	United States and Germany
Moorman and Rust (1999)	n.a.	United States
O'Sullivan and Abela (2007)	High-technology	United States
O'Sullivan et al. (2009)	High-technology	Europe
Verhoef and Leeflang (2009)	n.a.	Netherlands
Verhoef et al. (2011)	n.a.	Netherlands, United States, United Kingdom, Germany, Sweden, Israel, Australia

[4] e.g., marketing planning, branding, advertising, direct mail/email campaigns, telemarketing and contact management, web site and Internet presence, tradeshows and events, promotions, sales and marketing collateral, public relations and internal communications, analyst and stakeholder relationships, channel marketing, customer relationship management (CRM) systems, market research, and budgeting.

In conclusion, since it is suggested that the measurement of marketing performance is related to the recognition of the MD within the company and to its influence on marketing management, it is expected, therefore, that marketing managers have an incentive to measure their performance. It is also expected that marketing managers make use of accounting information in order to be able to use financial metrics in marketing performance measurement. However, Barwise and Farley (2004) refer to the limited use of financial metrics and Gleaves et al. (2008) identify problems in the marketing and accounting interface. Little research focuses on the implementation of marketing performance measurement systems. Most of the published research on this subject consists of theoretical constructs (e.g., Clark 1999; Gupta and Zeithaml 2006; Morgan et al. 2002; Rust et al. 2004). Moreover, the empirical research published focuses on a particular industry or region (see Table 2-4). No quantitative or qualitative research was found on how marketing managers are using accounting information in marketing performance measurement, nor any research on what factors influence the use of accounting information by managers of marketing.

One of the main topics in marketing performance measurement is marketing metrics (see Barwise and Farley 2004; Winer 2000). In the following section the financial metrics in marketing are reviewed.

2.5.2 Financial Metrics in Marketing

The demand for research in marketing accountability and financial metrics for marketing performance measurement has increased since 1999 (Doyle 2000; Morgan et al. 2002; Rust et al. 2004) and it was set as a top priority by the Marketing Science Institute (Cambridge, MA) between 2002 and 2008 (Ambler 2003b; Gao 2010; O'Sullivan et al. 2009).

Verhoef and Leeflang (2009) claim that there is a lack of financial metrics to evaluate marketing decisions with long-term effects (e.g., investments in brand) and that this has negative impacts on the image of the MD and influence. Verhoef and Leeflang (2009, p. 18) explain:

> "[A] short-term emphasis impedes product/service innovations and reduces investments in brands, customers, and new business development, which in turn should decrease the influence of the marketing department, which is usually responsible for securing long-term benefits."

McGovern et al. (2004, p. 74) argue marketing managers do not know “what to measure or how to interpret the results”. McGovern et al. (2004, p. 74) argue:

> “It's not that managers are short on measurement tools or that marketing metrics lack utility. The problem is that these managers don't know what to measure or how to interpret the results. They may collect all manner of plausible performance metrics – such as customer satisfaction scores and customer retention rates – but if these can't be correlated to marketing activities and revenue results, the data aren't very helpful.”

The marketing literature discusses and proposes different metrics to assess the financial contribution of marketing activity, e.g., customer lifetime value (CLV) (Gupta et al. 2004); market capitalisation (Joshi and Hanssens 2004); firm’s systematic risk (McAlister et al. 2007); stock market performance (Pauwels et al. 2004) and abnormal returns to stock prices (Tellis and Johnson 2007).

Barwise and Farley (2004) surveyed 697 CMOs from the leading advertiser companies located in five industrial countries – the US, Japan, Germany, the UK and France, which, they argue, account for almost two thirds of world marketing expenditures – and found that the most used marketing financial metrics were customer or segment profitability analysis (used by 64% businesses) and actual/potential customer/segment lifetime value (40%). These financial indicators were much less used than the non-financial ones, e.g., market share (79%) and perceived quality (77%).

The use of financial metrics in marketing, as proposed in the marketing literature, requires interactions between marketing and accounting both in theory and in practice (Gleaves et al. 2008). For example, Gleaves et al. (2008) claim that the calculation of customer profitability analysis and CLV requires interactions between accounting and marketing departments, and connects the marketing and accounting disciplines in researching on financial metrics for MPM.

The customer profitability analysis is the customer accounting practice that is most referred to in the marketing literature. It is related to the calculation of profit earned by a specific customer, based on the costs and sales of that customer. It is also referred to as “customer account profitability” by Guilding and McManus (2002, p. 46), who, in a survey that covered chief accountants and marketing managers of 251 of the top 300 Australian listed companies, found that the use of customer accounting was much higher than they initially expected. Their surprise arose because of the little regard given to the customer accounting topic in the accounting literature; a fact that could, in practice, limit the use of these tools by managers.

Customer profitability analysis assesses the customer's contribution to a firm's profit; it may be calculated for a single customer, for a group of customers, or for a specific market segment. It is calculated as the difference between the customer's revenues and the customer's costs (both costs of goods sold and customer service costs) over a period of time (see Lind and Strömsten 2006). The cost calculation method can be simple – e.g., cost absorption based on sales, direct costs or volume – or complex, as activity-based costing (see Cooper and Kaplan 1991; Kaplan and Anderson 2004; Lind and Strömsten 2006) as discussed in the Section 2.3.2.2.

Gupta et al. (2004, pp. 8-9) propose using a "customer-based" metric, i.e., the sum of all actual and potential CLV. They calculate each CLV as the net present value of lifetime customer's contribution margins (m), less the costs for acquiring the customer (c), considering the retention rate (r) as the percentage of customers (n) retained, and the discount rate (i), the CLV from period (k) cohort at time (0) is given by the formula:

$$CLV_k = \frac{n_k}{(1+i)^k} \sum_{t=k}^{\infty} m_{t-k} \frac{r^{t-k}}{(1+i)^{t-k}} - \frac{n_k c_k}{(1+i)^k}$$

and the value of the customer base is the sum of all period customer cohorts:

$$\text{Value} = \sum_{k=0}^{\infty} CLV_k$$

Gupta et al. (2004) found that the customer-based metric was a strong determinant of firm market value (market capitalisation value), after performing an application of the method on five US companies – Amazon, Ameritrade, Capital One, eBay and E*Trade. They suggest that costs related to acquiring and retaining customers are investments, as they increase the value of the customer base, which can be viewed as an important intangible asset. They found that a 1% increase in customer retention rates increased the customer base value by between 2.45% and 6.75%.

Kumar et al. (2008) present a case study where IBM used CLV as an indicator of customer profitability. It was a pilot project for implementing the CLV of IBM's 35,000 customers. Before the introduction of CLV, IBM used the customer spending score – which focuses primarily on customer revenues – as a metric for both assessing the return of marketing activities and for setting priorities in contacting the customers (through direct mail, telesales, email, and catalogues). The customer spending score is a metric that ignored the variable costs of serving the customers. The new framework for setting customer priorities resulted in an increase of $20 million in revenue, without any increase in the marketing budget, thus increasing marketing productivity. The revenue increase resulted from different allocations of marketing resources in 14% of customers, after following the CLV score criteria. Kumar et al. (2008) argue that the CLV measure includes customer level variables that can be used in strategic and tactical customer-focused decisions for maximising firm value, e.g., the probability of customers staying within the firm, future contribution margins and costs for customer retention activities. Though, CLV requires an accounting system designed to trace the costs related to the manufacturing process, service delivery, marketing communication, customer management and costs related to customer acquisition and retention.

On the other hand, there are critical perspectives regarding the applicability and importance of CLV financial metric. For example, O'Sullivan et al. (2009) included the metrics variables – financial, nonfinancial, benchmark against plans and benchmark against competitors – in their survey research and did not find a significant correlation between the ability to generate these metrics and superior business performance. They suggest that it is more important to focus on measuring a comprehensive range of marketing activities, rather than on metrics in use or on the adoption of very specific performance tools.

Ambler and Roberts (2008, pp. 738-739) also argue that discounted cash flows methodologies are suitable for "planning" purposes but not for "to-date" marketing performance measurement; they argue that the discounted cash flows based marketing metrics implies forecasting and, in this process, the forecaster and the judged person have a "lack of independence". They also argue that the forecasts may be wrong, so, in the performance judgement, the analysis may confound errors with variance. It may also be difficult to reconcile forecasts made at different times with different information. Finally, they say that by using the discounted cash flows metrics (which include a set of different future activity decisions and future returns) for present evaluation is taking credit for something that will be decided in the future. It is not a result of past decision making which is the marketing performance measurement objective. Ambler (2003b, p. 6) claims:

> "A number of modern techniques such as customer lifetime value (CLV) and brand valuation are based on taking the present value of future cash flows. These techniques are useful for choosing between various investment choices, but not for reporting on the progress made by marketing to date. In a sense they are taking credit for future marketing activities and thereby deflect attention from the situation today."

Barwise and Farley (2004) also consider CLV as a complex metric and a kind of derived estimative rather than something that is directly measured. However, from their survey, covering the CMOs of five G7 industrial countries, they expect that the use of CLV will increase as a reporting metric to the board.

Finally, Johnson (1992, p. 1) argues that the use of accounting-based performance metrics to measure the company's relationships with customers "can trigger behaviour that impairs long-run competitiveness and profitability". He argues that the top-down accounting-based control motivates the employees to manipulate the business processes to attain the financial targets and harm the long-run profitability. Johnson (1992) proposes a bottom-up information system – based on direct observation – that empowers the workforce to control the business's processes, aiming at customer satisfaction. He claims that "[i]t is quite proper, however, to use cost accounting information to plan and to guide marketing decisions" (Johnson 1992, p. 141).

2.5.3 Marketing and Accounting Interaction

This section reviews the literature with regard to the interaction between accounting and marketing to understand to what extent the two areas share information and use it to their advantage, as suggested in the previous sections.

Srivastava et al. (1998) suggest that the inter-functional cooperation between marketing and finance and the multidisciplinary working-teams are beneficial for business management – in addition to what has been said in the previous sections on the interest of the MD using accounting information and management accounting to incorporate marketing elements. It occurs through the marketing-finance collaboration in identifying and managing market-based assets (Lehmann 2004; Srivastava et al. 1998). Srivastava et al. (1998) argue that if the market-based assets management (e.g., customer relationships, distribution channel relationships, and business partner relationships) includes the marketing-financial interactions, it can reduce the cash flows volatility, therefore improving the cash flows and generating a positive impact on the shareholders' value. However, Foster and Gupta (1994, p. 65) identify an accounting "information gap" in marketing executives (see Table 2-5).

Foster and Gupta (1994) interviewed 40 marketing managers and marketing controllers from Australia, Canada, the United Kingdom and the United States. They also sent a questionnaire to 220 marketing executives and obtained 50 valid responses. Several industries were represented, and included manufacturing, service, merchandising and non-profit sector. The interviews were conducted to first identify the marketing decisions for which the accounting information could be valuable. The questionnaires used that information, and, for each marketing decision[5], Foster and Gupta (1994, p. 64) asked: (1) “How valuable accounting information *potentially* is to your decisions[?]”, and, (2) “How valuable information from your *existing* accounting system is to your decisions[?]” (italics in original). Foster and Gupta (1994, p. 64) sought responses on a scale of 1 “not valuable at all” to 5 “very valuable” and identified significant differences between the responses to the first and the second question – for each type of marketing decision (see Table 2-5).

Table 2-5 Role of Accounting Information in Marketing Decisions

Marketing Decisions	Indicate how valuable accounting information potentially is to your decisions	Indicate how valuable information from your existing accounting system is to your decisions	Information Gap (weighted)
Pricing decisions	4.13	2.87	5.20
Decisions related to the % of total costs devoted to marketing outlays	3.95	2.88	4.23
Decisions related to how to allocate the total marketing budget among individual marketing categories	3.93	2.68	4.91
Product mix	3.86	2.81	4.05
New product development	3.83	2.71	4.29
Customer mix	3.80	2.73	4.07

Source: adapted from Foster and Gupta (1994, p. 65)
Key: 1 - “not valuable at all”; 5 - “very valuable”.

[5] The 12 areas questioned by Foster and Gupta Foster, G. and Gupta, M. 1994. Marketing, cost management and management accounting. *Journal of Management Accounting Research* 6, pp. 43-77. were: “1. Marketing/business Decisions A. Pricing decisions B. Customer mix C. Product mix D. New product development E. Distribution channels”; “2. Decisions related to the % of total costs devoted to marketing outlays”; “3. Decisions related to how to allocate the total marketing budget among individual marketing categories”; and “4. Decisions related to individual marketing categories A. Advertising B. Sales promotions C. Sales force management D. Brand management E. Product packaging”.

They concluded therefore that there is an "information gap" among the marketing managers. Although managers consider the accounting information potentially "valuable" to their decisions (e.g., for pricing decisions, marketing outlays, product mix or customer mix), the information that the "existing accounting system" offers was not as "valuable" (Foster and Gupta 1994, pp. 64-65).

Foster and Gupta (1994, pp. 66-67) also researched the interest of marketing managers in the accounting tools and to what extent these tools were used by them; they concluded that here too there was an "information gap". The marketing managers considered the tools offered by accounting potentially valuable (especially those relating to sales); however, they did not use the tools available in their accounting systems accordingly. The questionnaires used the accounting tools offered by the accounting literature reviewed by the authors in 1994. For each accounting tool[6], Foster and Gupta (1994, p. 66) asked: (1) "How important an accounting tool potentially is to your decisions[?]"; and, (2) "How frequently you currently use an accounting tool from your existing accounting system[?]". Foster and Gupta (1994, p. 66) sought responses on a scale of 1 "not important at all" to 5 "very important" and identified significant differences between the responses to the first and the second question – for each type of marketing decision (see Table 2-6).

There is little research on the causes for the poor interaction between marketing and accounting (De Ruyter and Wetzels 2000; Gleaves et al. 2008; McManus and Guilding 2008). Some explain it through weaknesses in the academic education of each functional area (e.g., Gleaves et al. 2008; McManus and Guilding 2008), others through the relational attitude between marketing and accounting staff (e.g., De Ruyter and Wetzels 2000).

Gleaves et al. (2008) after studying forty textbooks in marketing and accounting disciplines, conclude that the concepts related to customer profitability, used by marketing and accounting, do not coincide. There are also differences in both language and methods used by both disciplines. The concept of customer lifetime value and customer equity are not addressed in the main management accounting textbooks. Although referred to in marketing textbooks, it is in different forms. Gleaves et al. (2008)

[6] The 17 tools questioned by Foster and Gupta Ibid. were: "1. Fixed vs. variable cost breakdowns"; "2. Cost volume profit analysis"; "3. Fixed budgets"; "4. Flexible budgets"; "5. Product profitability analysis A. With only incremental costs allocated or traced to products B. With full costs allocated or traced to products"; "Customer profitability analysis A. With only incremental costs allocated or traced to customers B. With full costs allocated or traced to customers"; "7. Sales to expense ratio analysis"; "Standards and variance analysis for sales and revenue A. Sales mix B. Sales volume C. Market share D. Market size"; and "9. Standards and variance analysis for marketing costs A. Advertising costs B. Sales promotion costs C. Salesforce management costs D. Product specific marketing costs".

argue that the situation limits communication, interaction and development of knowledge between accounting and marketing and applications in practice. Furthermore, they note that there is a silo mentality in both professions and a common language for customer profitability analysis would help to overcome this situation (see also Ambler 2003b, p. 64)

Table 2-6 Role of Existing Accounting Tools in Marketing Decisions

Accounting Tool	Indicate how important each of these accounting tools potentially is to your decisions	Indicate how frequently you currently use these accounting tools from your accounting systems	Information Gap (weighted)
Product profitability analysis with full costs allocated or traced to products	4.07	2.89	4.80
Standards and variance analysis for sales and revenue: Sales volume	4.00	3.00	4.00
Sales to expense ratio analysis	4.00	3.02	3.92
Cost volume profit analysis	3.98	2.82	4.62
Standards and variance analysis for sales and revenue: Sales mix	3.93	2.80	4.44
Fixed vs. variable cost breakdowns	3.89	2.84	4.08

Source: adapted from Foster and Gupta (1994, p. 67)
Key: 1 - "not important at all"; 5 - "very important".

McManus and Guilding (2008) also studied the customer accounting topic in accounting and marketing literature. They identified significant differences between the two literatures. They note that the marketing discipline is more interested in the topic of customer accounting than the accounting discipline is. Accounting focuses more on products, services and geographical areas than on customers. Accounting has a historical perspective (looks at the past) and is inward oriented, which limits its ability to include performance indicators focused on the customer, such as customer satisfaction and customer loyalty. These differences in perspectives and language limit the interaction between the two functional areas. The authors suggest that a shift towards the "Horizontal Organisation" (see Chenhall 2008) from functional structures to customer centred team-based multi-functional teams can approach both disciplines.

De Ruyter and Wetzels (2000), in a survey covering 162 marketing and finance managers from the Netherlands, tried to verify whether the relational attitudes between marketing and finance managers had any bearings on other variables. They were interested in the managers' attitudes in the relations between financial and marketing managers because, they argue, not a great deal is known about their interactions and this functional interface is crucial for product-investment decisions, brand valuation, and working capital, with impacts on a firm's efficiency and profitability. De Ruyter and Wetzels (2000, p. 210) identify various barriers to the marketing-finance interface:

- "focused on different stakeholders" – marketing focuses on customers, suppliers, and competitors; finance focuses on the shareholders and on other sources of capital;
- "brand valuation" – marketing managers like to include brand equity in the assets and it results in lower returns on the capital employed;
- "capital budgeting" – many investment decisions are based on discounted cash flows (DCF) criteria and, as marketing DCF are volatile due to market turbulence, it reduces the capital investments in marketing;
- "working capital" – as marketing pushes for higher stocks – to avoid disruptions in serving customers – it requires more working capital investments, resulting in higher financing costs.

De Ruyter and Wetzels (2000) claim that the marketing-finance attitude is positively related to mutual resources dependence (e.g., information, tasks or skills), procedure fairness (e.g., impartiality and consistency in decisions) and negatively related to inter-functional rivalry (e.g., budget discussions). The results do not support two other initial hypotheses, i.e., the negative relationships between relational attitude and communication difficulties or inter-functional physical distances. The finding that communication difficulty is not a significant barrier to relational attitudes between marketing and accounting functions contradicts the argumentation from other research (Gleaves et al. 2008; McManus and Guilding 2008).

In conclusion, the above described studies suggest that there are difficulties in the interaction between marketing and accounting and that businesses would benefit if these two functional areas collaborate more assiduously. It also notes the lack of qualitative studies that explain how the two functional areas interact, as well as the barriers for the marketing-accounting interaction.

In the following section a summary of the main topics reviewed in the literature of both management accounting and marketing is presented.

2.6 Conclusion

This research is in line with the research of Foster and Gupta (1994), Hall (2010) and O'Sullivan et al. (2009). It has three objectives which complement previous research: (1) to update the knowledge about the marketing managers' perspective regarding the usefulness of accounting information; (2) to gain knowledge about the perspective of accountants – both financial and managerial – regarding their role and their responsibility in supporting the managers of marketing with accounting information as well as how the information is communicated; and (3) to explain which factors are in practice preventing the use of accounting information by managers, including marketing and sales managers – i.e., to explain the "information gap" identified by Foster and Gupta (1994, p. 65) between the desire to use accounting information (and tools) and its actual use by marketing executives.

The review of the literature suggests that further research is needed to understand why and how marketing managers are communicating and using accounting information in managerial work (see Simons 1995b, p. 11). This is so because there are few empirical studies covering the use of accounting information by managers, and none of these existing studies focus on how marketing managers, in particular, are using accounting information (see Hall 2010).

It is also concluded, from the literature review, that more research is required to understand the role and responsibility of the accounting department in the process of generating, communicating and analysing accounting information oriented to marketing management (see Foster and Gupta 1994; Gleaves et al. 2008; Hall 2010). There is a need to understand the process of communicating the accounting information, and to understand the importance of verbal communication and interactive analysis of data – with the involvement of different functional managers, including those from marketing and accounting departments (see Hall 2010; Simons 2000).

The concept of management accounting emerged with Simon et al. (1954) and was characterised at that time as having the function of "scorekeeping", "problem solving" and “attention direction” (Shank 1989). Over the past 25 years it has intended to contribute systematically to support the strategic management of the business (see Bromwich and Bhimani 1994; Kaplan 1983; Kaplan and Norton 1996a, b; Roslender and Hart 2002; Shank and Govindarajan 1992, 1993; Simons 1987a, 1990). These developments, in addition to developing business planning techniques, cost management and management control oriented within the company (Cooper and Kaplan 1988b; Johnson 1992; Kaplan and Norton 1996a; Simons 1995b), also stimulated the management accounting to look outside the firm, i.e., competitors, customers and market (Bromwich and Bhimani 1989, 1994; Govindarajan and Shank 1992; Shank 1989; Shank and Govindarajan 1988a, 1993). As a result of this research and management education orientation – particularly in the area of management accounting and management control systems – one would expect that both the market orientation and strategic management perspective were present in management accounting in practice (Lord 1996). Consequently, interdisciplinarity and interaction would also be expected (Roslender and Hart 2002) – in research and management education – between the functional areas of accounting and marketing (Bromwich and Bhimani 1994; Roslender and Hart 2002, 2010; Wilson 1995).

However, several studies report three situations that deviate from the foregoing. First, that accounting in practice still continues with a traditional perspective, i.e., focused within the company and essentially analysing the past events (Bromwich and Bhimani 1994; Langfield-Smith 2008; McManus and Guilding 2008; Shank 2006). Second, there is little interaction between accounting and other functional areas (e.g., marketing) and accounting is still very much like a silo culture (Shank 2006). Third, although marketing discipline shows an interest in including more financial metrics in performance measurement (Barwise and Farley 2004; Lehmann 2004; Stewart 2009; Webster Jr et al. 2005), accounting has not progressed at the same pace (Bates and Whittington 2009; McManus and Guilding 2008). The interaction between these two areas has been difficult, both in theory and in practice (Bates and Whittington 2009; Gleaves et al. 2008; McManus and Guilding 2008; Roslender and Hart 2010). As a result of all that has been said, there is a difference between what marketing managers would like to have in terms of accounting information (for performance measurement or for decision support) and what they have available and actually use (see Table 2-5 and Table 2-6) (Foster and Gupta 1994). The situation contrasts strongly with the proposals very much present in the accounting literature (see Section 2.3) and it seems to have forgotten the “motto” or the "aphorism" that the accounting system prepares "different costs for different proposes" (Kaplan, in Robinson 1990, p. 13).

While the literature suggests some explanations for the inertia of accountants to adopt new practices arising from a more strategic view (Bromwich and Bhimani 1994; Cooper 1996b, c; Shank 2006) and offers some explanations for the weak interaction between accounting and marketing (De Ruyter and Wetzels 2000; Langfield-Smith 2008; Sidhu and Roberts 2008, pp. 677-678), these are not adequately substantiated (see Section 2.5.3 and Table 2-7). They are thus insufficient to guide developments in the practice of management accounting oriented to support marketing management.

Table 2-7 Why Do Marketers Not Use The Accounting System?

Explanations Offered
"[L]ack of awareness of [marketing] management about how accounting information can be potentially useful for marketing decisions." (Foster and Gupta 1994, p. 64)
Marketers have "no marketing processes" (Schultz 2003, p. 9)
"[S]hort on people who hew toward an analytic, left-brain approach" (McGovern et al. 2004, p. 74)
Marketers "don't know what to measure" (McGovern et al. 2004, p. 74)
Marketers don't know "how to interpret the results" (McGovern et al. 2004, p. 74)
"Marketers' inability" (O'Sullivan and Abela 2007, p. 79)
Marketing practitioners "hate to assess the results" of their spending (O'Sullivan and Abela 2007, p. 79)
Marketers are "unable" (Verhoef and Leeflang 2009, p. 16)
Marketers are "unwilling" (Verhoef and Leeflang 2009, p. 16)
Marketers "do not use the appropriate metrics" (Verhoef and Leeflang 2009, p. 16)
Marketers do not use the appropriate "methods" (Verhoef and Leeflang 2009, p. 16)

The literature suggests that the decrease in the influence of the marketing function is related to both the lack of accountability of marketing and the lack of financial metrics for assessing the marketing outlays, e.g., expenses related to the establishment or maintenance of the brand. Therefore, it is expected that the marketing departments may demand both more accounting information and support from the accounting departments for using financial metrics in marketing performance measurement. Further research is required – particularly qualitative research – to understand if marketing managers are demanding and using accounting information and how they do so.

Though the interpretative research contributes towards explaining (thick explanations) how *a priori* relationships – identified in this chapter – work in specific contexts (e.g., why marketing managers demand or do not demand accounting information for marketing management), it has the potential to explore other unanticipated reasons for marketing managers to use or not to use accounting information and the role and contribution of the management accounting department (see Johnson and Kaplan 1987, pp. 169-172; Lukka and Modell 2010). In addition to monitoring whether the causes given in the literature, for the low interaction between marketing and accounting, occur in these particular cases, it also has the potential to explore other contextual and organisational factors that influence the use of accounting information by managers of marketing.

The five quantitative studies covering marketing performance measurement, marketing influence and business performance, analysed specific industries and particular locations: business organisations from the US, high-tech firms from North America and Europe, for-profit firms from the Netherlands and profit-based middle and large size firms from seven industrialised countries (see Table 2-4). This qualitative research (interpretative) complements the quantitative research published on these topics. It compares two fashion retailing firms operating in Portugal, i.e., Dimoda and Modalfa, observing and explaining how the marketing managers use accounting information and how it contributes to the marketing role within these organisations. It is a contribution for the extant literature as it explores the relevance of accounting information for marketing management in two companies from the fashion retail sector (see Ambler 2003b, pp. 31-32).

Moreover, it is interesting to note that in the accounting literature the perspective of management accounting is to provide accounting information for current and strategic decisions (e.g., Horngren 2004, p. 207). In proposing their tools and their models, the aim is to improve the firm’s profitability and competitive position. On the other hand, in the marketing literature, accounting information is perceived as a means for marketing to be more influential; and through that influence, it positively contributes to the company's performance by managing marketing activities – without however involving the use of accounting information to directly identify opportunities and solve problems. The marketing focus is on marketing performance measurement. Although it is noted that this leads to better decisions, the underlying idea is to control the outcomes, not inputs or processes. The marketing outlook for accounting information is more for control and less for decision support (see Horngren 2004, p. 207). It is a subject that deserves more research to understand the causes of the lack of focus on accounting information as a way of contributing to problem diagnosis and decision support. There seems to be different functional perspectives in the literature – marketing vs. accounting – on the role of accounting information for marketing management.

It is also interesting to note that the first references to activity-based costing – to manage costs and profitability – included concepts from marketing and sales. Apparently these are proposals that could be of interest to marketing managers. It is curious that the marketing literature does not develop these concepts and does not apply them in the marketing domain. It is an aspect that motivates further research to understand if in practice these proposals from management accounting are actually useful for current and strategic marketing management or if there are other marketing management needs that accounting has not perceived nor reciprocated.

When reviewing marketing literature, one gets the idea that it is important to use a financial metric to calculate the value of the customer base (e.g., customer lifetime value or customer base value). However, paying attention to both the findings of O'Sullivan et al. (2009) and Simons' (1995b) model, one is left with a different idea. It may be more important to use a diverse set of indicators (O'Sullivan et al. 2009) that dynamically adjusts to the business context, i.e., interactive control systems (Simons 1995b). This is a topic that is not clear in the literature and which this research can contribute to: the extent to which accounting should focus on developing financial metrics based on discounted cash flows to assess marketing performance, or develop holistic, flexible and adaptive key performance indicators as suggested in Simons' (1995b) model.

Finally, there is a need of more practical research in strategic management accounting (see Simons 1995b, p. 11). Tillmann and Goddard (2008, p. 81) note that studies conducted in the framework of strategic management accounting "throw little light on how SMA practices are implemented and used in practice and provide no theoretical explanation of such practices".

Summarising, the research topic of this dissertation (see Table 2-8) follows and it is justified by three independent pathways. First, there is need to understand what is limiting, in practice, the development of accounting with a strategic perspective and constrains the use of accounting information by marketing managers. Second, there is a need to better understand how accounting information is produced, transmitted and used by managers, particularly managers of marketing. Third, how marketing managers want to measure their performance in practice – metrics and unit of analysis – and how accounting departments can contribute to this process, by producing accounting information tailored to the managers of marketing.

Table 2-8 List of Research Questions

No.	Research Question
1	What factors influence the ability of the accounting system to meet the information demand of marketing managers?
2	Why are (not) managers of marketing demanding accounting information?
3	How are accountants supporting managers with accounting information?
4	How is accounting information communicated?
5	How do marketing managers want to measure marketing performance?

We may use an analogy from the economics theory and identify a problem in the "accounting information marketplace" equilibrium. In the last fifty years, accounting information has been offered by management accounting in the "accounting information marketplace"; there has also been, in the same period, managers' demand for accounting information, in particular managers of marketing. However, there has been no significant "transactions" between both functional areas, in theory and in practice. Therefore we may ask a number of questions: Does the product offered (accounting information) not match what is demanded by managers? Is it the demand too dynamic and is the supply offering outdated products (the tools proposed by the accounting system)?[7] Is it that the supply side is not doing the required market research (i.e., identifying what really matters in terms of accounting information in each management situation or context)? Is it the price of accounting information too high considering its benefits (does it require much effort from marketing or accounting, or does the cost of the systems not balance its benefits)? Is there a lack of communication or lack of interaction between "supply" (accounting) and

[7] See Hope, J. and Fraser, R. 2003a. *Beyond budgeting: how managers can break free from the annual performance trap*. Boston: Harvard Business School Press.

"demand" (marketing managers), and therefore no opportunity for "negotiation"?[8] These are the sort of questions that motivate the formulation of the research questions (see Table 2-8) of this empirical study in the domain of management accounting and marketing management.

[8] See Shank, J. K. 2006. Strategic cost management: upsizing, downsizing, and right (?) sizing. In: Bhimani, A. ed. *Contemporary issues in management accounting*. Oxford: Oxford University Press, pp. 355-379.

CHAPTER 3 RESEARCH METHODOLOGY

3.1 Introduction

In this chapter, the research methodology used to answer the research questions is described and justified, while the manner in which the data was gathered and analysed through the field work is also explained. Section 3.2 explains why a qualitative research approach was followed. The Section 3.3 explains why both the use of comparative case studies and interpretative research were considered as the most appropriate methods for understanding why and how marketing managers use accounting information, their motivations and the factors that contribute or hinder use of the accounting system. The last sections explain why the two companies (Dimoda and Modalfa) were selected (Section 3.4), the data collection techniques (Section 3.5) and the process for analysing the data (Section 3.6).

3.2 Qualitative Research

Qualitative research is "grounded in a philosophical position which is broadly ''interpretivist'' in the sense that it is concerned with how the social world is interpreted, understood, experienced, produced or constituted" (Mason 2002, p. 3). The data is collected and analysed considering the social contexts where it is produced and involves a holistic analysis of phenomena with its contextual details and complexities (see Mason 2002). Denzin and Lincoln (2011, p. 3) define qualitative research as:

> "[A] situated activity that locates the observer in the world. Qualitative research consists of a set of interpretative, material practices that make the world visible. These practices transform the world. They turn the world into a series of representations, including field notes, interviews, conversations, photographs, recordings, and memos to the self. At this level, qualitative research involves an interpretative, naturalistic approach to the world. This means that qualitative researchers study things in their natural settings, attempting to make sense of or interpret phenomena in terms of the meanings people bring to them."

The aim of the present research is to understand the motivations of the marketing managers to use accounting information, how they use the accounting information and how the accounting departments contribute to it. The research attempts to understand the perspective of the agents (accounting and marketing managers) regarding the usefulness of accounting information for management ("emic"), however, at the same time to explain the external factors that influence (cause) the agents to use (or not use) accounting information ("etic") (Kakkuri-Knuuttila et al. 2008). Qualitative (interpretative) research was considered the most appropriate for answering these research questions because only by observing and establishing conversation with these managers, from the marketing and accounting departments, it would be possible to understand their motivations, experiences and personal interactions – with all their richness, complexities and particularities. Mason (2002, p. 1) enumerates the advantages of qualitative research in this respect:

> "Through qualitative research we can explore a wide array of dimensions of the social world, including the texture and weave of everyday life, the understandings, experiences and imaginings of our research participants, the ways that social processes, institutions, discourses or relationships work, and the significance of the meanings that they generate. We can do all of this qualitatively by using methodologies that celebrate richness, depth, nuance, context, multi-dimensionality and complexity rather than being embarrassed or inconvenienced by them. Instead of editing these elements out in search of the general picture or the average, qualitative research factors them directly into its analyses and explanations. This means that it has an unrivalled capacity to constitute compelling arguments about *how things work in particular contexts.* More than that though, while not all qualitative researchers are on a mission to produce ''the general picture'' of how things work, the qualitative habit of intimately connecting context with explanation means that qualitative research is capable of producing very well-founded *cross-contextual generalities*, rather than aspiring to more flimsy de-contextual versions." (emphasis in original)

The exploratory nature of this research requires a methodology not limited by pre-conceived concepts and hypothetical relationships, which is a characteristic of the quantitative (functionalist) research studies published on this topic (e.g., O'Sullivan et al. 2009; Verhoef et al. 2011). While quantitative research may be useful for testing theories in controlled (natural science) contexts, it is very much limited in producing new perspectives, theories or explanations in social contexts (social actors produced realities). The ontological perspective of this study is that the social reality exists; and its existence is independent of the mind of researchers or their actors. However, the social reality is produced (constructed) by the social actors and influenced by the researchers, being so dynamic and changing in space and time. The knowledge about social reality (potentially changing) is obtained by interpretation; interpreted both by the social actors (social reality felt and revealed by its constituent) and by the researcher – through observation and reasoning about knowledge revealed by the observed social actors.

Quantitative methods produce findings based mainly on statistical relationships, and their explanations are based on a theory validated by statistical evidence, which does not consider the human behaviour patterns as qualitative methods do (Thomas 2003). Furthermore, Johnson (1992, p. 180) argues:

> "One consequence of business school scholars borrowing the theories and research paradigms of social scientists in other disciplines was their failure to develop an indigenous theory of business practice. They applied to business questions a theory that caricatured (badly) the dynamics of business."

Still on the limitations of mathematical, statistical, or logical models to explain social realities and their interactions, Ratzinger (2004, pp. 159-160) argues:

> "For if the supreme point in the world's design is a freedom that upholds, wills, knows, and loves the whole world as freedom, then this means that together with freedom the incalculability implicit in it is an essential part of the world. Incalculability is an implication of freedom; the world can never – if this is the position – be completely reduced to mathematical logic."

Generalisation is an aim of quantitative research, for it has the ability to produce statistical generalisations (in determined contexts) from a representative sample. It is a limitation sometimes attributed to qualitative research, due to the interpretative and contextual perspective and the lack of both standardisation and potential for replication (see May 1997; Zikmund 2010). However, Scapens (1990, p. 269) argues that case studies can produce theoretical generalisations in a similar manner to experiments:

> "Consequently, it is probably more appropriate to compare case studies with experiments, than with surveys; and to apply the logic of replication, rather than sampling logic, to case study research. This means viewing case study research as a method by which theories are used to explain observations. The theories which provide convincing explanations will be retained and used in other case studies, whereas theories which do not explain will be modified or rejected. The objective of individual case studies will be to explain the particular circumstances of the case, and the objective of a research programme to generate theories capable of explaining all the observations which have been made."

Bryman and Bell (2007) argue that social sciences cannot use the same methods as the natural sciences: the theories should come from the research (inductive, qualitative research, interpretivism and constructionism), not something that precedes the research (deductive, quantitative research, positivism and objectivism). As the aim of this research is to understand why and how marketing managers are using accounting information (the agents' understanding), the interpretative research (case study) was considered the most appropriate for answering these types of questions (Kakkuri-Knuuttila et al. 2008); and the semi-structured interviews an appropriate means for collecting data in organisational contexts (see Yin 2009). Moreover, Merchant and Van der Stede (2006), using the arguments of Kasanen et al. (1993) and Flyvbjerg (2001), suggest that field work, even in small organisations, has the potential to identify innovations and contribute to the generation of new theories in the field of management accounting. In this regard, Merchant and Van der Stede (2006, pp. 123-124) say:

> "All of these advances to the management accounting field originated in practice. To a large extent, they were developed either by company participants or consultants. They were later discovered by academics who engaged in scholarly writings about their applicability and value-adding potential. This observation is consistent with Kasanen et al.'s (1993) conclusion that most management accounting innovations have come from practice or consultants and not from academic research. It is also consistent with Flyvbjerg's (2001, 83) conclusion that ''small-N qualitative research is most often at the forefront of theoretical development.'' As such, the contributions of small-N studies stem from describing the innovations in rich detail, challenging the rhetoric and assertions of practitioners, and linking the innovations to the greater existing body of knowledge."

Further, regarding the potential of qualitative research, specially in case studies, for the production of knowledge and new theories in management accounting, Cooper and Morgan (2008, p. 159) claim:

> "Examples of case study research in managerial accounting, auditing, and financial accounting illustrate the strengths of case studies for theory development and their potential for generating new knowledge."

Finally, regarding criticisms made about empirical research, Merchant and Van der Stede (2006, p. 131), referring to Zimmerman (2001, pp. 419-420), comment:

> "Even the harsh field research critic Zimmerman (2001, 419–420) observes that ''probably the single biggest factor hampering empirical managerial research is the lack of consistent data about what firms do internally.'' But where will the needed data come from? Companies will generally not publish their internal data unless they are legally mandated to do so. They may reveal some of it by completing questionnaires, but most managers do not like to spend time completing questionnaires. If these data are to be discovered, then most will have to be mined by researchers going to the companies and digging it out. This is exactly the field research process."

In this investigation, the research followed a qualitative methodology, for there was a set of open questions but no hypothesis to validate. The generation of new explanations or hypothesis – for why marketing managers demand accounting information – was considered more important than testing existing theories. The techniques used, i.e., semi-structured in-depth interviews, documents, archives and direct observation, were in line with qualitative research (cf. Denzin and Lincoln 2011). The data collected were detailed in nature – related to the factors that influence the ability of the accounting system to meet the marketing managers' demand of accounting information, the MD's power to influence decision making and the interactions between the accounting and marketing departments – and captured by locally based fact gathering.

The process started with the recording of in-depth interviews in which the marketing managers use of accounting information, the MI and the accounting department's support for the MD was explored. The in-depth semi-structured interviews permitted the discovery and exploration of the motivations of the marketing managers to use accounting information, and how they used it (understanding objective). It also contributed to understand the interactions between marketing and accounting departments, and the role of the accounting department in the use of accounting information in marketing management. The writing of the case study was performed as soon as all the interviews were completed. It enabled the use of visual memory and inspirations from the site visits, and body language expressions noted during the interviews.

There was an effort to be "richly detailed and descriptive of the context" with "minimal editorial comments" (see Martin and Turner 1986, p. 145). This contributed to the generation and identification of concepts, linking them to the extant theory whenever appropriate. The concept discovery is a strategic process; it moves from real data to abstract categories, labels or concepts. It is the placement of real life incidents in constructed categories (see Martin and Turner 1986).

In the following section the choice of comparative case studies is justified, while in Section 3.5, the data collection process is described.

3.3 Case Study Method

This research, in addition to seeking to understand the reasons that marketing managers have to use accounting information, i.e., "Why is she/he demanding it?" – the manager's motivations for using the information from the accounting system (understanding); also seeks to explain the factors that influence the ability of the accounting system to meet the managers' demand of accounting information (explanation), i.e., "Why is she/he using accounting information in that organisation?", "Which organisational factors are influencing the use of accounting information by marketing managers?" – reasons external to the user and linked with the company's structure, organisational behaviour, values and culture. Therefore, the research seeks to understand the ways in which information is used in practice and why – considering the personal motivations and the organisational context. Scapens (1990, p. 264) suggest that case studies are appropriate in these circumstances, saying:

> "Case studies offer us the possibility of understanding the nature of management accounting in practice; both in terms of the techniques, procedures, systems, etc. which are used and the way in which they are used."

And Kakkuri-Knuuttila et al. (2008) say:

> "The interpretively oriented researchers often stress the value of storytelling as a natural way of communicating rich meaning structures and therefore value detailed narratives over general and abstract models."

Bryman & Bell (2007) suggest that the epistemological nature of a particular piece of research, in business management, can follow the constructionism perspective – looking at the organisation as a product of dynamic interactions, in permanent construction – or objectivism – looking at the organisation as a stable identity with a set of values and rules lasting for long periods of time (a lifetime identity). In this research, the ontological perspective adopted is constructionism, i.e., understanding each organisation as a social construction, operating in a specific context oriented for particular aims. In this regard, the investigation started without defining, at the outset, best practices in the use of accounting information. The aim was to understand, during the interviews, why managers had certain practices in the use of accounting information, their personal explanations for this, and how they interpreted their relationships with the accounting system. For example, when referring that they used the contribution margin to analyse the profitability of sales, the interviewer sought to know what they defined as contribution margin and what the purpose of their use was, how the calculation was made, the logic of each manager, which were their personal interpretations. In another example, the non-allocation of indirect costs to the level of product lines, the reasons for not doing this and what they regarded as indirect cost were attempted to be understood, without prejudging during the interview with pre-established rules on the use of accounting information (see Section 2.3.1). This approach enabled the discovery and identification of new forms of using the accounting information in the practice of marketing management, in addition to what is described in theory. In this regard, Merchant and Van der Stede (2006, p. 126) state:

> "We argue that field research can have a particularly valuable impact by either identifying new ideas or enhancing their scholarly exploration, or both, thereby furthering our understanding of relevant phenomena and better linking our research with practice."

Qualitative research, using the case study method, is considered most appropriate for analysing organisational systems and processes in the context where they operate, i.e., understanding specific business configurations in particular contexts, each one with its own idiosyncrasies (cf. Scapens 1990; Yin 2009). The case study comparison was selected, aiming at understanding and comparing how marketing managers from the two organisations use accounting information, their motivations and the organisational influences in the process of using accounting information by marketing managers (see Table 2-8). This type of research has a potential to allow theoretical generalisations – e.g., about the use of accounting information by the marketing managers in specific contexts, e.g., fashion retailing – which can be tested later on other settings and using the same methods. In this respect, following Scapens' (1990) classification,[9] the present case study research is exploratory; nevertheless with some explanatory power. Scapens (1990, p. 265) suggests that case studies are used as exploratory when:

> "[c]ase studies can be used to explore reasons for particular accounting practices. As such, they represent preliminary investigations which are intended to generate ideas and hypotheses for rigorous empirical testing at a later stage. The objective is to produce generalisations about the reasons for accounting practices. The exploratory case study is a first step in such a project."

And used as explanatory when (Scapens 1990, p. 265):

> "[s]uch case studies attempt to explain the reasons for accounting practices. The focus of the research is on the specific case. Theory is used in order to understand and explain the specific, rather than to produce generalisations. If available theories do not provide convincing explanations, it may be necessary to modify them."

[9] Scapens (1990, p. 265) suggests that case studies can be used as "descriptive", "illustrative", "experimental", "exploratory" or "explanatory".

Although it is considered in this research that the accounting department has the responsibility to produce and communicate the accounting information – following what is suggested by the accounting literature (cf. Drury 2009) – there is also the perspective that the management accounting information results from the interactions between the accounting department and different functional teams, organisational culture, institutional and social contexts (cf. Agbejule and Jokipii 2009; Chenhall 2008; Tillmann and Goddard 2008). This conceptualisation of management accounting reinforces the choice of qualitative research and the semi-structured interviews were consistent with the epistemological (interpretivist) and ontological (constructionist) perspectives. Although there was an initial list of questions, the richness of the method obtained new insights into the use of accounting information by the marketing managers. The respondents often answered the question asked, and then developed commentaries to issues that were not foreseen at the outset of the question, but related to it, talking about their experiences, perspectives, interpretations and expectations about the functioning of the accounting system. For example, in this research, the case study method permitted the identification of accounting practices – prescribed by the organisation – that were not seen as adequate or best practice by the staff in their managerial work. In one case, the management accounting department was focused on budgeting and cost control, but did not focus on supporting operational decision making and profitability analysis – as it was desired by the business unit manager.

The research questions (see Table 2-8) are of the type of "how" and "why" questions, i.e., the research aims at understanding what factors influence the ability of the accounting system to meet the managers' demand of accounting information (Why are marketing managers demanding accounting information? How are accountants supporting managers with accounting information? How is accounting information communicated?). For these types of questions, the case study is an adequate research method as referred by Yin (2009, p. 4):

> "There's no formula, but your choice depends in larger part on your research question(s). The more that your question seeks to explain some present circumstance (e.g., ''how'' or ''why'' some social phenomenon works), the more that the case study method will be relevant. The method is also relevant the more that your questions require an extensive and ''in-depth'' description of some social phenomenon."

Merchant and Van der Stede (2006) in this respect also suggest that the field research gives an understanding of how things work, in addition to describing or identifying the causes of phenomena. In this regard Merchant and Van der Stede (2006, p. 118) say:

> "Field research can be used to go beyond the questions of what (identification) and how (explanation) and into the question as to understanding why certain phenomena exist."

When choosing the case study methodology, its limitations were borne in mind, in particular the risks of validity and reliability (McKinnon 1988). The first was the possibility of biased observations (Yin 2009). In this regard, the interviews were fully recorded and the questions and answers were fully transcribed. The answers were transcribed *verbatim* at the writing of the case studies; the intention was to clearly show the original data collected. In the case studies chapters, i.e., chapters 5 and 6, the strategy of being descriptive and oriented to answering the research questions was followed. The comparison of cases and analysis is presented in Chapter 7.

The other possible bias, i.e., the interviewees' bias, occurs while answering the questions (see McKinnon 1988). In this regard, the strategy of multiple observations and the tactic of probe questions were used. In each organisation, the same types of questions were asked to other interviewees and the same question asked in two or three different forms to the same interviewee, in order to obtain confirmation of the answer. Documentary data – management reports and website information – were also used to confirm the answers, whenever appropriate. The four anonymous visits to the stores were also opportunities to check the validity of some answers related to the management of marketing, e.g., products traded, promotions, prices, store decoration, number of customers visiting the store and customer service. In some situations, the second interview – after an interval of four months and full access to the external source of information, i.e., the Informa DB's database – were the other strategies to counter the third threat of data access limitations.

The research method, of multiple case-studies – using theoretical replication – was not primarily designed to look for generalisation; it was designed at aiming to obtain a deep understanding (exploring) about the use of accounting information by marketing managers. Yin (2009, pp. 60-61), commenting about the multiple-case design, suggests:

> "The first word of advice is that, although all designs can lead to successful case studies, when you have the choice (and resources), multiple-case designs may be preferred over single-case designs. Even if you can do a ''two-case'' case study, your chances of doing a good case study will be better than using a single-case design. Single-case designs are vulnerable if

> only because you will have put ‘‘all your eggs in one basket’’. More important, the analytic benefit from having two (or more) cases may be substantial.”

In the next section, the process of selection of cases is discussed and explained.

3.4 Selection of Cases

The cases of Dimoda and Modalfa were selected for several reasons. Firstly, they belonged to a sector where the marketing function is relevant, i.e., the clothing sector (see Ailawadi et al. 2009; Auty 1998; Webster and Weng 2008). Secondly, the possibility to have access to and support from the companies’ senior managers. Thirdly, the interviewer’s professional experience and expertise in both the apparel industry and retailing. Finally the head offices and the management decision centres were located in Portugal, therefore all functional directors – marketing, sales, and accounting – could be accessed personally and interviewed face-to-face or on the phone whenever necessary.

Both companies, Dimoda and Modalfa, shared some characteristics that allowed a comparison: (1) both companies were family based, though Sonae – the shareholder of Modalfa – is a stock exchange listed company; (2) both business units belonged to a group of companies; therefore, there was the possibility of comparing two cases with professionalised management and delegation of responsibilities; (3) both Dimoda and Modalfa had autonomy at the management level, i.e., the business unit directors were responsible for the business unit management (in both companies, the business unit directors proposed the budget to the board directors and managed the business by objectives); and, (4) both companies were operating in very similar markets, i.e., women’s and men’s clothing, located on the outskirts of big towns.

It should however be noted that although the Dimoda case has a fragile financial situation when compared with Modalfa, this was taken into account by both the interviewees and the case narrative. This situation enriches the research as it allows the comparative analysis of two companies in different financial situations – theoretical replication. It also provides a richer learning – as we both learn from success and failure situations. It also facilitates both the theoretical replication in further research and the relevance of theoretical generalisation, as the business reality is formed by both successful and unsuccessful cases.

3.5 Data Collection

The data were collected through semi-structured in-depth interviews, emails, phone calls, documental archives, management reports and direct observation. Twenty interviews were performed[10] and eighteen of them were tape recorded. Seventeen were face-to-face, two, i.e., the M01[11] and M09, were through video call, and one interview was through phone call, i.e. the M10 (cf. Table 3-2 and Table 3-3).

The interviews were booked after obtaining authorisation from the company's CEO. The starting interviewees in each company were the business unit director, the marketing director and the management accountant (i.e., the controller, as titled in the observed companies). These managers were chosen first because they were the managers who were related to the accounting system and the management of marketing; they were therefore the principal object of research. These senior managers were interviewed to obtain answers that could contribute to understanding how the marketing managers used accounting information, how the accounting department contributed to it and the perspective of the general manager regarding the MD's responsibilities and performance. The remaining interviews followed a respondent-driven sampling – i.e., snowball sampling. It was decided after each interview which person would be interviewed next, either for being considered relevant, or for complementing the data collected, or for confirming – triangulate – the previous data collected. For example, if the interviewee – the management accountant or the marketing and sales manager – mentioned that the information system was a problem, and hindered both communication and the use of accounting information, then an interview was organised with the director of information systems. When the marketing manager stated that the connection with operations was very important, then an interview with the director of operations was organised, and so on. In Modalfa, the Brand Manager was contacted and interviewed, to supply additional data, by indication of the Marketing Director who was substituted in June 2012 (see Table 3-3).

The process of interviewing and data collection started by contacting by email the director-general (the general manager or the CEO) to schedule an exploratory meeting or phone conversation where the research project was explained. The email explained that the research focused on the interaction between marketing and accounting, and that the aim of the research was to understand how marketing was using accounting information

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[10] Total time of interviews: 19 hours and 44 minutes

[11] All interviews are coded. M01 is the interview with the Sonae's Fashion Division Director-General

in marketing management. Then, permission was asked to interview the marketing director, the management accountant and the business unit director or sales director (hereafter referred to as the commercial director, as he is called in the observed companies). After the request, the director-general confirmed the acceptance of the research and informed about the details for meeting the marketing director, the management accountant and the business unit director. Interviews with the director-general and the board member were also arranged in order to obtain a more comprehensive view of the business and the strategic choices, as well as to triangulate with the remaining interviews and thus increase the research reliability. The other interviews developed according to respondent-driven sampling.

At the beginning of the meeting, the interviewer introduced himself and informed those being interviewed about the interview time duration – it was said to be between 60 and 75 minutes, however this depended on interviewee willingness and availability to speak – and the purpose of the interview. Specific details about the research aim, methodology and expected results were not given – so as not to influence the interviewees' answers. They were informed that the research focused on the interaction between accounting and marketing, and the management and the use of accounting and marketing information by both departments.

Those being interviewed were assured that the dialogue given at the interview would only be used for academic purposes. After the introduction, which lasted approximately fifteen minutes, the interviewer asked permission from the interviewee to record the conversation. All interviewees gave permission to record it. The interviews started by asking the interviewee to say his or her name, position and function at the organisation. They were also asked to briefly describe their typical working week and the kind of decisions and issues handled; the aim of this was to understanding the context where the manager worked and the problems she or he usually faced. During the conversation, the aim was to obtain answers – directly or indirectly – to the following questions:

- What are the business objective(s)? Why?
- What is your strategy? How do you justify it?
- What are the typical decisions that you make?
- What kinds of market information (from customers or competitors) do you consider in your decision making process? Why?

- Do you use accounting information? What types of information do you use? Why? How often is that information provided?
- Do you control your activity? Why? How?
- Is the level of inter-functional interaction enough? Why?
- Do you control on whether the current decisions are aligned with strategy? How? Why?
- How do you plan your activity? Why in this way?
- Did you recently change the information system? Why? What were the results of this change?

After the interview, the interviewer briefly checked whether all the questions were answered and further clarifications could be made regarding some particular questions. The interviewer then asked those interviewed to express any other ideas, comments or recommendations that they would like to contribute to the research. They were also asked whether they considered the topic of the research relevant for management practice and why. This was asked to obtain further insights from the context where the accounting information was used. This interviewing strategy obtained new insights into the use of accounting information by marketing managers, while guaranteeing an answer to the research questions at the outset. The list had a number of core questions, but was flexible enough to include other questions considered relevant in following the exploratory nature of the research. The documents and reports were obtained from two main sources. The detailed financial accounting information,[12] from both the observed companies and their competitors, was obtained through Informa DB.[13] The other source was the companies' archives. The management reports – produced annually to explain and complement the financial accounts – were obtained through the management controller in each organisation.

Four field visits to stores were made (see Table 3-1) in order to confirm that the marketing decisions discussed in the interviews were implemented: two visits to the Dimoda stores (Olivais and Freeport) and two visits to the Modalfa stores (Freeport and Odivelas). These were anonymous visits which included buying experiences (see Table 3-1). The aim of these visits was to see the shop decoration, customer service, products, price levels, promotions, affluence and type of customers. These experiences also helped to better contextualise the topics discussed during the interviews. The design of data

[12] Covering the fiscal years between 2006 and 2009
[13] Member of the D&B WorldWide Network

collection aimed at obtaining evidence which could support the analysis in order to answer the research questions (see Table 2-8).

Table 3-1 Field Visits to Stores

Code	Store	Date	Ticket	Items
V1	Modalfa Arroja	05/06/2011	160889	4
V2	Dimoda Spacio Shopping	21/11/2011	n.a.	2
V3	Modalfa Freeport	24/04/2012	089061	1
V4	Dimoda Freeport	24/04/2012	n.a.	0
	Total	**4**	**3**	**7**

The first interviews in each organisation were scheduled to obtain information directly related to the research questions. However, other executives could also be included if they were considered to be relevant as a consequence of data collected during the first interviews. At Dimoda, the Information System Director and the Non-Executive Board Member were included, while at Modalfa, the Operations Manager and the Commercial Manager were included. A second interview with the same interviewee was booked in cases where the first interview was rushed, because of the interviewee's agenda, e.g., Modalfa Controller's interview, or further evidence were required as a consequence of the interviews with other managers, e.g., in the Dimoda Marketing Manager, Controller and Business Unit Director interviews.

Table 3-2 Interviews in Dimoda

Code	Position	Date	Archive	Duration
D01	Business Unit Director	28/02/2011	Recorded	39 min.
D02	Marketing Manager	16/03/2011	Recorded	48 min.
D03	Financial Accountant	16/03/2011	Recorded	72 min.
D04	Controller	16/03/2011	Recorded	64 min.
D05	Information System Director	01/04/2011	Recorded	82 min.
D06	Retail Director-General	01/04/2011	Recorded	118 min.
D07	Business Unit Director	12/07/2011	Recorded	49 min.
D08	Marketing Manager	19/07/2011	Recorded	58 min.
D09	Controller	02/11/2011	memos	n.a.
D10	Non-Executive Board Member	16/11/2011	Recorded	81 min.
	Total			**10h 11m**

The interviews at Dimoda were conducted between February and November 2011 (see Table 3-2). The interviews at Modalfa took place between November 2011 and September 2012 (see Table 3-3).

The interviewer made a conscious effort to intervene much less during the interviews, giving the interviewees more time to answer "why" and "how" questions. This practice resulted in interviews that added new insights into the use of accounting information and its impact on marketing management. On some occasions, direct and closed questions were used to confirm the content of earlier answers. In these situations, the "how" and "why" questions were not used, for the explanations had already been gained through spontaneous conversation.

Table 3-3 Interviews in Modalfa

Code	Position	Date	Archive	Duration
M01	Director-General	23/11/2011	Recorded	68 min.
M02	Marketing Director	13/12/2011	Recorded	89 min.
M03	Fashion Controller	13/12/2011	Recorded	35 min.
M04	Commercial Director	12/01/2012	Recorded	49 min.
M05	Operations Director	18/01/2012	Recorded	108 min.
M06	Financial Director	09/08/2012	Recorded	49 min.
M07	Financial Accounting Director	21/09/2012	Recorded	95 min.
M08	Fashion Controller	21/09/2012	Recorded	22 min.
M09	Management Control Director	24/09/2012	Recorded	58 min.
M10	Brand Manager	20/03/2013	memos	n.a.
	Total			**9h 33m**

3.6 Data Analysis

The data analysed in this research were the interviews recordings, memos, management reports, financial accounts, companies' web sites and visits to the physical stores.

The audio records were indexed, transcribed, and translated. The indexes were conducted by time line, for the topics and questions, and by questions according to the topics of the research questions. In the time index, all topics discussed in the interview were listed in a time line sequence, i.e., by minute and second (e.g., M05.02[14]). The questions index was constructed using the full list of questions, identifying the specific

[14] "M05.02" refers to the conversation in the interview M05 (Modalfa Operations Director) at minute 02.

interview and the minute when the question was asked (e.g., D04.19[15]). These indexes were useful for finding both the answers to specific types of questions and the spontaneous observations from the interviewees, e.g., following the topic's index.

At the first listening of the interviews' records, it was written up all the topics discussed during the conversation and created an indexed system. At the second listening, it was written up all the questions asked – those planned and those that arose spontaneously during the conversation – and created another index. Then the topics covered in the interviews were grouped into distinct categories and four main groups were analysed: the group of factors influencing the ability of the accounting system to meet the information needs of managers; the group of the managers' use of accounting information; the group of marketing performance measurement topics; and the group of the situation of the MD within the organisation. Finally, interviews were again listened to confirm that all relevant answers and interpretations from the respondents were included in the cases and considered in the analysis. This last listening of the interviews made it also possible to check whether the explanations offered in the conclusion – resulting from the analysis – were aligned with the evidence and the interviewees' interpretations collected during the fieldwork.

Two case studies were produced based on both the collected documental information and interviews. The structure of both cases – linear-analytic and theory building (see Yin 2009, pp. 176-178) – is very similar, which enabled a direct comparison of the situations. In each case the shareholder company is identified and the overall business group's history, mission, culture, values, objectives and strategy are described. Afterwards, the observed business unit is described, focusing on the marketing management's use of accounting information and MD's influence in marketing management. In both areas the links to the use of accounting information in each context are identified. The business profitability, business objectives, accounting information for marketing management and the factors influencing the use of accounting information were considered in the area of the marketing management. The area related to the MD situation included the MD's organisation, planning, budgeting, assessment, stature and influence within the organisation. The role of the accounting department and its interactions with the MD were described throughout the cases.

A copy of the Modalfa case was sent to the Director-General of Modalfa, and a copy of the Dimoda case was sent to the Non-Executive Board Member of Dimoda. Both directors have confirmed, by email, the accuracy of the description. The verification and

[15] "D04.19" refers to the question in interview D04 (Dimoda Controller) at minute 19

confirmation, by senior executives of each organisation, of the authenticity and accuracy of the facts reported and information transmitted, contributed to strengthen the reliability of the case studies and the validity of the information reported.

The next three chapters contain the data collected. In Chapter 4, a description is given of the fashion retail sector in Portugal in order to frame the two case studies in the Portuguese fashion retail industry's competitive context. In chapters 5 and 6, the case studies are presented.

CHAPTER 4 FASHION RETAIL IN PORTUGAL

4.1 Introduction

This chapter provides background information about the fashion retail sector in Portugal in order to demonstrate its relative size and importance in the Portuguese economy. Next, the chapter identifies and describes the business environment of the companies that are the focus of empirical examination. In doing so, the chapter contributes to an understanding of the competitive environment in fashion retail and contextualises the tactical and strategic aspects discussed in each case that are observed and described in chapters 5 and 6. Section 4.2 describes the fashion retail industry in the Portuguese economy and its macroeconomic relevance. In the Section 4.3 the structure of the fashion industry, the major companies, the market shares and sales growth are described. The market dynamics and the changes taking place in the retailing sector are also described.

4.2 The Fashion Retail in Portugal

In 2010, the Portuguese gross domestic product was €172.5 billion and the private consumption €115.2 billion;[16] from this amount, €27 billion was private consumption of non-durable and non-food goods, €53 billion of services, and €20.4 billion of food and beverages.[17] The activity from wholesale and retail trade, repair of motor vehicles and motorcycles contributed with €20 billion.[18] The clothing retail sales amounted to €4.1 billion,[19] representing 15% of the Portuguese private consumption of non-durable non-food goods and 2.4% of gross domestic product, in 2010.

In 2008 there were 13,954 companies operating in this sector.[20] The sector configuration changed between 2008 and 2010, becoming much more concentrated (see Table 4-1). The concentration of the sector is explained by three main factors.[21] Firstly, the economic recession led to a drop in demand, which caused pressure on selling prices, causing reductions in the average price, reductions in sales volumes and lower profit margins, thereby occurring the closure of isolated and less competitive shops. Secondly, competition from low-cost international brands, supermarkets and hypermarkets displaced customers from sole trader street shops to specialised chain stores and hypermarkets; and,

[16] Bank of Portugal, 2010 Annual Report
[17] INE (Statistics National Institute of Portugal)
[18] INE (Statistics National Institute of Portugal)
[19] DBK Sectorial Report, 5th Ed., January 2011
[20] DBK Sectorial Report, 5th Ed., January 2011

thirdly, the development of online trading, over the internet, being competitive in price, reduced demand directed to street shops.[21] Therefore, the number of independent shops, that were isolated stores usually owned and managed by members of a family, decreased. At the same time, the number of specialised chains and hypermarkets increased during this period. Specifically, the number of specialised shops operated by the major brands – e.g., Zara, C&A, Modalfa, Massimo Dutti, H&M, Pull & Bear, and Lanidor – increased from 765 stores in 2002 to 1,915 stores in 2010. The five biggest companies owned 26.4% of the market share (cf. Table 4-2). If the ten biggest ones are taken into account, the share was 36.1%; which represents an increase of 2 percentage points from 2009 to 2010; 14% of the major brands were operating under franchising agreements in 2010.[22]

The market share of independent traditional shops decreased 3.2 percentage points, from 39.8% in 2008 to 36.6% in 2010 (see Table 4-1); the share was transferred to the specialised chains which increased their market share 3.0 percentage points, i.e., from 45.3% in 2008 to 48.3% in 2010; the supermarkets and hypermarkets also increased their market share in fashion retailing, though to a lesser extent than the others, i.e., from 14.9% to 15.1% (see Table 4-1). The market share of the specialised chains is 32% higher than that of the traditional stores. The companies operating in the specialised fashion retail sector employed 27,807 people in 2009.[23] Therefore, the contribution of this sector for both the gross domestic product and the employment was significant.

Table 4-1 Fashion Retailing Structure
Market Share (%)

Year	Independent Traditional Shops	Specialised Chains	Supermarkets & Hypermarkets
2008	39.8	45.3	14.9
2010	36.6	48.3	15.1

Source: adapted from the DBK Sectorial Report, 5th Ed., January 2011

4.3 The Major Companies in the Portuguese Fashion Retail

The composition of the fashion retail sector is presented in this section; from these, two Portuguese companies were selected for research.

The market share and the size of the ten biggest retailers increased in 2010, while making considerable profits (see Table 4-1 and Table 4-2). Inditex owned several brands

[21] see DBK Sectorial Report, 5th Ed., January 2011
[22] see DBK Sectorial Report, 5th Ed., January 2011
[23] Firms with CAE3 activity code 47711 as the main activity declared. Source: Informa DB.

in Portugal (Zara, Pull & Bear, Bershka, Stradivarius, Oysho, and Uterqüe) and was the market leader with 13.4% of market share, selling €555 million in 2010 (cf. Table 4-2). The Grupo Regojo (the owner of Dimoda) came in the seventh position with €85 million of consolidated sales and 2.1% of the market share in 2010 (cf. Table 4-2). However the 1% return on investment[24] (ROI) ranked among the lowest, and the €-6.63 million of net profit (loss) was the worst in this group of companies.

The group of the five companies with the highest returns on both investment and equity was comprised of three multinationals, i.e., Inditex, C&A and H&M and two Portuguese companies, i.e., Modalfa (the second case study) and Lanidor (see Table 4-2).

Table 4-2 Top 10 Fashion Retailers in Portugal

Company	Sales 2010 € million	Sales Growth 2010 %	Market Share 2010 %	Publicity Expenses % Sales 2009	ROI 2009 %	ROE 2009 %
Inditex	555	4.6	13.4	0.04[25]	18[25]	54.3[25]
El Corte Inglés	180	5.9	4.4	n.a.	3.2	2.4
Modalfa	120	4.3	2.9	2.37	32.4	66.5
C&A	120[26]	7.7	2.9	1.27	24.6	72.5
Cortefiel	115	14.3	2.8	1.33	n.a.	n.a.
Continente	95	10.5	2.3	n.a.	3.9	4.1
Grupo Regojo	85	2.6	2.1	0.61[27]	1.0	n.a.
H&M	80	14.3	2.0	n.a.	29.3	51.1
Lanidor	70	2.9	1.7	1.80	9.9	6.1
Calzedonia	65	3.8	1.6	1.64	0.9	-5.0

Source: adapted from the Informa DB database

The biggest brands, among the specialised chains of the fashion business, had a very different pattern of publicity expenses as percentage of sales, i.e., from 0.04% in Zara to 2.37% in Modalfa. Among the Portuguese brands (see Appendix 1), the two extremes were Dimoda with the lowest (0.8%) and Modalfa with the highest (2.37%). The selection of the two cases for this research (i.e., Dimoda and Modalfa) resulted from a "theoretical replication" (see Yin 2009, p. 54) which selected two companies that show some contrast in publicity expenses, growth and ROI.

[24] ROI = (Operational Profit + Interest Received) / Total Assets
[25] At Zara brand.
[26] It is different from the amount reported by Modalfa's 2010 Management Report.
[27] At Massimo Dutti brand.

4.4 The Selected Companies

The companies were selected taking into account that the various functional managers (director-general, business unit director, marketing and commercial directors, administrative services director, financial accountant and management controller) should be available for face-to-face interviews. The frequent access to the facilities, both stores and head-office, was also considered a critical aspect for the field work. Two companies located in Portugal were therefore chosen. If, instead, the boardroom directors of the business were located outside the Portuguese territory, it would have been more difficult to accede to them and interview the executives responsible for strategic choices and organisational structure, e.g., decisions regarding the marketing mix (see Appendix 2), decisions on the MD structure, or decisions related to financial accounting processes and management accounting reporting.

Two companies were selected: one company with the maximum of publicity expenses, another with the minimum – when compared to other companies from the fashion retail sector. The selection was conducted as such in order to understand whether the levels of publicity expenses were explained by the capacity of the marketing managers to negotiate with the general managers the amounts of the marketing budget (see O'Sullivan et al. 2009, p. 856). While using the publicity expenses, the research aimed at understanding, in the observed cases, the relationships between the size of the marketing budget, the MD influence (see Appendix 2), and the capacity of the MD to use accounting information to measure the marketing performance, e.g., the contribution of the MD activities (see Appendix 2) to the firm's profitability (see O'Sullivan et al. 2009, p. 856).

The first case, Dimoda Difusão Internacional, Lda., is a Portuguese family owned company that has been operating in the fashion retail industry since 1984. It belongs to a conglomerate of companies from the GR, which has been operating in Portugal since 1919. In 2009, the group was the seventh biggest fashion conglomerate in Portugal, holding 2.1% of the market share with a turnover of €85 million, while managing €94.2 million of net assets. The sales at the Dimoda business unit increased by 75% in the period from 2005 to 2010; however, there was an enormous decline in profitability in both 2009 and 2010 (cf. Table 5-4). In 2011, the company was struggling to increase sales and produce cash flow.

The second case, Modalfa Comércio e Serviços, S.A. is a Portuguese company that has been operating in the fashion retail industry since 1995. The company belongs to the Grupo Sonae, which is a retail company with two major partnerships in shopping centres, real estate and telecommunications. In 2011, the company had a presence in 44 countries with 43,268 employees. Sonae was the food retail market leader in Portugal in 2010, with a turnover of €3,274 million; while in non-food stores the turnover was €1,272 million. Sonae is a partner of Grosvenor (UK) in the shopping centres real estate business. The Modalfa business unit had a turnover of €107 million in 2009, which represented 2.9% of the market share; it employed 840 people and had 66.5% return on equity. The annual average sales growth of the business unit between 2006 and 2009 was 13%.

The companies selected turned out to be quite different in several respects, notably in: (1) the organisation and functioning of financial accounting; (2) the responsibility and functions of the management accounting department; (3) the responsibility and autonomy of the MD; (4) the use of accounting information; and (5) the sales growth and profitability. This is described in chapters 5 and 6, and discussed in Chapter 7.

CHAPTER 5 FIRST CASE STUDY: DIMODA

5.1 Introduction

In this chapter the Dimoda business is described. The chapter begins with a brief contextualisation of Dimoda within the holding company, i.e., the GR. The Section 5.2 includes a brief history of the GR, followed by the description of GR's mission, culture, values, objectives and strategy. Afterwards, the relative position of Dimoda inside the GR is described. After these sections, the business unit's profitability and objectives are described, and how managers of marketing use accounting information is explored. How the MD is organised and controlled is also reported. Finally, the influence of the MD on marketing management is discussed.

The main aim of this chapter is to understand how Dimoda managers of marketing use accounting information, their motivations for using specific types of accounting information and the factors that influence the ability of the management accounting system to meet the managers' demand of accounting information.

5.2 The Grupo Regojo

The GR is a family owned business. The head office is located in Lisbon, Portugal. The core business is fashion retail (see Appendix 5). In the following sub-sections the history of the group and the situation of the company in 2011 are described.

5.2.1 The History of Grupo Regojo

The GR was founded by José Regojo Rodriguez in 1919. He came to Lisbon at the age of 14 years old, from the Spanish region of Galiza, at the beginning of the 20th century. He set up a company named J. R. Rodriguez and started manufacturing men's shirts in a two-storey workshop, employing 8 people. The business was developed and they also started manufacturing pyjamas and polo shirts, increasing the number of employees to 300. In 1972 a new manufacturing company Confecções Regojo Velasco was founded by Mr. Rodriguez's son in law, Jaime Regojo Velasco. The new company started the production of women's clothing while launching the Dali brand. Mr. Jaime Regojo Velasco died in 1980 and his wife, Mrs. Teresa Regojo, has run the business since then. She set up a new company, Aissela, obtaining the representation of the Pierre Cardin (France) brand in Portugal.

In 1984 the sons of Jaime and Teresa started the Dimoda business. Its main activity was to represent and distribute several international fashion brands in Portugal. In the 1990's, faced with increasing competition both from the manufactured products in the Far East and from the international brands that have franchise operations in Portugal, Dimoda changed its business model. The company stopped selling as a wide multi-brand shop and decided to sell a very limited number of brands – both franchised and their own ones. In 1996, Dimoda opened mono-brand shops under the Pierre Cardin brand. In 2000, the original women Dali brand started to be sold through Dimoda stores and, in 2005, after closing the Pierre Cardin mono-brand shops, the Pierre Cardin brand was included in the Dimoda stores too.

Other brands were managed in Portugal by the GR, e.g., Elena Miró, Massimo Dutti (hereafter referred to as Dutti), Wesley, and Mango. In 2006 the Elena Miró shops were sold to the international brand owner, Miróglio Group and the Mango business was sold in 2007. In 2005 the group started a joint venture in order to represent the footwear Hakei brand in Portugal; this business was sold off in 2007. The group acquired the master franchise from Orchestra, i.e., baby clothing, selling it off in 2009. In 2006 the GR acquired a significant share of Fashion Park, which traded the Nike Women and the Punt Roma brands. Punt Roma was sold in 2008, and the GR started that same year the Friday's Project and the Nike Concept shops. The reasons for divesting in these brands were diverse. The GR Non-Executive Board Member (hereafter referred to as Board Member) explained:

> "It was due to many factors. But we may have two big factors. […] First, it may be because these products do not fit the Portuguese market or are outdated; second, the excessive number of shopping centres; and the Grupo Regojo lost a lot with this. Suddenly, it was discovered in Portugal that the shopping centres were fabulous. Everyone started to build shopping centres, e.g., in Paços de Ferreira, Oliveira de Azemeis, Espinho, Aveiro,[28] there are lots of shopping centres. If you are managing a brand, you have one doubt: Should I lose the opportunity to be in this centre? But if you are, you may not have enough market to sell in Aveiro and Oliveira de Azemeis [which are two nearby towns] at the same time; [e.g.,] we opened a Nike at Oliveira de Azemeis and it was a complete failure."[29]

[28] These are small and medium size cities, located on the country side. Inhabitants: Paços de Ferreira (56,327); Oliveira de Azeméis (68,825); Espinho (31,796); Aveiro (78,463). Source: INE, Census 2011
[29] Interview with the Non-Executive Board Member on 16/11/2011 (D10.52)

The changes in business from multi-brand style stores to both mono-brand stores and ownership of brands, resulted in a context where more involvement is expected from the MD to support the brands owned by GR. The MD is expected to manage the brand positioning and the communication of promotional activities, and the Marketing Manager commented:

> "Here [the marketing communication] is not about cost-benefit analysis. It is related rather to the brand image."[30]

In the next section, the mission, culture and vison of GR is summed up.

5.2.2 Mission, Culture and Vision of Grupo Regojo

The company presented their mission as "We want to create and invest in businesses that contribute to the construction of a fairer, human and civil society."[31] Aligned with this mission, the GR aims at selling useful goods and services; at promoting the personal development of employees; at creating economic value and stable jobs; at respecting the environment, and supporting social projects.[32] The Board Member clarified that a reason for not closing some unprofitable businesses was more than a sentimental question, it was to do with the core values of the company. The Board Member explained:

> "In fact, we support the idea of sustaining, in a positive sense, as far as it will be possible, the manufacturing employees. Some are retiring, leaving for this reason. Probably in 2014 we will not have a manufacturing activity. We are neither renewing the equipment, nor people. The people are in their 60s, and as the seamstresses are retiring, we'll gradually finish the manufacturing."[33]

The organisation is based on a family business culture. The company desires to stimulate, among the managers and directors, an attitude of responsibility, respecting the managers' autonomy.[34] They expect that, through this culture, the managers become empowered with motivation for managing the business "as if it were their own business".[35] However, the autonomy of the departments was sometimes impaired because of the economic interests at the level of the group's headquarters. For example, in the case

[30] Interview with the Marketing Manager on 16/03/2011 (D02.23)
[31] www.regojo.pt (accessed on 15/10/2011)
[32] www.regojo.pt (accessed on 15/10/2011)
[33] Interview with the Non-Executive Board Member on 16/11/2011 (D10.37)
[34] www.regojo.pt (accessed on 15/10/2011)
[35] www.regojo.pt (accessed on 15/10/2011)

of Dimoda, the Board Member explained that the idea of autonomy for managing the business units caused much discussion at the boardroom level. The Board Member expressed:

> "There are complicated issues here. The opening of a Dimoda shop [in a certain location] because we had there a Hakei or an Orchestra, which closed – and we had a contract with [landlord] Dolce Vita or Sonae Sierra, or any other – is related to the Group's interest. It clashes many times with the business unit director [interest]. The business director would say ''I would never open a shop here. It is not profitable'' but the Group says ''We have got this shop. We have to pay a monthly rent, which is not small. We can not close the shop because we may be sued. We need to put something here. We have not any other brand, [therefore] put Dimoda here.'' "[36]

The company presents its values as "[a]cting with justice, veracity and professionalism. Having a passion for being industrious; respecting our commitments; and, based on loyalty and solidarity, working with unity and harmony."[37] This working environment was observed during the field visits: some managers showed their great joy at working for the GR. For instance, the Marketing Manager said:

> "I very much like being part of Grupo Regojo. I entered as an assistant for communication in 2001, I have been promoted and I believe that the board likes my work. I like Grupo Regojo very much; it has been 10 years [not 10 days]."[38]

Similarly, the Dimoda Business Unit Director declared: "This business and working with my team is my passion!"[39]

5.2.3 Objectives and Strategy of Grupo Regojo

The main objectives of the GR's Retail Director-General[40] were both earnings before interest, tax, depreciation and amortisation (EBITDA) and sales. The Director-General stated:

> "My objectives are: always getting EBITDA at the various retailing businesses (this is the main objective); in some starting brands the objective is the volume of sales."[41]

[36] Interview with the Non-Executive Board Member on 16/11/2011 (D10.16)
[37] www.regojo.pt (accessed on 15/10/2011)
[38] Interview with the Marketing Manager on 16/03/2011 (D02.08)
[39] Interview with the Business Unit Director on 28/02/2011 (D01.03)
[40] Hereafter, in this case study, referred to as Director-General

However, the Director-General said that she had specific goals every year (see Table 5-1), e.g., in 2010 it was selling the Wesley business, and, for 2011, the goals were:[42]

- Getting the highest EBITDA from Dutti brand;
- Minimising the losses of the various brands and shops that were meant for closure, e.g., Nike and Friday's Project;
- Making the Dimoda business profitable;
- Reducing but keeping the manufacturing activities (without losses);
- Reorganising the business structure and making it simpler.

Table 5-1 Management Objectives of GR's Fashion Division 2010-2011

Objectives	Dimoda	Dutti	Nike	FP	Wesley	Manufacturing
Maximise EBITDA		X				
Minimise loss	X		X	X		X
Simpler structure	X	X	X	X		X
Selling the business					X	

Source: adapted from the interview with the Director-General on 01/04/2011 (D06.11)

In the interview, the Director-General did not want to disclose in detail the GR overall strategy. However, she declared that the retailing business was very difficult and the group strategy was related to the real estate business, focusing on street shops developments. She said that the fashion retailing based on Portuguese brands had no chance of surviving in the market, therefore they were divesting in the retailing business. The reasons were: (1) the Dutti franchise contract expires in 2014, and as Inditex wants to manage Dutti directly, the GR was expected to terminate the franchise; and, (2) the GR was not interested in running small scale businesses that do not contribute significantly to the size of the group. The Director-General commented that even though there might be some fringe businesses – niches – suitable for small companies, these were not interesting for a structured group such as the GR. The Director-General explained:

> "Our retailing business will become peanuts. The family is concerned in investing in other businesses that could give scale to the Group."[43]

[41] Interview with the Retail Director-General on 01/04/2011 (D06.10)
[42] Interview with the Retail Director-General on 01/04/2011 (D06.11)
[43] Interview with the Retail Director-General on 01/04/2011 (D06.16)

At the same time, the Dimoda business unit has been focused on maintaining the business, and in 2011 the aim was to achieve a positive cash flow, regardless of how slight it might be, as in previous years this had been negative. In 2009 and 2010 the loss before interest, tax, depreciation and amortisation (LBITDA) was €196,000 and €256,000 respectively. The Director-General explained the objectives for Dimoda in 2011:

> "The objectives for Dimoda this year [2011] are: attaining a specific volume of sales and having a balanced cash flow [from operations]. The strategy for achieving this is to close some shops that are unprofitable, to reduce rents, to reduce some services in order to decrease their associated costs, and to promote exports."[44]

The Director-General saw Dimoda as a brand which was selling in medium-low rent shopping areas. She said that Dimoda was a brand that was not able to grow and acquire larger market share. She commented that there was potential for growing, but only in developing export markets, where brands like Dimoda could gain acceptance. She explained that the company was competing with multinationals, and, in times of economic difficulties, the multinationals are the only companies that can support margin reductions, e.g., C&A, Inditex, Benetton, and H&M. These were the brands that were experiencing high growth in the Portuguese market. One reason for this, she said, was that these companies could offer very attractive promotions, out of the sales seasons, all year round, because they has synergies and economies-of-scale. She gave the example of Inditex which has teams of several designers working for the worldwide market. Talking about the advantages of the competitors of Dimoda, the Director-General commented:

> "They can also push the suppliers much more strongly than any other brand. They win by their size."[45]

The Board Member considered the creation of a strong brand to be very difficult in those circumstances. He explained that it was not viable, for the GR, to create a strong brand in Portugal, because it is a small market and is flooded with strong international brands. The Board Member also said that the GR did not have the resources to create another brand like the strongest Portuguese ones, e.g., Lanidor or Salsa, because the GR was not linked to the industry, as it was before, and as Salsa has been.

[44] Interview with the Retail Director-General on 01/04/2011 (D06.13)
[45] Interview with the Retail Director-General on 01/04/2011 (D06.21)

The Board Member summed up the competitive situation of the GR:

> "The Grupo Regojo is very much dependent on Inditex, while Massimo Dutti will last, the group will be operating in retailing."[46]

In addition, the Board Member perspective for GR's strategy was:

> "At the present moment, everything is very risky. What Grupo Regojo will do now and until 2014 is: (1) handle Dimoda, closing unprofitable stores and keeping the others; (2) reduce the group structure, as far as it is possible, e.g., leaving manufacturing; (3) hold the real estate investments in Braga, hoping for better days and offering discounts on the rents. It is not easy, nowadays, to do new things without money, i.e., with the capital invested in the real estate."[47]

To summarise, as the boardroom directors realised that they could not successfully compete and grow in the fashion retail industry in the domestic market, the strategy was to manage the portfolio of fashion stores, growing in the real estate business and consider expanding the fashion retailing to developing countries. While GR intended to sell the Dutti stores to Inditex, there were not plans for selling or closing Dimoda. Moreover, the plans for Dimoda were to improve store management, to close the unprofitable stores and to promote the most profitable ones. In this context, the following sections focus on how the accounting information was used in the management of marketing to deliver the planned business outcomes. This research tries to understand how Dimoda managers communicated and used accounting information to attain the short-run target of balanced cash flows, and the long-run objective of survival while protecting the image and the value of the Dimoda brand.

5.2.4 The Dimoda Business Unit at Grupo Regojo

In this section, the business unit Dimoda is contextualised in the GR. The aim is to compare Dimoda with other GR's business units to understand the relative size of Dimoda in terms of assets and sales, its relative profitability and its growth rates.

The Dimoda business, selling Dali and Pierre Cardin brands, was the most important fashion business, within the GR, after the Dutti franchising from Inditex. The clothing retail business represented 90% of the GR turnover.[48] The group was formed by

[46] Interview with the Non-Executive Board Member on 16/11/2011 (D10.38)
[47] Interview with the Non-Executive Board Member on 16/11/2011 (D10.44)
[48] www.regojo.pt (accessed on 15/10/2011)

25 companies, which belonged to the holding company NOVE SGPS, full propriety of the Regojo family (see Appendix 5). The GR grew in sales, employees and shops between 2001 and 2009; a summary is provided in Table 5-2.

Table 5-2 Grupo Regojo Evolution

Currency in millions of euros

Year	Turnover	Employees	Shops
2001	68	851	58
2003	85	1,132	77
2008	122	1,641	161
2009	123	1,515	155

Source: www.regojo.pt (accessed on 26/10/2011)

The considerable increase in GR sales (44.7%), employees (33.8%) and shops (101.3%) between 2003 and 2008 (see Table 5-2) was the result of adding franchised brands, e.g., Red Oak, Boxer Shorts and Throttleman. In 2010 the GR had 2.9% of the market share in the Portuguese fashion retail industry and 6.5% in the specialised fashion stores market.[49] The overall profitability of GR was supported by the Dutti brand. The manufacturing activity and the various start-ups (see Appendix 5) were financed by the cash flow produced by the Dutti stores. The Board Member explained the importance of Dutti for supporting the other brands:

> "The Group has suffered a transformation from a manufacturing group to a commercial one. The manufacturing activity has been reduced and it is falling apart. Nowadays we do very little, maybe some repairing of clothes. The Grupo Regojo always earned a lot of money with Massimo Dutti; which enabled, smoothly and without drama to support the manufacturing downsizing and losses from manufacturing activities. […] They [the other brands] were all supported by the cash flow from Massimo Dutti. Fortunately, as one had 80% and all the others 20%, it was sustainable."[50]

The Dimoda Controller showed a clear concern for the viability of GR's business and the stability of jobs caused by the probable sale of the main and most profitable business (Dutti) to Inditex.[51] The Dimoda re-configuration, in 1996, was a response to the decrease in the traditional multi-brand fashion retail business. The Board Member explained that the consumers became more loyal to specific brands (e.g., international specialised fashion retail as Zara, C&A or H&M) and less so to the multi-brand shops.

[49] Specialised fashion shops are shops that sell only clothing (mono-brand or multi-brand). Data sources: DBK and Informa DB

[50] Interview with the Non-Executive Board Member on 16/11/2011 (D10.33)

[51] Interview with the Controller on 02/11/2011

The multi-brand shops (from independent sole traders) were diminishing in the market and serving lower income customers with less purchasing power, he said. Therefore, the sales of GR to the multi-brand shops diminished. The Board Member commented:

> "Even the brand Pierre Cardin lost its strength, it is not the same as it was 20 years ago. […] We understood that we could not compete with what we manufacture but with what we could import. We do know how to import, how to select the products in Shangai or Hong-Kong and bring them to Portugal. With this strength of the group we questioned ourselves ''Why not sell this at the outlets?'' – Outlets had just started to emerge in Portugal, e.g., Carregado[52] and two or three more – so we started selling at these outlet stores: First, with Pierre Cardin, followed by Dimoda. We opened several Dimoda [stores] where we sold these clothes at the outlets. It was very successful."[53]

The Dimoda business unit was relatively small, compared with the total assets of the GR, but it increased between 2006 and 2009, e.g., in 2006 the Dimoda share in GR's net assets was 2.2%, and, by 2009, it was 3.4%. Two factors contributed to this evolution: a reduction of 16% on GR's consolidated net assets and an increase of 29% on Dimoda's net assets (cf. Table 5-3).

Table 5-3 GR Consolidated Assets and Dimoda Share

Currency in millions of euro

	2006	2007	2008	2009	2010
GR Assets	112.04	105.03	102.03	94.22	n.a.
Dimoda Assets	2.52	2.73	3.63	3.25	2.93
% of GR	2.2%	2.6%	3.6%	3.4%	n.a.

Source: adapted from the Dimoda management reports

The Dimoda business unit management, the objectives, and the company performance are described in the following sections.

5.3 Dimoda Business Unit

In this section how the Dimoda business unit was managed and its achievements are described. The business objectives are identified and described as well as the tactics used for attaining such aims. The sections that cover the use of accounting information for marketing management start by describing why and how marketing managers were using

[52] Carregado is the place of the Campera outlet which is on the outskirts of Lisbon, 35 km to the north.
[53] Interview with the Non-Executive Board Member on 16/11/2011 (D10.12)

accounting information, followed by the identification of factors that influenced the ability of the accounting system to meet the managers' demand of accounting information. The section ends by describing the situation of the MD, i.e., how it was organised, planned, controlled and influencing marketing management.

5.3.1 Business Profitability

Dimoda reported considerable losses in 2009 and 2010 (see Table 5-4). The accounts in 2010 revealed that the company was technically bankrupt, i.e., €2.9 million of net assets for €3.1 million of liabilities. While the sales increased 5.2% in 2010, reaching €5.36 million, the LBITDA was €256,000, i.e., 30.6% higher than the 2009's LBITDA of €196,000. The 2009 and 2010 net losses were €836,212[54] and €453,154 respectively (cf. Table 5-4).

Table 5-4 Dimoda Sales, E(L)BITDA and Profit (Loss)

Thousands of euro

	2005	2006	2007	2008	2009	2010
Sales	3,071	3,328	5,264	5,401	5,099	5,361
E(L)BITDA	441	404	744	558	-196	-256
Net Profit (Loss)	360	133	329	137	-836[54]	-453
Net Profit (Loss) % sales	11.7	4.0	6.3	2.5	-16.4	-8.5

Source: adapted from the Dimoda management reports

Attempts to increase business profitability focused on both reduction of costs and sales growth.[55] The Dimoda management reports (between 2006 and 2009) enumerated the following actions for increasing profitability:

- Reducing the labour costs through better allocation of employees in each shop, reducing them to the minimum;
- Controlling the costs related to inventory losses (max. 0.3% on 2008-2009);
- Increasing the gross margin through better buying, i.e., lower costs of goods sold;
- Looking for new suppliers, to avoid delays in deliveries, rupture of stocks and negative impact on sales;
- Looking for new shops locations with favourable rent contracts.

[54] An amount of € -278,000 loss at the 2009 period was related to accounting adjustments for the new Portuguese accounting standards (SNC), i.e., negative adjustments on fixed assets net values.
[55] Dimoda Management Report (2006, p. 14)

Increases in sales and profits were also aimed at by promoting the total amount of sales at each customer visit – by increasing the number of items or the average price. The management reports suggest that in 2006 Dimoda aimed at increasing the average value of transactions from €57 to €60; however, the average amount has decreased since then. For example, in 2008 the average value of transaction was €47. For 2009 it was targeted at €50, and for 2010 it was targeted at €23 (for card-holder customers).

The other instrument used to increase the business profitability was the number of pieces sold by transaction. Dimoda intended to increase this sales index, though, without success. In 2007 the index was 1.88;[56] Dimoda targeted 2.00 for the year 2008, but in 2008 it was 1.78; for 2009 they targeted 1.80, however, in 2009 and 2010 the report did not mention the observed values.

The low profitability and losses combined with the inability to achieve the business goals suggest that measures taken had had little or no effect. The next section explains the business objectives set by Dimoda.

5.3.2 Business Objectives of Dimoda

The interviews with Dimoda senior managers suggested that the main objective of the company was to ensure its survival. The Director-General said that Dimoda would continue operating as long as it supported the historic sales level (see Eccles 1991, p. 4), and explained:

> "Decreasing the sales 10% this year [2011] is impossible. We delayed the budgeting because of that.[57] Decreasing the sales so much is impossible. The business would not survive. We must struggle to keep the sales level. We can not accept a decrease in sales. If the sales decrease we must close shops. If the business is not above what was budgeted, which is -10% of 2010's sales, the business makes no sense. It is not worth continuing with the business."[58]

The business configuration of 2011 started in the year 2000. It was based on the idea of selling quality clothes at affordable prices. The idea was inspired in the factory outlet store concept. Aiming at a sustainable sales increase, through the increment of points of sale, Dimoda expanded to lower-cost shopping centres (see Table A-3 in Appendix 5).

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[56] This index value means that, in 2007, the average number of pieces by transaction was 1.88

[57] See Hope, J. and Fraser, R. 2003a. *Beyond budgeting: how managers can break free from the annual performance trap*. Boston: Harvard Business School Press. pp. 71-72

[58] Interview with the Retail Director-General on 01/04/2011 (D06.28)

The Business Director explained how they developed the business model:

> "We started with this business 10 years ago with the concept of outlets. We saw in the outlets a business opportunity. We collected all the non-moving stocks from all brands traded by us. We saw an opportunity for selling these stocks. Then, we finished all stocks, so we didn't have stocks to put in these shops. We realised that this could be a business opportunity and we started producing [clothing] for these outlets."[59]

After the success of the first years of factory outlet configuration, the management devised a strategy for the business. The Business Director explained:

> "We had four outlet locations in Portugal and this limited us. Our strategy was: the customers don't really need to go to the outlets to buy quality or optimum quality products at very affordable prices. How could we diversify and increase our portfolio offer? [Selling] at the second-choice shopping centres. Usually the average rents per square metre and all other costs are lower there and we have the possibility to expand our business."[60]

Table 5-5 Dimoda Stores Area, Investments, and Sales 2006-2010

	2006	2007	2008	2009	2010
Total Shops	6	8	10	14	15
New Shops	2	2	2	4	1
Closed Shops	0	0	0	0	0
Investments (€10^3)	340	240	222	523	69
Sales from shops (€10^3)	3,142	4,473	5,094	4,815	4,974
Total area (sq. mt.)	928	1,107	1,298	1,496	1,562
Sales per sq. mt.	3,386	4,041	3,924	3,219	3,184

Source: adapted from the Dimoda management reports

However, the increase in stores (from 6 to 15 units, between 2006 and 2010) while increasing the total sales (see Table 5-5), was followed by a decrease in profitability (see Table 5-4). The Board Member's perspective was that the company had both expertise in fashion and willingness to increase sales, but was somehow careless regarding the profitability management. The Board Member explained:

> "Five years ago, as it was 20 years ago, the business director, dragged by a group culture, was concerned with the collection and its sales, he didn't look too hard at the bottom line. ''We are selling well, but we are not interested if we are earning money or not with this''. The business directors were mainly directors of product and sales."[61]

[59] Interview with the Business Unit Director on 28/02/2011 (D01.00)
[60] Interview with the Business Unit Director on 28/02/2011 (D01.01)
[61] Interview with the Non-Executive Board Member on 16/11/2011 (D10.18)

The Dimoda Controller also confirmed that, in her understanding, the Dimoda business objective "is to sell more".[62] However, the 68% increase in 2006's total shop area to 1,562 square metres in 2010 resulted in the lowest sales average per square metre since 2006, i.e., €3,184 in annual sales per square metre (see Table 5-5). The average sale by square metre was higher in the outlets, i.e., €3,970; followed by the street shops,[63] i.e., €2,870; the shopping centres were the lowest, i.e., € 2,775 by square metre (see Table A-3 in Appendix 5).

Table 5-6 Sales Target for Shops and Sales Realised

Currency in thousands of euro

	2007	2008	2009	2010
Sales target	4,408	4,748	5,043	5,499
Targeted in(de)crease %	35%	2.6%	-4.5%	10.9%
Retailing sales	4,626	5,278	4,957	5,245
Sales In(de)crease %	41.8%	14.1%	-6.1%	5.8%

Source: adapted from the Dimoda annual reports

The Business Unit Director had the autonomy to open new stores or close any of the existing ones, however, for strategic reasons, the same did not apply to the stores imposed by the board directors. Some new stores were a result of decisions at the GR's boardroom level. This had a negative impact on the Dimoda business unit profitability. The Director-General explained:

> "We also have stores that belong to the group. We opened in Braga, because of the group strategy. Nevertheless we would rather not have done it. If they had asked us ''Would you like to open in Braga?'' [The answer would have been] ''No, we would not''. As it was a Group's project, we were obliged to go ahead with it. We talked about this at the boardroom meeting. We went there because they [the GR's board directors] obliged us to, but it has no return. On the High Street, Rua Augusta, it was the same. She [the Business Director] is somehow penalised by those things [as it reduces her business unit profitability]."[64]

Between 2007 and 2010 the retailing sales increased at an annual average rate of 4.3%. In 2007 and 2008 the sales were above the forecasts; however, in 2009 and 2010, they were significantly lower (see Table 5-6). The Board Member commented that Dimoda should be kept small because the fashion market demand was very limited. The

[62] Interview with the Controller on 16/03/2011 (D04.17)

[63] The new store in Braga was not considered in the calculation of the average because it was not working the whole year.

[64] Interview with the Retail Director-General on 01/04/2011 (D06.28)

Board Member explained:

> "Dimoda must stay at a small dimension. There is no willingness to open 50 Dimoda stores, perhaps 5 or 10 stores. There are no assigned locations, no customers, no people."[65]

The next section describes how Dimoda planned, managed and controlled the business, using the accounting system, from the perspective of marketing management.

5.3.3 Accounting System and Marketing Management

This section provides a description of how Dimoda's marketing managers demanded and used accounting information. The factors which influenced the communication and use of accounting information are also identified. There were two managers making marketing decisions, one was responsible for marketing communication and the other was the director of the business unit, i.e., the marketing and sales manager. The objective of this section is to contribute to answering the research questions presented in Chapter 2 (see Table 2-8).

5.3.3.1 Marketing Managers' Demand of Accounting Information

Both the Business Unit Director and the Marketing Manager were managing marketing, however, the Dimoda Marketing Manager said that the MD was functioning at an operational level and only managing marketing communication. Decision making was carried out by the Business Unit Director. The marketing manager explained:

> "What is being done is not at all decided in this department. It is decided by the director of marketing and business."[66]

The Board Member explained that Dimoda was completely different from the other franchises managed by the GR, because all production factors were in the hands of the Business Unit Director:

> "She [the Business Unit Director] knows where she buys. She designs. She decides. She negotiates. She negotiates the prices and the quantities with the supplier from Shanghai. She manages the vessel containers. She clears the goods from customs. She sets the selling price as she wants."[67]

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[65] Interview with the Non-Executive Board Member on 16/11/2011 (D10.61)
[66] Interview with the Marketing Manager on 19/07/2011 (D08.55)
[67] Interview with the Non-Executive Board Member on 16/11/2011 (D10.23)

Thus, at Dimoda, the marketing decisions were taken by these two managers, i.e., the Business Unit Director and the Marketing Manager, and the following paragraphs describe how and why these two managers used and communicated accounting information in their work.

5.3.3.1.1 Accounting Information for Sales Revenue Analysis

The Marketing Manager did not exchange information with the department of accounting and control on a regular basis; however, she said that in the past when she had had the commercial software running, she analysed the sales trends and the average prices (see Table 5-7 and Table 5-10). The Marketing Manager was carrying out an analysis of revenue, without considering the costs, and explained her ability to analyse the sales, and how she used the accounting information produced by the commercial software:

> "I am not able [to know the profitability of the women and men segments] because the software platform has not been working for six months. In the past, we were able to analyse the average price per visit and the average price per ticket. We did not [analyse costs and profitability]. It is the Business Unit Director that does this. I do not [exchange information with the accounting department]."[68]

Table 5-7 Sales Analysis Indicators Used by Dimoda

Column by line	Returns	Top Sales	Price Discounts	Sales
Article (Qt)	T/S	T/S		
Article (€)	T/S	T/S	T	
Reference (Qt)	T/S	T/S		
Reference (€)	T/S	T/S	T	
Article Collections				T
Article by Colour				T
Interval of discounts				T
Article Family				T
Article Group				T
Article Line				T
Article Gender				T
Article Size				T

Source: adapted from a Marketing Manager's email on 20/07/2011
Key: T-Total, S-Store

The Controller said that the information about sales forecasts was produced by the commercial department, i.e., the Business Unit Director, and it was with this collaboration

[68] Interview with the Marketing Manager on 16/03/2011 (D02.12)

that the annual budget was developed (see Anthony and Govindarajan 2003, pp. 420-421). She explained:

> "[The commercial department] makes the sales forecast [for the annual budget] [...] on a monthly basis [...] for they are the ones who have the perception of what they will sell."[69]

The Director-General also confirmed the commercial department's focus on sales analysis and limited use of information on costs and profitability (see Goebel et al. 1998, p. 498). The sales analysis was made at the customer level; to that end, the marketing and commercial departments used data that the customer card system provided (see Johnson 1992, p. 65). The Director-General explained:

> "There are several types of segments [of customers]. We are now talking about the men and women in Dimoda. But we could also be talking about men and women clothes, referring to several segments or sub-segments, e.g., trousers and jackets. This is analysed by the Business Unit Director. She analyses in terms of sales, not in terms of [profit] margin. The margin is total [store by store] … The Business Director takes all of these [accounting] printouts. […] If I or the control department wants to get the costing information, then it is more complicated. It is at the commercial department level that they work with all this information. To know what is selling more, what is selling less; she [the Business Unit Director] has many printouts for supporting [the commercial analysis]."[70]

The executives who managed marketing, both from the MD and the business unit, did not receive the accounting information in a systematic and automatic way from the accounting department. Information on sales were managed and produced by the marketing software, in particular through the software related to the loyalty card. The Director-General described the calculations made by the marketing and commercial managers, related to revenue analysis at the customer level:

> "About the profitability of customers: through the loyalty card, we know who the customers are who buy more. We do these statistics of purchases both for [loyalty] cards and without [loyalty] cards; we have printouts, made by the marketing management, with all this management of loyalty card [sales]. But only for those that have loyalty cards, those that don't we do not know. We analyse, e.g., the customers who have more sales."[71]

[69] Interview with the Controller (04.12)
[70] Interview with the Retail Director-General on 01/04/2011 (D06.45)
[71] Interview with the Retail Director-General on 01/04/2011 (D06.55)

The marketing software was separate from the accounting software. Thus, although the marketing managers had information about the business' profitability, the costs that were considered in the analysis were estimated and had a significant margin of error. The following section describes how the marketing managers used the information to analyse profitability.

5.3.3.1.2 Accounting Information for Profitability Analysis

The Marketing Manager did not analyse the business' profitability. Her concern was to control costs and meet the department's budget (see Hope and Fraser 2003a, p. xviii). However, the Business Unit Director was very keen to analyse the profitability. The Business Unit Director expressed interest in the analysis of profitability due to her training in business management and the aim of business survival. The Business Director explained:

> "[The profitability information] is extremely important, I follow very closely the profitability of my business, I am very concerned about it, the role of accounting and control departments are fundamental, in any business. […] I am graduated in business management. I never saw finance as being apart of the sales department. I see the business as a whole. For me it is unthinkable to work exclusively on sales management without knowing what I am spending in my sales department. Why should I do wonderful things, if six months later someone will tell me to close the doors and ask me to leave because it does not work?"[72]

However, the interest of the Business Unit Director in accounting information regarding profitability was not adequately supported by the department of accounting and control. The Business Unit Director acknowledged that there was a margin of error in her analysis and described her methodology:

> "I have a monthly printout that enables me to analyse my margins against my sales, cost of goods sold, and margins. It is an analysis made by the system, which is not 100% reliable, as I know it has 1% or 2% variances because it does not have the [indirect] cost percentages. It is an analysis made by me. It does not have the [indirect] costs allocated… I do my own calculations and the role of management control."[73]

The Financial Accountant felt there was no need to provide regular and structured accounting information to the Business Director. From the Financial Accountant's

[72] Interview with the Business Unit Director on 28/02/2011 (D01.04)
[73] Interview with the Business Unit Director on 28/02/2011 (D01.28)

viewpoint, the information was sufficient and the Business Unit Director had all the information she needed to analyse the business profitability. The Financial Accountant referred to this matter as:

> "The commercial manager goes and looks, every day, at her sales and she knows her margins. This commercial manager knows exactly how much rent she pays for each shop. She has the notion of fixed costs that she has beyond rents; that is, what has the most impact. She knows perfectly well the expenses related to staff. She has this information. She is conscientious of her prices, because she does her purchases."[74]

The Director-General also considered adequate how the Business Unit Director had access to accounting information and produced her profitability analysis. She acknowledged that nothing was formalised: the business unit directors go to the head office every month to meet the general manager and the controller; they discuss the monthly reports produced by the management control, which included some financial indicators, e.g., sales, sales per square metre, and the monthly results. She noted that whenever the Business Unit Director needed and requested accounting information, it was sent by the control and accounting department.

The perspective of the Business Unit Director was different. She noted that the accounting and control should be more proactive both in producing information and interacting with her (see Johnson and Kaplan 1987, p. 4). She expressed:

> "The [accounting] information is enough. I am satisfied. But, not completely satisfied. Why? Because we only get the information if we ask for it from the accounting [department]. I think that it should be the accounting department or the management control department to give us, monthly, the costs that they know are important for our functioning, and could say, here is your budget for 2010, here is where you are, analyse your variances and see whether you can manage it by improving it before the end of the year. I feel this disconnection [between us and accounting], and wish it were closer…. I think that these are two important departments and both should give information without the necessity to ask for it."[75]

In Dimoda, managers responsible for marketing management also used accounting information for controlling and managing costs; this is discussed in the following section.

[74] Interview with the Financial Accountant on 16/03/2011 (D03.56)
[75] Interview with the Business Unit Director on 28/02/2011 (D01.18)

5.3.3.1.3 Accounting Information for Cost Management

The business strategy – offering quality products at affordable prices at convenient scattered locations – required that "Dimoda had to be developed through very tight cost control."[76] said the Business Unit Director. She justified this, saying that Dimoda was a company managed through costs centres and these should be very well controlled. Dimoda has the ownership of the brand and set the final price using a mark-up on all accumulated costs.[77] The Director-General also justified the need for controlling the costs with the economic slowdown of 2008 and the business' weaker results. She explained that the costs were being very well managed by the Business Unit Director, through the tight control of budget variances and cost containment in supplies (see Hope and Fraser 2003a, p. xviii; Johnson and Kaplan 1987, p. 33) such as energy and telecommunications, and not much could be reduced:

> "This brand is managed almost at penny level. Its return is very weak. It already had higher returns before, but the crisis started and the years 2008, 2009 and 2010 were weaker. She needs to pay close attention to all costs. […] She [Business Director] is hardworking, very much motivated, she strives for the objectives […] costs are [already] too tight; we have not much to do with costs."[78]

The business income and cost structure of Dimoda was different from the average of the companies operating in the sector[79] (see Table 5-8). The major unfavourable differences were concerned with supplies, services and labour costs. While there was a concern to reduce costs, Dimoda did not compare their cost structure (see Table 5-9) with that of its competitors.

Table 5-8 Cost Structure in Specialised Fashion Retail Sector

% of sales

	Dimoda	Average	Top 50	Top 10
Cost of goods sold	54.7%	56.1%	54.6%	54.7%
Supplies and services	24.0%	19.7%	20.1%	20.2%
Labour costs	22.7%	14.6%	12.6%	11.1%
Depreciation	4.3%	3.7%	3.8%	3.3%
Net profit (loss)	-10.8%	1.1%	4.3%	5.6%
Net Assets (€ 10^3)	3,526	549	18,092	46,722
Sales (€ 10^3)	5,098	630	31,081	94,062

Source: adapted from the Informa DB database (2009)

76 Interview with the Business Unit Director on 12/07/2011 (D07.01)
77 Interview with the Business Unit Director on 28/02/2011 (D01.01)
78 Interview with the Retailing Director-General (06.02)
79 CAE 47711 – specialised retail for adult clothing stores

The Dimoda's total costs of supplies and services were 24% of sales in 2009; the average for the fashion retail sector was 19.7%. The best profit margin was achieved in 2007, i.e., 6.3% of sales, however, the five year average was negative, i.e., -1.2% of sales (loss) (see Table 5-4).

Cost control was the major reason for the Dimoda Marketing Manager to communicate and use accounting information. The MD was a cost centre and the main focus of the Marketing Manager, in the context of accounting information, was the production of the annual budget and the monitoring of marketing and communication costs along the year (see Hope and Fraser 2003a, p. xviii).

Table 5-9 Main Costs in Dimoda

% of sales

	2006	2007	2008	2009	2010
Rents	10.1	9.1	9.3	10.7	11.6
Repairing	2.7	2.7	3.4	3.5	3.6
Communication	1.3	1.4	1.8	2.1	2.4
Electricity	1.2	1.5	1.5	1.8	2.0
Specialised services	0.6	1.5	1.8	1.5	1.5
Royalties	1.7	1.1	1.1	1.2	0.9

Source: adapted from the Informa DB database

The various managers involved in the process of management control and cost containment – the Business Director, the Accountant, the Controller and Director-General – although exchanging information on a regular basis, did not report and analyse information on costs in a regular and systematic way. It was the Business Unit Director who took the initiative to ask for information about costs in order to act in the management of the business to achieve lower costs and increased profitability (see Johnson and Kaplan 1987, p. 33). The Business Unit Director said:

> "I ask for information from the accounting department very often; usually information about the costs the commercial department may manage, e.g., fixed costs, services and supplies, and costs of goods sold."[80]

In 2007, the Business Unit Director renegotiated the rents of shops, with a view to cost containment in order to increase the business profitability.[81]

[80] Interview with the Business Unit Director on 28/02/2011 (D01.04)
[81] see Dimoda Management Report (2007-2010)

In 2010 other measures were proposed in order to reduce costs, thus increasing profitability:[82]

- Move the inventories to a cheaper store;
- Remove the mobile phones from the shops;
- Reduce the transaction costs related to credit and debit cards;
- Reduce the packaging costs;
- Close the least profitable shops.

The board directors instilled this cost containment attitude and included these indicators in the reward system. There was an effort to stimulate the business directors to have a comprehensive view of the business instead of focusing only on sales. The Director-General explained their efforts:

> "We have five main indicators [for calculating the rewards]: EBITDA is always [important], and [there are] other interesting issues that we want to improve. Dimoda has also [targets of] closure of stores, rent reductions, transportation costs reductions, and sometimes we include sales. There are many strategic objectives; we include some of them in the incentive system."[83]

The Financial Accountant testified that the concerns of the director of the business unit were to inquire about the costs, with the aim of reducing or deciding on the closure of certain stores. However, it was evident from the views of the Financial Accountant that the effort to obtain this information came from the Business Unit Director, and that the Financial Accountant's participation in this process was passive and reactive. The Financial Accountant explained how she interacted with the Dimoda Business Unit Director:

> "There is a sharing of information. The person [director] of Dimoda is able to request information from me: how can we, or where can we reduce [costs] in your opinion? For example, a short while ago, the Business Director and the administrator came to me, and then we looked at a specific business unit, to see how much it would be worth keeping the business unit. We did simulations in terms of cash flows for the business unit, i.e., a shop. We checked the accounts [to determine] which one was the major, or which one we could reduce [its costs]."[84]

[82] see Dimoda Management Report (2010)
[83] Interview with Retail Director-General on 01/04/2011 (D06.82)
[84] Interview with the Financial Accountant on 16/03/2011 (D03.27)

When questioned about the information available to control costs, the Director-General reported that accounting information existed and was regularly sent to the directors of the businesses. She said that they had accounting indicators, e.g., the percentages of the cost of the goods sold, the percentages of staff cost and the percentage of variable costs. The Director-General explained that they obtained the information from the monthly operating account, and the management controller sent it to the business unit managers. However, the Business Unit Director, while knowing that the information existed at the level of the general management, said that the information was highly aggregated. It lacked the detail necessary to identify where costs were rising, and did not allow for the identification of opportunities for improvement. The printouts and reports produced automatically – although useful for the top management – were insufficient to support the commercial directors (see Anthony and Govindarajan 2003, pp. 416-417). The Business Unit Director explained the situation:

> “I am sure [that the accounting information exists at the board level]. It is not detailed. It may show the changes in services and supply expenses from one year to another. The board directors are aware of it. However, if you ask ‘‘Why has it increased? Where has it increased? Where can we improve?’’ [there is no answer]. This detailed work must be done between sales and management control. This relationship should be improved.”[85]

The Controller, when confronted with the situation, acknowledged that her interaction with the commercial department was insufficient. She noted that the construction of the 2011 budget was a team effort with the commercial department, and considered it the most appropriate methodology (Anthony and Govindarajan 2003, pp. 420-421); more than building the budget based on historical values (see Hope and Fraser 2003a, p. 4). She noted that by developing the budget in collaboration with the director of the business unit, it facilitated subsequent monitoring of costs in coordination with the commercial manager of the business unit. The Controller revealed that she intended to increase her interaction with the commercial department in addition to the usual reporting to the board directors of the GR. The Controller commented:

> “[The contact with the business unit directors] will be part of my duties. Every time I identify important deviations, I will start reporting to the business unit managers besides passing information to the Director-General. [I will do so] also because this year there was interconnection in budgeting; it wasn't simply based on historical data. We cooperated [to set the budget] at the level of costs.”[86]

[85] Interview with the Business Unit Director on 28/02/2011 (D01.35)
[86] Interview with the Controller on 16/03/2011 (D04.16)

Besides the objective of cost management at the marketing and sales department – e.g., finding opportunities to reduce operating costs through changes in operations or renegotiating the contracts with suppliers or stores' landlords – accounting information was also used to control marketing management through the annual budget. The following section discusses this topic.

5.3.3.1.4 Accounting Information for Marketing Management Control

In the MD, accounting information was primarily used to ensure that the level of expenditures would not exceed what was budgeted and to verify that all suppliers' invoices were recorded (see Hope and Fraser 2003a, p. xviii). The motivation for using the information in this way was primarily related to financial accounting. The Director-General explained how and why the Marketing Manager used the accounting information:

> "The marketing [department] makes the budget, all costs are detailed, and she [the Marketing Manager] makes her own controls that are sent to the Business Unit Director or to me. We have a certain budget and all the [actual] costs, for checking that nothing [related to costs] is missing. From each [marketing] action, we get the cost [information], i.e., the budgeted amount and the detailed costs."[87]

Attempts were made to control marketing through measuring its performance in financial terms. The methodology used was to compare the level of sales before and after specific marketing campaigns, e.g., sending promotional messages by short message service (SMS). The Director-General explained how the Marketing Manager carried out these measurements and the difficulties that they encountered:

> "[Do we measure] the return? Marketing does so. When they do an activity, they attempt, whenever possible, to measure the return, in terms of visibility.[88] Dimoda makes very few actions [sponsored social events]. The only thing that is measured is: we send SMSs to customers, for promotions, and we see how that relates in terms of increased sales; compared to the previous year's sales, or [compared] to what was being done previously. We do not have a lot of tools, we cannot measure exactly. This is always a difficulty for them [in marketing]: evaluating the return of campaigns."[89]

The director of the business unit confirmed the use of this methodology – the

[87] Interview with the Retail Director-General on 01/04/2011 (D06.58)
[88] Visibility return means the amount saved in the media space cost, i.e., by passing a note about the social event, sponsored by the brand, instead of paying publicity.
[89] Interview with the Retail Director-General on 01/04/2011 (D06.56)

measurement of the volume of sales after the campaigns – and reported that it was very complicated to measure the performance of marketing in financial terms. The Business Director explained:

> "It is very complicated [to measure the marketing return]. The only way to do it is to compare the sales of this weekend with the sales of the same weekend one year before, and to analyse whether the cardholders' sales increased or not."[90]

The marketing manager and the business unit director reported that they participated in the construction of the annual budget for marketing (see Anthony and Govindarajan 2003, pp. 420-421). The Business Unit Director, who performed the functions of marketing and sales manager, decided on the overall budget amount (see Hope and Fraser 2003a, p. 21). She fixed the sales target and assigned the amounts to the costs in communication and marketing. The Marketing Manager, based on the amounts assigned to the MD, decided on actions to develop and allocated the marketing budget to the various marketing activities. The Business Unit Director, who did not participate actively in the marketing planning process, described the involvement of the Marketing Manager in budgeting:

> "[In setting the marketing budget] we look at the TV presenters that we will continue to dress according to each season. We calculate, each season, the value allocated to any of them, depending on the number of times that each one will appear on their television programme. By calculating the cost allocated to each, we consider the acquisition cost of the goods used. We also look at the number of SMS campaigns carried out in the previous year to set the budget for the next year, analysing if an increase is needed, in a specific month, the number of campaigns."[91]

The Marketing Manager confirmed that she was not responsible for decisions on the total amount attributed to the marketing budget. It was the Business Unit Director who decided the total budgeted amount spent on communication, the Marketing Manager said. Moreover, she commented that many of the activities that were planned within budget, were not carried out (see Hope and Fraser 2003a, p. 4). The Marketing Manager explained that this was due to the low motivation of the Business Unit Director to develop initiatives related to marketing and communication (see Ambler 2003b, p. 253).

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[90] Interview with the Business Unit Director on 12/07/2011 (D07.13)
[91] Interview with the Business Unit Director on 12/07/2011 (D07.07)

The Marketing Manager expressed:

> "The budget is this, but then we can never carry out all the actions, or those that are planned. A series of actions planned are then not performed, because the director of the brand [does not want to carry them out]. It is the director of the business who gives the money, she says: ''We have a certain amount to communicate for marketing this year.'' "[92]

The Director-General explained that the Business Unit Director monitored the compliance with the budget only in terms of sales and cost of goods sold. For the other overheads, budgetary control was carried out by the management control department and discussed monthly at the boardroom level (see Hope and Fraser 2003a, p. xviii). Referring to this, the Director-General explained:

> "[The Business Unit Director] only develops the budget for [articles] purchases and sales. She does not have the budget perspective for the overall business structure. This is the point: she doesn't compare the budget with the true costs [regarding the overall budget]."[93]

The Business Unit Director said that, in addition to the motivations directly related to cost management, accounting information also contributed to a better understanding of the business as a whole, and motivated structural changes (see Johnson and Kaplan 1987, p. 4). The next sections explore this use of accounting information for identifying improvement opportunities.

5.3.3.1.5 Accounting Information for Identifying Improvement Opportunities

The Dimoda Business Unit Director said that accounting information was helpful for her to identify both problems and opportunities for improvement. She inferred that it complemented other information and helped to guide the practice of marketing management, even if the information did not inform particular decisions. She explained why a closer relationship to the department of accounting and control was desirable:

> "The closeness of all these departments [i.e., accounting and control] with the board directors and with those who direct the business is extremely important for daily decision making. Though it may not influence 100% of the decision making or the direction of the business, it can contribute to deciding a route that is more advantageous to the enterprise."[94]

[92] Interview with the Marketing Manager on 19/07/2011 (D08.05)
[93] Interview with the Retail Director-General on 01/04/2011 (D06.50)
[94] Interview with the Business Unit Director on 28/02/2011 (D01.08)

In the case of Dimoda, the Business Unit Director identified two factors that hindered the use of accounting information in her work as manager. Firstly, the reports that the management control produced were aimed essentially at an assessment of the overall business performance and were directed to senior management. Therefore, the Business Unit Director had no regular or automatic access to accounting information. This meant the information was often outdated and not helpful in decision making. The Business Unit Director explained how the accounting information flow could be improved:

> "The [management control] information is produced. It is not communicated. We ask for the information until it is delivered to us. I think that this is wrong. The management control should send, quarterly, to the responsible person, not only to the board directors, the [accounting] information about what is wrong; this would enable him [the business unit director] to work and change things, if needed be."[95]

Secondly, the Business Unit Director mentioned the need for accounting information to be discussed verbally with those who produce it. She suggested that the reports of accounting, despite being available whenever they were required, were not sufficient to identify opportunities for improvement and checking on what was good and flawed in the business. The Business Unit Director suggested that there would be advantages in communicating information face-to-face, to create opportunities of interaction between managers and controllers. The Business Unit Director explained her viewpoint:

> "I am sure that the information related to what was budgeted and executed is produced monthly and presented to the board directors. I am sure. We have monthly board meetings. The information regarding sales and variances is provided. But I think that it should also be provided to the business manager. To sit down and discuss with the business manager what can be improved, what is right and what is not right. This is important."[96]

Finally, the Business Unit Director reported how useful it was to receive the information from the department of accounting and control to perform her job as business unit manager:

> "We need to cut [costs]. We are in cost containment. We may go this way or another. We need to see where we can improve. Are we going to use our marketing, conduct some sales promotions and increase the sales revenue?

[95] Interview with the Business Unit Director on 28/02/2011 (D01.25)
[96] Interview with the Business Unit Director on 28/02/2011 (D01.34)

> [Therefore] it is important that the [accounting] information is made available and better discussed. It is really very important. [The interaction between sales and accounting] does not exist and this is very important, I am sure about it."[97]

The accounting information also contributed to strategic marketing management and this topic is discussed in the next section.

5.3.3.1.6 Accounting Information for Strategic Marketing Management

The Controller, the Business Unit Director (responsible for marketing and sales management) and the Director-General, commented that accounting information was used to support strategic decisions. For example, in projecting sales to five years, they assessed (1) the interest of maintaining certain shops in operation; (2) in setting limits on the cost of long-term leases; and (3) in managing income and expenses aimed at the long-run survival of the business. The Controller explained her interaction with the Business Unit Director and how the accounting information generated inputted into strategic decisions related to the closure of stores:

> "Sales [forecasts] are made together with the commercial [director]. The commercial [director] does [the forecast] based on historical [sales]. She uses the historical data, and then, depending on her perception of the market, she gives us the information [in the form of] an estimate for the following year. We have also, in some cases, a 5 year plan; in the case of Dimoda this was also done to see the results of the stores for 5 years, and whether it was better to close some [stores] or not."[98]

Likewise, the accounting information was taken into account to determine what kind of stores could be rented and what fixed cost structure was consistent with the Dimoda's brands positioning (see Appendix 2) in the clothing retail, because the management had set a maximum allowable cost for the rent per square metre. The Director-General gave an example of using accounting information in strategic decisions:

> "We know that Dimoda cannot pay more than 15 euros per square metre, because we have to do promotions. To ensure a certain profit margin we have to have very low costs because the [customer's] appetite for our products is not fantastic. To be profitable, we have to have certain low fixed costs."[99]

[97] Interview with the Business Unit Director on 28/02/2011 (D01.26)
[98] Interview with the Controller on 16/03/2011 (D04.47)
[99] Interview with the Retail Director-General on 01/04/2011 (D06.100)

Finally, when the Business Unit Director was questioned about the future of Dimoda, she noted the importance of being well informed by the department of accounting and management control to be able to manage costs. In her opinion, the viability of the business demanded a constant alertness to find new opportunities for cost reductions (see Johnson and Kaplan 1987, p. 33):

> "How do I see the future? We have to continue cutting what we can [on costs] out there, so we can have some others [revenue and profit] growing more. I see the future as being very complicated."[100]

The accounting information, in addition to contributing to the debate on strategic issues, also served to determine prices. This topic is covered in the following section.

5.3.3.1.7 Accounting Information for Price Management

The Business Unit Director said that accounting information was used to determine prices by adding a margin over the purchasing cost of the items which included the materials, transportation and customs clearance costs, limited by a maximum acquisition price. Referring to the importance of accounting information, she said:

> "[The accounting information] is important [for setting the prices]. […] It is a mark-up on all previous costs. We have a close relationship [with accounting information]."[101]

The pricing policy at Dimoda was dependent on the product, the competition and the price positioning. The Business Unit Director described the business proposal as "products with quality or optimum quality at very affordable prices"[102] and the Marketing Manager explained how they did the price positioning:

> "We select a set of articles as well as the brands that compete with us, those having prices, equally higher, or equally lower than ours. We go to their stores, we check the prices, the point of sale; we check everything, product, store, promotions, and changes made."[103]

The Business Unit Director had a cost ceiling for each item category, which was calculated considering the price point deducted from the targeted margin – the fixed costs

[100] Interview with the Business Unit Director on 12/07/2011 (D07.43)
[101] Interview with the Business Unit Director on 28/02/2011 (D01.09)
[102] Interview with the Business Unit Director on 28/02/2011 (D01.01)
[103] Interview with the Marketing Manager on 16/03/2011 (D02.35)

were allocated using a unitary average fixed cost. The Business Unit Director explained how she used the target costing technique:

> "I can not go above this cost for each product category. I have a ceiling for each category e.g., I can not buy a polo shirt originally at €19. My final customer will not recognise the value; the market will not buy that product at this price. I have a ceiling price for each product category; to which I may work up to. I need this margin in order to keep the business alive; therefore I go back and look for products according to my conditions."[104]

In addition to price management, accounting information was also important in customer analysis. This is addressed in the following section.

5.3.3.1.8 Accounting Information for Customer Analysis

The Business Unit Director said that she resorted to the accounting records of specific customers with loyalty card, to realise when and how often the customer buys, and the value of each purchase. She said the analysis allowed a better understanding of the configuration of the client portfolio, and also allowed an understanding of how customers react to promotions by SMS. The Business Unit Director explained why she used accounting information for customer analysis (see Johnson 1992, p. 65):

> "Sometimes I like to look at the list of customers, open some customer records, from several customers, and understand in which periods the customers buy. Is it a customer that only comes in the sales season? Is it a customer that doesn't react to my SMS? Is it a customer that buys during the season and does not care about the campaigns I carry out? This is something very interesting to look at, because we understand that we have customers that only come to the store after receiving a SMS. This is necessary and possible to do, but, as the system is, it is a complicated situation."[105]

The Marketing Manager also said that she had access to information related to customers with loyalty cards. She revealed that she was not looking at the profit margins of the products sold: she analysed the number of purchasing transactions and the total sales amount (see Table 5-10). She said that this form of analyses allowed her to assess the impact of the campaigns and described the information she had access to:

> "So much information. We could do a number of things – based on the records of clients with cards and without. Our campaigns are always

[104] Interview with the Business Unit Director on 28/02/2011 (D01.12)
[105] Interview with the Business Unit Director on 12/07/2011 (D07:28)

assessed regarding the customers with the cards, i.e., what they buy, when they go to the store, what is the average ticket [sale], and many other things. We can also analyse the campaigns for customers without cards. Whether for those customers that are in our database but have no card, or the customers who were passing by and bought. In the case of customers with cards, we have complete [information]: value of sales, number of articles, average price, how many purchases. You can do many analyses, by the campaigns, either at monthly or quarterly periods, as you like. [Profit] margins no, [they are not analysed]."[106]

Table 5-10 Data for Customer Analysis

By Customer	Number of Customers	Sales	Returns
Items per transaction	By age	By customer (Qt)	By customer (Qt)
Last visit	By location	By customer (€)	By customer (€)
Frequency of buying	By occupation	By age	By store (Qt)
Average amount of sales		By hobby	By store (€)
Average amount of ticket		By store	
Articles sold		By employee	
Discount voucher issued		By region	

Source: adapted from a Marketing Manager's email on 20/07/2011

In the next section it is reported how accounting information was a factor motivating the Dimoda Marketing Manager.

5.3.3.1.9 Accounting Information as a Motivating Factor

The Dimoda Marketing Manager said that accounting information – particularly with regard to the financial impact of the marketing campaigns – was very important to motivate her to continue her work (see Johnson and Kaplan 1987, p. 4). She expressed:

"[The lack of accounting information about the results of marketing campaigns] is a very unpleasant situation. It is [the information about the results of marketing campaigns] that gives me courage [to keep working]."[107]

The Marketing Manager also explained how the budget management had an impact on her motivation (see Anthony and Govindarajan 2003, p. 566; Horngren 2004, p. 207). Firstly, when the budget was set as equal or above the previous levels, she was motivated to plan and propose marketing initiatives. Secondly, when she realised that there was a budgetary shortfall, while controlling their spending, she felt disheartened

[106] Interview with the Marketing Manager on 19/07/2011 (D08.23)
[107] Interview with the Marketing Manager on 19/07/2011 (D08.48)

because she interpreted the fact as a lack of recognition on the part of her director. In this regard the Marketing Manager commented:

> "The Dimoda [marketing] budget remained the same, more or less the same, or increased a bit by chance. But between the increase and the performed [activities] … The budget is this, but then we can never do all the actions, or those that are planned. […] I do not see it as spending and hope that the Business Director also does not see it as an expense, but as an investment."[108]

The Director-General said that the GR top management made an effort to motivate the business unit directors to manage the profit and loss account up to the operating income line. She said that the commercial directors, interested by the numbers of the operating account – not just sales as usual – sought improvements in the business unit. She explained how both the changes and the growing commercial managers' interest in accounting information impacted on business management motivation:

> "Here, we were [managing] too much as salesmen, and the main concern was to sell more. Then we began structuring everything, so to worry about the costs and profitability, either wholly or detailed [by brand], in order to get more results and monetise each brand. It has been an evolutionary process. Moreover, as the business unit directors came from sales, then it was more about sales. Little by little we are encouraging them and now all directors of business units go and look at the numbers, and ask for the numbers, and see where they can improve this and that. This concern exists at the moment."[109]

Considering what has been stated in previous sections, marketing and sales managers at Dimoda were interested in accounting information and used it for various purposes. However, they did not have the necessary support from both the information systems and the departments of financial accounting and management control (see Ambler 2003b, p. 253). The following sections describe the factors that influenced the communication and use of accounting information by managers of marketing.

5.3.3.2 Factors Influencing the Use of Accounting Information

In this section are presented some factors that influenced the use of accounting information in Dimoda. The causes were organised separating those with structural characteristics from those with functional characteristics. Structural causes refer to how

[108] Interview with the Marketing Manager on 19/07/2011 (D08.05)
[109] Interview with the Retail Director-General on 01/04/2011 (D06.15)

information was organised and stored, as well as to how the accounting system was designed (see Johnson and Kaplan 1987, p. 14). The functional (behavioural) causes refers to how information flowed, i.e., how it was transmitted, analysed and interpreted (see Hall 2010).

5.3.3.2.1 Structural Factors

5.3.3.2.1.1 Managers' Mindset

One of the reasons given by the Dimoda Business Unit Director for the weak interaction between accounting and other departments, and the poor use of accounting information by managers of marketing was the company's culture. The Business Unit Director commented:

> "It was the culture across all enterprises [of this group] that created this situation [i.e., the disconnection between the accounting department and the commercial departments]."[110]

The Controller also said that her weak interaction with other departments was due to the general policy of the company (see Hope and Fraser 2003a, p. 110). She said that the board directors did not promote communication and interaction between the department of management control and other functional managers, on a regular and systematic basis. In this regard she said:

> "It derives from the company policy. We do not have a policy of meetings and connections between departments. I am trying it now [regular meetings with the business directors]. […] It is not an established practice; it has not been established [regular communication between departments]. I think that very often each department is considered almost like a [sole] business. Instead of being a whole, i.e., instead of all departments being one whole [a well-connected team], they are not. Each of the various departments is its own world. There is a certain difficulty in communication between some departments. However the situation has improved. There is often... a lack of dialogue between departments. In order to develop the budget, the management control department should interface with all departments."[111]

The Information System Director (hereafter referred to as IT Director) shared these perspectives and commented that the departments of accounting and management control were largely autonomous, and did not communicate with other departments (see

[110] Interview with the Business Unit Director on 28/02/2011 (D01.23)
[111] Interview with the Controller on 16/03/2011 (D04.06)

Hope and Fraser 2003a, p. 34). In this regard, he added that the departments were "small islands. Small business units very closed in themselves."[112]

The Business Unit Director explained that the size of the company – with many and diverse business units – and limited resources in terms of management accounting, also contributed negatively to the availability of accounting information to support marketing management (see Ambler 2003b, p. 253).

The Marketing Manager revealed that the usefulness of accounting information was not evident to her. She noted that, although she did not see the need to ask for information from the accounting department, she would welcome any accounting information that they could send and might be useful to her. She commented:

> "If there is anything that the financial department can give me then it is super. I do not ask for anything [any accounting information] from them. We do not [discuss the management accounting reports]."[113]

The Director-General said that the commercial directors did not have a habit of looking at and analysing all the headings of the income statement. The tradition in GR was that the commercial and marketing directors were just focused on the volume of sales (see Goebel et al. 1998, p. 498). The Director-General explained:

> "The business directors were commercial directors [previously]. We are trying to ensure that they increasingly have the notion of the [whole] business. Previously they only cared about sales. The other things were our concern. […] Now, I think that all business managers are concerned with the bottom line.[114] […] It has been an evolutionary process […] We began to structure everything so they started worrying about the costs and profitability, either wholly or in detail, in order to get more profits and monetise each brand."[115]

The organisational structure and the limitations of information systems also limited the use of accounting information by marketing and business managers. This topic is covered in the next section.

5.3.3.2.1.2 Organisation and Information Technology

The Dimoda managers – from marketing, accounting, information technology and the

[112] Interview with the Information System Director on 01/04/2011 (D05.42)
[113] Interview with the Marketing Manager on 16/03/2011 (D02.46)
[114] The bottom line of the profit and loss account, i.e., the net profit
[115] Interview with the Retail Director-General on 01/04/2011 (D06.15)

Director-General – reported that the processing of accounting information took too long. On average, each monthly management report took two months to develop. The delay was related to two factors. First, there were two information systems that were independent and disconnected, one from the accounting department, the other from the commercial department; second, the management accounting reports were produced after the financial accounting terminated the VAT[116] account – a process that took two months, the Controller said.

The Controller explained that she initiated the preparation of budgets in October, starting with calculations for the personnel costs. Throughout the year the Controller analysed the variances on a regular monthly basis. The flaw that the Controller identified was the delay in the process. The Controller explained:

> "We do the monthly analysis – [however] we depend on the accounting department, and the bookkeeping closes at the time of submission of the declaration of VAT, i.e., in the second month. Usually we run with two months of information [not yet reported]. […] There are companies that close [the accounts] on the 4th or 5th day. We have some difficulty here in terms of time within that period. When we deliver the VAT [statement], the accounting closes and then we do the analysis of deviations and afterwards report it to the administration."[117]

The Financial Accountant identified another flaw in the organisation and flow of accounting information. She said the cost that produced large impacts on earnings was the cost of goods sold. In this respect, the Financial Accountant said she had no information about the costs of goods sold. It was the commercial department that calculated the cost of goods sold and reported to the financial accounting department. She also noted that this process caused delays and inaccuracies in accounting information and reporting. The Financial Accountant stated:

> "What has greater weight here [in the profit and loss account]? […] What has great weight here is the costing of materials. We have situations where we have not yet processed the data. We are unable to inform correctly because we depend on them [the commercial department]. Also, because they do not have time to make this information available as we would like."[118]

The Director-General said that before the changes to the information system, the accounting department had direct access to costs and profit margins and reported monthly

[116] VAT represents the initials of value added tax
[117] Interview with the Controller on 16/03/2011 (D04.02)
[118] Interview with the Financial Accountant on 16/03/2011 (D03.58)

profit margins by each product. The Director-General described the changes:

> "These days they are not working well with this program and I no longer have that information. [Before the changes] I had margins by each product and I always knew the cost of the goods [sold]. I always had [the profitability] by each product and could join – provided that the product code allowed it – by [product] categories."[119]

The Controller noted that she had a colleague in the department of management control who was dedicated to making an estimate of sales. The situation was motivated by two factors. Firstly, the control department wanted to report information about sales to the board directors. Secondly, there was a lack of financial data about sales caused by the two months delay in financial accounting. The Controller said that it was provisional information, obtained from the commercial manager. The Controller explained:

> "[My colleague from the control department] makes the monthly sales control to report to the board, it is not done daily [...] because we have this two months delay in [financial] accounting, we haven't got the sales data in [the system]. He uses other mechanisms [to obtain the data]: he goes to the commercial [manager], asking for information from the commercial [department]. It is provisional [information]."[120]

The Marketing Manager said that when the software allowing the analysis was functioning she analysed the marketing campaigns and proposed new activities to the business directors based on analyses of accounting information. In addition to the analysis, the Marketing Manager produced reports for both the Marketing Director and the Business Unit Director. The managers who were directly related to the entry and the processing of accounting information were aware of these problems. And the Financial Accountant commented that her main goal was to reorganise the financial accounting procedures in order to gain synergies, in particular avoiding the duplication of clerical tasks. The Financial Accountant explained:

> "My ultimate goal is to gain maximum synergies between departments. Even within the [accounting] department we have to gain synergies. Why? Because there is a lot of work which, in my opinion – and I think in the opinion of my colleagues – is duplicated. This is because we have some flaws in the information systems – in terms of computer systems. In the commercial [department] they have at their disposal the AS400 [from IBM] we [the accounting department] have the NAV [from Microsoft]."[121]

[119] Interview with the Retail Director-General on 01/04/2011 (D06.45)
[120] Interview with the Controller on 16/03/2011 (D04.23)
[121] Interview with the Financial Accountant on 16/03/2011 (D03.02)

The IT Director acknowledged the existence of a problem in terms of the adequacy of information systems for managerial decision making (see Eccles 1991, p. 4). He said it was clear to him that the software had not kept up with the momentum of the business, and that many directors were wasting their time manipulating data to get the information, instead of focusing on their core businesses (see Hope and Fraser 2003a, p. 6). Due to financial constraints, and lack of support from the board directors he was not able to solve the problem. The IT Director summed up the situation:

> "There is too much manual work that could be avoided. They waste too much time in operational work, not in the analysis. The marketing and sales [departments] instead of focusing on analysing information focus on producing information. They spend 80% of their time producing information and 10% analysing. The information should be produced automatically by the IT and they should focus 80% on analysing."[122]

The IT Director justified the situation by saying that the financial constraints of the company had limited investments in new marketing and sales software, compatible with the existing administrative and financial accounting software. The Dimoda IT Director said that the decision not to invest in new commercial and management accounting software came from the board directors and it was related to cost containment. Nevertheless, he also said that the board was not conscious about the importance of information technology (IT) resources to support decision making (see Hope and Fraser 2003a, p. 135; Johnson 1992, p. 65), e.g., in marketing and commercial management. The IT Director commented:

> "There is a cost reduction policy which leads to fewer resources […] The board decision, I am out of it, was to upgrade only the financial module […] The Board does not have yet the perception that a good IT tool is fundamental in the business.[123] […] The board decision, I am out of it, was upgrading only the financial module [aiming at external financial reporting]. Our IT department sees that it should be a global infrastructure where all areas can communicate among themselves, speaking the same language. [It was only a partial upgrade because of] costs. Only [because of] costs. [...] The lag between the IT available tools and decision making is widening, […] In 5 or 6 years, we have not been able to answer [to business dynamics]. [...] This gap is increasing. It is problematic, it requires an urgent decision."[124]

The Director-General said that the company had a strong reason for not changing

[122] Interview with the Information System Director on 01/04/2011 (D05.63)
[123] Interview with the Information System Director on 01/04/2011 (D05.06)
[124] Interview with the Information System Director on 01/04/2011 (D05.24/44)

the management control system and the organisation of accounting information; that reason was financial. She said they had no evidence that the gains from implementing a system of stricter control outweighed the added costs of fixing the control system (see Horngren 2004, p. 207). The Director-General rationalised her perspective on that:

> "Controlling this aspect, in terms of sales? It would be difficult to allocate a person for this role. Because what you said about the Business Director carrying out the control on her own is true. But the cost of control has to justify the advantages. We felt no need to do so. Nowadays we have thought about that, [but] as we have to cut down on costs; there are situations [investments] that are not worth it."[125]

The Marketing Manager also affirmed that she did not see financial viability in renewing the software for marketing analysis. She commented:

> "Nowadays we do not do [the measurement of marketing campaigns] because the MicroStrategy platform is not working. […] The MicroStrategy, seven or eight years ago [in 2003], cost more than 25,000 euros. Nowadays it is not worth investing so much money in a [CRM] platform only for us. We thought about it, but would have huge costs."[126]

The Marketing Manager said that both the marketing budget and Dimoda had no scale to pay for such a large investment and that the scope of their responsibilities did not justify the investment. The Marketing Manager explained:

> "These platforms and these systems are expensive. The budget of communication, that we have, cannot afford this software. Number two, to bring in this platform has to be something that has to be leveraged and monetised for the other group brands; ideally, hasn't it? You cannot make such an investment only for a brand, when you can enjoy this same platform for other brands. No way, mainly for the first reason, the budget."[127]

However, the Marketing Manager said that the lack of information to evaluate marketing campaigns reduced her capacity to propose new marketing investments and the realisation of new campaigns. The Marketing Manager summed up:

> "If I have no way to analyse [the returns of campaigns] I cannot make proposals. I cannot justify and prove [that it is worthwhile]. [...] What is

[125] Interview with the Retail Director-General on 01/04/2011 (D06.51)
[126] Interview with the Marketing Manager on 19/07/2011 (D08.20)
[127] Interview with the Marketing Manager on 19/07/2011 (D08.19)

> being done [in marketing] is not decided in this department; it is decided by the marketing and business director."[128]

How the lack of communication between the various departments as well as other functional aspects of Dimoda hindered access to accounting information is described in the next sections.

5.3.3.2.2 Functional Factors

5.3.3.2.2.1 Communication Between Departments

One of the reasons given by Dimoda managers to explain why accounting information was not regularly used by the marketing and sales departments was the lack of systematic and regular communication between departments. For example, both the Business Unit Director and the Controller said that they did not have systematic and frequent reporting to the departmental managers, e.g., no management control reports were sent to the marketing and commercial departments. The situation prevented the accounting information from been taken into account in the commercial and marketing management. Though the Business Unit Director and the Controller reported that communication existed, it was not transmitted automatically, i.e., only when the managers asked for information, it was provided by the department of accounting and management control. The Business Unit Director explained:

> "We only obtain information if we ask for it from the accounting department. I think it should be up to the accounting or control department to give us the cost information on a monthly basis which is important for our functioning, e.g., here is your budget for 2010, here is your actual position, analyse your variances, and check the variables you can manage to improve until the end of the year. I feel that there is this disconnection [between departments] and it would be a good thing if they could be more closely linked."[129]

In this regard, the Controller explained how she behaved:

> "When we need [information] we ask for it. There are no meetings for us to speak about it. Only when I need it I go to the department concerned, and vice-versa. The sales department also asks me, very often, e.g., ''How much did we spend on this? How much did we spend on packing?'' Some [departments] ask more questions than others. It is sporadic, it is not

[128] Interview with the Marketing Manager on 19/07/2011 (D08.49/56)
[129] Interview with the Business Unit Director on 28/02/2011 (D01.18)

automatic. When they need it they ask. It is not set [by the board directors] that the control department must report on a specific date, specific information, e.g., [the costs of] packing."[130]

The Controller commented that the difficulty in meeting, and sharing information regularly with other departmental directors, was related to the company's organisational style (see Eccles 1991, p. 5). It was not a question of a lack of time or information but, according to the Controller, it derived from the company's management policy. Dimoda did not have a policy of meetings and connection between units, she said (see Hope and Fraser 2003a, p. 110). However, the Controller recognised that communication was important and she was trying to implement more interaction between the business managers and the management control department, she reflected:

> "At this moment the main barrier [to my job] is [the lack of] communication. As I told you, we don't act as a whole group but each department acts as a small enterprise. We did not work together in the past, but we are getting better now, as a whole. We all are part of a company; therefore we should work together, and avoid each department looking after its own interest. This is has been my major difficulty."[131]

The IT Director also complained about the lack of departmental interaction. The IT Director interacted less with the accounting and control departments than with other departments. He explained the situation:

> "I would say they [accounting and control] are very autonomous departments. They are rather self-sufficient."[132]

The Controller suggested that another reason for the lack of communication was the non-existence of inter-departmental reporting rules; a situation that the board directors could change. She said that at board directors' level the reporting existed. The Director-General met regularly with the business directors, and the Chief Financial Officer;[133] but not below that hierarchy (see Simons 2000, p. 310). There was not a standard procedure for reporting management accounting information. She explained that she supplied information whenever the other colleagues asked for it; however it was never standardised.

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[130] Interview with the Controller on 16/03/2011 (D04.30)
[131] Interview with the Controller on 16/03/2011 (D04.39)
[132] Interview with the Information System Director on 01/04/2011 (D05.34)
[133] It was not possible to interview the Chief Financial Officer because he was absent due to serious health problems.

The Business Unit Director tried to solve the lack of communication with the management accounting department by carrying out the control of costs herself. Therefore the formal accounting information was not used and, in its place, the Business Unit Director produced accounting information independently, to support her managerial work. The Business Unit Director explained her situation:

> "I do my own calculations. Sometimes I do the role of management controller. Because the management control could tell me, e.g., the telephone costs are such and then analyse the telephone bill. No [they don't]. I go to the field: Which are my telephones? Which shop is spending more? How can I cut the telephone bill? How can I optimise the communications? At the end it is the sales department that tries to optimise [the costs]."[134]

The Financial Accountant also recognised weaknesses in departmental communication. The Financial Accountant considered the system to be very bureaucratic. It did not work well because the managers – business unit managers and accounting managers – had to explicitly request the information, she said. The Financial Accountant commented that the information should be automatically available from an integrated information system (see Hope and Fraser 2003a, p. 155). She explained her perspective as follows:

> "The ideal, in my opinion, is to have direct access to information, without having to ask anyone for it. This is the important thing. This [the actual reporting system] makes no sense, it is very bureaucratic. It is like having a book being read by another person. I think that the users should see [the accounting information] whenever they want. Have the information in real time. It would be easier for all, having reports templates, obtaining them automatically. Tailored reports, by request, are very time consuming for us. One of my objectives is direct access to the accounting information. Sometimes this is very sad for me: we have abundant information and we do not have enough time to process it. We waste too much time."[135]

The Marketing Manager also noted that the lack of communication between departments led to failures in the reporting produced by the department of management control – which in turn was sent to the board directors. The Marketing Manager gave the example of a situation where the explanation for an extraordinary increase in sales was only included in the management accounting report because there was a situation of casual and informal communication between the Controller and the Marketing Manager.

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[134] Interview with the Business Unit Director on 28/02/2011 (D01.28)
[135] Interview with the Financial Accountant on 16/03/2011 (D03.31)

The Marketing Manager explained:

> "One problem that we have in this company is the lack of [formal] communication. I learn [and communicate] during lunches and informal situations. For example, in a certain month in 2009, we had an extraordinary increase in the sales on the Friday's Project,[136] because we did a very important campaign that attracted people to the stores – the objective was a ticket of €100. We had an objective of 30 people, and more than 55 appeared, across all national stores. The monthly sales report mentioned that the increase in sales was explained, in part, by the marketing campaign… [However] I usually don't pass on this information [related to the campaigns]. Is it supposed to be given? I had the information, I commented on it informally during the lunch and after that [the controller included it in the monthly reports]!"[137]

At the same time, the Controller reported that she had no information from business departments and complained not having an automatic system enabling the flowing of information from the managers of marketing and sales to the management accounting department. The Controller observed:

> "If I want a piece of information then I must ask directly [to the commercial managers]; I do not have access to the commercial [information system] either."[138]

The Controller noted that while she provided all the information asked from her, she felt the need to interact more with managers. She explained that the business managers were aware of all the business details and so they were essential for planning and budgeting (see Anthony and Govindarajan 2003, pp. 420-421). The Controller commented:

> "I do not [have frequent meetings with my colleagues from other departments]. Now, during the budget, I tried – in this case with the Dimoda Business Director – to prepare certain items in the operating account while talking to them and ask them what they thought. Because it is they who know about the business, e.g., how much they intend to spend on the transportation of staff, or how much they intend to set for the phone call costs; this kind of situation."[139]

[136] Friday's Project was a trademark owned by the Grupo Regojo
[137] Interview with the Marketing Manager on 16/03/2011 (D02.13)
[138] Interview with the Controller on 16/03/2011 (D04.41)
[139] Interview with the Controller on 16/03/2011 (D04.04)

Finally, the Marketing Manager noted that the lack of communication led to a feeling of lower involvement in the business management. In this regard, she told:

> "There isn't communication. I would like to be more involved. I do not believe that they put me apart for some reason. It was never structured as so. Each one does what he wants. It's a pity. It is always good to feel involved in the project."[140]

Morever, the accounting department was focused on the recording of information related to financial accounting and less on management accounting (see Johnson and Kaplan 1987). The following section describes how the situation made problematic the use of accounting information by the marketing managers.

5.3.3.2.2.2 Financial Accounting Priorities

During interviews with the Financial Accountant and the Director-General, comments were made that revealed the focus of financial accounting on legal and bureaucratic processes, and not so much on organising information to support marketing and sales management. The Financial Accountant, describing the responsibilities and functions of her department, said that she was more focused on producing information for external clients, i.e., official bodies, than for internal clients, i.e., the managers. She reported that she spent a lot of time solving internal problems – which would not have been problems if the information systems had been working better – when she should have been more focused on fulfilling their legal obligations and responding in a timely fashion to external clients (see Langfield-Smith 2008, p. 209). The Financial Accountant commented:

> "There are things that are not quantifiable. The amount of overtime that X [from accounting] spends, to get that output, is not registered; or the 80% of time she wasted, when she was doing these things, and should be concerned with other tasks. We could optimise more with them [from marketing]. We waste a lot of time. And sometimes the problems the marketing has... Because in accountancy, at the end of the day, we'll absorb [information], we are receivers of information, information has to be well absorbed to be well understood, we have internal and external clients. External clients are outside organisations in Portugal, e.g., the National Institute of Statistics, the Treasury, and so on. We need to respond in time to these [external] clients. We must not waste so much time solving [internal] problems that should not be problems, that should be solved quickly."[141]

[140] Interview with the Marketing Manager on 16/03/2011 (D02.45)
[141] Interview with the Financial Accountant on 16/03/2011 (D03.15)

When the Financial Accountant referred to the information flow between the department of accounting and the commercial department, she suggested that the main activity between the two departments was checking suppliers' invoices with delivery notes and Dimoda orders to suppliers. The aim was to monitor whether what was being billed by suppliers corresponded to what was purchased by Dimoda and physically delivered. The Financial Accountant noted that everything related to the cost of supplies, deferrals and provisions were very accurately monitored and properly registered, being the tasks that consumed most of the time in the accounting department. This commentary revealed that the accounting department was very much absorbed in aspects of bookkeeping oriented to external financial report, and less so in organising information in order to timely support internal management decisions (see Langfield-Smith 2008, p. 209).

Finally, the Director-General commented that a critical aspect for the business control was the monitoring of inventories (see Shank 1989, p. 47). In this regard, she said:

> "What we control is the inventory. The specific department for inventory control controls everything that is purchased, invoiced and the inventories in stores. To assess the articles lost (breakages) and all movements, to make sure that there are no flaws."[142]

Neither the financial accounting nor the management control did a detailed analysis of sales and profitability. The Director-General said that when the management control performed the analysis of sales, it was at the level of the business units, i.e., by stores.

In the next section, the situation of the MD is described, i.e., how it was planned, how it was controlled and how these aspects influenced the MD role within the organisation.

5.3.4 Dimoda Marketing Department

The aim of this section is to describe how the MD was organised, what its responsibilities were, how the marketing activity was assessed and how strong the influence of the MD within the organisation was. Another goal of this section is to understand the history of this department, identifying which factors might have limited the department's ability to influence operational and strategic decisions. Across the entire section, references are

[142] Interview with the Retail Director-General on 01/04/2011 (D06.51)

made to the interactions between the marketing and the management accounting departments, whenever these interactions existed. The qualitative study of these two aspects – the dynamics of the influence of the MD and the evaluation of its performance – is intended to complement existing quantitative studies on the same topic (e.g., O'Sullivan et al. 2009; Verhoef et al. 2011).

The first section describes how the MD was organised, and how the planning and budgeting of its activities were done. The second section explores whether a cost and benefit analysis of marketing activities existed, whether a measurement of marketing performance was realised, and the impact of both practices on marketing management. The final section describes the MD influence within the organisation.

5.3.4.1 Marketing Department Planning and Budgeting

The GR's MD consisted of two people: one manager and one assistant. The number of staff at the MD decreased in 2009. Before 2009, the department employed four people: one director, one manager, and two assistants.

The Board Member said that the MD was always a complicated problem in the company, because the MD was operating from the head office and the group structure was very unbalanced. The first issue was that one brand (Dutti) had 80% of sales, and the others, even when they had five or six brands (see Appendix 5), on the whole sold less than 20% of the total, the Board Member said. Secondly, from all these brands, only one brand was created by the GR, which was Wesley. While Dimoda was at the lower end of the market, Wesley was at the top. Wesley was operating with much higher margins, much more expensive products and with much more capacity to spend money on marketing. The Marketing Manager shared the Board Member's perspective. In her opinion the reduction in the MD staff was not only a result of the decreasing number of brands managed but also the result of a decrease in the workload. She explained that this was not necessarily proportional to the number of brands, because some brands did more marketing than others. Between 2006 and 2010 the group sold six brands: Elena Miró (2006), Mango (2007), Hakei (2007), Punt Roma (2008), Orchestra (2009) and Wesley (2010); having added two, i.e., Nike (2006) and Friday's Project (2008).

The marketing budget used to be proposed for approval, by the Business Unit Director, to the board directors, during the annual budgeting process (see Table 5-11). After approval, the Marketing Manager planned the activities, having in mind the ceiling amount to be spent (see Hope and Fraser 2003a, p. 21).

Table 5-11 Dimoda Budgeting Process

Date	Task	Responsibility
November (*x*-1)	Business Plan	Business Unit Director Commercial Director
December (*x*-1)	Budget Development	Controller
January (*x*)	Budget Approval	Board Directors

Key: *x* is the budget's year
Source: adapted from a Controller's email on 28/02/2013

The Board Member explained that the Marketing Manager used to work in connection with the business directors. The campaigns done through marketing were all agreed with the business directors and it did not go for discussion at the board level. The board directors only approved the overall marketing budget; the managers met and decided what to do with it, e.g., letters, Christmas cards, etc. The criterion to approve the marketing expenditures was a fixed amount based on the overall projected costs, i.e., there was not a guide such as the percentage of sales. The Business Unit Director and the Director-General would present a plan at the board level, for the year, with sales forecast and costs, including the marketing expenses. The Board Member explained that marketing expenses were typically approved because they were small in value:

> "Usually they give details of marketing expenses; usually we approve because they are generally small values."[143]

In the budgeting and planning processes, the Marketing Manager did not interact with the accounting and control departments (see Anthony and Govindarajan 2003, p. 423). Moreover, benefits from sharing information with accounting and control staff were not clear for the marketing manager. The Marketing Manager commented:

> "No. I do not see [any advantage in accounting information]. It may exist [accounting information that could help me], but I don't know how."[144]

The Controller was aware of her responsibility in controlling the alignment of marketing activities with the business strategy and tried to implement a process to control it. She explained that due to a lack of time and organisation, they never managed to implement it (see Anthony and Govindarajan 2003, p. 350; Hope and Fraser 2003a, p.

[143] Interview with the Non-Executive Board Member on 16/11/2011 (D10.30)
[144] Interview with the Marketing Manager on 16/03/2011 (D02.13)

xvii). Dimoda did not have a balanced scorecard and did not use qualitative information in the management control system (see Ambler 2003b, p. 26). The Controller only used the budget for controlling marketing management (see Hope and Fraser 2003a, p. xviii). The Controller explained:

> "We are improving; we intend to include these topics. Earlier, the information system was not flexible enough; it didn't give any information. With the new accounting software and improvement in cost knowledge, we have time to analyse other topics and interesting issues. [We started] to think about setting a balanced scorecard. We want not only to consider expenses and income, but to include other realities, e.g., customers."[145]

The Controller also said that the costs of the MD were considered an overhead and allocated them to the business units proportionally to the sales. The specific marketing campaigns were invoiced directly to the business units.

The following section describes the process of marketing performance measurement and accountability in Dimoda.

5.3.4.2 Marketing Accountability

One of the major decisions about the MD's structure was the reduction of marketing staff. The causes for dismissing the Marketing Director were not known by either the Business Unit Director or the Marketing Manager. The Business Unit Director commented:

> "She left in 2009 or beginning of 2010. [The reason for her leaving] I am not able to tell you. I do not know [whether the reason was related to cost]. The decision to reduce or not to reduce the marketing [resources] came from the board directors. We have no input on this."[146]

The Board Member commented that the dismissal of the Marketing Director was due to economic reasons, i.e., lack of money for marketing, and the Marketing Director salary was considered to be high. He also explained that the secretary of the former Marketing Director was appointed to the marketing manager position. The decision involved, mainly, a cost analysis and the Board Member commented that he was not aware of the returns on marketing activities: "No, definitely, I have no knowledge of [criteria for evaluating the marketing actions]!"[147]

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[145] Interview with the Controller on 16/03/2011 (D04:21)
[146] Interview with the Business Unit Director on 12/07/2011 (D07.13)
[147] Interview with the Non-Executive Board Member on 16/11/2011 (D10.32)

The Director-General confirmed that she always had difficulty in measuring the return on marketing investments, and it was traced to poor information technology. The Business Unit Director explained:

> "There is no way of measuring the impact of marketing campaigns. We have no tools that allow for that."[148]

The Business Unit Director gave the example of SMS messages: they tried to understand customer behaviour, checking whether after receiving the SMS messages they made a store visit, but the system could not provide this information (see Johnson 1992, p. 65). The Marketing Manager also reported that the impact of the marketing activities could not be measured because the CRM software was not working, she explained:

> "Since the beginning of March [2011] we have been doing several campaigns; I think, that they are indeed very interesting campaigns. Unfortunately, we can not analyse them; we can not do an analytical assessment because the CRM tools are down. We can grasp the numbers by comparing [the actual sales] with those of the previous year [sales]. Mother's Day went well, Women's Day went well, and Father's Day (this weekend) is having good indicators. This is what we have up to date. We do not have an analytical assessment, we don't do that."[149]

The lack of appropriate IT tools limited the capacity of the MD to propose new activities. The Marketing Manager explained that until 2008, with the CRM platform stable, they were able to propose the activities to the business directors. Although the plan was scheduled for the full year, they adapted the plan throughout the year. She gave the example when they observed, using appropriate software, that at Dimoda – a multi-brand for men and women – 75% of their customer database was composed of men. Therefore they proposed an action member-get-member to acquire further female customers. Without appropriate CRM software, the MD could not identify the marketing opportunities and propose the responses to the board level, as they had proposed in the past. The Marketing Manager explained:

> "Until 2008, with the CRM platform stable, we were able to propose, we always do so, propose the activities to the business directors. Although the plan is scheduled for the full year, we need to adapt the plan throughout the year."[150]

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[148] Interview with the Business Unit Director on 12/07/2011 (D07.10)
[149] Interview with the Marketing Manager on 16/03/2011 (D02.03)
[150] Interview with the Marketing Manager on 16/03/2011 (D02.10)

Before 2010, it was also possible to measure some marketing outputs, e.g., cardholders' purchases, average ticket amounts, and number of articles purchased at each visit. The inadequate computer software was impairing the capacity to assess the results of the 2010 and 2011 campaigns. For the Marketing Manager it was clear that the absence of marketing measurement was harming the brand. She said that the lack of tools "hurt the brand, not the department".[151] She explained that the department existed to serve the brand and the lack of tools with which to measure the return of campaigns had a profoundly adverse effect on the brand when proposing new activities (see Ambler 2003b). The Business Unit Director also argued that it was very difficult to evaluate the return of marketing expenditures and, in this context, any expenditure in marketing domain needed to be carefully planned. For example, the decision to supply clothing for television presenters was related to the lower costs of this communication channel. The Business Unit Director justified this choice using a cost-benefit analysis:

> "If we had bought these cards, or invested in publicity, the cost would have been much higher than the cost of clothes supplied in exchange for it."[152]

The Dimoda methodology for assessing the "value" of campaigns involved looking at the market value of the communication media space, and not on the impact of the campaigns on the business profitability. The Marketing Manager explained how they measured the value of campaigns:

> "I do reports not from marketing but from communication activities. We make an investment in media, e.g., partnerships and publicity exchanges with television channels, the return for our expense of €X is the appearance of #X cards of brand publicity. Therefore, we can measure the return in this way: we invest €X, e.g., €5.000 and we have a return of €50.000, in case we have to pay that publicity [it would cost €50.000]."[153]

Regarding billboards, the Business Unit Director vehemently rejected that communication channel due to the lack of financial metrics for assessing the net impact on profitability:

> "I would love [to use street billboards], it is where I would do [publicity]; but it is something totally unthinkable, totally unthinkable, and hugely expensive. We are speaking about 30, 40, 50 or 60,000 euros for a set of billboards, from which half a dozen may have a good location but the rest

[151] Interview with the Marketing Manager on 19/07/2011 (D08.48)
[152] Interview with the Business Unit Director on 12/07/2011 (D07:04)
[153] Interview with the Marketing Manager on 19/07/2011 (D08.56)

> may not be so good. It is a very, very, very high investment. … It is totally unthinkable to do a billboard campaign now. How would we measure the return on billboards?"[154]

The use of other communication channels was also rejected because of the difficulty in measuring their impact on profitability. For example, the Business Unit Director commented:

> "It is very complicated [measuring the publicity campaigns] on magazines too. [Publicity] on television is also complicated."[155]

The amount of marketing expenses changed significantly between 2005 and 2010 (see Table 5-12). The highest amounts, as a proportion of sales, occurred in 2006 and 2007; the lowest were in 2008 and 2010. These patterns of marketing expenses were associated with the sales behaviour and the results, as it can be observed that the increase of sales coming from shops was higher in 2007 and 2008 (42% and 14% respectively) and lower in 2009 and 2010 (-6% and 6%, respectively). Looking at the results and EBITDAs, the best results were obtained before 2008, i.e., when the publicity expenses were higher (as a percentage of sales); the year with the highest publicity expenses (i.e., 2007) had the highest EBITDA.

Table 5-12 Dimoda Sales, E(L)BITDA and Publicity Expenses

Currency in thousands of euros

	2005	2006	2007	2008	2009	2010
Total sales (shops & exports)	3,071	3,328	5,264	5,401	5,099	5,361
E(L)BITDA	441	404	744	558	-196	-256
Net Profit (loss)	360	133	329	137	-836	-453
Publicity Expenses	21.4	34.4	59.6	32.1	41.3	37.4
Publicity as % of Sales	0.72	1.02	1.14	0.59	0.80	0.69

Source: adapted from the Informa DB database

There was generalised cost containment in the marketing expenses across all of GR's business units (see Table 5-13), including its most profitable unit, i.e., Dutti, that reduced publicity expenses from €876,477.2 (i.e., 1.24% of sales) in 2006 to €440,344.3 (i.e., 0.61% of sales) in 2009.

Comparing Dutti with Lanidor (a Portuguese brand, whose publicity expenses were also reduced from 3.34% of sales in 2006 to 1.80% in 2009) the average costs of Lanidor publicity expenses, between 2006 and 2009, was 2.64% of sales, that is, 2.9 times

[154] Interview with the Business Unit Director on 12/07/2011 (D07.21)
[155] Interview with the Business Unit Director on 12/07/2011 (D07.26)

higher than that of 0.91% at Dutti (cf. Table A-1 in Appendix 1). The sales of Dutti had increased 1.77% between 2006 and 2009, while Lanidor increased 33.8%, i.e., from €37.0 million to €49.5 million (see Table A-2 in Appendix 1). Moreover, the aggregate turnover of the 200 biggest companies, operating in the specialised fashion retail, increased 24.2% in the same period (i.e., from €1,744.4 million in 2006 to €2,167.4 million in 2009).[156]

Table 5-13 Publicity Expenses: GR's Brands

Thousands of euro

Brand	2005	2006	2007	2008	2009	2010
Dutti	890.3	876.5	717.7	540.7	440.3	468.3
Dimoda	21.4	34.4	59.6	32.1	41.3	37.4
Punt Roma & Nike		25.7	43.3	3.8	0.0	0.0
Friday's Project			205.7	104.1	76.5	19.3
Dali	25.1	0.9				

Source: adapted from the GR accounts and management reports

The Marketing Manager found it difficult to convince the Business Unit Director to spend more on marketing because she did not have the means to support her views. She said:

> "If I have no way to analyse [the returns of campaigns] I cannot propose. [I can propose but] I cannot justify and prove that [worth]"[157]

Besides, the Business Unit Director regretted the lack of proposals from the Marketing Manager and said she would like to receive more marketing proposals supported with evidence about the marketing returns. The Business Unit Director expressed:

> "What was my marketing department's proposal, e.g., look if we do this campaign, with this cost, can we have this return? Perhaps it is not possible for us to do this work. Which tools do I have with which to work on marketing now? We are only sending SMS and supplying TV presenters with clothes. What other marketing actions, with returns, can we do? The marketing department is not telling me: ''We invest this amount and the return is this.'' We could work on this."[158]

The Business Unit Director would have spent more money in marketing if she had had evidence about the returns, she said. She admitted that she could have changed her

[156] see DBK Sectorial Report, 5th Ed., January 2011
[157] Interview with the Marketing Manager on 16/03/2011 (D02.48)
[158] Interview with the Business Unit Director on 12/07/2011 (D07.36)

perspective towards the expenditures in marketing, e.g., billboards, had she had financial metrics to support her decision. The Business Unit Director expressed:

> "We already did it [billboards] once with the Dali brand, but we didn't have the expected impact, the expected return. […] If you tell me that we had an expenditure of €50,000 over the last 15 days and the sales increased 40% over the following 2 months, then we could conclude that the sales increase was a consequence of billboards. […] We could do a long-term analysis that could change this perspective, but we do not have the tools for it. It is very complicated nowadays and we do not have the financial resources for it."[159]

However, the Marketing Manager considered, in some situations, not appropriate to use a simple cost and benefit analysis in marketing management. She gave the example of marketing notices in stores. She said it was not about cost-benefit analysis, but it was more related to the brand image. She argued as follows:

> "If we want to push the brand we need to push it up, never down. The good thing about this brand is that it has quality in its segment. [Dimoda] has a known brand, [i.e.,] Pierre Cardin, which attracts many people; it has nice window displays, well looked after shops, but uses details as paper sheets glued on windows. It can't be like this."[160]

Finally, the next section describes how the Dimoda marketing department influenced business management.

5.3.4.3 Marketing Department Stature and Influence

The Marketing Manager suggested that she was frustrated, unhappy and unmotivated. She acknowledged that she was not informed about the business strategy, objectives and performance (see Anthony and Govindarajan 2003, p. 350; Hope and Fraser 2003a, p. 49; Simons 1995b, p. 117). She expressed herself as someone that only had operational duties but had no participation in business marketing decisions and strategy formulation (see Low and Mohr 2000; Stewart 2009). The Marketing Manager expressed:

> "Nowadays I am a little sad, because I would like to be more linked to the [marketing] strategic issues and less with the operational [marketing]. Nowadays I am only and exclusively operational."[161]

[159] Interview with the Business Unit Director on 12/07/2011 (D07.21)
[160] Interview with the Marketing Manager on 16/03/2011 (D02.24)
[161] Interview with the Marketing Manager on 16/03/2011 (D02.07)

The Marketing Manager said that, in the past, she already had power to influence decisions at the board level. When the MD had new ideas, e.g., the customer support line, these were approved at the board level and implemented. However, she said, it changed and the MD had then less influence at the board level. She commented that it was also related to the budgets and when the budgets decrease there is less money for more actions (see Webster Jr et al. 2005, p. 39). Therefore, "they restricted it to the basic needs, to the strictly necessary" (see Simons 1995b, p. 54).[162] She commented:

> "[The marketing department is losing its importance] it is not just financial, it is cultural. It's cultural. When I say cultural, look, I'm talking about the Business Director. […] The Grupo Regojo never stopped believing in communication and, as you say, there were never significant cuts in other budget brands, quite the contrary […]. Therefore, the group always believed and never stopped believing in communication; or marketing and communication."[163]

About the size and level of responsibility of the MD, the Director-General said that the MD had ceased to be an autonomous unit in terms of decision-making and became a unit that coordinates the activities of communication and marketing. She explained:

> "Earlier, the marketing [department] was a principal department, but the Marketing Director left. And now it is not even a department, it is a coordination – a level still below [...] Our group is shrinking."[164]

The Marketing Manager commented that she did not understand the marketing and communication strategy of the Business Unit Director. The Marketing Manager considered that the images of the brands traded by Dimoda (Pierre Cardin and Dali) were not properly communicated, and the image of Dimoda shops was badly managed. For instance, the Marketing Manager did not understand why the Business Unit Director used very low quality paper, poorly posted, at the front store's windows for communicating marketing messages (see Ambler 2003b, p. 253).

The Marketing Manager argued that the massive use of SMS was ill-fitted to the customers' profile (see Table 5-14). The Marketing Manager also commented that she did not have "knowledge" of Dimoda brand.

[162] Interview with the Marketing Manager on 19/07/2011 (D08.28)
[163] Interview with the Marketing Manager on 19/07/2011 (D08.39)
[164] Interview with the Retail Director-General on 01/04/2011 (D06.08)

The Marketing Manager expressed:

> "In the last few years, I have not understood Dimoda. It is not a brand which I understand, which I can analyse. One thing is the perception that I have when I go to a shop. I see the shop decoration, and on the other side the business manager tells me that the brand is for farmers. Something is not right. This is my perception."[165]

The role and responsibilities of the MD also decreased. The Marketing Manager said that in the past they engaged in more activities of "true" marketing, e.g., loyalty campaigns and aggressive selling, but, the MD's role had become communication only. The Marketing Manager commented:

> "In the case of Dimoda I am not acting but reacting. The business manager does the campaigns and thinks about SMS text messages. She does everything. We only put the SMS in its platform and send it. [Interviewer observation: You can not say that you are working like secretaries or administrative employees…] Yes, yes, that's a good [view]. I feel so wretched saying this as you can imagine. No one likes to work like this."[166]

Table 5-14 Dimoda Promotions (by SMS) 2007-2010

Date	Message
13/04/2007	"When buying two shirts get a free tie – in all stores and just this weekend."
04/10/2007	"Enjoy the autumn campaign at DIMODA until 07/10 in menswear. Pierre Cardin trousers: Buy 3 pay for 2. Leather jackets: €75. Do not miss this opportunity!"
20/02/2009	"This Carnival will not let you down. Visit DIMODA and find something special. Selected articles from €12. Promotion valid until 28 Feb."
17/08/2009	"While the weather is warming, DIMODA prices are falling. Last low price campaign, articles from €6."
05/02/2010	"Exclusive promotion for customers. All Pierre Cardin and Dali winter articles at €10. Valid 5-7 February."
01/10/2010	"Autumn has arrived! Purchase two articles and we offer a third one (from selected articles). Campaign valid 1-17 October."

Source: adapted from a Dimoda Marketing Manager email on 13/12/2011

There were also marketing activities developed without the involvement of the Marketing Manager. The Marketing Manager said that the Business Unit Director should

[165] Interview with the Marketing Manager on 19/07/2011 (D08.29)
[166] Interview with the Marketing Manager on 19/07/2011 (D08.38)

communicate more and consider others' opinions. She explained:

> "There is another puzzling input related to Dimoda, I would even say problematic. We should have communication between the Business Director and us, e.g., [the Business Director could say] ''Look, we have this problem with this polo shirt line, it is not selling well, think about a campaign'' but no, the Business Director immediately says what she wants, e.g., ''Send a SMS tomorrow morning at 10 a.m.'' with the campaign details: ''Polo shirts starting at €5.'' Finish, the campaign is done."[167]

The Marketing Manager was not informed about the brand concept and showed disagreement with the promotions made by the Business Director. She considered the frequent price promotions not advantageous for the brand (see Table 5-14). She commented that "the [Dimoda] brand gives itself the luxury of always being, systematically, doing [price] promotions shamelessly"[168] (see Johnson 1992, p. 24). The Marketing Manager also said that when someone asked her about the brand concept she improvised or "invented" (see Simons 1995b, p. 117).[169] She acted in this manner because it was for the outside world and she had internal approval, she explained:

> "What is the brand strategy? To me… it was never communicated to me, what is the strategy of the brand or what the brand concept is. I should not invent when someone asks me ''Say a few words here about the concept of the [Dimoda] brand.'' [However] I invent, but it is because it is for outside and I have the internal approval. But that is not what people think. I'd like to know what people think."[170]

Moreover, the Marketing Manager was not asked to contribute to decisions about new markets, business strategy or new products (see Simons 1995b, p. 54). The Business Unit Director did not talk about strategy with the Marketing Manager and the Marketing Manager did not know the strategy of the business (see Anthony and Govindarajan 2003, p. 350; Hope and Fraser 2003a, p. xvii; Simons 1995b, p. 117). The Marketing Manager reported:

> "I don't know [the strategy], but I would like to know. There isn't communication. I would like to be more involved. I do not believe that they put me apart for any reason. It was never structured as so."[171]

[167] Interview with the Marketing Manager on 19/07/2011 (D08.09)
[168] Interview with the Marketing Manager on 16/03/2011 (D02.02)
[169] Interview with the Marketing Manager on 19/07/2011 (D08.53)
[170] Interview with the Marketing Manager on 19/07/2011 (D08.53)
[171] Interview with the Marketing Manager on 16/03/2011 (D02.45)

The Director-General recognised that communication was important and more should be done to increase the quality and frequency of communication. She would like managers to communicate more with each other, she said. The Director-General recognised that she could have implemented more frequent reporting to solve the issue, e.g., on the intranet on a monthly basis. The Director-General said:

> "[They do not communicate more due to different] personality traits. Sometimes, one person or another is more complicated and creates friction in the system. […] It limits the synergies. […] It is not at departmental level but at personal levels."[172]

Besides, the Marketing Manager commented that the Business Unit Director did not recognise the "true value of marketing" and did not have the "due respect" towards communication and the marketing functions either. The Marketing Manager said that it was not a personal issue but a functional level one, i.e., between the communication function level and the Business Unit Director. The Marketing Manager expressed:

> "The business unit manager is too commercial. Someone that is directing a brand must have a vision of the business. She must look ahead. She must have a strategy. In my view, Dimoda doesn't have one. I understand that we must have this commercial perspective; for it is this that pays our wages. However, we need to create a brand. We need to create a concept. This is not being created [in Dimoda]. It is the director of business that does not adequately value or does not have the proper respect for communication and marketing, it is more of this. Not for me, manager of marketing, but more at the level of communication. It has to be well made. It is not [valued the marketing department]. The other businesses are more aware that communication and marketing are important. I think that the other [directors] appreciate my marketing department. I think they have a bigger concern [about marketing]."[173]

The reduction of marketing stature and influence within the organisation was also evident in strategic decisions about brand positioning and segmentation (see Appendix 2). The Marketing Manager affirmed that she was in total disagreement with the Business Unit Director regarding the promotional messages (see Table 5-14). The Marketing Manager explained:

> "We have many farmers, many mechanics, but we also have lawyers, economists, business managers; and I think that we should communicate well, especially with the latter ones. But the brand director does not think so. She wants to use simple language and a simple way to communicate, so

[172] Interview with the Retail Director-General on 01/04/2011 (D06.68)
[173] Interview with the Marketing Manager on 19/07/2011 (D08.13)

> simple that, in my opinion, sometimes it is offensive to the eyes. If she wants this for her brand… she orders. We are here to supply a service. We feel that we should suggest, but if the brand director does not accept the suggestion and wants to do it her own way by communicating with farmers in this way, bombarding them with messages, then we have to do so."[174]

5.4 Conclusion

Dimoda is a fashion retail company, selling men's and women's quality clothing at affordable prices. They manage 15 stores: 4 outlet stores, 6 stores at shopping centres and 5 street shops. The business was profitable, while operating the outlet stores, but produced huge losses in both 2009 and 2010, becoming technically bankrupt in December of 2010. The company's annual turnover was 5.37 million euros in 2010. Dimoda belongs to a fashion retailing group, GR, which had a turnover of 85 million and the profit and loss accounts balanced in 2010. The GR has been operating in fashion retail since 1919.

The Dimoda business began in 1984 and evolved, over the last 30 years, from representing foreign brands (wholesale activity) to a business which is proprietary of both their own brands and retail stores. The retail stores have been located both in the second line commercial spaces (with lower rents) and in outlets. The company seeks to compete on price, though not neglecting quality.

The Dimoda business is in a difficult economic situation and its main objective is survival. Although the GR has divested in the retail business and has sold several brands, they want to keep the Dimoda business – as long as the operating cash flows are positive. The management objectives are therefore maintaining sales revenues, EBITDA and cost savings. Its strategy is to close unprofitable stores, reduce costs and increase exports.

The Group is organised into relatively independent business units. Each business unit has a head which is given autonomy in management. The business units share common central services (e.g., administrative, financial and marketing). The business units and the shared services are controlled through the annual budget.

The accounting system is dysfunctional and it is worsening mainly due to financial constraints which hinders the marketing and sales management. One aspect that hinders the operation of the control system (and prevents the use of accounting information) is the lack of regular, systematic and face-to-face communication between managers and management accounting staff. This lack of frequent and systematic communication limits the flow of information, limits the identification of errors and reduces the opportunities for improvement. It also limits both the ability of the accounting

[174] Interview with the Marketing Manager on 19/07/2011 (D08.00)

system to produce reports tailored to the specific needs of each manager and the inclusion of non-financial information related to the business activity in the management accounting reports. Another aspect that contributes to the dysfunction of the accounting system in Dimoda is the separation of the financial and commercial databases. This separation prevents individual managers from accessing accounting information online which is useful for daily management. It also prevents the production of periodic and timely management reports with detailed unit-level accounting information. Finally, the lack of automatic reports based on templates tailored to the managers' demand, also limits the ability of the accounting system to meet the needs of managers. Consequently, Dimoda managers occupy much of their time producing reports leaving little time to analyse the information.

In GR, managers traditionally sought accounting information primarily related to sales, in both an aggregated and detailed form. Stimulated by top management, the situation evolved and the managers also started to look for information related to the costs and profits. Thus, recently the director of Dimoda has been very attentive to information related to the costs and her focus has been on controlling the budget and finding opportunities to reduce costs (see Johnson and Kaplan 1987, p. 33).

In a context of financial difficulties and focus on reducing costs, Dimoda limited its investments in two specific areas: marketing and information system. This decision limited the ability of the accounting system in responding to the information needs of managers (explained above) thus hindering their work. It also hindered the work of the MD to communicate and protect the brand image. These two factors have limited the performance of the business unit, made it more difficult to achieve the objectives of improved financial results and resulted in further efforts to reduce costs (therefore, they risk entering in a spiral of minimisation).

A strong interest from the marketing and sales director in the accounting system information was also observed; there were, however, major constraints on the accounting system to meet this demand in a timely manner for the reasons mentioned above. The marketing manager, on the other hand, had no awareness of the usefulness of accounting information for marketing decisions. She was nevertheless receptive to receiving information from the accounting system if its usefulness was explained to her. The controller also showed much interest in interacting and exchanging information with marketing and sales managers, particularly at the stage of budgeting and deviations analysis. In this case, what was limiting the ability of the accounting system in meeting the needs of managers was the lack of interactive procedures established by senior management. The Dimoda managers reported that they lacked boardroom instructions for systematic reporting directed at hierarchic levels below the board-roam level. They also lacked multi-functional interactions and face-to-face discussions between managers and management control staff.

Marketing managers at Dimoda desired to have essentially two types of accounting information for marketing management. Firstly, detailed sales information per customer to understand the buying behaviour of each customer (not to analyse customer profitability as it is suggested in the literature). Secondly, they demanded information on the impact of each marketing activity on sales volume in order to analyse the relationship between cost and benefit of each type of marketing activity. The absence of financial information (cash inflows) related to specific marketing activities discouraged the business director from considering marketing outlays.

In Dimoda, the financial accountant's perspective is that her responsibility was to primarily serve the external customers (e.g., inland revenue service, banks, and statistics institute). The prospect of the controller was that her main responsibility was to produce reports for the boardroom – in particular the budgets and analysis of variances. The perspective of the information system director was that information technology had not followed the evolution of business – due to financial constraints. In this context, managers had very limited access to accounting information to support management: there was no staff focused on serving them in terms of accounting information, and they did not have direct access to accounting information due to IT limitations. In conclusion, there was much stored accounting information but very little was used.

CHAPTER 6 SECOND CASE STUDY: MODALFA

6.1 Introduction

This chapter starts with a brief description of Sonae[175] company, which is the owner of Modalfa. In the first three sections the history of Sonae, its values, mission, objectives and strategy are reported. This contributes to the understanding of the management culture, the size, and the relevance of Sonae in the Portuguese economy, and the origins of the Modalfa business unit. The subsequent sections cover the Modalfa business unit. These begin by explaining how the Modalfa business unit fits into the Sonae Group, and its weight in terms of sales, EBITDA and profit. Subsequently, there is a description of Modalfa's profitability, objectives, and accounting and marketing management. These sections are focused on explaining why and how managers demanded, communicated and used accounting information, and what factors influenced the ability of the accounting system to meet the managers' demand of accounting information. The final sections cover the MD situation. In particular, these sections describe how the MD was organised and how it planned its activities. It is also described how the MD carried out its performance measurement and how the MD influenced both business management and business strategy. This research on the relationships between the marketing accountability and the MD situation based on interpretative case study seeks to complement existing quantitative studies on the topic, thus contributing to new understandings and explanations on marketing performance measurement and accountability in practice.

6.2 The Sonae Group

The core business of Sonae is retailing.[176] By the end of 2010 Sonae was running 1,019 retail shops, with an average of 3.9 million customer visits weekly.[177] Sonae employed 43,268 people in 2010, creating 3,454 new jobs in the same year. Sonae allocated €412 million on CAPEX in 2010, i.e., 7% of its €5,914 million of turnover and 60% of its €690 million of EBITDA. The net profits were €233 million in 2010, an increase of 22.3% compared with 2009 (see Table 6-1).

The core business – retailing – is done by two companies: Sonae Modelo Continente (hereafter referred to as Sonae MC), which operates in food retailing; and

[175] Sonae - **So**ciedade **Na**cional de **E**stratificados
[176] Sonae Institutional Brochure (2011)
[177] Sonae Management Report (2010)

Sonae Specialised Retail (hereafter referred to as Sonae SR), which is in sports, fashion and electronics (see Appendix 6). Sonae Retail Properties (hereafter referred to as Sonae RP) is a related business company which manages retail real estate businesses. Sonae has two core partnerships, Sonae Sierra Shopping Centres which develops, owns, and manages shopping centres; and Sonaecom operating in telecommunications, being an integrated telecom provider. Sonae is partner of Grosvenor United Kingdom in Sonae Sierra,[178] and partner of France Telecom, BCP and Santander Asset Management in Sonaecom.[179]

Table 6-1 Sonae Group Consolidated Accounts 2006-2010

Currency in millions of euro

Year	Turnover	Employees	Shops	Net Profit	EBITDA	CAPEX	ROE
2006	4,384	33,151	480	339	599	787	21.2%
2007	4,628	34,628	646	357	706	1,571	22.0%
2008	5,353	37,389	793	39	617	902	6.8%
2009	5,665	39,372	937	190	633	614	7.3%
2010	5,914	43,268	1,019	233	690	412	14.0%

Source: adapted from the Sonae annual reports (2006-2010)

In 2010, Sonae MC was the market leader in food retailing, with a turnover of €3,275 million and an EBITDA of €231 million (see Table 6-2). Sonae MC offers a loyalty card to their customers – using it for marketing activities, e.g., for communicating promotions, for holding credits related to discounts gained by customers and for recording purchasing behaviour – being held by 3 million people (see Johnson 1992, p. 65). In 2010, the sales increased 5% and the EBITDA increased 16%. In the same year, Sonae MC was managing 415 stores occupying 544,000 square metres of sales area (see Table 6-2), which represented an increase of 3%, compared with 2009.

In 2010, Sonae SR was the Portuguese market leader in consumer electronics and sports goods, through Worten and Sportzone stores, respectively.[180] The turnover was €1,041 million, in Portuguese operations, and €231 million abroad; which represented an increase of 5% in the domestic market, and 60% abroad. Sonae SR made their first international joint-venture in the Canary Islands, with Worten and SportZone; and in the

[178] Sonae Sierra was founded in 1989, 50% owned by Sonae and 50% owned by Grosvenor UK.

[179] Sonae IT was founded in 1988. Sonaecom was, in 2010, 53.17% owned by Sonae, 20% by France Telecom, 3.41% by BCP, 2.01% by Santander Asset Management, 2.54% in Own Shares and 18.87% on Free Float.

[180] Sonae HSBC 9th Equity Conference Report, March 2011

Canary Islands and the Middle East with Zippy[181] franchising contracts. By the end of 2010 Sonae SR had 89 stores operating internationally, being present in 10 countries.[182]

Table 6-2 Turnover of Sonae Businesses 2010

Currency in millions of euro

Business	Turnover	Stores	Area Sq. Mt.	Employees	EBITDA	CAPEX
Sonae MC	3,275	415	544,000	28,150	231	88
Sonae SR	1,041	414	256,000	10,192	72	41
Sonae SR Int.	231	89	108,000	n.a.	-27	59
Sonae RP	126	-	-	36	111	21
Sonae Sierra	192	-	-	1,106	123	105
Sonaecom	921	-	-	2,057	194	140
Investment Mngt.	207	101	64,000	1,727	6	13

Source: adapted from HSBC 9th Equity Conference Report (2011) and Sonae Profitability Report (2010)

Sonae RP had investments of 1.4 billion euros at the end of 2010, i.e., owning 34 hypermarkets and 98 supermarkets. Sonae Sierra, the shopping centres business, was present in seven countries,[183] owning 53 shopping centres with an open market value of 6.5 billion euros.[184]

In 2010, Sonaecom, the telecommunications business, registered 3.6 million customers in the mobile segment, an increase of 5% from 2009. The Sonaecom's market share, in the mobile segment, was 21%; while the turnover decreased 3% in 2010, the profits increased from €6 million to €41 million, and the EBITDA increased 10%, i.e., from €176m to €194m.

6.2.1 The History of Sonae

Sonae was founded in 1959 as an industrial company that produced wood-based laminates at Maia – it is located near Oporto, in the north region of Portugal. In 1962, the company started the production of high pressure decorative laminates, i.e., Laminate, which was the main focus of the business over a 10 year period. In 1971 Sonae bought Novopan, a particle board company located in the same region, and started a production line of melamine surface and components for furniture and interior decoration industries.

[181] ZIPPY is a brand for children's apparel

[182] Spain, Kingdom of Saudi Arábia, United Arab Emirates, Jordan, Egypt, Lebanon, Qatar, Behrain, Kuwait, and Kazakhstan

[183] Portugal, Brazil, Spain, Italy, Germany, Greece and Romania.

[184] HSBC – 9th Equity Conference Report, March 2011, www.sonae.com

Four years later, Sonae started operating in the chemical industry, producing melamine and phenolic resins. In 1984 Sonae acquired Agloma company, becoming the leading particleboard manufacturer in Portugal.[185] In 1987 two other Portuguese manufacturing companies were bought by Sonae: Siaf and Paivopan. Two years later, in 1989, Sonae bought Spanboard, a particleboard manufacturer from Northern Ireland. The international expansion continued through the acquisition of other manufacturing companies abroad, e.g., Tafisa (Spain, 1993), Glunz (Germany, 2000), Isoroy (France, 2000), Ifloma (Mozambique, 1999), Sappi Novobord (South Africa, 2000), Hornitex (Germany, 2006), and Darbo (France, 2006), and setting brand new plants abroad, e.g., Canada (1994), Spain (1998), South Africa (1998), and U.K. (1998). In 1998 Sonae integrated vertically its industrial activity, entering in wood pulp and paper sector through the acquisition of 8.3% of the capital of Portucel (Portugal), a cellulose producer, and Soporcel (Portugal), a manufacturer of paste and paper.

The international acquisitions and investments abroad permitted Sonae to become the world leader in the manufacture of wood-based panels[186] also offering new products such as particleboard, medium density fibreboard, hardboard, and oriented strand board.

In 2005, Sonae Manufacturing established a spin off from Sonae. On December 2010, Sonae Industria's[187] workforce was 4,800 people, working on 27 production sites, in seven countries, with a consolidated turnover of 1.3 billion euros.

Sonae has diversified its activities, from the wood-based industry, through acquisitions, partnerships and starting up new businesses. Since 1984, Sonae entered food retailing, specialised retailing, telecommunications, shopping centres management and real estate (see Appendix 7). The diversification from the first core business, i.e., wood-based industry, has focused on another core business, i.e., retailing, which has become the principal source of turnover in 2010 (€4.5 billion in retailing vs. €1.3 billion in manufacturing). As Sonae's diversification strategy was focused on retail activities, i.e., related diversification (see Anthony and Govindarajan 2003), it benefited from the synergies related to logistics, operations and marketing.[188]

The next sections summarise the Sonae's culture, mission, values, objectives and strategy.

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[185] www.sonaeindustria.com (accessed on 22/01/2012)
[186] www.sonaeindustria.com (accessed on 22/01/2012)
[187] Sonae Industria is the manufacturing division of Sonae
[188] Sonae Institutional Brochure (2011, p. 21)

6.2.2 Mission, Culture and Values of Sonae

The company's mission statement was presented as:

> "To create long-term economic and social value, bringing the benefits of progress and innovation to an ever increasing number of people."[189]

Sonae's founder and chairman, Mr. Belmiro de Azevedo – he left the position of CEO in 2006 – suggested that the organisation's culture was based on meritocracy and focused on employees and customers (see Johnson 1992, p. 105). He commented:

> "I often say that my main role is to help to develop leaders who will be better than me. This very strong desire is behind this new reorganisation initiative, which continues the formula that has brought so much success to the Group: a combination of shareholder stability and the appointment of highly professional management teams. […] To my employees, with whom I share ambitions and challenges, I would like to say that I will now change functions – the "Zig Zag" career applies to everybody in the organisation – and, more importantly, that I am sincerely grateful for your capacity, day-by-day, to build your skills and be ever more enthusiastic in fulfilling our customers needs, by improving the quality of our products and also increasingly the quality of our services. I am totally confident of your success, which will be, as I have said, the best reward for me, the best dividend for this manager who has been dedicated to Sonae for the last 42 years."[190]

In this regard, the company's management, in its 2008 annual report, proposed to the employees:

> "Working at Sonae means contributing to the performance of a fast moving, innovative, proactive and exciting Group, where current and future employees may expect: (i) career development opportunities, where meritocracy is promoted and discrimination is not tolerated; (ii) lifelong training; and (iii) both a demanding and friendly work environment."[191]

The company enumerated seven core values: [188]

- "Ethics and trust": guiding the long-run value creation and the relationship with all stakeholders;
- "People": considered the centre of success – the company considered employees as a distinguishing factor, promoting an attitude of constant challenge and readiness for change;

[189] Sonae Institutional Brochure (2011, p. 18)
[190] Report and Accounts 2006 – Sonae SGPS, S.A., (2007, pp. 6-7)
[191] Report and Accounts 2008 – Sonae SGPS, S.A., (2009, p. 38)

- "Ambition": as a guiding force for its continuous bold and resilient attitude, aiming at leadership in all sectors where the company operates;
- "Innovation": aiming at balancing successes with errors in the path for constant learning and customer service improvements;
- "Social responsibility": contributing to the development of human knowledge, the environment and the underprivileged within the communities where Sonae operates;
- "Frugality and efficiency": aiming at optimise the usage of resources, maximising their return through operational efficiency and being always cost conscious; and
- "Cooperation and independence": in relation to the government, both local and central.

6.2.3 Objectives and Strategy of Sonae

In the management report for 2010, the Sonae's CEO declared that the objectives were growth, return on equity and debt reduction. He said:

> "We want to grow rapidly and in new international markets, we want a high return on equity and rapid improvement of financial ratios not just through increased profitability, but also through debt reduction in absolute terms. Above all, we want to do this by providing better prices and services to our customers."[192]

Another Sonae's objective was to be market leader in every sector in which they operate. These objectives were based on the company's core value of ambition.[193] Basically, the company aimed at growth and profitability while fostering innovative practices, competitive prices and entrepreneurship from employees at all levels (see Simons 1995b, p. 16). In this regard, the company institutional brochure stated:

> "We continuously set ambitious goals, that are inspired but not limited by benchmarks or best practices and that stretch our current competencies and demand a bold and entrepreneurial attitude from our managers."[194]

The corporate strategy of Sonae was reformulated in 2009, two years after the change in the administration of the company and the new CEO, successor of the founder

[192] CEO's Letter at the 2010 Sonae's Management Report (2010, p. 23)
[193] Sonae's Institutional Brochure (2011, pp. 23-24)
[194] Sonae's Institutional Brochure (2011, p. 23)

of Sonae, assumed functions. The new strategy aimed at continuous growth and value creation, therefore transforming Sonae into a major multinational retailing corporation.[195] The strategy of Sonae comprised three main actions:[196]

- "Internationalisation": a top strategic priority, centred on the core businesses, i.e., retailing, shopping centres and telecom. The focus was on geographies with economic growth, e.g., Eastern Europe, Mediterranean Basin and Brazil, or in mature economies where Sonae could be more efficient than the incumbents. The aim was to reach 25% of turnover, and 35% of assets in the international operations by the end of 2012.
- "Diversification of investment style": by entering in new businesses with majority stakes – where Sonae had the resources and competences to lead the business – or with minority stakes – where Sonae could benefit from third parties to achieve superior value creation. Sonae aimed at dedicating, in minority stakes, more than 10% of their capital employed.
- "Leveraging [… the] asset base in Portugal": at looking for new business opportunities. The new business opportunities should have a path for internationalisation, attractive profitability levels, and meet the global trends. It would benefit and reinforce both Sonae's competencies and strategic assets. The opportunities should also have potential for becoming large businesses, i.e., with market values above €100 million.

The strategic priorities for 2011, while confirming the previous aims, focused on internationalisation, leadership and innovation. In this respect, the Sonae's CEO stated:

> "Our top strategic priority [for 2011] is to continue to enlarge our international footprint and transform Sonae into a large international corporation. We will do so at the same time that we strengthen our leadership and core competences in home markets and continue to innovate in business models, store formats and business processes."[197]

In the following section the Modalfa business unit is contextualised within Sonae.

[195] Sonae's Management Report (2009)
[196] Sonae's Institutional Brochure (2011, pp. 24-25)
[197] CEO's Letter at the 2010 Sonae's Management Report (2010, p. 24)

6.2.4 The Modalfa Business Unit at Sonae

Modalfa business unit was created in 1995. It started as a fashion retail business located in the galleries of Modelo stores (see Appendix 6), outside the major Portuguese cities. It started as the Sonae Distribuição's insignia[198] for clothing retailing, i.e., textiles, footwear and fashion accessories. The aim was to improve the portfolio of products traded at medium size shopping centres, the places where the Modelo hypermarkets operated.

Between 2006 and 2009 there was, each year, an increase in the relative contribution of Modalfa's EBITDA, both at the specialised retailing division and Sonae's consolidated accounts (see Table 6-3).

Table 6-3 Sonae, Sonae SR and Modalfa Turnover and EBITDA

Currency in millions of euro

	2006	2007	2008	2009	2010
Sonae Turnover	4,384	4,628	5,353	5,665	5,914
Sonae SR Turnover	n.a.	783	928	1,132	1,272
Modalfa Turnover	74	88	101	107	103
% of Sonae SR in Sonae	n.a.	16.9	17.3	20.0	21.5
% of Modalfa in Sonae SR	n.a.	11.24	10.88	9.45	8.10
% of Modalfa in Sonae	1.69	1.90	1.89	1.89	1.74
Sonae EBITDA	599	706	617	633	729
Sonae SR EBITDA	n.a.	53	52	48	45
Modalfa EBITDA	4.9	7.5	12.8	16.5	10.4
% of Sonae SR in Sonae	n.a.	7.5	8.4	7.6	6.2
% of Modalfa in Sonae SR	n.a.	14.15	24.62	34.38	23.11
% of Modalfa in Sonae	0.82	1.06	2.07	2.61	1.43
Sonae Turnover Increase %	n.a.	5.6%	15.7%	5.8%	4.4%
Modalfa Sales Increase %	n.a.	19.5%	13.7%	6.4%	-3.4%

Source: adapted from the Modalfa and Sonae annual reports

In 2010 the relative weight of Modalfa's EBITDA and turnover decreased. The management report for 2010 commented on the reduction in sales at Modalfa, compared with 2009, explaining it with the reduction of fashion products consumption – a type of discretionary expense for its customers – caused by the macroeconomic uncertainty. It was explained in the management report:

> "[The year 2010] reflects essentially a context of high uncertainty towards the evolution of the disposable income of families [...] this situation may have influenced all components of internal demand, particularly the private consumption which had a slowdown at the end of the year. This macroeconomic context naturally conditioned the market segment where

[198] Sonae named "insignia" the business unit trademark.

> Modalfa operates as far as the goods traded by Modalfa have a clear discretionary characteristic and consumers easily postpone the buying decisions."[199]

The Operations Director also explained the decrease in Modalfa turnover with customer's postponing buying decisions. She said:

> "People are being much more rational while buying – despite the efforts of salesmen offering counselling and purchasing support – the customers say ''it's enough, next time I will take more, now it's enough''. Even people that can afford it, those who are economically healthy. We felt this pressure, and stronger in 2011."[200]

Even though there was a decrease at the specialised retail's EBITDA, the share of Sonae SR (see Appendix 6) at Sonae's consolidated EBITDA was 6.2%, and Modalfa's share at Sonae SR's EBITDA was 23.1% in 2010 (see Table 6-3). Analysing the turnover of Sonae SR, it increased 62.5% between 2007 and 2010, and the share in Sonae's consolidated turnover was 21.5% in 2010 compared with 16.9% in 2007 (cf. Table 6-3). In 2010, the EBITDA from the Modalfa business was significantly lower, nevertheless, between 2006 and 2010, the Modalfa's EBITDA increased 112%, while that of Sonae's consolidated accounts increased 21.7% (see Table 6-3). Moreover, the Sonae's CEO recognised the relevance of Sonae SR division for attaining the corporate objectives:

> "In Sonae SR, the weight of international operations is growing at a fast pace – 20% for the full year. Spain was the main focus of our expansion where we opened 46 company operated stores, more than doubling the total number at the end of 2009. We also signed several franchise and joint-venture agreements and opened the first 5 franchised Zippy stores in Saudi Arabia."[201]

After describing the Sonae group, its objectives and its strategy, the next sections focuses on the Modalfa business unit. There are four main sections: the profitability of the business unit; the business objectives and strategies; the accounting system; and, finally, a focus on the Modalfa MD situation.

6.3 Modalfa Business Unit

In this section it is described how the Modalfa business unit was managed and its

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[199] Modalfa Management Report and Accounts (2010, p. 2)
[200] Interview with the Operations Director on 18/01/2012 (M05.02)
[201] CEO's Letter at the 2010 Sonae's Management Report (2010, p. 23)

achievements. The business objectives are identified and described as well as the tactics used for attaining such aims. The sections that cover the accounting system start by describing why and how managers demanded, communicated and used accounting information, followed by the identification of factors that influenced the ability of the accounting system to meet the managers' demand of accounting information. The section ends by describing the situation of the MD, i.e., how it was organised, planned, controlled and influencing the marketing decisions.

6.3.1 Business Profitability

The profitability of Modalfa was positive and increasing between 2006 and 2009 (see Table 6-4). The profitability of sales was above the average of the clothing sector since 2007, and above the Sonae's consolidated accounts since 2008 (see Table 6-4). The EBITDA increased at a yearly average rate of 49.9% between 2006 and 2009.[202]

Table 6-4 Modalfa Sales, EBITDA and Profits

Currency in millions of euro

	2006	2007	2008	2009	2010
Sales	74.0	88.5	100.6	107.0	103.4
EBITDA	4.9	7.5	12.8	16.5	10.4
Net profit	1.16	2.55	6.16	8.18	4.92
Sales Profitability %	1.57	2.88	6.12	7.64	4.76
Sonae – Sales Profitability %	7.77	7.71	0.73	3.35	3.94
Sector – Sales Profitability %	1.89	1.77	0.64	1.18	n.a.

Source: adapted from the Modalfa management reports and the Informa DB database

The Director-General explained Modalfa's outperformance in terms of the strategic location of stores. Modalfa followed a strategy of opening stores outside the major urban areas, i.e., Oporto and Lisbon where the level of competition was higher. The Modalfa Marketing Director commented:

> "We are still relatively protected while we are in a Modelo commercial gallery,[203] in provinces; away from the urban areas, where the competitive arena is much more complex, where the global operators are present."[204]

The Director-General said that this strategy also enabled the company to attain a

[202] The year 2010 was not included in the analysis because the lack of clothing sector information.
[203] Modelo commercial gallery or the "Centre 3,000" is 2,000 sq. mt. for Modelo; 500 sq. mt. for Worten electronics; 500 sq. mt. for Modalfa textiles.
[204] Interview with the Marketing Director on 13/12/2011 (M02.25)

critical size in terms of market share very quickly, which was very important in the initial growth stages of the company. In 2011, Modalfa was running 107 stores.[205] This provided many consumers, who previously did not have this option to buy in large commercial centres, updated products at low cost. The Director-General explained:

> "Before, the people – in order to acquire these types of products – needed to go to Oporto and Lisbon. One of the reasons for Modalfa's success was the great location of our stores outside the traditional places, i.e., Oporto and Lisbon. While others were struggling in Oporto and Lisbon territory, we went to the remainder of the country. Our strategy of growth, enabling us to get dimension through locales which were not saturated, was very important in the beginning." [206]

The purchasing power of Modalfa – supported by the magnitude of its business – also contributed to its profitability. Modalfa was able to compete on price because it had size to go to the buying market in the Far East, with bargaining power. The Director-General explained the importance of the firm's size (see Shank 1989, p. 56):

> "We have got a relevant magnitude in the national market. It is very difficult, coming from zero, positioning oneself in the price competitive [segment], as Modalfa, due to buying power. In fashion, the market share in the buying market and buying power is more important than the market share in the selling market. We were able to obtain a size that gave us a minimum market share in buying, e.g., we go to Bangladesh and we can do the minimum quantities of production [that they require]. If one starts from zero, it is impossible to be in these markets [e.g., Bangladesh]. If we are not in these buying markets, we can not have the selling prices with the aimed profitability. We gained a presence in areas less competitive which gave us a stronger framework for competing in other markets."[207]

The Commercial Director gave the same explanation for the observed success of the Modalfa's business model, adding to it the contribution of the back-office organisational competences (see Johnson 1992, p. 9). He said:

> "The essential factors [for the Modalfa success] are: the coverage of the territory where we are, i.e. a huge dispersion, acting as a proximity offer to the customers of each region; and an adequate supply, i.e. prices and modernity, according to what people seek. This explains the enormous success of Modalfa; supported, obviously, by a back-office structure that permits the evolution of concepts, renovation of stores, renovation of processes, implementation capabilities, organisation, methods, etc."[208]

[205] The Modalfa stores were located next to the supermarkets Modelo, which also belonged to Sonae.
[206] Interview with Sonae Fashion Division Director-General on 23/11/2011 on 23/11/2011 (M01.55)
[207] Interview with the Director-General on 23/11/2011 (M01.58)
[208] Interview with the Commercial Director on 12/01/2012 (M04.29)

According to the Operations Director, the factor of success was also the store's image and the management accounting tools used to follow both the stores and its results, e.g., team's competences, training on selling and products, and store management. As Modalfa created specific analysis at the store level (they used accounting information for that) the stores were able to know exactly, every week, which products were losing or gaining in sales share when compared with the overall Modalfa business unit, she said. While conducting the weekly analysis of sales at stores, they used the sales indicator, without cost information (see Kaplan, in Robinson 1990, p. 3); therefore, the profitability or the contribution to the fixed costs were not calculated (see Shank, in Robinson 1990, p. 16). In this regard, the Operations Director observed:

> "Nowadays, the store is able to know, exactly, every week, in which products it is losing or has gaining opportunities, when compared with the [Modalfa] insignia; [for an analysis of] sales, at stores we use the sales indicator without the cost. We believe that when the sales team is dedicated to selling, the rest will follow and the [profit] return will come […] We are totally conscious that in difficult conjectures, the costs [management] assume a more important role, for they have more weight. [However] it is not the focus. If the first-line isn't done, i.e., sales, we can reduce whatever we may want, but we will never have a happy final account; if we do not generate sales, there is no point in containing and contain [costs], because we reach a minimum limit."[209]

The planning and management control department (hereafter referred to as the PCG[210]) gave support to the various departments (see Eccles 1991, p. 5), informing them about the performance of Modalfa's competitors (see Ambler 2003b, p. 253). This practice allowed Modalfa to align its performance with that of its competitors and stimulated a competitive attitude and continuous improvement inside the company (see Ambler 2003b, p. 138; Hope and Fraser 2003a, p. 55). The PCG looked at other competitors' performance – from data collected by specialised agencies in business information, e.g., Informa DB – and supplied the accounting information to the business managers (see Anthony and Govindarajan 2003, p. 468; Shank 2006, p. 356). The PCG tried to benchmark at all levels, comparing their competitors' performance with Modalfa's performance, e.g., profitability, EBITDAs, and sales per square metre, said the Fashion Controller (see Eccles 1991, pp. 4-5; Hope and Fraser 2003a, p. 123; Simons 1995b, p. 94).[211] This topic is discussed in more detail in Section 6.3.3.1.17.

[209] Interview with the Operations Director on 18/01/2012 (M05.39/53)
[210] PCG is an abbreviation for "**P**laneamento e **C**ontrolo de **G**estão" (Portuguese)
[211] Interview with the Fashion Controller on 13/12/2011 (M03.23)

6.3.2 Business Objectives of Modalfa

Although the company had its earnings before interest and tax (EBIT) and EBITDA as the main objectives, other objectives were set at different levels and in different departments (see Anthony and Govindarajan 2003, p. 416). In this respect, the Director-General commented that the objective of marketing was attracting people to the stores, while the objective of operations and sales was converting visitors into buyers. He explained:

> "If I am able to put more people inside the shops – we used to say that this is indeed the principal role of marketing – then, the merchandising and the operations come next. That is what assures we have the correct products, to convert visitors into customers. And being customers now, they do buy the maximum possible amounts."[212]

The Marketing Director explained that the financial objectives were clear to him, however, for him, the financial results were a result of a job well done. He said he tried to identify the critical factors that contributed to attaining the final financial results:

> "Nowadays, in Modalfa business, we have numeric objectives, e.g., ratios, very well established. We know very well what we must attain and what we want to attain in numeric terms. At the bottom line is EBIT. However, we see the numeric part as a result of a job well done. Therefore, we must look at the very specific variables of the fashion business; and work [these variables] for reaching numeric results in a sustained form"[213]

The Marketing Director said that one of the most important tactical objectives was attracting customers to stores. The Modalfa managers' perspective was that marketing had two main objectives: to construct the brand image – which was working for the customer mindset – and the tactical objectives, e.g., promotions, product campaigns and price discounts – which were expected to produce immediate effects on sales and profitability. Both objectives were important; one aimed at brand positioning, with long-term returns, and intangible value creation; the other was more operational, looking for immediate returns, and giving support for arguing in favour of the MD budgets. The Marketing Director explained his perspective on this topic:

> "We have got two dimensions for acting: creating brand value and the promotional. The promotional because in the limit we are a ratio of sales. For the survival of the brand, and for our survival as a department, we do

[212] Interview with the Director-General on 23/11/2011 (M01.46)
[213] Interview with Marketing Director on 13/12/2011 (M02.24)

> need to put customers inside the store. We assume this function clearly: the capacity to generate visits [to stores]"[214]

Modalfa was intended to be a benchmark in the retail business of fashion; however, the directors recognised that it was going to be difficult for Modalfa to become market leader, a position that in 2011 was won by Zara. Modalfa's directors said they wanted to consolidate the sub-leader position and to expand internationally, particularly to the markets culturally close to Portugal.

The different departments had their objectives aligned (see Anthony and Govindarajan 2003, p. 416). All considered Modalfa as aiming at being one of the major companies, offering quality clothing for families at competitive prices, and following conservative fashion across the entire Portuguese market. This alignment of perspectives on the objectives of the business unit – it is discussed in Section 6.3.4.1 – was reflective of a management control system that focused on communication and interaction between the various departments. The periodic meetings – led by the PCG (see Eccles 1991, p. 5) – where activity analysis, diagnosis of problems and corrective measures were made, contributed to the strategic and operational alignment (see Ambler 2003b, p. 143; Hope and Fraser 2003a, pp. 24-26). For example, the Director-General's perspective was:

> "Our objective is – through market research and customer feedback – to work on each of these components: family, fashion and price. [We work] with more emphasis on those [areas] where we have more difficulty [in being recognised by customers as such]."[215]

The Marketing Director also considered as one of the main characteristics of the brand, its family orientation. He highlighted the importance of being aligned with the fashion trends, without being avant-garde. As most of the customers were coming from areas outside the major urban centres, the products were chosen so as to adapt to more conservative tastes. The Marketing Director explained:

> "In Modalfa we need to have fashion, for this is what the people want; I am not saying a vanguard fashion, which is a space already occupied by others. We tend to be more conservative in fashion, while incorporating in our collections the last tendencies, e.g., colour, and fitting; though not doing Modalfa a trend setter. We do have the family concept [in our offer]."[216]

[214] Interview with the Marketing Director on 13/12/2011 (M02.10)
[215] Interview with the Director-General on 23/11/2011 (M01.62)
[216] Interview with the Marketing Director on 13/12/2011 (M02.26)

The Controller also summarised the objectives of Modalfa, focusing on family and geographical coverage:

> "The objective of Modalfa is to be a major nationwide chain of clothing, a clothing chain for families in particular; becoming the main national player. Being a family solution because it supplies clothing for adults and children too. It is directed to the family as a whole."[217]

The Commercial Director also mentioned the three key features of the brand Modalfa – family, fashion and price – confirming what other managers had already said. He stated:

> "Regarding the branded product strategy, we are a family store; aiming at an updated product, at the best possible price, for all the family."[218]

Finally, the Operations Director, beyond reconfirming what was said earlier about the objectives of the business unit, added customer service and sustainability. She expressed:

> "The principal focus of Modalfa is the family. We were born with this [focus] and it will always guide us. We aim at offering the latest fashion trends, price-quality opportunities, customer service, sustainability, and geographic coverage."[219]

There were other operational and organisational objectives rendered evident in the management reports between 2006 and 2009. Most of them were focused on customer service and processes efficiency (see Table 6-5).

Summarising, the value proposition offered by Modalfa was "developing products which fit the customer's lifestyle, meeting the latest fashion trends, with optimum relationship between quality and price",[220] and Modalfa attained the ultimate objectives of profitability and growth. Between 2006 and 2010, the number of stores increased at an annual average rate of 11.4%, and the total shopping area increased at an average rate of 13.6% (see Table 6-6). Between 2008 and 2010, the Modalfa's profitability of sales was always above the average of the clothing sector, and also above the overall Sonae's profitability of sales (see Table 6-4).

[217] Interview with the Fashion Controller on 13/12/2011 (M03.05)
[218] Interview with the Commercial Director on 12/01/2012 (M04.20)
[219] Interview with the Operations Director on 18/01/2012 (M05.17)
[220] Modalfa Annual Report (2008, p. 2); (2009, p. 4); (2010, p. 3).

Table 6-5 Modalfa Objectives

Objectives	2006	2007	2008	2009	2010
Expansion, increasing the number of shops, selecting localisations	X	X			
Consolidating the strong market position	X				
Reinforce the operational profitability through organisation processes improvement and information technology systems	X				
Increase the value proposition to the customer updating the stores	X				
Customer focus		X			
Innovation		X			
Processes efficiency		X			
Product quality through product testing			X	X	X
Customer service through employee training			X	X	X

Source: adapted from both the Modalfa interviews and the Modalfa management reports

Table 6-6 Modalfa Stores, Sales and Employees 2006-2009

	2006	2007	2008	2009	2010
Total Shops	68	81	87	99	105
New Shops	12	1	6	13	7
Closed Shops	0	0	0	1	1
Investments (€10^3)	5,603	9,375	6,964	1,874	1,394
Sales from shops (€10^3)	74,015	88,463	100,606	107,035	103,430
Total area (sq. mt.)	33,000	38,000	41,000	51,000	55,000
Sales per sq. mt. (€10^3)	2.25	2.32	2.45	2.10	1.88
Employees	481	711	802	844	n.a.

Source: adapted from the Modalfa annual reports (2006-2010)

The following sections describe how and why Modalfa managers demanded, communicated and used accounting information.

6.3.3 Accounting System and Marketing Management

This section describes how the Modalfa's accounting system supported the managers of marketing. The first section describes why and how the Modalfa marketing managers demanded, communicated and used accounting information, while the second section explores the factors that influenced the ability of the accounting system to meet the managers' demand of accounting information.

6.3.3.1 Marketing Managers' Demand of Accounting Information

The reasons why Modalfa managers of marketing demanded, communicated and used accounting information are described in this section. The topics are presented in the same order as in the previous case, being then added alongside with other motivations that Modalfa managers had for using accounting information (not found in the Dimoda case).

6.3.3.1.1 Accounting Information for Sales Revenue Analysis

The Financial Accounting Director reported that the analysis of sales was a very important aspect of business in Modalfa (see Kaplan, in Robinson 1990, p. 3). He added that the reports were daily and that this information was passed on to managers. He explained:

> "Sales are daily, the sales report is daily, everyday management has information on what is happening in the stores, how sales are – sales are the most important variable in this business – everything else comes afterwards. If sales do not work the rest is also not working."[221]

The Commercial Director confirmed his interest in using the accounting information related to sales, adding that he analysed it daily. He said:

> "I look for sales and margins, every day. I compare the sales with the historic registries, the sales compared with the budget, the distribution [of sales] by categories, by store, I do this every day."[222]

In addition to the daily analysis of sales – which was made by consulting the computer systems directly – the Controller said that she also produced reports of activity weekly and monthly (see Anthony and Govindarajan 2003, p. 566). The monthly report,

[221] Interview with the Financial Accounting Director on 21/09/2012 (M07.79)
[222] Interview with the Commercial Director on 12/01/2012 (M04.12)

which included a detailed analysis of sales, was sent to all directors, including sales and marketing, and later discussed at a meeting dedicated to the analysis of business activity. The Controller commented that the sharing of information was important for managers to be informed about the business activity (see Eccles 1991, p. 5; Hope and Fraser 2003a, pp. 24-26). She also said that the Marketing Director was interested in information about sales and profit margins (see Simons 1995b, p. 147). The Controller explained:

> "This [to meet one morning or one full day to review the monthly activity] is compensated because it is also a way for everybody to be aligned in Modalfa's performance as a whole. For example, it is obvious that the Marketing Director possesses the information, but it is in this way that he shares all that concerns Modalfa, like new stores, sales performance, how we are in terms of margins. I mean, he [the Marketing Director] does not look exclusively at the [cost] line of marketing."[223]

The following section describes how the Modalfa marketing managers used accounting information for profitability analysis.

6.3.3.1.2 Accounting Information for Profitability Analysis

The Modalfa Commercial Director said that one of his main responsibilities was the operating account of the business, in particular the sales margin (see Shank, in Robinson 1990, p. 16). In this sense, the Commercial Director commented that he was in the habit of analysing the daily profit and loss account. Referring to the importance of sales and sales margins he said:

> "I am responsible for the business operating account, the sales line – shared with all other teams, obviously – and much in line with the profit margin, or contribution margin, as we call it – it is the price, less cost [of goods sold], less sales discounts, less fails [on inventories], less provisions, […] [There are] many variables."[224]

The Marketing Director also said that the profitability of the business was very important to him, specifically the EBITDA. He began by noting that this indicator and the sales margin were the main objectives of the business (see Simons 1995b, p. 66):

> "Everything ends in EBITDA, however we have [other aims as] sales, and sales margins – it is also an objective and a key performance indicator

[223] Interview with the Fashion Controller on 21/09/2012 (M08.10)
[224] Interview with the Commercial Director on 12/01/2012 (M04.04)

(KPI) of my commercial colleague [the Commercial Director]."[225]

The Marketing Director also mentioned the importance of planning marketing activities by taking into account the contribution of each of them to the development of profitability and sales. It was also a way to protect his department within the organisation. He referred to this topic in this way:

> "There is space for innovation, but it must be focused on an objective. If we put these skills to the service of EBITDA, customers, increase of sales, i.e., participating in the efforts of the whole organisation, then marketing will be very well assessed and cared for by the whole organisation. We all want the same, increasing the sales. This must be the focus. In these times we cannot miss the target, even if it [to be out of the target] is very pleasant."[226]

The cost management also motivated the use of accounting information. This is described in the following section.

6.3.3.1.3 Accounting Information for Cost Management

Reflecting on the changes in the market as a result of the recession, the Director-General commented that in 2010 and 2011 the sector faced increasing costs of raw materials and a reduction in consumer demand. As it was very difficult to increase the prices to the final customers, the control of costs was paramount for sustaining the business' profitability, he said. The Director-General explained:

> "In the past year and a half, we went through a perfect storm, using the expression of the last International Retail Conference in Berlin, i.e., something like ''Garment retail: a perfect storm''. Because we are putting everything together: a decrease in consumption, due to the economic difficulties which we are experiencing; an increase in raw material prices, electricity costs and store's overheads; and mostly related to increases in cotton prices, which were completely crazy, e.g., last year [2010] the cotton price rose 150%, while having market pressure for not increasing the selling prices, caused by low consumptions. Fashion retailers have been caught in a perfect storm: reduction in top line consumption and a significant increase in raw material prices. Hence, we have nowadays the preoccupation of controlling costs in the textile retail."[227]

[225] Interview with the Marketing Director on 13/12/2011 (M02.33)
[226] Interview with the Marketing Director on 13/12/2011 (M02.86)
[227] Interview with the Director-General on 23/11/2011 (M01.07)

The cost management at Sonae was characterised by the spirit of frugality.[228] One of the core values of Sonae was cost consciousness (see Section 6.2.2). The Operations Director said that in Sonae they were always very rational and objective when deciding about costs. She explained:

> "We manage the costs by anticipation. From the first day of the year we start to apply the measures of the budget guaranteeing that the shops are taking these correct measures; analysing the deviations and correcting them; identifying the most expensive stores – looking for the causes, [because] sometimes it is justifiable. Correcting them [the expenses whenever necessary]. We are never spendthrifts or unconcerned about costs. [...] We use the frugality concept. Always assessing very well where the money is spent."[229]

The costs were budgeted and controlled throughout the year (see Horngren 2004, p. 210). There was a monthly meeting where all executive directors got together and discussed the performed activities of the business, the results and the challenges (see Anthony and Govindarajan 2003, pp. 420-421). The Controller prepared a weekly profitability report, and, throughout the year, the real performance was followed, comparing it with the defined targets; in every budgeted item the performance was tracked,[230] the Controller said. The cost analysis was done by all directors in the organisation, looking for the details, and opportunities of improvement (see Horngren 2004, p. 210). The Marketing Director commented that he used the accounting information, produced monthly by management control, to act at the level of corrective actions in his department (see Simons 1995b, p. 123). The Marketing Director explained:

> "Nowadays [we have] an effective and detailed cost control; all of us look at it [costs]. Each one looks at his department's costs. Every month we look at the global business accounts, line by line, checking whether there are variances, and why they occur; also, which corrective measures are necessary. […] We have, therefore, numeric, quantitative information, for supporting decisions or options that we will take; and corrections that are needed, in each department. This is done on a monthly basis. Every first-line director [participates], the management control, and the CEO."[231]

However, regarding cost reduction practices, the Operations Director reported that they never cut what was critical for the business operations, customers or employees, e.g., they did not save on the visits to the stores, in fuel, or in vehicles for following up the

[228] Interview with the Operations Director on 18/01/2012 (M05.54)
[229] Interview with the Operations Director on 18/01/2012 (M05.54)
[230] Interview with the Fashion Controller on 13/12/2011 (M03.06)
[231] Interview with the Marketing Director on 13/12/2011 (M02.33/60)

operations (see Johnson 1992, p. 13). However, they chose the routes for visiting stores – aiming at making shorter distances – and the most reasonably priced hotels. The Operations Director explained the criterion for cost management:

> "We don't choose the 4 or 5 stars [hotels]; it is one night [only], we arrive at 10 p.m. and go straight to bed, we don't need a hotel with a spa. We are rational in these types of expenses […] However, in the shops, we do not cut the air conditioning, or lighting; we do not cut anything that delivers comfort to the customers and to the employees too. If we need to cut the air conditioning, then we analyse when it is not necessary, e.g., if the warm weather starts at 11 a.m., then we turn on the air conditioning at 10 a.m; in the early morning, at 8 a.m., it is not warm in Évora; you save two hours, which in 365 days a year, is equal to 107 times [stores]."[232]

The cost management in Modalfa included the improvement of the business operational processes, to yield cost savings (see Johnson 1992, p. 9), or the elimination of expenses with non-core activities (see Johnson and Kaplan 1987, pp. 33-34). The Director-General said that for 2012, the cost reduction was one of their objectives and explained:

> "For the next year, we are looking at where we can cut [expenses] e.g., improving the processes aiming at reductions of direct labour, or leaving some things, like the ones nice-to-have [but not essential]."[233]

For example, in 2010, there was a focus on innovation, looking for new processes, questioning the working methodologies, aiming at productivity gains (see Johnson 1992, p. 9). The Operations Director explained that they aimed at reducing hours spent on tasks – not manpower – to give more service to customers. She said that Modalfa worked together with the Kaizen Institute Portugal,[234] and were awarded a prize by that institute for new methods that were implemented for goods separation.

Beyond the scope of cost control, the Marketing Director also resorted to accounting information to assess his marketing campaigns from the financial perspective. This facet, the use of accounting information to evaluate the activity of marketing, is explained in the next section.

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[232] Interview with the Operations Director on 18/01/2012 (M05.56)
[233] Interview with the Director-General on 23/11/2011 (M01.20)
[234] The Kaizen Institute is a global organisation which provides consulting services to companies worldwide. The Kaizen Institute supports companies of all sizes and industrial segments as well as private and public service organisations (see pt.kaizen.com).

6.3.3.1.4 Accounting Information for Measuring Marketing Performance

The Director-General, the Controller, and the Marketing Director reported that they measured the performance of marketing campaigns using accounting information. They said that the most used was the total value of sales, comparing it before and after campaigns or in different locations, i.e., some locations with campaigns and others without. The Director-General explained the methodology:

> "If I do a publicity campaign for a promotion at the entrance of Norte Shopping,[235] and not at the entrance of Colombo,[236] I can see the changes in the number of transactions, and in the value of transactions, of Norte Shopping versus Colombo, as the control group. I can measure, ceteris paribus, what the effect of the campaign is."[237]

The Director-General and the Marketing Director noted that one reason for further increases in the number of these measurements was the economic crisis. They said that they needed to know the extent to which expenses incurred in marketing, produced positive impacts on the revenue, and were justified in the context of cost reduction. The Director-General commented:

> "We do it indeed [to measure the marketing operational promotions] more and more. The [macro-economic] crisis is the cause of it."[238]

However, the perspective of the Commercial Director was that there was a difference between the indicators used by the MD and the indicators used by the commercial department. He said that while marketing typically used more operational indicators in order to measure the effectiveness of campaigns, the commercial department used mostly the financial ones. The Commercial Director explained:

> "Marketing and ourselves; whenever we do a [marketing] action, we always try to measure. The marketing [department] measures using IRP [independent research providers], if it is communication, television, etc., and brand awareness. These are the marketing measures. We measure based on sales. If we put a campaign on television, how does it impact [on sales]? We have historic registers that it impacted two times [on sales]; or, if we offer 30% [discount] instead of 50%, how does it impact on inventory rotation and sales? We have got some points of reference that we use for assessing the performance of campaigns."[239]

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[235] The Norte Shopping is a commercial space located near Oporto
[236] The Colombo Shopping is a commercial space located in Lisbon (i.e., 320 km from the Norte Shopping)
[237] Interview with the Director-General on 23/11/2011 (M01.19)
[238] Interview with the Director-General on 23/11/2011 (M01.20)
[239] Interview with the Commercial Director on 12/01/2012 (M04.30)

The Controller, who was dedicated to the fashion division, said that increasingly these analyses had been made, using financial metrics and accounting information, to measure the performance of marketing activities. Moreover, the departments of accounting and management control produced the information; she explained how she was involved in the process of MPM and how she did the analysis (see Hope and Fraser 2003a, p. 37):

> "We have been doing this type of analysis [of MPM]. Our objective was doing more, indeed; we have some on the waiting list. This year we have already done several analyses. It was done at Zippy[240] but it could be at Modalfa too, this exercise can be done on any [brand]. A set of shops did a certain [marketing] action, the other set of shops did another [marketing] action; we identified the costs of each action and the impact of each one on sales, and profitability, aiming at obtaining the value generated by each [marketing] campaign. The fashion division has been doing these different marketing actions to test which type of action is better suited to the customer's needs, and produces better responses in terms of sales and profitability. We, management control, are helping them [marketing] to assess the post-campaign impacts. This year, in particular, we have this role of assessing the performance of [marketing] campaigns."[241]

In addition to accounting information being used to assess the return of the marketing campaigns, it was also used to generate improvement opportunities (see Simons 1995a, p. 86). This is described in the following section.

6.3.3.1.5 Accounting Information for Improving Marketing Management at Stores

The Director-General explained that the accounting information regarding sales, and the number of commercial transactions, when compared with the number of store´s visitors, allowed the calculation of the conversion rate of visitors into customers, e.g., how many transactions per one hundred visitors. He explained that after comparing these ratios between the various stores, they could understand which shops were successful in converting visitors into customers, and the stores with poorer performances (see Anthony and Govindarajan 2003, p. 468). The Director-General said that the analysis stimulated further research to understand the causes of success (or failure), using it, afterwards, to serve as a stimulus for improving stores with lower performances (see Hope and Fraser 2003a, p. 61).

[240] ZIPPY is a brand for children's apparel
[241] Interview with the Fashion Controller on 13/12/2011 (M03.17)

The Director-General explained how accounting information was useful in this process:

> "These ratios are useful not only for tuning [selecting] the products but also for the service. The operations team has a close eye on the stores, looking for the productivity of each shop. They say to them, ''We do not want you to have 150 or 200 transactions, but we want a success rate of store entries of x% because you are below the average which is y% and you have here a way to do this. Your colleagues from other shops, with the same articles, are transforming more people entries into customers.'' It is a work of competition between stores[242] which generates continuous improvements."[243]

The Operations Director explained how she used accounting information in the management of stores: she reviewed the performance of each shop on a weekly basis, supported by the management control department and the information system (see Shank 2006, p. 363). She said that she compared each shop performance with the regional average, the insignia average, and the historical performances (see Hope and Fraser 2003a, p. 61). This allowed her to identify best practices or innovative procedures and replicate them in the network of 107 stores (see Ambler 2003b, p. 201; Simons 1995b, p. 5). She noted that the potential gains arising from this method were considerable. The Operations Director explained how she used the methodology (see Hope and Fraser 2003a, p. 148):

> "[When a store,] e.g., Vila do Conde is doing a spectacular performance, i.e., 112% compared with the insignia average of 93%, we need to go there and understand which initiative the store's manager had, passing it to all other stores. Sometimes there are small details, like a highlighting of a particular product, which we were not betting on; and that resulted very well. If so, let us replicate this event in the 107 stores, projecting it in the total. We do this [analysis] weekly. The management control informs us that everything is integrated and we process the reports [automatically]. [The connection with the management control] is very good indeed."[244]

Information was prepared comparing the various Sonae insignias (retail brands), to understand what Modalfa was like when compared to the other Sonae insignias (see Hope and Fraser 2003a, pp. 33, 61). Afterwards, the performance of Modalfa in each region was compared with the national performance of Modalfa. Finally, each Modalfa store and

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[242] See Hope, J. and Fraser, R. 2003a. *Beyond budgeting: how managers can break free from the annual performance trap*. Boston: Harvard Business School Press. p. 134
[243] Interview with the Director-General on 23/11/2011 (M01.53)
[244] Interview with the Operations Director on 18/01/2012 (M05.41)

each product category was compared with the aggregate values of Modalfa. The Controller said that the shops with relatively worse performances had an opportunity for improvement, and that was the focus of directors and store managers after the analysis. In this regard, the Operations Director commented that the customer service at stores was also a differentiation factor from other competitors (see Johnson 1992, pp. 72, 77):

> "The way the people will look at the brands will be very affective; which will differentiate, at an equal [buying] opportunity. If both [brands] have a good price and a good product, my [perceived] difference will be for the one with the better smile. The store where I am made to feel special. [At operations] we feel the customer service is the most difficult [thing to do]; and we want this as the differentiating factor in our stores, the people [working at stores] is the great difference. For me, the most difficult thing in the present time, that is, where I am concentrating all the efforts, is the development of team capabilities."[245]

The Controller commented that she took a proactive approach towards the business, i.e., identifying improvement opportunities (see Hope and Fraser 2003a, p. 107). She explained that Modalfa had a monthly trade meeting – in addition to the monthly activity analysis meeting. It was a meeting for brainstorming and for discussing the business and market context (see Ambler 2003b, pp. 26-31; Shank 2006, p. 356; Simons 1995b, p. 15). The Controller explained why she considered her participation in this trade meeting to be very important:

> "In order to follow the business closely, it makes sense that we understand it, because everyone has his defined role within it. The Director-General, all first-line directors, and some eventual guests are present [in the meeting]. We discuss several issues, e.g., changes in sourcing process, changes in store's merchandising, changes in logistics, i.e., issues more related to the business itself, not necessarily related to planning and management control. I am always invited to be present at these meetings and I usually am. […] Usually, the management control function is policing. We do not want to be so; it is obvious that we want to control – for this is our role – but mostly [we want to] follow-up the business. The better we understand the business, the better we do our job as controllers."[246]

Apart from using accounting information to find opportunities for improvements, Modalfa managers also used it for strategic planning; this is described in the next section.

[245] Interview with the Operations Director on 18/01/2012 (M05.29)
[246] Interview with the Fashion Controller on 13/12/2011 (M03.10/14)

6.3.3.1.6 Accounting Information for Strategic Decisions

Both the Marketing Director and the Controller reported that the accounting information was demanded and used to decide and to plan strategically (see Shank 1989, p. 50). The Marketing Director said that to propose changes to his team, e.g., recruiting more people, he had to justify that the proposal would bring a positive contribution to the financial results of the company; otherwise his proposals could be rejected. He mentioned that when he was able to show the contribution, in terms of quality and results, his proposals were accepted. In this regard the Marketing Director said:

> "At Sonae, one of the good things we have is that we must be able to propose rationally; when proposing any increase, any change in our team, it has to be based on some rationality. Since we are able to demonstrate this to our board, then it often happens, i.e., demonstrate what must be done, to get the things completed with quality, while guaranteeing the [financial] results."[247]

An example given by the Marketing Director was the decision not to launch the customer loyalty card in Modalfa. He argued that the decision was made and justified using financial reasons. He commented that the profit margins of the business did not allow the launching of the customer discount card; the margins did not permit large discounts. Thus, an analysis based on accounting information was the basis for not launching a strategic marketing activity, i.e., a loyalty program associated with the customer card. The Marketing Director explained:

> "Our business, our price positioning, does not generate sufficient margins for us to have a loyalty program."[248]

The Controller noted that the availability of accounting information, the interaction between the various directors, the analysis and the discussion of this information, produced medium and long-term strategic effects (see Simons 1995b, p. 29). The first example was the analysis of the return on marketing campaigns, which permitted to plan and to design new campaigns, correcting what was wrong and focusing on what they had done well (see Simons 1995b, p. 92, 2000, p. 316). The Controller explained:

> "We analysed specific situations [from marketing campaigns]. We were able to tell the correct direction for improving sales, also to help future

[247] Interview with the Marketing Director on 13/12/2011 (M02.57)
[248] Interview with the Marketing Director on 13/12/2011 (M02.28)

> decisions. We analyse not only at the time of campaign but also in the subsequent time period, checking the post-event effects."[249]

In October 2012 Modalfa joined the Continente customer card network (see Section 6.2). The Brand Manager said that the MD used accounting information regularly to evaluate the marketing promotions, and the analysis also provided input into strategic decisions, e.g., related to customer segmentation (see Johnson 1992, p. 65; Shank 1989, p. 50). The Brand Manager explained:

> "Regarding the support from the accounting information […] we analyse the promotional campaigns (now made through Continente customer card, with whom we have been partners since last October) with a focus on variables such as: customers who used the [discount] coupon; new customers who were acquired; contagious effect on the sale of other articles without promotion; customer return rate in the days following the campaign; and customer segment, for more targeted campaigns."[250]

The second example was the use of accounting information in the process of setting five-year goals and action plans. The Controller commented that the budgeting process, in addition to incorporating the business goals, also contributed to its definition (see Horngren 2004, p. 210). Every year, in addition to making the next year's budget, Modalfa's managers revised the business plan for the following five years (see Hope and Fraser 2003a, p. 78; Simons 1987b, p. 4). The Controller gave an example:

> "We just close the whole process of building the budget for the next year [2012] and incorporate, defined in each business, what are the expectations and objectives – either for the next year or for the other coming years. We outline each year, we review every year, the five-year business plan."[251]

Finally, the departments of accounting and management control also actively participated in the expansion projects, i.e., the management control department was responsible for preparing the business plan of the new commercial projects, e.g., new stores related to the internationalisation strategy (see Section 6.2.3).

The next section covers the topic of accounting information for marketing decisions related to pricing and promotions.

[249] Interview with the Fashion Controller on 13/12/2011 (M03.19)
[250] Email from the Brand Manager on 19/03/2013
[251] Interview with the Fashion Controller on 13/12/2011 (M03.03)

6.3.3.1.7 Accounting Information for Setting Prices and Promotions

The positioning of Modalfa brand (see Appendix 2) was to be perceived by customers as having the most competitive prices. The Director-General explained why the price management was becoming increasingly important:

> "Nowadays, the price has acquired an importance that, two or three years ago, it did not have. The price is a strong point [of Modalfa], recognised by all customers. In the past, we looked at it on a comparative basis, i.e., we needed to be the cheapest. Nowadays, with the retraction on consumption, more than being the cheapest, we need to be cheap enough for the customer to feel the necessity to buy. When the economy was growing, it was enough to be the cheapest. The customers were comparing the shops from which to buy. Nowadays, it is not a problem of choosing where to buy, it is a question of just not buying. We need to reinforce this point [the price] and tell people that they should not feel bad for buying in our shops because it is so cheap that it is worth it."[252]

The Marketing Director said that the was very central to the business strategy and "a vector of positioning and affirmation of Modalfa brand".[253] It was so in a wide range of products, which they called the basic and permanent base, e.g., lingerie, jeans, polos, tops, T-shirts, shirts, and ties, where they intend to be the most competitive. In these core products the brand maintained much of its positioning, the Marketing Director said. Compared to its competitors, the Marketing Director affirmed that the quality/price ratio of Modalfa brand was superior (see Johnson 1992, p. 101). The Marketing Director commented:

> "We have better value for money than our competitors, including Zara and H&M. These are usually covered in the market research. In these particular products, we have better quality/price ratio than our competitors; told by our customers, obviously."[254]

The price competitive position was attained through: (1) sourcing in the Far East; (2) management of synergies (shared services); (3) buying bargaining power (scale); and, (4) permanent cost reduction practices (business process innovation), said the Director-General (see Shank 1989).

Even though the prices were set by the commercial department, they were filtered and validated by the MD before being turned public through fashion magazines. The

[252] Interview with the Director-General on 23/11/2011 (M01.63)
[253] Interview with the Marketing Director on 13/12/2011 (M02.52)
[254] Interview with the Marketing Director on 13/12/2011 (M02.54)

Marketing Director said that his department had the role of representing the customer within the organisation, along with the other departments and the directors of business (see Johnson 1992, p. 67). He explained that it was the MD that was listening both to the customers and to the market research. The MD managed the brand image, while filtering the prices, i.e., any change on pricing policy might have implications on brand positioning if not well done, he said.[255] The MD selected and required the articles from the commercial department, along with the prices, for submitting to publication. Afterwards, the MD analysed the ratio quality/price of products, comparing them with those from competitors, and, whenever appropriate, suggested price changes to the commercial department (see Simons 1995b, p. 94). The Marketing Director explained what was the role of the MD in price management:

> "Looking at the price, we need to check if it is suitable to appear on the same page as other; if it [price] defends us at the perceived price positioning in the market. If it is not the case, we speak immediately to the commercial department to reduce the price. We need to explain the request. If the argument is valid – usually it is so – the commercial unit immediately assumes that it is worth it. We all must be coherent with the price image that we pass to the market."[256]

The Marketing Director referred to other situations where the role of the MD was very important for protecting the price positioning. In 2010 and 2011, the volume of sales was lower because of the macroeconomic context; in this context the profitability could be protected through higher prices. However the Marketing Director was aware of the risk of the negative impact of higher prices on brand positioning, alerting other departments about it (see Johnson 1992, pp. 65-69). The Marketing Director explained:

> "We need to pay much attention and be very zealous about all variables that sustain our positioning, e.g., we may want to increase prices, to protect the margins at lower volumes; however we need to do this very carefully. We created a price positioning over many years and we need to defend it. We need to be very much alert internally, be sure that we do not trespass some borders. Otherwise we will damage the work already done by all of us. Marketing has a critical role to play in these [difficult] conjunctures, absolutely. We represent the voice of the customer. Coming from marketing or not, it [the voice of customer] must be listened to, whenever it is relevant."[257]

[255] Interview with the Marketing Director on 13/12/2011 (M02.16)
[256] Interview with the Marketing Director on 13/12/2011 (M02.17)
[257] Interview with the Marketing Director on 13/12/2011 (M02.65)

The Marketing Director said that decisions about prices and promotions were conditioned by two factors, both demanding accounting information. First, the deals were conditioned by the objective of achieving certain profit margins that allowed proper remuneration to shareholders. Second, the prices needed to be attractive enough to enable an appropriate inventory turnover. He explained how these two financial indicators determined pricing and promotions:

> "Ultimately, for the customer it is very good [promotions and price discounts], but for those who manage the trading account… you need the ability to reconcile the discounts with sufficient margins for the shareholders. Also, we cannot only protect the profit margin because we have a stock to drain.[258] […] There are variables that have to be reconciled, it is not easy."[259]

The Director-General explained that the price management also aimed at assuring the existence of special low prices, in some articles, to attract customers to shops. However, the low priced items should be balanced with other profitable products, properly arranged on the shop floor, to construct the overall store's profitability. The Director-General explained how Modalfa managed pricing and placement, using accounting information, in coordination with marketing staff:

> "We know that we have products supplying a good service to the brand, in terms of price positioning and promotion; both attract customers to the store and to have the store well up in one's mind for buying specific articles. However if we only sell these products we will have serious profitability problems. We also need to have profitable products for assuring [store level] profitability. We need to manage the product placement [merchandising] well in order that the customers buy both the highest number of articles and the desired mix. We analyse the impact of both pricing, and putting certain products on a table or on a wall, and the number of transactions, the products sold to each customer and the overall store profitability at the end of the day. The merchandising team looks for this balance, led by someone from the marketing department."[260]

In Modalfa accounting information was also a key element in the process of marketing planning. This is discussed in the following section.

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[258] See Johnson, H. T. and Kaplan, R. S. 1987. *Relevance lost: The rise and fall of management accounting*. Boston: Harvard Business School Press. p. 41

[259] Interview with the Marketing Director on 13/12/2011 (M02.45)

[260] Interview with the Director-General on 23/11/2011 (M01.47)

6.3.3.1.8 Accounting Information for Marketing Planning and Budgeting

The Director-General commented that the MD had the responsibility to propose activities for the following year. These were defended at the annual meeting – where the actions and the necessary resources were planned, i.e., the plan of actions and resources (PAR) meeting (see Anthony and Govindarajan 2003, pp. 364, 417). It was after the PAR presentation and discussion – which focused on the technical and human resources required – that the plans were developed at the budget level (see Hope and Fraser 2003a, p. 11; Simons 1995b, p. 145). The Director-General explained the function of the MD in the planning and budgeting process:

> “The marketing area does its proposal and presents how the next year will be, the objectives and the reasons for their decisions; e.g., investing more in this or that area, being more incisive in the promotion plan, reducing the component of communication for positioning, investing more in CRM, invest more in web media, or social media, etc. Everything is analysed and proposed by marketing in meetings, including in the meetings related to the coordination of the plan of action and resources [PAR] for the whole area.”[261]

The budget amount for marketing was proposed by the MD (see Anthony and Govindarajan 2003, pp. 420-421). It was based on the result of the historical information collected, market research, and marketing strategy. The budget amount was then presented to the board directors along with a set of measurable actions (see Anthony and Govindarajan 2003, p. 416). The Marketing Director explained the budget amount was determined considering a percentage of the volume of sales expected: “we have got a benchmark for the marketing expenses as a ratio of net sales, i.e., usually 2% or 2.5%.”[262]

The process of activity planning and budgeting was led by the department of management control with the collaboration of several departments, especially sales and marketing – because the Controller said she needed information related to sales forecasts and expectations for the coming year (see Anthony and Govindarajan 2003, pp. 420-423; Nixon and Burns 2012, p. 226). The Controller, commenting on the work of planning, said:

> “Now we are closing the next year's budget for Modalfa, i.e., sales by store, by category, by month, going down to the lines of free cash flow and economic profit. Defining also the items of the balance sheet, e.g., inventories, suppliers credit, customer debts. We start on sales, going to the

[261] Interview with the Director-General on 23/11/2011 (M01.40)
[262] Interview with the Marketing Director on 13/12/2011 (M02.34)

> bottom line, up to what we need for evaluating the business itself; looking also at the expectations and business objectives for the next year."[263]

The Marketing Director, in addition to controlling the costs budgeted for his department, also made use of the overall business unit accounting information, every month, during the analysis of the activity meeting (see Hope and Fraser 2003a, pp. 24-26). He explained why he analysed the information every month:

> "We all look [over the costs], over fixed costs and everything else; all of us individually for our department. But also, every month, we look at the overall accounts, the accounts of the business unit. We debug each one of the [cost] lines to see where the deviations, if any, are, why they are there and which corrective actions are eventually necessary."[264]

The Commercial Director said that planning was annual and had several phases. First, in April, they had strategic meetings on monitoring the business for 3 and 4 years. In June and July, they made the analysis of activity of the semester, and then, in September, they began to define the projections for the end of the year and the outlook for the following year. He said that it was a process performed mainly by the management control department, but with the collaboration of each of the businesses in each budget item (see Anthony and Govindarajan 2003, pp. 421-422; Shank 2006, p. 356). The Commercial Director concluded:

> "The following year's budget is closed around December. It has several phases: first sales, then [gross] margins, operating costs, marketing [costs] and so forth. In each of them, I or people from my team, come in, according with what [information] we have [to supply]."[265]

The Commercial Director took into account different financial indicators while setting the management objectives, the annual planning and the budget (see Anthony and Govindarajan 2003, p. 416). He explained what his goals were as Commercial Director:

> "[Our objective] is selling, with the best possible [profit] margin, and with the lowest possible inventories. This is the objective of any commercial company. We have got the objectives defined in the budget: [profit] margin objectives, sales objectives, increases in the number of stores, and internationalisation – not in Modalfa but in the case of Zippy. I am in

[263] Interview with the Fashion Controller on 13/12/2011 (M03.07)
[264] Interview with the Marketing Director on 13/12/2011 (M02.34)
[265] Interview with the Commercial Director on 12/01/2012 (M04.46)

> charge of both. Basically, these are the objectives, reflected in the budget."[266]

The Commercial Director said that he interacted with accounting in particular during the process of budgeting, e.g., looking at historic registries, setting objectives and doing the profit and loss account projections for the end of year (see Anthony and Govindarajan 2003, p. 416). During this process, the Commercial Director analysed the costs and the profit margins from different perspectives, e.g., profit margin at the front office, costs of goods sold, costs of stores, costs of marketing, logistics costs and information system costs. In this respect the Commercial Director commented:

> "We look at all of this even though I am not responsible for some of these costs; for example, I am not responsible for the information system costs. However, both myself and the Director-General of fashion, may approve, or not, some investments in IT, store expansions, and repairs."[267]

The Modalfa Financial Director, referring to the PAR meetings and presentations of budgets, commented that these were opportunities for interaction and learning among managers of various functional areas (see Anthony and Govindarajan 2003, p. 417; Simons 1995b, p. 29). He said that as the budget was prepared and presented by the heads of the various functional areas, that meant a great proximity and use of accounting information (see Horngren 2004, p. 210). The Financial Director commented in this regard:

> "[The live presentation of the PAR and the budget] is mainly a process of discussion and exposure. Usually a session of PAR exposure is done by first-line managers with people from the executive committee [board directors], so it is wider, so this is the time of the year where people take the day to listen to [others] and to see if there are interdependencies among [functional] departments' scheduled actions. It is essentially a time for sharing information."[268]

Besides the use of accounting information in planning marketing activities, information was also used to argue and protect the levels of spending on marketing, in particular when there were cost reduction objectives. This is developed in the next section.

[266] Interview with the Commercial Director on 12/01/2012 (M04.33)
[267] Interview with the Commercial Director on 12/01/2012 (M04.14)
[268] Interview with the Financial Director on 09/08/2012 (M06.32)

6.3.3.1.9 Accounting Information to Protect Marketing Expenditures in Cost Containment Contexts

The Director-General stated that the objective of cost control was strengthened by two factors: first, the reduction in consumption, due to the economic crisis; second, by the rising prices of raw materials (cf. Section 6.3.3.1.3). In this context, of much control over costs, the Marketing Director said that it was very important for him to prove to the board directors that the marketing expenses had no negative effect on net earnings – after considering all the relevant costs of marketing campaigns and the income differentials resulting from these campaigns. The Marketing Director explained his perspective:

> "In very difficult conjunctures, in difficult times, the companies face a huge dilemma; is it worth investing in marketing or saving the money, protecting the most the operating account? We wanted to show here that it is worth investing [in marketing], that creates value, that pays the costs. We wanted mostly to avoid – somehow, it might be conjectured – a decrease in marketing investment."[269]

The Marketing Director mentioned that the operational indicators of marketing performance – in situations of cost containment – were not sufficient to argue in defence of marketing spending (see Lehmann 2004, p. 74). He considered it was necessary to use financial indicators from the accounting system. He said he felt the need to demonstrate to key decision-makers (the board directors) that his department was able to contribute to adding value to the organisation, e.g., contributing significantly to increased sales. In this regard the Marketing Director expressed:

> "They [the board directors] always have the possibility, and in the end the necessity, to say to me ''I will cut your budget''; but I need to be in peace with my conscience; making it clear about the consequences of the decisions. It is a duty that I have with the organisation. The organisation will decide accordingly. It is my job to do this. I must make it clear in their minds that, if they cut the marketing budget, then they will also cut sales, as was proved by several analyses that I tried to do throughout the year."[270]

Apart from the impact on sales, the Marketing Director also conducted analyses in terms of EBITDA, to make the contribution of its marketing campaigns in the company's profitability quite clear. He said that the use of EBITDA, to analyse marketing campaigns, was first used in 2011, and he associated that fact with the economic crisis

[269] Interview with the Marketing Director on 13/12/2011 (M02.41)
[270] Interview with the Marketing Director on 13/12/2011 (M02.68)

that occurred. Between 2006 and 2010, the marketing budget[271] at Modalfa was, on average, 2.9% of sales (see Table 6-7). Even though there was a decrease in sales, the marketing budget, in 2010, was the highest. The Marketing Director explained that in difficult years, as were 2010 and 2011, the pressure for reducing marketing expenses were stronger; however his efforts to demonstrate the added value of marketing activities protected the department from lower budgets (see Simons 1995b, p. 81). The Director-General confirmed the efforts of the MD to negotiate the marketing budgets while demonstrating the value of their activities.

Table 6-7 Modalfa Sales and Publicity Expenses 2006-2010

Thousands of euro

	2006	2007	2008	2009	2010
Sales	74,015	88,463	100,606	107,035	103,430
Publicity expenses	2,244	2,356	2,516	2,539	3,839
% of sales	3.03	2.66	2.50	2.37	3.71

Source: adapted from the Informa DB database

Among the major Portuguese fashion brands, between 2006 and 2009, Modalfa was the company with the highest average in publicity expenses as a percentage of sales (see Appendix 1). The Marketing Director said that in the case of expenses related to the construction or reinforcement of the brand image, the returns were in the long run; so it was more difficult for him to argue with financial indicators based on immediate effects. However, the accounting information helped him to protect the amount of expenditures related to the brand as well; it is covered in the next section.

6.3.3.1.10 Accounting Information to Justify Brand Activation Activities

The marketing activities at Modalfa were planned to produce two major consequences: brand activation and promotions. The Marketing Director explained that the brand activation concept was related to intangible things, e.g., customer loyalty, brand awareness and brand perceived image. The promotional activities were focused on achieving immediate returns, e.g., increase in sales and higher margins, through more visitors at stores or higher conversion rates, i.e., converting visitors into buyers (see Kotler et al. 2006). In the case of Modalfa, accounting information supported the Marketing Director to plan activities that, although they were focused on activating the

[271] Marketing expenses for publicity

brand in the mind of consumers (see brand activation concept in Appendix 2), with long-run profitability objectives, also produced effects on the short-run profitability (see Johnson 1992, pp. 171-172). The Marketing Director explained his strategy:

> "Nowadays, in difficult times, there is a concern in generating visits [to the stores]. There is a pressure for it. Even in brand activation activities, we try to do it with a cause-effect [with relation to store visits]. The process of brand construction does not need to walk back-to-back with the promotion for the visits. While planning the activities for the year we try to think of those that bring customers to the stores."[272]

Both the Director-General and the Marketing Director recognised that, in macroeconomic difficult times, the expenses for brand activation might be reduced. The resources tended to be allocated to activities that contributed clearly and positively to the short-run profitability, i.e. promotions. Modalfa made an effort to develop promotional activities that produced impact on the brand positioning, and brand activation activities that produced impact on store visits. The Director-General confirmed their aim at designing the short-run oriented marketing actions – to impact on sales and earnings – without forgetting the importance of building brand value with long-run effects (see Johnson 1992, pp. 171-172). Referring to the subject, the Director-General said:

> "I think that in these times of huge cuts [in expenses], the part that we cut is the positioning and the specific work for the brand. We always try to do campaigns closer to the operational, communication, more related to consumption. As I used to say, working for the legs [for customers to come to the stores] but allowing some marks on the head, i.e., with a positive impact on [brand] positioning."[273]

Besides protecting the total amount budgeted for marketing, the Marketing Director also had the aim of protecting the resources of his department, through being accountable, in terms of his contribution to the company's profitability. This topic is addressed in the next section.

6.3.3.1.11 Accounting Information for Marketing Accountability

The Marketing Director reported that he performed measurements of marketing performance using financial data helped by the management control. For example, (1) whether the communication's contents and used media generated additional customer

[272] Interview with the Marketing Director on 13/12/2011 (M02.10)
[273] Interview with the Director-General on 23/11/2011 (M01.19)

visits; or (2) how the marketing campaigns influenced the retailing conversion rate, i.e., transforming visitors into customers; or (3) whether the customer bought more than the average. In this respect, the Marketing Director reported:

> "We concluded, in some cases, that when we got simultaneously the three vectors, i.e., taking more people to the store, increasing the conversion rate from 20% to 22% or 23%, and when the average sale amount increased, we got a positive EBITDA. The increase in the value generated was higher than all extra costs, even with all the marketing investment in media and communication."[274]

The Marketing Director said that his aim was to show that the financial measurements of marketing could be standardised; to demonstrate to the board directors that the marketing investments, though the directors could see them as a cost, generated value for the firm. The Marketing Director explained that although the responsibility of marketing was to generate awareness, adding value to the brand, marketing had a very important role to play in the short run, i.e., the promotion of sales.[275] The Director-General, in recognising the efforts made by the Marketing Director to prove the value added by the marketing campaigns, said:

> "The Marketing Director has done a huge amount of work in proving to me and to all in the company that it is possible to do [marketing] campaigns with positive EBITDA. […] The Marketing Director has been trying – and well – to prove that the money that he is investing in his area has a return, not only in the long run – we do know that, but nowadays we are mainly worried with the short run. We must be sure that every single euro that we invest has an analysis of its return in the future."[276]

The Marketing Director commented that he calculated the EBITDA of marketing activities, helped by the management control department. The Marketing Director said that they did these measurements in 2010 and 2011, and explained the reasons:

> "[We] scrutinised every euro spent, it is normal to do so. In these [economic] situations the marketing expenses are hard pressed for generating return."[277]

Explaining the methodology used, the Marketing Director said that in the new stores they compared the volume of sales with the previous week, or the previous month,

[274] Interview with the Marketing Director on 13/12/2011 (M02.39)
[275] Interview with the Marketing Director
[276] Interview with the Director-General on 23/11/2011 (M01.21/25)
[277] Interview with the Marketing Director on 13/12/2011 (M02.37)

when the data from the year before was not available. At those stores with historic records, they compared the sales with the homologue week of the previous year. They compared the homologue-week with the campaign-week and the homologue-week with the week-after-campaign and analysed the results.[278] The Marketing Director explained why he was giving an account of marketing activities:

> "Nowadays it is very important for marketing to reset itself and assume that one of its main functions – perhaps so for these years – its main function is a very tactical one, i.e., to lead customers to the store, to sell, and show it and aver it by numbers." [279]

Moreover, the Marketing Director considered it was very important, in difficult times, to prove that the resources that he consumed, besides generating more value for the company, could potentiate the initiatives that came from the commercial department. In this respect he argued:

> "We could continue to do just what is our duty; we could, for example, communicate promotions that the commercial department tells us, and only this. I think we may have an obligation to do more. We have to prove that every euro we spend, the way we communicate, has impacts, and we can leverage all the great deals that can possibly come from our commercial department. It is at these times that we have to be very careful and very zealous for the attributes that are the basis of support of our [department] position."[280]

In Modalfa, accounting information was also used for contribution margin analysis; the following section discusses this topic.

6.3.3.1.12 Accounting Information for Business Unit's Contribution Margin Analysis

The Financial Accounting Director explained that each main business was organised with smaller business units. For example, the textile business had the men's product line, the women's product line, and the children's product line; each of these product lines were called business units within the textile business. Each of these business units had sales information, purchasing information and contribution margin information available, he said (see Shank, in Robinson 1990, p. 16). Costs that did not originate at the business unit were not allocated to the business unit; they were considered at the store unit profit and

[278] Interview with the Marketing Director
[279] Interview with the Marketing Director on 13/12/2011 (M02.48)
[280] Interview with the Marketing director on 13/12/2011 (M02.65)

loss account. The Financial Accounting Director indicated that much of the accounting information was organised at the store unit because "the unit of reference for us is the store."[281] He described how the commercial staff analysed the business units, using accounting information:

> "The business unit – in this concept of product line, e.g., children [clothing] – is managed up to the level of gross margin, contribution margin. The cost of logistics, direct costs at product level, and those very related to the product. The business manager, or the manager of the business unit, which we call the DUN,[282] the director of the business unit, is responsible for managing the [contribution] margin. He is responsible for sales, he is responsible for purchasing, he is responsible for managing the margin of that business."[283]

Apart from the use of contribution margins to analyse the profitability of the business units, the commercial staff also used the accounting information to make decisions about the product mix. The following section discusses the topic.

6.3.3.1.13 Accounting Information for Product Mix Decisions

Commenting on the product mix management, the Director-General said they needed to have a combination of profitable products and price attractive products, for assuring business profitability and attracting customers to the stores, respectively (see Section 6.3.3.1.7). He said they used to manage the product placement carefully, i.e., merchandising, in order that the customers bought both the highest number of articles and the desired mix. The Director-General commented that they analysed the impact of both pricing and placement – putting certain products on a table or on a wall – on the number of transactions, on the products sold to each customer and on the overall store profitability at the end of the day. He explained that the merchandising team, from operations, looked for this balance, led by someone from the MD. The Director-General explained how the placement of products was managed in order to maximise profitability:

> "We never do [the profitability analysis] using the logic of the margin of a single product. We do the profitability analysis for the store as a whole. In some shops we have got devices that count the entries of customers. We cross check the number of customer entries with the purchasing transactions, this gives us a first success rate, we call it the conversion rate;

[281] Interview with the Financial Accounting Director on 21/09/2012 (M07.20)
[282] DUN are the initials of Portuguese words: **D**irector da **U**nidade de **N**egócio; which means Business Unit Director.
[283] Interview with the Financial Accounting Director on 21/09/2012 (M07.21)

> i.e., the rate of converting visitors into customers. Afterwards we calculate the number of pieces purchased and the average value of pieces. Then we are always testing [controlling] where we should put the products for improving these ratios. All of them are multiplicative."[284]

Accounting information was also used, by marketing and commercial departments, to perform business analysis and diagnosis of problems, as discussed next.

6.3.3.1.14 Accounting Information for Business Analysis and Diagnosis

The Fashion Controller said that the business activity analysis was done on a monthly basis. She explained that the objective was to analyse the results of the month before, and it was performed with the first-line directors, the Director-General and the Board Director for Sonae SR (see Hope and Fraser 2003a, pp. 24-26). The Controller said that they performed an analysis of the business, from the top line of sales to the bottom line of results.[285] The Fashion Controller said that the meeting was organised by her and explained how it was done:

> "The documents are prepared by us, the management control. On some occasions there are also [other] documents of support – if people attending the meeting deem it necessary to justify any question, or share some analysis that they themselves have done that month; e.g., if there is a specific campaign, they will make an analysis of the campaign and also share this information with us because, in the end, this was reflected in the profitability of the brands in that month."[286]

The Controller said that the support document for the meeting was the activity analysis report. It was produced by the management control department and it included every detail regarding the performance of the division as a whole and of each brand in particular (see Anthony and Govindarajan 2003, p. 495). It was done as a monthly analysis and a year-to-date analysis including comparisons with the budget (see Ambler 2003b, pp. 29-30). The meeting was led by the Controller who set the agenda. All participants contributed different points, and might receive comments or questions from any of their fellow participants (see Hope and Fraser 2003a, p. 155). The Controller noted that the support document began with an executive summary that gave the highlights for every type of business, e.g., the highlight of sales, how they compared to the budget, how

[284] Interview with the Operations Director on 18/01/2012 (M05.46)
[285] Interview with the Fashion Controller on 13/12/2011 (M03.07)
[286] Interview with the Fashion Controller on 21/09/2012 (M08.01)

the [profit] margins were, how the EBITDA was. The highlights were on the first slide. The Controller said that, ultimately, if no one else wanted to read the rest of the document, on the first page were the most important messages for each of the businesses, i.e., what had happened in that month. The Controller explained:

> "This is not to say that every month they read the document intensively and look for all the details. Maybe there are months when it is more productive to analyse a particular item, and they have there the details and they are going to analyse them; and in the following month, it is more productive to analyse another [item] and they also have the detail and will analyse it. I give the basis for people to do the analyses they consider more relevant. [...] At bottom it is the attitude of giving. I give information that I consider relevant, in case the person actually wants to look at all the lines. Obviously, after that, every month we look at those that are most critical or which have more positive performances to see also what is happening at all levels."[287]

The aim, said the Controller, was to send out the activity analysis report two working days before the meeting, so people would have time to see the information, to prepare and to make additional analyses if necessary (see Simons 1995b, p. 121). The Controller explained:

> "Above all, it is not only to show what the results were, but sharing and the very discussion of what was done well or done poorly, and then also to define inputs for the work for the following months."[288]

The Brand Manager, referring to the availability of accounting information and its importance for the analysis and diagnosis of the business (see Eccles 1991, p. 5) commented:

> "Also in a regular manner, but not daily, printouts are available with commercial information: sales per collection, impacts of mark down,[289] and stocks; and operational information: sales and transactions, complemented by stores' ranking. The profit and loss account is analysed, allowing you to fully diagnose the business and make more strategic decisions."[290]

The directors of marketing and sales also used accounting information to analyse the performance of their staff; this is seen in the following section.

[287] Interview with the Fashion Controller on 21/09/2012 (M08.08)
[288] Interview with the Fashion Controller on 21/09/2012 (M08.02)
[289] Here, "mark down" means a long-run price reduction.
[290] Email from the Brand Manager on 19/03/2013 and phone call on 20/03/2013 (M10)

6.3.3.1.15 Accounting Information for Performance Measurement

The Modalfa Brand Manager said that the KPIs of the MD were sales, EBITDA and the degree of compliance with the budget (see Table 6-8). The Brand Manager reported:

> "In relation to the KPIs of mkt [marketing], the most important quantitative indicators were sales, EBITDA and fulfilment of marketing budget compared to budgeted."[291]

The Commercial Director said that all people, all managers, had KPIs that had three major components, according to their functional groups: (1) one had to do with the results of Sonae as a whole; (2) another component was related to Sonae SR as a whole; and (3) the other focused on the textiles business in particular (see Anthony and Govindarajan 2003, p. 577). The third one was divided into areas, i.e., for the commercial staff, the sales might have had a weighting of 10%, the margin might have had a weighting of 15%, and stocks[292] a weighting of 5%; and then a subjective evaluation of their director, 20% (see Anthony and Govindarajan 2003, p. 581; Eccles 1991, p. 6; Simons 1995b, pp. 66, 118).[293]

Table 6-8 Marketing Department's Staff KPIs

No.	Key Performance Indicators of Marketing Department
1	Sales
2	Earnings before interest, tax, depreciation and amortisation
3	Degree of fulfilment of the marketing budget against the budgeted

Source: adapted from a Brand Manager's email on 19/03/2013

The Commercial Director commented that the staff had three periods of formal performance evaluation, i.e., systematic (see Anthony and Govindarajan 2003, p. 566). In April it was the performance analysis of functions, afterwards they had an executive summary, finally the completion of KPI – valid for the whole company. In this review there was the evaluation performed by managers for each employee. The Commercial Director explained the process:

> "Then we have an analysis [of performance] that is similar to what the supervisor makes to the employee. It's what we call executive summary or power maps. We assess people according to their potential and

[291] Email from the Brand Manager on 19/03/2013
[292] See Johnson, H. T. and Kaplan, R. S. 1987. *Relevance lost: The rise and fall of management accounting*. Boston: Harvard Business School Press. p. 41
[293] Interview with the Commercial Director on 12/01/2012

> performance, i.e., one year the person has a lot of potential but that year the performance was not satisfactory, was not brilliant; or a person has not great potential but did a very good job in that role and, probably, will be a good person for that functional level or for that function. Afterwards we put it on an axis between the horizontal and vertical – with these two components – and we know the power map. We can see the people that are well or those people that we need to re-consider both in terms of functional displacement or exiting to other [business] areas."[294]

The Financial Director commented in this regard that each department defined a set of KPIs (see Simons 1995b, p. 63); however, there were KPIs that were common to all: the corporate KPIs. That is, each person had the corporate KPIs, the departmental KPIs and the personal KPIs, which were related to the level of compliance with both their responsibilities and the business strategy (Simons 1995a, p. 81).

Accounting information was still used by Modalfa to manage in changing contexts, as described below.

6.3.3.1.16 Accounting Information for Managing in Changing Contexts

In Modalfa, the budgets were considered as guides for managers (see Horngren 2004, p. 210). The Marketing Director said that budgets were not seen with an absolute determinism but as guidelines in situations of instability and change (see Hope and Fraser 2003a, p. 127). There were also tools to identify gaps and stimulate actions to correct the previously plotted course for the business (see Simons 1995b, pp. 4, 123). In this regard the Marketing Director said:

> "These [budgets] are theoretical exercises. Budgets, in times like these, we see that, in a very cold mind, as theoretical exercises, as guidelines. Because, I think, no one, in his right mind, can say, today, that whatever is there [in the budget] will be achieved. You cannot. The degree of uncertainty is such, nowadays, that I think more than anything else, it has to be a working tool, something that guides us. But really we have to be prepared to act very quickly if those assumptions do not come to fulfilment, we must all be prepared for that."[295]

The Brand Manager said she received daily, by email, accounting information produced by the business intelligence unit of the fashion division. This information was produced in conjunction with the department of planning and management control (see

[294] Interview with the Commercial Director on 12/01/2012 (M04.11)
[295] Interview with the Marketing Director on 13/12/2011 (M02.74)

Shank 2006, p. 356). These reports contributed to daily tactical decision making, and helped to focus marketing management on priority issues. The Brand Manager reported:

> "Regarding the accounting information support, we receive daily a *tableau de board* from the Fashion Division's Business Intelligence team, with indicators of sales, [profit] margin and provisions [for inventory losses]. This information gives important daily alerts of major deviations from the established objectives, it guides tactical decision making, and focuses the business continuously."[296]

Finally, accounting information was also used to better understand the competitors' situations.

6.3.3.1.17 Accounting Information for Understanding Competitors

The Commercial Director commented that they had information about competitors, prepared by the management control department (see Hope and Fraser 2003a, p. 55; Shank and Govindarajan 1993; Simmonds 1981, p. 26). He said that in textiles there was little information about market shares, competitors, and prices levels, supplied by specialised agencies. He said it was easier in food retailing, because there was Nielsen[297] and other organisations that worked with the supermarket products, e.g., grocery or beverages. Moreover, the Commercial Director said it was difficult to make a comparison between fashion products, because in fashion the products were always changing. The information about competitors was prepared by the head office management control department or by the dedicated controller working in the commercial department of Modalfa. The Commercial Director, commenting about the availability of competitors' information, said:

> "[We have competitors' information] about sales, profitability, business strategy, exports, etc. We also perform regular visits to competitors, where we analyse the business, i.e., the products that they have, fashion, price decreases and price increases. We do it in loco. We have got teams allocated to do this."[298]

[296] Email from the Brand Manager on 19/03/2013 (italics in the original) and phone call on 20/03/2013 (M10)
[297] "In 100 countries around the world, Nielsen provides clients the most complete understanding of what consumers watch and buy." (http://www.nielsen.com/uk/en/about-us.html, accessed on 19/03/2013)
[298] Interview with the Commercial Director on 12/01/2012 (M04.47)

The PCG also had access[299] to the accounts of competitors. They knew, for example, what the cost structure of Zara was (e.g., how much was spent on certain accounts, such as water expenses) and how much the Bershka had sold. The PCG used to report, to other Modalfa departments, about the performance of these competitors, using them to benchmark their own activities (see Eccles 1991, pp. 4-5; Hope and Fraser 2003a, pp. 55, 123). The Operations Director explained the role of PCG and what was the accounting information she received in order to make a comparison with other direct competitors (see Simons 1995b, p. 94). She said:

> "They inform us about the profitability of the major [competitors], in order to challenge us, holding up the carrot to us, saying you must reach this goal. [PCG] is very much involved. Moreover, they participate in almost all our meetings. It is an element that belongs to our department."[300]

Finally, the Operations Director said that they frequently used the information about competitors and customers for managing the evolution of the image of stores:

> "We are always looking at what others are doing better than us. The evolution for the 5th generation [stores] has a great deal of intelligence. We visit all others and we bring the best from every one. We construct a store with the best from the best of all."[301]

The factors that influenced the ability of the accounting system to meet the managers' demand of accounting information are described in the sections that follow.

6.3.3.2 Factors Influencing the Use of Accounting Information

In this section it is identified the factors that influenced – facilitated or hindered – the ability of the Modalfa accounting system to meet the managers' demand of accounting information. Firstly, it is reported the structural factors – those that refer to the management style and the characteristics of Modalfa's human and technical resources. Then follows the functional (behavioural) ones, those that relate to the way of doing things, i.e., the way accounting information was collected, organised, communicated and used.

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[299] The information was accessed through competitors' annual management reports or through companies specialised in collecting accounting information, e.g., eInforma from Informa D&B. "The Informa D&B database contains all businesses in Portugal and is updated daily [...] through public sources and the companies themselves." (www.einforma.pt, accessed on 01/12/2012)

[300] Interview with the Operations Director on 18/01/2012 (M05.75)

[301] Interview with the Operations Director on 18/01/2012 (M05.72)

6.3.3.2.1 Structural Factors

6.3.3.2.1.1 Managers' Mindset

The comments made by both the Operations Director and the Marketing Director suggested that, on the one hand, the culture of Sonae led managers to be very attentive to the sales revenue and the savings in resources consumptions (see Kaplan, in Robinson 1990, p. 3); on the other hand, to value investments in marketing, in particular the creation of strong brands with long-run returns. These perspectives strongly contributed to Modalfa managers to seek information from the accounting system and its intensive use. For example, the Operations Director said that her stance on the management of costs was closely linked to the values transmitted by the company's founder and the company culture. She recollected:

> "We learned so much with Mr. Belmiro; he was very restrained [on spending]. He always told us ''take it easy'', and this culture stays. We spend on what adds value, avoiding what doesn't. It is in our roots, the costs analysis was always a concern for us, but it is not the variable which we look at every morning. The variable that we look at, in first place, is yesterday's sales, this is the first [indicator] we look at."[302]

The Marketing Director shared the Operations Director's perspective saying that it was a cultural issue, the value attributed to the brand and the importance given to the marketing investments (see Johnson 1992, p. 25). However, he also stressed that he still had to prove that what he did in the MD was well done and worth the investment (marketing outlays). When he referred to the culture of the organisation as a factor for enhancing the brand, he justified it by reference to the financial perspective, i.e., the necessary investments in the brand in order to reap the benefits afterwards. He commented:

> "I would be dismissed if I could not prove that what we do is well done. However, it is essentially a cultural question. This company always had a very concrete notion of brand value, of the necessary investments for attaining the results, and of the risks that should be taken."[303]

Therefore, the demand for accounting information and its use was embedded in the company culture. The information system was also a factor that fostered the use of accounting information in Modalfa. This aspect is discussed in the following section.

[302] Interview with the Operations Director on 18/01/2012 (M05.54)
[303] Interview with the Marketing Director on 13/12/2011 (M02.83)

6.3.3.2.1.2 Information System

The accounting information system adequately met the managers' demand of accounting information for profitability analysis and revenue analysis (see Johnson and Kaplan 1987, p. 14). The Controller attested that they had very good IT tools, which enabled them to do many types of analysis (see Eccles 1991, p. 4):

> "We have got excellent [IT] tools. We can do whatever analysis you can imagine. The information is totally available. I can do an analysis of yesterday's sales, unit by unit, store by store, by article and size, e.g., how many pieces of skirts were sold yesterday, by store, children's article, blue colour, size S; I can have this information automatically, from the system, in a single sheet. We can do [profitability analysis] at the product level."[304]

Software adaptations that were required by new business contexts or managers' requirements were met quickly. No director reported any weakness from the IT system. The IT department had a person exclusively allocated to the fashion business department, to detect improvement opportunities and understand the specific management accounting information requirements from the business unit managers (see Hope and Fraser 2003a, p. 135). The Commercial Director observed that the information system gave him all the information needed to make his analyses of the business. He described the support he received from the information system:

> "[I evaluate] the return, sales less the given discounts, the increment on sales, in terms of [profit] margins and value, the price discounts by area, I do the results. It is compared with the historical and the references that we have. [The information system] gives the basis and we do the calculations in Excel or in a more manual way, so to speak. The system gives us what are the articles that are in the [marketing] campaign, which is the date of the campaign, giving us the reports, the numbers, afterwards we have to work a little."[305]

The Operations Director had detailed information for managing the stores, and information for the profitability management, both for the insignia and for the business unit (see Anthony and Govindarajan 2003, p. 495). She used the MAS information for determining the focus on certain objectives, and for analysing and supporting opinions.

[304] Interview with the Fashion Controller on 13/12/2011 (M03.15)
[305] Interview with the Commercial Director on 12/01/2012 (M04.31)

The Operations Director explained the importance of MAS information for supporting the decision making (see Nixon and Burns 2012, p. 226):

> "This is a maxim that we always have; also for the stores' teams. They know that they cannot form opinions without analysing data. Otherwise the result is the think-for-all, i.e., I think that... we tend to give opinions too much, and after analysing the data the things are completely different. Also for the measurement of the impact of actions. It is very important. We do need this strong discipline. Many people like to implement, but never like to see afterwards. What is the result? [Which is] the improvement in productivity?"[306]

The Operations Director said that if they did not have such a rigorous and tailored information system, they would need twice the time to analyse something. They did not need to go to several places because they had got the information properly compiled and integrated from several areas (see Eccles 1991, p. 4). In that same document – which arrived from the PCG for the monthly activity analysis – they had got the inventory perspective, the commercial perspective and the stores' operations perspective. The Operations Director added:

> "I have got a document that tells me everything, about all areas, which clarifies my doubts. It is very well integrated and very important."[307]

The Finance Director also used the computer system to plan payments to suppliers. It gave him the information automatically and on time, without the need to personally contact other functional directors. He explained:

> "There are systems for this, i.e., the orders are registered, and we get the information about the orders from these systems."[308]

The Financial Accounting Director said that a large part of the management and control information, particularly with regard to the financial control – e.g., balance sheets and profit and loss accounts – was based on accounting information that was structured by cost centres and profit centres, and it was greatly aided, and facilitated, by the information systems. He observed:

> "We have all [accounting] information organised in this way and the systems help so much. The systems facilitate everything."[309]

[306] Interview with the Operations Director on 18/01/2012 (M05.100)
[307] Interview with the Operations Director on 18/01/2012 (M05.102)
[308] Interview with the Financial Director on 09/08/2012 (M06.10)

Finally, the Management Control Director said that the information system, as it was set, allowed great flexibility and customisation in accessing to the accounting information (see Hope and Fraser 2003a, pp. 65, 126). The Management Control Director explained the advantages of the system they used:

> "Basically [the self-service in accounting information] allows [the managers] to be faster in their decision-making processes. They are fully autonomous in their search of [accounting] information and building conclusions for a decision. I think that this gives them a clear advantage. On the other hand, even when it comes to monitoring their business, they have the information continuously available which allows them to follow up the business on a daily basis. In fact, there are people who prefer to have a set of information in one way, others in another way. The tools themselves, nowadays, are enabling enough customisation and people focus on the way that is most comfortable for them, that's an advantage."[310]

Accounting information was organised in careful detail, allowing it to be analysed by managers from different hierarchical levels, from the top managers to the managers at operational levels (see Anthony and Govindarajan 2003, p. 495). This is discussed in the following section.

6.3.3.2.1.3 Detailed Accounting Information

The Financial Accounting Director said that the management control department received detailed accounting information up to the business units and to the store level; producing afterwards the management accounting information. He said that the profit and loss accounts were made at the store level, and the gross margins were made at the business unit levels, i.e., by the product lines of menswear, womenswear or children's clothing (see Anthony and Govindarajan 2003, p. 495). In this regard he said:

> "It is the management control [department] that prepares that information, that analyses that information, that produces the information reports. The information is then discussed in the various meetings of analysis of business activity. Definitely at the executive committees, which make a kind of general analysis, afterwards at the meetings at each brand, each business, each business unit. The information is very detailed and there are many managers looking at the [accounting] information."[311]

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[309] Interview with the Financial Accounting Director on 21/09/2012 (M07.17)
[310] Interview with the Management Control Director on 24/09/2012 (M09.53)
[311] Interview with the Financial Accounting Director on 21/09/2012 (M07.42)

The Fashion Controller acknowledged the availability of detailed accounting information, as well as the support from the information system, commenting:

> "The information is totally available. I can do an analysis of yesterday's sales, unit by unit, by article and size [...] I can have this information automatically, from the system, in a single sheet. We can do [profitability analysis] at the product level."[312]

Accounting information also had links to other Modalfa's databases containing non-financial information, which allowed linking non-financial data to financial data (see Anthony and Govindarajan 2003, p. 495; Simons 1995b, p. 64) as discussed in the following section.

6.3.3.2.1.4 Links Between Databases

The Financial Accounting Director said that they used the SAP[313] software for financial accounting which interfaced with the multiple operating systems, as store management and sales management software. He noted that the enterprise resource planning software was not SAP. The enterprise resource planning system used was the Retek[314] from Oracle.[315] Information about both purchases and sales – sales information had another system that had very detailed retail sales information, e.g., information from each sale transaction – was then stored in a data warehouse and accessible by all software (see Hope and Fraser 2003a, p. 65). The Financial Accounting Director said that the integration of all systems and the existence of a common data warehouse allowed quick and detailed access to all management accounting information (see Ambler 2003b, p. 84; Hope and Fraser 2003a, pp. 65, 126; Shank 2006, p. 361). The Financial Accounting Director explained:

> "This very detailed information – now we can know the daily purchases by article – all of this information goes into a data warehouse system which holds the detailed information. Then, a synthesis of a more aggregated information is sent to the accounting [department]. This is done at store [level], or at business unit [level]."[316]

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[312] Interview with the Fashion Controller on 13/12/2011 (M03.15)
[313] "Headquartered in Walldorf, Germany, with locations in more than 130 countries, SAP AG is the world leader in enterprise software and software-related services." (http://www.sap.com, accessed on 31/12/2012).
[314] "A comprehensive, complete solution that includes back-office functionality for finance and human resources and extends throughout planning, merchandising, the supply chain, and multiple retail channels." (http://www.oracle.com/us/corporate/acquisitions/retek/index.html, accessed on 31/12/2012).
[315] "Oracle offers an optimised and fully integrated stack of business hardware and software systems." (http://www.oracle.com/us/corporate/welcome/index.html, accessed on 31/12/2012)
[316] Interview with the Financial Accounting Director on 21/09/2012 (M07.18)

In addition to integration of computer systems, the speed and automation of accounting entries also contributed to provide daily updated accounting information to all managers, as discussed below.

6.3.3.2.1.5 Automated Accounting Registry

The Financial Accounting Director expressed that he was very committed to automating the accounting entries. The automation resulted in cost savings related to human resources: fewer people were required to enter and check accounts. It also accelerated the reporting and analysis of accounting information, making it more useful in tasks of managing the business, particularly in the commercial and operations areas, said the Financial Accounting Director. Referring to the efficiency of the accounting department, he said:

> "One of our drivers of efficiency is the electronic invoice. That is, what we call the dematerialisation of information, and, we go further, touch less, i.e., [we] are able to perform the accounting entries, the recording of transactions, and even the control of accounting operations and transactions, without any human intervention."[317]

The Financial Accounting Director commented that when the complexity of the administrative work was upstream, i.e., in the processing of documents from suppliers, there were more likely to be errors in the system. In this regard, he stated that in retailing, the complexity of administrative and accounting system was upstream. If there were inefficiencies, many of them were related to the process of verifying and registering supplier invoices, said the Financial Accounting Director. The complexity in Modalfa was not downstream, because they had no invoicing to customers, but cash sales, and therefore this greatly simplified the process of accounting entries, commented the Financial Accounting Director. In this regard, and on the efforts made to minimise errors and hasten the accounting processes, the Financial Accounting Director said:

> "I have to buy every day, I receive goods every day, every day I have to do receptions of goods, I have to check invoices every day. I receive three million supplier's invoices every year and I have to check them, I have to control them. [...] Today we have, in the goods, about 80% of electronic invoices, 80% of goods' invoices come electronically from our suppliers. Within these 80%, there are 90% that are checked automatically [by the electronic system]."[318]

[317] Interview with the Financial Accounting Director on 21/09/2012 (M07.32)
[318] Interview with the Financial Accounting Director on 21/09/2012 (M07.36)

The Financial Accounting Director explained that when the invoice total was correct or within the limits of acceptability, it entered immediately into the accounting system. The verification of suppliers' invoices was done automatically by the system, and went to the accounting and payment automatically. “No one is there making a touch whatever. So this is what we call touch-less. There is no touch,”[319] he said. The Financial Accounting Director rationalised the decision to develop electronic verification of suppliers’ bills (see Johnson 1992, pp. 60-61):

> “Our main cost is people. So if I do not have the automatic processes, alternatively I'll have to have people doing the job. Either I have systems and automated processes or I have people. Not only [the gain of] cost reduction but also on the efficiency and process quality. I also get faster information flows, and more correct financial accounts. The quality of information is different, it is faster. I have a much faster process of inserting the information into the [IT] system.”[320]

As a result, the Financial Accounting Director said that in 2012 they were closing the Sonae Group's consolidated accounts between the 6th and the 7th working days after the accounting period had ended. However, the Financial Accounting Director aimed at reducing the period. He explained:

> “Our goal – and we made a continuous improvement project with this overall objective – is the 5th business day. In 2013 we'll be able to do it on the 5th business day. It is not easy, in fact, because there are many processes and it is only possible because there are many automatisms. [...] We have increasingly sought to make the processes daily, aiming at not having many processes at the end of the month.”[321]

The existence of a controller dedicated exclusively to the fashion business unit also contributed to the Commercial Director using more accounting information in his daily work, as described in continuation.

6.3.3.2.1.6 A Controller at the Business Unit Level

The Marketing Director explained that apart from the Management Control Director, the commercial department had a dedicated controller for the fashion business (see Shank 2006, p. 363). He explained that it was the person who was in direct contact with them and was more involved with the fashion business (see Hope and Fraser 2003a, p. 106). It

[319] Interview with the Financial Accounting Director on 21/09/2012 (M07.32)
[320] Interview with the Financial Accounting Director on 21/09/2012 (M07.38)
[321] Interview with the Financial Accounting Director on 21/09/2012 (M07.72)

was the person to whom he turned to when they needed help, he said. Especially in economically difficult years they still used more this support, the Marketing Director added, because they needed to devote more attention to cost management.

The Commercial Director explained that the controller dedicated to his department allowed him to make analyses that were more commercially oriented, and more appropriate to his role of commercial director than using the information from the PCG (see Hope and Fraser 2003a, p. 106; Ratnatunga et al. 1990, p. 40). It had a lower weight of accounting and cost management than the head-office reports, he said. It allowed the Commercial Director to obtain tailored accounting information to support managerial work (see Ambler 2003b, p. 253), which would be more difficult to obtain from the department of management control at the headquarters level, due to its limited availability, he said. The Commercial Director explained the advantages:

> "I have a management controller only for my area; for more specific issues, for more specific analysis of the business and not for cost accounting. This person does the connection with the head office management control. He depends on me, he is a controller of the commercial unit, e.g., analyses if Modalfa is selling coats and parkas well, [therefore he is] more related to trade and less to accounting."[322]

The Fashion Controller, referring to the existence of the dedicated controller to the business unit, confirmed and agreed with the Commercial Director. The Fashion Controller commented:

> "He [the commercial controller] is not a controller in the sense of the controller as we are. He is the person responsible for the management [accounting] information of the fashion division. He produces information with a certain level of detail, more commercial. While I – or the management control – look from sales to the free cash flow, I look at everything. There [at the commercial control] is much more focus on the commercial side. They make analysis more at the article [level], the things are much more detailed. Here, with the resources we have, this is not at all possible. In the end, the support he gives to business [managers] is more commercial, information for commercial management."[323]

Finally, another feature of the Sonae group that contributed to the use of accounting information, by different directors, was the culture of projects, as is discussed in the following section.

[322] Interview with the Commercial Director on 12/01/2012 (M04.12)
[323] Interview with the Fashion Controller on 21/09/2012 (M08.19)

6.3.3.2.1.7 Culture of Projects

The Financial Accounting Director stated that Sonae was characterised by a spirit of team work – at all levels – and by the culture of projects (see Hope and Fraser 2003a, p. 34). He explained that whenever there was a common or shared initiative, they set up projects where all functions were involved, including financial accounting and management control, even when the objectives or activities were not directly related to accounting. The Financial Accounting Director explained:

> "We have a huge activity of project. We organise a project and create a project team for any initiative. A team who, most often, is multi-functional. Because it is the best way of having everyone contributing to the solution and everyone being involved and being well informed about what can affect his function or his team. We do not live in silos. We live in project teams, whether in daily work – in the meetings and in sharing – or when there is change, when there are processes of change."[324]

In addition to these organisational (structural) aspects, which facilitated communication and use of accounting information, Modalfa also had functional (behavioural) characteristics that were contributing to an intensive use of accounting information. For example, the regular interactions between the managers of the various functional areas – finance, marketing and sales – contributed to the use of accounting information. It was a common language, between different functional managers, in the analysis of the performed activity and in the projections of the forthcoming (see Ambler 2003b, p. 64; Nixon and Burns 2012, p. 226; Shank 2006, p. 355). The topic is discussed in the following sections.

6.3.3.2.2 Functional Factors

6.3.3.2.2.1 Regular Reporting Interactions Between Managers

In regard of interactions between the different functional Modalfa directors, the Operations Director said that they met frequently (see Anthony and Govindarajan 2003, p. 566). She said specifically that the meetings, covering the market issues, occurred every fortnight, the product meetings every quarter and the strategic meeting occurred monthly (see Simons 1995b, p. 96). The meetings brought together the first-line directors, i.e., marketing, commercial, inventory and operations.

[324] Interview with the Financial Accounting Director on 21/09/2012 (M07.86)

The Operations Director explained:

> "It is productive to meet regularly, because I have an analysis of data and a perception about what is happening at the stores. The commercial director has a different perception of data, because he analyses it more from a business perspective and less from the store [perspective]. The Marketing Director has more of a perspective of unity, incorporating the communication strategy and how it is working."[325]

The Controller, referring specifically to the monthly meetings of activity analysis, commented that at the meeting, in addition to the first-line managers, there were also present the CEO of Sonae SR, the Director-General, the Management Control Director, and herself, as she was the person who followed the fashion business, as well as prepared and moderated the meeting. Referring to the support documents of the meeting, the Controller said the documents were prepared by the management control department, and, if necessary or convenient, there were also support documents prepared by other participants (see Ambler 2003b, p. 253). The Operations Director commented that although these face-to-face meetings occupied two days, every month, they were very useful to her (see Simons 1995b, p. 101). She argued that much information which was transmitted face-to-face was difficult to pass through written reports or emails (see Simons 1995b, p. 97). She explained:

> "Sometimes we think about it: another meeting, being all together two days per month; however the communication by email does not show the non-verbal impact; his expression and his concern cannot be noticed [by email]. It is very important to be [face-to-face] at the meeting, exchanging ideas and understanding which product ran well, which ran badly; the opinions of all; what about a campaign; what could be improved."[326]

At the monthly meeting, in addition to the analysis of data gathered internally by the management control, the department of management control also sought to gather information on competitors and present it to the various functional managers (see Hope and Fraser 2003a, p. 55). The Controller observed:

> "We are restricted to public information, but we look for the performance of the major players comparing it to ours, we always try to do this. We also share this information [in the monthly meeting with business directors]."[327]

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[325] Interview with the Operations Director on 18/01/2012 (M05.40)
[326] Interview with the Operations Director on 18/01/2012 (M05.06)
[327] Interview with the Fashion Controller on 13/12/2011 (M03.24)

The Director-General commented that the overall annual budget was based on an initial meeting, non-financial in nature, in which all functional directors directed (see Anthony and Govindarajan 2003, pp. 420-421). That meeting was primarily to present the action plans, with lots of information on the resources required for it, in particular, the human resources required (see Horngren 2004, p. 210). Commenting on the objectives of the meeting, the Director-General said:

> "In order to prepare the budgeting, we have previous steps which we call PARs, i.e., plans of action and resources, usually human resources, not the financial ones."[328]

The Financial Director reinforced the importance of the qualitative component of the PAR meetings (see Ambler 2003b, p. 26); however, he said, some financial indicators were also included and discussed by the distinct functional directors present at the meeting aiming at improving the business processes (see Johnson 1992, p. 9). The Financial Director explained:

> "[At the PAR meeting we present] essentially more qualitative issues. However we also forecast the overall budget of the department or the functional area. In the Modalfa case, [presented] are sales variables, expansion issues, but mostly the improvement processes – e.g., sourcing improvements or visual merchandising improvements."[329]

The Financial Director commented that the interactions during the PAR meetings were opportunities for different functional directors to inform their colleagues, from other departments, on projects for the forthcoming year and to identify situations in which the plans of a specific functional area had implications in other departments (see Anthony and Govindarajan 2003, p. 364; Simons 1995b, p. 96). In this regard, the Financial Director observed:

> "[The PAR meeting] is not a team building but more of a sharing session. The people also discuss. If there is a department that forecasts some investment plans then it impacts on the cash flows. People have exposure to the plans of others and they try to see the areas where the [different] activities overlap. […] so it's the time of year where people take the day to listen to [others] and to see if there are interdependencies in what the other areas of the company will do."[330]

[328] Interview with the Director-General on 23/11/2011 (M01.40)
[329] Interview with the Financial Director on 09/08/2012 (M06.30)
[330] Interview with the Financial Director on 09/08/2012 (M06.22)

The Financial Accounting Director referred to the PAR meetings as PARs sharing meetings (see Eccles 1991, p. 5). He said that these meetings were very important for him, because they enabled them to communicate the departmental projects to their colleagues of other departments (see Simons 1995b, p. 145). For example, for communicating the initiatives of the accounting department to the other functional departments, e.g., marketing and sales. The Financial Accounting Director explained the importance of the interaction between managers before the phase of the budget (see Anthony and Govindarajan 2003, pp. 350-352, 420-421):

> "Each activity makes its PAR; it has to do so in an articulated form. I will not launch a reorganisation of the administrative function – which involves interactions with business directors, interactions with the operations directors – without sharing it with both the commercial directors and the operations directors and coordinating these initiatives [with them]. There is a time for preparation of PAR and then there is a time for discussion and sharing, in which all functional managers are [present]. These meetings have a significant number of people, what we call first-line directors; beyond the board directors there are the second lines, i.e., the commercial, the operations, the administrative, the planning and the management control areas."[331]

The Management Control Director indicated that the main advantage of the monthly activity review meetings was the alignment of teams (see Ambler 2003b, p. 143). It allowed the managers to have a common understanding about the performance, on the problems and solutions (see Nixon and Burns 2012, p. 226); which was fundamental for managers to take coordinated decisions (see Ambler 2003b, pp. 29-30). The Management Control Director explained:

> "An error that they had known how to identify, in a particular month, and that everyone has understood as an error, and what are its origins, and its impacts, prevents, avoids, similar situations in the future. At the same time, often depending on the performance that we are seeing, we, in these meetings, take some initiatives to re-balance, e.g., if we have difficulty in sales, it is analysed and the main problems identified. Normally teams create some alignment on what is needed to do next."[332]

The Management Control Director specified that, from the monthly review meetings, there resulted diverse types of initiatives – e.g., to launch new marketing campaigns, or, at worst, not launch marketing campaigns and protect the profit margins – which were the result of a common understanding, and created by the interaction between

[331] Interview with the Financial Accounting Director on 21/09/2012 (M07.53)
[332] Interview with the Management Control Director on 24/09/2012 (M09.33)

teams with the major skills, e.g., the commercial area, the areas of stocks, marketing and operations (see Simons 1995b, pp. 94-96, 2000, p. 217). The Management Control Director commented:

> "The main advantage has to do with this multidisciplinary discussion that usually allows you to form a well-structured opinion about what is going on. This is crucial in these meetings. Obviously they often seek – when there are problems it is essentially around these issues that time passes – to identify the causes of a weakness or a problem in a given month. This is normally reviewed in some detail in an activity review meeting: what went wrong, why it went wrong, how we can solve the problems."[333]

The mindset and perspective of the accounting department staff was another factor that contributed to organise the accounting information so as to be useful to managers. The accounting department was directed to the internal customers, i.e., the internal users of the accounting information. This feature is described in the following section.

6.3.3.2.2.2 Financial Accounting Department Focused on Internal Clients

The Financial Accounting Director said he was a member of the executive committees and informed about the various business activities; therefore, he knew about the business situation and their needs, "as someone that is from inside the business unit"[334] (see Boer, in Robinson 1990, p. 28; Shank 2006, p. 356). As the Financial Accounting Director belonged to the executive committee of Sonae SR, he participated in two meetings monthly; at these meetings he analysed the business activity, analysed projects – everything that was related to new investments – and other general or specific issues to each business. He said he was in contact with the other directors and aligned with the decisions across the various business units and functional departments. The Financial Accounting Director in this respect commented:

> "[I am] in the executive committee of Sonae SR, where the administrators of the business of Worten [consumer electronics], [Modalfa] fashion division, the Sport Zone, are. I am there, there is the general manager of information systems, there is the general manager of planning and management control systems, there is the general manager of treasury and finance, there is the general manager of human resources. We are a management team. We are fully attuned and coordinated."[335]

[333] Interview with the Management Control Director on 24/09/2012 (M09.34)
[334] Interview with the Financial Accounting Director on 21/09/2012 (M07.46)
[335] Interview with the Financial Accounting Director on 21/09/2012 (M07.47)

The financial accounting department was not only focused on the strictly legal or bureaucratic functions associated with the external report – although the department was a central, shared service, which was intended for all the retail business of Sonae – but it was a department that was focused on the business situation (see Shank 2006, p. 365), i.e., concerned with the development of business and the role of accounting in supporting them, said the Financial Accounting Director (see Hope and Fraser 2003a, p. 82; Boer, in Robinson 1990, p. 28). The Financial Accounting Director, describing his responsibility and the administrative department role, said:

> "This starts with me, I'm on the executive committees, so I'm listening, I'm monitoring, I am speaking, and I'm putting the issues from the administrative services that are relevant to the business [management]. I have the ability to intervene and share knowledge, etc., and, after all, my directors are there too. My directors meet the commercial staff, the operations directors from the various businesses. They meet the directors of the central functions. We work as a team and in a coordinated way, because it has to be."[336]

The Financial Accounting Director justified the presence of the administrative department staff being closer to the business management with the need to be informed of the needs of internal customers, i.e., the users of accounting information within the organisation, particularly the commercial managers, marketing and operations (see Boer, in Robinson 1990, p. 28; Shank 2006, p. 356). In this regard, the Financial Accounting Director said:

> "We are shared services – maybe in other businesses the shared services need not be so close – but in this business we have to be inside. We cannot be out of the business [management]. Otherwise we are not playing our role, because we will not have the information to manage processes and to manage information; nor are we contributing to help the business [managers] to manage their own problems."[337]

The Financial Accounting Director gave as an example the coordination with suppliers. He noted that in addition to the problems related to the accounts of suppliers, the issue of documents errors, the financial problems, and also the problems related with trade negotiation, always arose in these meetings. He noted that if accounting staff were not present and helping to solve these problems, it meant that they were not doing their job (see Hope and Fraser 2003a, p. 37; Johnson 1992, p. 9).

[336] Interview with the Financial Accounting Director on 21/09/2012 (M07.48)
[337] Interview with the Financial Accounting Director on 21/09/2012 (M07.49)

The Financial Accounting Director concluded by saying:

> "We [the financial accounting] have teams organised by processes. We are always present at the meetings where we belong to and where we are needed, where we have to intervene. This demands, every day, a huge coordination between the teams [from financial accounting] that are more linked to both processes' management and the business teams [e.g., commercial, marketing and operations]."[338]

In addition to the focus of the financial accounting department on internal clients, there was also a mood of collaboration between departments that encouraged the use of accounting information (see Nixon and Burns 2012, p. 226). This topic is seen in the next section.

6.3.3.2.2.3 Collaboration Between Departments

The relationship between the PCG and the other departments for performing the business control was very collaborative (see Hope and Fraser 2003a, p. 107; Nixon and Burns 2012, p. 226). The Director-General said that both the MD and the PCG, worked closely with each other to plan and assess the returns of marketing campaigns:

> "Our management control – differently from other experiences, from people to whom I talk, not mine – has much more a posture of planning and proactive control. It is not the posture of the red balls or green balls, a posture of detectives, that here, thank God, does not exist. They work the data and perform the management control, but not in the perspective of identifying problems but identifying opportunities. This is why the Marketing Director has the support from management control for assessing the [marketing] campaigns. It is very interesting indeed."[339]

The Controller perception was that everyone from marketing, operations, commercial, and sourcing, formed the fashion team as a whole. She expressed:

> "I have been here for ten years, I don't know how was it before. Everyone from marketing, operations, commercial, and sourcing, form the fashion team as a whole, they work very closely. There is no reason for not having a direct and collaborative relationship. They have a direct relationship with us, the management control. The relationship is also very good with the administrative services and all other units; e.g., from IT, there are people in charge, at least one, who is directly and only at the fashion division. He [the person from the IT department] looks at the business needs and tries to

[338] Interview with the Financial Accounting Director on 21/09/2012 (M07.49)
[339] Interview with the Director-General on 23/11/2011 (M01.67)

> develop [the existing tools] or creates new ones if necessary; he follows the business needs [of IT] very closely."[340]

The Operations Director noted that she was very well supported by the PCG (see Hope and Fraser 2003a, p. 37). This was reported as highly critical when deciding about changes in operations. The Operations Director reported a particular situation, where the timely management control information about relevant costs and revenues supported, with objective information, her sense about the solution to a particular issue. The Operations Director commented:

> "They [PCG] create the analysis that we need. It was almost a tailor made dress, it is a luxury; e.g., last week we needed an analysis focusing on store timetable, for knowing what would we gain or lose from reducing the store opening times. I asked for this analysis for all shops and they answered me within a week. It confirmed my feelings, but we need data to support our feelings. […] They produce and send us precious information every month, e.g., about costs, operational accounts, and, sometimes, they give us provisional operational accounts for helping us with business navigation. They are not like policemen; they are very helpful. This is very positive for helping me in decision making, of great value; otherwise it would be much more difficult or more expensive as far as I would need to create, inside my structure, someone that would do these analyses for me, for supporting my decisions."[341]

The Marketing Director also reported that his department had a very good communication with the PCG, and that this was particularly important in the difficult economic environment of the year 2011. The Controller, in addition to collaborating with the MD in evaluating campaigns, assisted in controlling the costs. The Controller described her collaboration with marketing, in the control of costs:

> "We, management control, look at the expenditures and variances on the marketing budget as a whole and by types of expenditures. We talk to the Marketing Director, to understand the variances, and identify the planned activities not yet performed. Afterwards, I issue a report for the cost centre of Modalfa, with the marketing expenses and any possible revenue, directed to the Marketing Director, who discusses it with his staff; verifying if all invoices are properly registered."[342]

[340] Interview with the Fashion Controller on 13/12/2011 (M03.26)
[341] Interview with the Operations Director on 18/01/2012 (M05.44)
[342] Interview with the Fashion Controller on 13/12/2011 (M03.30)

The Financial Director said that the PCG, although an autonomous department, collaborated with other departments (see Eccles 1991, p. 5). He explained:

> "[The PCG] is an autonomous entity – it means that it has its own structure, has a director, has an administrator, is responsible for planning everything; for all that is management indicators, business indicators. Obviously, with all the other departments there is an overlapping area and we all work together."[343]

The Financial Accounting Director commented that the diverse functional directors looked at the accounting department as part of the business – although the administrative department was located at the headquarters. The Financial Accounting Director said:

> "People [from the business units] do not see the administrative services department as a thing apart. They see it as something that is part of the business. Because it was born that way."[344]

As mentioned in the previous section, the PAR meetings contributed to the administrative department were involved with the business managers and set the design of administrative processes and the flow of accounting information from the time of the launch of the business units (see Johnson and Kaplan 1987, p. 14; Lere 2001, p. 589). The Financial Accounting Director commented that they had bodies, forums, advisory groups, committees, which they called sharing and knowledge bodies (see Eccles 1991, p. 5). These groups met regularly. They were from different functional areas and from different businesses. He said that as there were common management processes, e.g., information technology, this collaboration enabled synergies and negotiation power with suppliers, which were often common. He also said that this exchange facilitated the mobility of people between different departments or different business units.

The contribution of several managers from different functional areas to detect errors and validate the information organised by the accounting department was another factor that contributed to the accounting information being deemed credible by managers, and therefore used on a regular basis. This is described in the following section.

[343] Interview with the Financial Director on 09/08/2012 (M06.01)
[344] Interview with the Financial Accounting Director on 21/09/2012 (M07.88)

6.3.3.2.2.4 Accounting Information Checked by Different Managers

The Financial Accounting Director said it was very important to him that the various managers looked at the accounting information with a critical eye, identified errors and reported them to the administrative department. The Financial Accounting Director commented that errors could occur, because they performed more than 40 million accounting entries a year and about 60% occurred automatically. He noted that the participation of managers in the identification and correction of accounting errors had made accounting information more reliable. Referring to this aspect, he said:

> "There are many eyes looking at the [accounting] information. Thousands of people analysing the management information in this organisation. They themselves are the first ones concerned that the information is accurate, that all is right, and if they detect any [...] error, it will be observed, it will be identified and can be, and will be, corrected. There is here a kind of self-control in the management information, which is at the same time accounting information."[345]

The face-to-face transmission and analysis of accounting information was another factor that influenced positively the use of accounting information (see Anthony and Govindarajan 2003, p. 505; Hall 2010). This is discussed in the following section.

6.3.3.2.2.5 Accounting Information Communicated and Analysed Face-to-Face

The Fashion Controller, while describing the meetings of the activity analysis – a monthly meeting led by the management control department, involving mainly financial reporting, as described in Section 6.3.3.2.2.1 – said that it was characterised by a "work session, usually productive, in which the participants are active in all matters that arise".[346] However, she noted that the very presentation of numbers was not enough; the managers needed an explanation and an interpretation of the figures. She said it was achieved through the participation of all managers from different functional areas. She rationalised the importance of presenting and discussing face-to-face the accounting information (see Simons 1995b, p. 97) in the following terms:

> "As management control we look at the numbers but we do not necessarily have an explanation [for them]. I can look and I can ask, but I cannot give the answer. Why did we have some kind of distinct performance? And the business [managers], depending on the area, can give almost an immediate

[345] Interview with the Financial Accounting Director on 21/09/2012 (M07.44)
[346] Interview with the Fashion Controller on 21/09/2012 (M08.12)

> answer to that. That is why it is a very sharing working session of all these issues; we clarify issues that depend on us, and the business [managers] also clarify issues directly with each of the [functional] areas, where people [who attend the meeting] are responsible."[347]

Other managers have made similar assessments on the importance of the verbal communication of accounting information (Hall 2010). The Commercial Director, for example, highlighted the fact that he systematically interacted through email, conversations and meetings. He explained:

> "We meet to analyse the numbers and [fashion] collections, e.g., yesterday we met to discuss the product collection, where all departments spoke about the product. There must be a big dynamic between departments. […] More than this, we are physically organised with several departments mixed together. There is an interaction of different areas on the table work, long tables, with people from different departmental heads. As in every organisation, sometimes we have got communication noise, or communications that need to be known quickly; in these cases we must reinforce with meetings, notices and conversations."[348]

In this regard, the Operations Director revealed that she considered email communication very limited. "Communication by email does not show the non-verbal impact, his expression and his concerns do not pass"[349] by email, said the Operations Director. In this respect, the Financial Director also commented that the executive meetings, e.g., the live presentation of both the PAR and the budget, were mainly a process of discussion and exposure (see Horngren 2004, p. 210). He considered that it was a unique opportunity for managers to listen to others and ask questions; opportunities for sharing information and interacting (see Simons 1995b, p. 4).

The fact the management control was involved in strategic planning also contributed to accounting information being used by other managers and in particular marketing and sales. The subject is addressed in the following section.

6.3.3.2.2.6 Management Control Involved in Strategic Planning

The Controller commented that although she engaged in the construction of budgets, for about four months, she also had the responsibility to follow up the daily business and to build the business plan for projects of expansion – in particular the internationalisation

[347] Interview with the Fashion Controller on 21/09/2012 (M08.13)
[348] Interview with the Commercial Director on 12/01/2012 (M04.43)
[349] Interview with the Operations Director on 18/01/2012 (M05.06)

projects. This led her to interact and communicate frequently with other managers – e.g., commercial and operations – using accounting and financial information, she said. The Director of the PCG had also indicated that he had access to strategic information because it was his department who streamlined the strategic reflections on each of the businesses in Sonae (see Shank 1989, p. 50). He said that it was the PCG who streamlined the entire process of reflection about the business, identifying problems, identifying solutions, and defining strategies. In this regard, he said:

> "It was the area of management control that promoted this whole [strategic] discussion and sought to transfer it to [management control] elements which were then used by the rest of the organisation. We participate actively in discussions and try to guide the management teams to achieve a goal, a result."[350]

The Management Control Director said that his participation in the process of strategic reflection and strategic definition had the advantage of contributing to set the components of management control which were "geared to assist teams to lead the company in the desired direction"[351] (see Anthony and Govindarajan 2003, p. 352). He noted that when identifying a weakness in a business concept, e.g., in a KPI, the knowledge of the strategy helped them to identify the problem (see Simons 1995b, p. 64), to create a solution and then monitor the solution's implementation (see Simons 1995b, p. 3). The Management Control Director explained the advantage and consequences of involving the control department in the business strategy (see Shank 2006, p. 356):

> "I think that [the control department leading the strategic discussions and planning] allows continuous bridging with the results. The key advantage we have is [...] that it helps us to understand what is happening in the business, in the activities and in the more qualitative components, and this is the main advantage: to understand why [the results are these]."[352]

The involvement of PCG in strategic thinking and on monitoring the business, contributed to the PCG focus on supporting managers in their managerial work, i.e., conducting the business in the planned direction, and using accounting and financial information (see Shank 2006, p. 363). The support management accounting was giving to business managers is described in the next section.

[350] Interview with the Management Control Director on 24/09/2012 (M09.25)
[351] Interview with the Management Control Director on 24/09/2012 (M09.26)
[352] Interview with the Management Control Director on 24/09/2012 (M09.48)

6.3.3.2.2.7 The Control Department Focus on Supporting The Business Managers

The Financial Director said that the department of management control supplied all the quantitative information regarding the activity and the performance of the various businesses; including both the aggregated information and the very detailed information (see Anthony and Govindarajan 2003, p. 495; Hope and Fraser 2003a, p. 65). He explained:

> "All quantitative data are provided by the PCG or are provided by the respective departments, who give this information. The PCG, in this respect, is the soul of the business. The soul of the business in the sense that the PCG is accompanying the progress of the business and the various variables. […] You can go, as a last resort, to the number of T-shirts sold. The person who has the responsibility of T-shirts is not necessarily the same as the one with the responsibility of socks; therefore they must be evaluated differently."[353]

The Financial Director also commented that in Modalfa, the PCG had the responsibility to observe the business in its most essential aspects, e.g., how the prices were, how they compared to the competition, which products were selling well and which products were not selling (see Shank 2006, p. 356). He also noted that in the case of Sonae – he said the role of PCG was in the genesis of the group – the PCG had a dual function: (1) one was looking after the budgets, the analysis of the variances, and the business planning in the logic of reporting; the other function (2) was the follow up of the real business in its context (see Shank 2006, p. 365). The Financial Director explained how the PCG was involved in the follow-up of the real business:

> "When you are analysing deviations, you cannot just say that there is a deviation of 100 or 20 in the budget. You need someone who understands [the business situation]. Someone that perceives the business, not just the numbers, therefore you can make the bridge. [For example] This is so, why? Is it because competitors are lowering prices? Is it because people are consuming less? Is it because there are products that sell better, others worse? Is it because we have excess of inventory? Is it because we are not able to sell out a particular type of product? Is it in the north region? Is it in the south? Is it in store X? Is it in store Y? Is it the product A? Is it the product B? It is the sum of all these [understandings] that explains why the performance is better than expected. Why is it that a competitor went bankrupt? I think that all of this is what explains the sum of deviations. Therefore, in our case, a large part of this is at the PCG, another part is at the business unit."[354]

[353] Interview with the Financial Director on 09/08/2012 (M06.38)
[354] Interview with the Financial Director on 09/08/2012 (M06.44)

The proximity of management control in relation to marketing managers (see Hope and Fraser 2003a, p. 107; Boer, in Robinson 1990, p. 28; Shank 2006, p. 365) was revealed in two comments made by the Controller. She commented:

> "It was always our objective, in the company and in the management control, to have this proximity [to the business management]. Usually, the management control function is policing. We do not want to be so; it is obvious that we want to control, for this is our role, but mostly we want to follow up the business. The better we understand the business, the better we do our job of controllers."[355]

She also said that in the PCG they were developing software systems trying to get more detail in terms of sales (see Anthony and Govindarajan 2003, p. 495), i.e., to know at every moment what was sold of each collection, e.g., to know today how much was sold from the current collection, from the spring-summer collection, from the permanent items, or from the old collections, and with what margins? How much in full pricing? How much with promotions? The Controller, regarding the project, said:

> "Let us try. We are moving forward. Currently it is a project but we are moving in this direction of giving more detail. [...] Today, the [commercial] teams, with more or less difficulty, are already able to do this internally. We have information by article, but working all this information is very tricky. We are trying to mount it directly into the information systems, so anyone – and it also brings significant improvements on the side of the very own team of fashion division – can browse the system and see the aggregated information that way, very quickly."[356]

In addition to the close monitoring of the business and the concern in providing tools to monitor the activity and dynamics of the business, the management control also supported the commercial and marketing departments to collect and analyse financial information in accordance with the requests originated in these two departments (see Boer, in Robinson 1990, p. 28). This topic is seen in the following section.

6.3.3.2.2.8 The Management Control Department Collaboration with Marketing

The Controller stated that her interaction with the MD staff and the Marketing Director was frequent throughout the year. She noted that she spoke to marketing staff whenever

[355] Interview with the Fashion Controller on 13/12/2011 (M03.14)
[356] Interview with the Fashion Controller on 21/09/2012 (M08.17)

she had any questions or anything to resolve. The most used media was the telephone or email. The Controller explained:

> "It is a work of mutual help. They talk to me when they have any doubt or question, and when I have any doubt or question I talk to them. We exchange sales information on a weekly basis."[357]

The Marketing Director commented that the role of the management control department was very important in the assessment of marketing activities. He said that although the MD could easily measure the increase in visitors, the increase in transactions, and the increase in the average sale amount – this was available to them, using the usual marketing tools – it was very difficult for marketing to assess the financial return of marketing campaigns. The management control intervened at marketing requests to perform these calculations. It was a joint effort of the marketing and management control departments to bring the analysis at the EBITDA line. The control department gave to marketing the cost information that marketing did not have automatically, said the Marketing Director.[358] The Director-General, commenting on the efforts of the two departments to calculate the extent to which marketing activities generated returns that justified the marketing outlays, said:

> "We do this [analysis of the return on investment] very carefully. The Marketing Director is doing this in connection with the management control department, asking for their help. In this way, the management control can do an independent assessment."[359]

The Director-General also said that the management control department had much more of a posture of planning and proactive control than a simple and limited budgetary control. The Director-General commented that the control department processed the data and performed the management control aiming at identifying improvement opportunities (see Simons 1995b, p. 21). The proactive attitude of the management control department explains why the Marketing Director had the support from the management control to assess the marketing campaigns in financial terms (see Ambler 2003b, p. 253), said the Director-General.[360]

[357] Interview with the Fashion Controller on 13/12/2011 (M03.08)
[358] Interview with the Marketing Director on 13/12/2011 (M02.37/41)
[359] Interview with the Director-General on 23/11/2011 (M01.24)
[360] Interview with the Director-General on 23/11/2011

The Marketing Director asserted that the communication between the MD and the management control was perfect, and the Management Control Director said they worked two vectors related to the MD (see Simons 1995b, p. 21):

> "There is a vector of control – and that is a vector of little added value – where basically we are looking to get them closer to what was defined before, or at the best possible position in terms of economy or return of media. [...] Where we seek to add value to marketing has much more to do with the support we provide with some tools to measure the effectiveness of campaigns and the media used. [...] We usually challenge them to make more effective campaigns with fewer resources. Demonstrate to them, very often, that success is a success of campaigns. Often challenge them, showing the example of other actions taken by different means and with better results [...] But essentially, we, who are the controllers, try to help them to measure the actual performance of the actions they do."[361]

The Management Control Director explained that the collaboration of PCG was justified by its largest base of accounting information and the customisation that was needed in the analysis of campaigns (see Eccles 1991, p. 5). He said that the methodologies used required hours of work and some specifications in the calculations for each particular campaign. The Management Control Director explained:

> "In fact this has required some effort, since it is not completely systematised, there is an effort, a bit ad hoc, which, very often, has not been possible for the areas of marketing, which does not have this cost area developed – they are much more oriented to media [communication] and for the most creative part, while the most economic part, of control, rests here at the management control."[362]

Explaining the type of calculations that the PCG did to assess the economic benefit of marketing campaigns, the Management Control Director said:

> "We have EBITDA calculated for each [marketing] campaign, i.e., incremental sales, incremental margins, and incremental costs [for each campaign]."[363]

The Management Control Director said that the management control staff tried to be proactive in the delivery of knowledge or clues about greater effectiveness and economy of means (see Simons 1995b, p. 21).[364] The Commercial Director commented

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[361] Interview with the Management Control Director on 24/09/2012 (M09.08)
[362] Interview with the Management Control Director on 24/09/2012 (M09.12)
[363] Interview with the Management Control Director on 24/09/2012 (M09.13)
[364] Interview with the Management Control Director on 24/09/2012

that he also received printouts with management control information, on a monthly basis, from the central management control department. However, when the head office control information was insufficient, the Commercial Director asked for more from the internal and dedicated commercial controller (see Section 6.3.3.2.1.6). The Commercial Director commented:

> "We have some regular meetings, monthly meetings, where we review the activity. Moreover, we do have the management control leading the presentation of the numbers. In terms of numbers, yes, [I am satisfied]. If they do not give [the information I need] I look for it at the specific management control of the business."[365]

The Controller stated that her department made a continuous effort to keep up with the demands of managers – e.g., marketing, sales and business operations – for the accounting information necessary to support management (see Ambler 2003b, p. 253; Shank 2006, p. 363). On this topic she gave two examples. One was to improve the system of automatic reporting, giving the possibility to issue reports with more details and closer to the user's needs (see Boer, in Robinson 1990, p. 28). The aim was to save time for managers in the search of accounting information, making it more accessible and customisable (see Hope and Fraser 2003a, p. 126). The Fashion Controller explained:

> "We're always [innovating], I cannot tell you a year in which we have not introduced new things, there isn't one. Always innovating. We have lots of information, we have much detail, things that are already made internally, but manually. We try to take that weight off [commercial] teams to give them time to do other work. [...] If they have information directly available in the information systems, it makes life easier for everyone. So that the question of efficiency, of improvements, is constant."[366]

Another effort to adapt to the dynamics of the business (see Simons 1995b, p. 4) and the needs of users of information was the monthly report, discussed at meetings of activity analysis (see Ambler 2003b, p. 113). For this, the Controller also stated that improvements were continuous and that the reports had changed considerably in four years (see Eccles 1991, p. 8; Hope and Fraser 2003a, p. 70). She referred to this issue in these terms:

> "From 2008 to 2012 ... [2008] has nothing to do with what I do today. In five years, or four years, so much has changed ..."[367]

[365] Interview with the Commercial Director on 12/01/2012 (M04.40)
[366] Interview with the Fashion Controller on 21/09/2012 (M08.18)
[367] Interview with the Fashion Controller on 21/09/2012 (M08.21)

The following section describes the configuration of Modalfa's MD, the marketing metrics used, the marketing performance measurement process and the Modalfa MD situation.

6.3.4 Modalfa Marketing Department

This section describes how the Modalfa MD was organised, how it was controlled, and how it influenced the business management. The first section describes the MD's human resources and how planning and budgeting was done. The second section focuses on the evaluation tools and metrics demanded by the MD to control and assess the return of its activities. The last section identifies practices and perceptions regarding the power of MD and its influence on business management. This interpretative case study seeks to complement the existing quantitative studies on the same topic in order to contribute to a better understanding and explanation of this phenomenon.

6.3.4.1 Marketing Department Planning and Budgeting

The MD is located at the head office of Sonae SR, in Maia (Oporto). It is directed by the Marketing Director who coordinated a team of seven people. Aiming at keeping a small structure, the department was much supported by external agencies, i.e., communication agencies, digital agencies, and enterprise resource planning agencies.[368]

The department had two polyvalent brand managers. Their tasks were not only publicity or communication, but also public relations, brand activation, and digital media. Each brand manager was responsible for everything that was related to her brand. One of the brand managers was also dedicated to the communication inside the shops, e.g., store fronts and mannequins. The other brand manager was responsible for the brand activation process and the relations with external entities, e.g., specialised press, fashion magazines, general press, public relations, and sponsorships.

The Commercial Director commented that the MD had autonomy for managing the brand positioning and influencing public opinion through media. The commercial department decided about product, price and promotions, the MD had the responsibility of communicating to consumers.

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[368] Interview with the Marketing Director on 13/12/2011 (M02.08)

The Commercial Director described and distinguished the responsibilities of marketing and commercial departments as follows:

> "Doing or not doing a billboard [campaign] is a decision of marketing. We [commercial department] do the rest, e.g., a campaign of 50% [discount voucher] on menswear is decided and measured by me, and communicated by marketing. Price promotions are my responsibility, communication and brand activation is marketing responsibility. Price and product highlights [decisions are managed] by my team."[369]

The MD had power and autonomy for designing the marketing plan and setting the marketing budget. The budget was prepared at the MD in connection with the PCG. In order to set the level of marketing expenditures, the Marketing Director said that he assumed that the board of directors might have a reference value, i.e., a percentage of sales for marketing budget. However, he tried to justify the budgeted level of expenditures, using a cost and benefit analysis (see Section 6.3.3.1.9 and Section 6.3.3.1.10). For some marketing projects, the Marketing Director made an effort to calculate the EBITDA of the marketing campaign.

The budget and the level of execution of marketing activities were controlled every month at the activity analysis meeting.

6.3.4.2 Marketing Accountability

The Marketing Director considered the marketing cost and benefit analysis crucial for the management of the department, and to protect the planning, budgeting and execution of marketing activities in difficult economic times. The Director-General explained why it was important to calculate the financial returns of the marketing campaigns, and the efforts that the Marketing Director did to demonstrate the return of MD activities. The Director-General commented:

> "The marketing is a [cost] line, that, when analysed only from the management control perspective, is an easy [cost] line [to cut]. There is not a direct link between company performance and the marketing investment, at least in the short run. […] I used to say to him [the Marketing Director] ''You just need to prove that it [EBITDA from the marketing projects] is zero, zero is not bad!'' At the end, if the result is null you end up creating a buzz for the brand. For some of those [marketing projects] he is able to prove indeed that the bottom line is positive."[370]

[369] Interview with the Commercial Director on 12/01/2012 (M04.31)
[370] Interview with the Director-General on 23/11/2011 (M01.20)

The culture of Sonae was to appraise as precisely as possible all expenses and investments. The Commercial Director said that he measured his commercial actions looking at sales performance and compared them with historic values (see Section 6.3.3.1.4). The Marketing Director also had the preoccupation of demonstrating the impact of his activities on sales and profitability. These calculations supported top management in making decisions about resource allocation to marketing (see Section 6.3.3.1.11). The Marketing Director expressed:

> "The strength [of the marketing department] is not an easily acquired fact. It has to be gained. […] I must clearly convey to them [board directors] that, if they cut the marketing budget, then they will also cut sales, as was proved by several analyses that I tried to do throughout the year [...][371]
>
> In times like this, I would say no [i.e., the operational indicators are not sufficient to justify investment in marketing …][372]
>
> In these [economic] situations the marketing expenses are under greater pressure to generate returns. Last year, in particular, the marketing department was keen to demonstrate that their activities created value […] We aimed at showing that this can be standardised and also demonstrated to the board directors that the marketing investments – though they can see it as a cost – generate value [...][373]

The Marketing Director recognised that the role of the PCG was very important in reviewing the performance of the MD. He explained that the MD could easily measure the increase in visitors; however, it was not easy to identify the costs and calculate the bottom line earnings. Moreover, the Marketing Director said that the measurement methodology, used by the Modalfa MD, was easily understood by other directors (see McManus and Guilding 2008, p. 787; Simons 1995b, p. 108). The Marketing Director commented:

> "Marketing is usually seen, is often seen, as an entity whose value created is seen as a little subjective. It does not mean that people do not like and do not value [marketing], but it is difficult to measure. Only if one accounts the tangible versus the intangible value, i.e., when one goes to an action and sees what its value is, and makes a tangible difference to the value of the company, here we have a measurable value; this is the brand value. Although there are few companies that do this. This [which we do] is very factual, it is very real, these values are understood by our commercial

[371] Interview with the Marketing Director on 13/12/2011 (M02.68)
[372] Interview with the Marketing Director on 13/12/2011 (M02.45)
[373] Interview with the Marketing Director on 13/12/2011 (M02.37)

> director, understood by our general manager, and understood by our CEO."[374]

The Operations Director explained that, whenever there was a campaign, she tried to deliver to the Marketing Director, in a formal way, a document with the stores' opinion of that campaign; especially of new campaigns. She also produced a formal report that was filed and available for future reference. She explained that the Marketing Director might want to keep it and see later what the result of a specific campaign was, e.g., the Modelo-Continente customer card association and the qualitative appraisal of operations about that.[375] In this way, the MD received qualitative feedback from their campaigns (see Ambler 2003b, pp. 26-30). The Operations Director explained that she informed the MD, about the return of campaigns, because the MD could adapt the campaign and knew what failed and why (Simons 1995a, p. 81). She justified why it was important to add qualitative information to the management control numerical reports:

> "Often [the explanation of failures] does not appear in the numbers. Sometimes it is only a question of very small things, e.g., recently, we had promoters delivering flyers about that weekend campaign, in the Modelo shopping centre galleries. In many stores this did not produce good results. If I had not told the Marketing Director that the promoters weren't proactive, that it was a fail on the part of the promoters and not of the campaign, we could have questioned the whole campaign, because, in many places, the promoters were not in the right place, they were not enough dynamic, they were not extrovert, they did not talk to the customers, they were not proactive in the campaign communication. This kind of information does not pass through the numbers."[376]

Finally, in the next section, the position of the MD at Modalfa is described.

6.3.4.3 Marketing Department Stature and Influence

The MD at Modalfa was considered, by the other executive directors, as extremely relevant to the business management. An indicator of the power of the MD was its capacity to attract more financial resources in 2010, which was a year of reduction in both sales and profitability (see Section 6.3.3.1.9). The MD influenced both strategic and operational management decisions. The Director-General said that the dynamism of the MD had been increasing, i.e., the department proposed and managed new and innovative

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[374] Interview with the Marketing Director on 13/12/2011 (M02.49)
[375] Interview with the Operations Director on 18/01/2012
[376] Interview with the Operations Director on 18/01/2012 (M05.09)

projects. He gave the example of marketing having the responsibility to manage the expansion projects. There was a person from MD that linked marketing to procurement, i.e., shop's location, construction of stores, and shop architecture.

The Director-General commented that the MD had the important role of guaranteeing that all of the business, together with expansion of stores and business growth, was made in a coherent way.[377] The Director-General explained the MD's relevance as a consequence of the Sonae culture; for it was a company that had always valued the role of marketing (see Johnson 1992, p. 25). Commenting on the MD influence, the Director-General observed:

> "The history of Sonae shows it always gave an important role in marketing and communication, and to the challenging role that marketing must have. It is so [across all business units] due to our culture, although with different nuances in different units."[378]

The Director-General also suggested that the ability of the MD to prove the added value of its activities was another important cause to defend and contribute to the importance of the MD at Modalfa.

The Marketing Director confirmed that he felt himself respected and influential in decision making at the board level. He had the perception of being recognised and valued by the board directors. He explained how the culture of the company very much influenced the attitude of the board directors towards the MD (see Johnson 1992, p. 25):

> "Sonae has a school of marketing. It is a school of marketing. Ever since I joined Sonae, I have reported directly to the Board Directors. This is very important not only at the theoretic level of the organisation chart. This means that the marketing is not submitted to other units, whose KPI are not related to the creation of brand value, e.g., if we were only at an exclusive commercial logic, most probably, we would only do promotions, we would only communicate promotions; for here is a lower sensibility for the importance of creating a valuable brand. We have a notion that we are here today, but we need an ever stronger brand to be here in 10, 15 or 20 years too. This [idea] has been always present. The people who are now at the board of directors, and the CEO have this very much present. They know what the function of the marketing unit is."[379]

The Director-General explained that the MD had a challenging role: marketing coordinated all market research, and interpreted the market trends. He explained that the

[377] Interview with the Director-General on 23/11/2011
[378] Interview with the Director-General on 23/11/2011 (M01.32)
[379] Interview with the Marketing Director on 13/12/2011 (M02.63)

MD at Modalfa tried to assure that the brand progress was properly aligned with the market growth and the business. He said that the marketing was becoming more than a service supplier, inside the area of fashion, but a challenger, bringing new ideas, and new forms of working.[380] The Director-General also considered the MD as a department that linked and motivated the other departments (see Kohli and Jaworski 1990, p. 9). He explained:

> "The marketing department has this role of bridging between various units. It is an independent unit. There is always a huge tension between supply chain, sales and operations, e.g., sales, looking at P&L, aim at EBITDA, pushing for stores full of products, this creates tensions at the supply chain, and operations while managing supplies, stocks, etc.; there are several conflicts [between departments] and the marketing department has a conciliation role, being a bridge between the various areas."[381]

The Commercial Director said that the collaboration between the MD and the commercial department was very strong. For example, the commercial department fed the MD with the promotional plans, throughout the year, and the MD communicated these promotions through outdoors, billboards, or out-releases via the Internet. The MD also did the communication and the complete promotional plan for the 50% discount in vouchers, which was frequent.

The MD was autonomous in brand positioning, catalogues production and fashion production – though marketing had autonomy, it was based on the products to be promoted, and which were defined by the Commercial Director. Marketing also informed the commercial department about the market feedback and the results of commercial campaigns. The Commercial Director explained:

> "The marketing, in the case of Modalfa, has the obligation of pulling the insignia's brand. Allocating in their budget, the better they can, the percentage of sales that they have, and supporting many of our strategies. There must be a fluid relationship with marketing. We give them [information about] our objectives, the promotional plan, strategy. They give us the communication proposals that they have for each strategy, they give us feedback on how the collections are being seen by some media, press, etc., where our products are appearing, and, information about the results of some campaigns."[382]

The Commercial Director was satisfied with the MD's performance. He

[380] Interview with the Sonae Fashion Division Director-General on 23/11/2011 (M01.30)
[381] Interview with the Director-General on 23/11/2011 (M01.45)
[382] Interview with the Commercial Director on 12/01/2012 (M04.38)

considered that the MD was involved in strategic decisions and gave opinions about them. According to the Commercial Director, the MD did not used to have as much influence as the commercial area, which defined the global strategy, but the MD had importance in strategy formulation, he said (see Simons 1995b, p. 3).[383]

The MD also used to give the information about the concept of the campaigns to the operations department. Afterwards, the Operations Director decided how to manage the implementation within stores. Using the information from the Marketing Director, she managed, at operational level, the resources and the stores as well as the interaction with the commercial department, which had the visual merchandising.[384] In this regard, the Operations Director explained how she followed the MD instructions:

> "The Marketing Director gives me the concept, e.g., says: ‘‘within some time, we will mount a week-end campaign which will use these pieces of communication and the objective is that the customers do this and that.’’ Using the information from the Marketing Director, I manage, at operational level, the resources and the store dynamics."[385]

To have an advertisement page each month in the Vogue, in the Máxima or in the Happy magazine was a decision of the MD, the Operations Director said. It was a result of a thought out strategy of brand projection designed by the MD. In this respect, the Operations Director commented:

> "When marketing does the Modalfa fashion dream, while choosing the models, and all glamour related to the action, he does not care to speak to the commercial or operations [staff], for what he wants is to project the brand […] [marketing] is more institutional, more independent."[386]

The MD also participated in decision making related to sales and operations, the Operations Director gave an example of the MD involvement in decision making:

> "Yesterday, the Commercial Director was concerned about a week-end [customer] flow deviation and asked me and the Marketing Director about our ideas and what we would like to do. Everyone is involved in decision making; both for the running issues and the structural ones. At the strategic monthly meeting with the board director, all of us are asked about the current problems and solutions. All of us are involved and have the opportunity [to influence the decision making]. A department isn't set aside, and called only when needed, to create something."[387]

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[383] Interview with the Commercial Director on 12/01/2012
[384] Interview with the Operations Director on 18/01/2012
[385] Interview with the Operations Director on 18/01/2012 (M05.11)
[386] Interview with the Operations Director on 18/01/2012 (M05.13)
[387] Interview with the Operations Director on 18/01/2012 (M05.16)

Operations and marketing also shared information about complaints and perceptions from customers. The complaints arrived first at the MD. Most of the complaints were registered directly through the website. Afterwards, marketing sent it to the operations department. It could be a complaint about a product or a complaint about the customer service. Marketing had knowledge of all complaints, however each department solved their own, e.g., if it was a quality problem, then the quality department solved it, contacting the customer, aiming at giving more specialised, more technical information.[388]

6.4 Conclusion

Modalfa, founded in 1995, is the second largest Portuguese company in the retail fashion (after Inditex), it increased its sales by 40% between 2006 and 2010 and its shops increased from 68 in 2006 to 105 in 2010. They still had a market share of 2.9% in 2010 and the second largest ROE (66.5%) of the top 10 fashion retailers (cf. Section 4.3). In 2010 the turnover was €103 million which generated €10.3 million in EBITDA.

Modalfa is a business unit of Sonae group. Established in 1959, the Sonae group had a turnover of €5.9 billion in 2010. Its main activity is in the retail sector. In 2010 was the market leader in food retail, consumer electronics and sports goods. In 2011, the objectives of the Sonae group were to increase the business activity in the international markets, to get good returns on equity and to reduce liabilities in absolute terms. Sonae followed a strategy that focused on products and processes innovation, competitive pricing and customer service.

The managers explained the success achieved in Modalfa with the strategy of locating stores outside major urban areas – where competition was less intense. Another factor that contributed to its success, according to the managers, was the offer configuration: family clothing, fashion at very competitive prices. A strategic cost management also provided competitive advantages in terms of costs (see Shank 1989), i.e., a scale which enabled negotiation power in the upstream markets, optimisation of back office processes, and internal and external benchmarking.

In the genesis of the company was a culture of frugal management, constant attention to sales revenue and permanent protection of brand value which protected the returns in the long run. This focus on revenue, costs, and constant monitoring of the business situation to identify both risks and opportunities for improvement strengthened

[388] Interview with the Operations Director

the role of management accounting department. The perspective of the planning and management control department was that their primary role was to support management, i.e., producing information that managers demand. Although they were responsible for planning, budgeting and variance analysis, they were also very focused on designing the accounting system to match the actual needs of the various managers. It was a flexible department conscious of its relevance for the control and support of management. They designed the reports tailored to the needs of users and involved the managers in both the information validation and discussion.

On the demand side, the Modalfa managers sought accounting information primarily with two distinct objectives and, consequently, in two distinct albeit complementary ways. First, they sought out information to monitor the day-to-day business, especially sales revenues, as well as costs and contribution margins per store (not contribution margins by products). They did in detail and in real time up to the product level, i.e., comparing the dynamics of sales across products, business units, shops and regions. To achieve this goal, the access to accounting information was always available, independent, self-serviced and supported by pre-designed reports – though flexible and adjustable to the managers' requirements. This was result of a direct link between managers and the IT systems. This direct and personal access to accounting information provided autonomy and speed in decision-making which was highly valued by Modalfa managers. On the other hand, managers also wanted to be regularly informed of the business progress, from a cross functional perspective, and of its competitors' costs and revenues. They desired this information to identify changes in the business context (market, customers and competitors) that could have resulted in threats or opportunities for the business as a whole or for their departments in particular. For this second objective access to information was led by the management control department which intervened actively and systematically. The managers met face-to-face every month and discussed in a comprehensive and detailed manner – for a day or two – a monthly report prepared by the management control department. In addition to information related to the budget and deviations, the returns were also analysed as well as the situation of competitors. The information obtained through this process far exceeded the content of the report because (1) managers valued the report interpretations, analyses and discussions that were generated; and (2) the managers offered qualitative explanations of historical results based on the personal experience of each manager and their contact with the business reality. Moreover, they valued the collective identification of problems, proposed solutions, opportunities for improvement and plans for concerted action that resulted from these interactions. The report format was flexible and its content met what managers wanted and considered as relevant as the business evolved. This interaction was also an opportunity for the management control department to communicate and teach managers to use information from the accounting system. It was likewise an opportunity for the department of management control to understand the managers' information demand and correspond accordingly.

The MD called for specific support from the accounting and management control department. Although the Marketing Director noted that Sonae valued the role of the MD and Modalfa allocated a certain amount to the marketing budget as a percentage of sales, he also stated that he wanted to show the board directors the contribution of marketing projects to EBITDA. The Marketing Director noted that in difficult economic times marketing expenses could be cut. It was in these contexts that he sought the support of accounting and management control department to calculate the impact of marketing projects on cash flow, i.e., to identify the outlays for each marketing project and the impact of each project in sales revenues and contribution margins. They were very practical experiments, with control variables, to demonstrate the gains from maintaining the marketing budget levels, even in difficult times. The Marketing Director stated that these exercises were only possible because the department of accounting and management control participated with detailed cost information. The relevance of the MD in Modalfa was not a consequence of demonstrating their positive contribution to EBITDA; it resulted from the company culture which in itself appreciated the function of marketing. However, these "financial exercises" aimed at demonstrating the contribution of the marketing projects to EBITDA, contributed positively to avoid a possible reduction of both the marketing budget and the technical and human resources allocated to the MD, especially in economically difficult times (see Kotler et al. 2006, p. 71; Simons 1995a, p. 84; Srinivasan et al. 2005, p. 114; Webster Jr et al. 2005, p. 37).

In conclusion, the Modalfa accounting system proposed and provided relevant accounting information for managers, as it is suggested in the accounting literature (Anthony and Govindarajan 2003; Hope and Fraser 2003a; Shank and Govindarajan 1993); the managers also sought accounting information, including marketing and sales managers (see McGovern et al. 2004; O'Sullivan and Abela 2007; Verhoef et al. 2011). However, in this case, contrary to what is suggested in the literature (e.g., De Ruyter and Wetzels 2000; Phillips and Halliday 2008; Schultz 2003; Srivastava et al. 1998), there was an intense interaction and communication between accounting and business managers. There were two factors that influenced the ability of Modalfa's accounting system to meet managers' demand of accounting information (see De Ruyter and Wetzels 2000; Foster and Gupta 1994; McManus and Guilding 2008). The first was the real time individual access to accounting information using customised and flexible reports. This became possible due to: (1) the integration of financial and non-financial databases; (2) the automation of accounting entries that provided updated information; (3) information validated by different managers which increased the reliability of information; and (4) reports pre-designed according to the managers' demand. The second was the face-to-face interactions between management control staff and managers. This face-to-face interaction enabled managers to analyse accounting information in teamwork complemented with qualitative information from the personal experience of each one and their contact with the reality (see Hope and Fraser 2003a). It also served to ensure that managers learn to use the accounting information and allowed the management control department to understand the characteristics of managers' demands and needs of accounting information (see McManus and Guilding 2008, p. 785; Ratnatunga et al. 1990, p. 41). In addition to providing a thorough explanation of the business and the numbers offered in the management accounting reports, it also contributed to identifying problems and finding solutions. The face-to-face meetings at Modalfa were therefore moments of strategic thinking with practical implications. It allowed Modalfa to effectively use the accounting system for strategic cost analysis and interactive control – as suggested in management accounting theory (e.g., Shank and Govindarajan 1993; Simons 1995b).

CHAPTER 7 ANALYSIS AND DISCUSSION

7.1 Introduction

This chapter begins by examining each case separately in order to answer the research questions (sections 7.2 to 7.6). In the second part a comparative analysis is made contrasting the two cases (sections 7.7 to 7.9). The chapter begins by analysing the factors that enable or hinder the communication and use of accounting information. Then, the managers' demands and uses of accounting information are described and analysed, as well as how marketing managers desire to measure the performance of marketing. Afterwards, the support that the accounting department provides to managers is analysed, as well as how the accounting information is communicated in each organisation. In Section 7.7 the factors that influenced the ability of the accounting system to meet the managers' demand of accounting information in each organisation is compared. As to how accounting information is demanded and used by different managers, the two companies are compared in Section 7.8. In Section 7.9 the differences between the MDs of both organisations in terms of levels of responsibility in marketing management are analysed. Also examined is the extent to which the degree of responsibility of the MD, in the management of the various components of the operational and strategic marketing, is conditioned by the ability of the department to show its contribution to the financial results of the business.

Summarising, the following topics are examined: (1) factors that influence the ability of the accounting system to meet the managers' demand of accounting information; (2) information demanded by managers and how they use it; (3) how accounting information is communicated; and finally (4) the impact accounting information has on the management of marketing – both operational and strategic (see Tomkins and Carr 1996, p. 165).

7.2 Factors Influencing the Use of Accounting Information

By analysing the factors influencing the use of accounting information in the management of marketing, structural and functional causes can be distinguished (see Foster and Gupta 1994; Shank 1989). In this research the structural factors are considered the ones that refer to the management style and the characteristics of human and technical resources. The functional (behavioural) ones are those that relate to the way of doing things, i.e., the way accounting information is collected, organised, communicated and used. Distinguishing between structural and functional factors contributes to systematise the analysis and to produce a parsimonious conceptual model. It contributes to design action plans for both short and long run with the aim of fostering the use of the accounting system in practice. In the short run one can focus on the functional factors and in the long run one can act on the structural ones. These factors are analysed in the following sections.

7.2.1 The Dimoda Case

In Dimoda, there are structural causes that limit the use of accounting information in the management of marketing. A key aspect, according to the people interviewed, is the mindset of managers and top-management. They set a functional structure composed of delimited departments, like silos, leading to a lack of communication and poor cross-functional interaction (see Ambler 2003b, p. 202; Hope and Fraser 2003a, pp. 34, 110). Another aspect that limited the use of accounting information was the separation of the marketing and sales software databases from the financial accounting computer system. The situation caused delays of two months in management control reporting, and required much interdependence of departments to move data from one system to another. The time managers spent managing the data was not used to analyse the information. The inadequacy of computer systems was known by various managers – accounting, management control, information technology and marketing. However, two factors prevented the change: first, financial limitations and cost containment mindset hindered the investment in new hardware and software; second, the top management understood that the gains from changing the computer system for management control did not cover the corresponding expenses.

From the functional point of view, there were three aspects in communication that limited the use of accounting information by managers of marketing and sales in Dimoda. The first was the lack of automatic, regular and face-to-face communication between managers – marketing, sales and management control (see Simons 1995b, p. 97). The lack of interaction limited the availability of qualitative explanations of numerical data and reduced the quality of management reports (Ambler 2003b, p. 26; Simons 1995b, p. 71). The second was the orientation of the management control reports to top managers only (see Anthony and Govindarajan 2003, pp. 416-417). Although this allowed an overall analysis of the performed activity and strategic thinking, it did not allow identifying operational problems in the area of marketing and sales, therefore limiting the effectiveness of the management at the business unit level. Finally, the lack of managers' direct access to accounting information – they did not have an integrated and updated computer system – delayed access to information and limited the usefulness of accounting information for daily decisions (see Hope and Fraser 2003a, p. 155).

Still, at the functional level, the orientation and focus of financial accounting in reporting for entities outside Dimoda, also led the accounting department to be very focused on technical accounting procedures, e.g., inventory control, imparities, deferrals and accruals (see De Ruyter and Wetzels 2000, p. 210); therefore, belittling the accounting department's role as organiser and facilitator of adequate accounting information, suited for the needs of marketing and sales managers (see Anthony et al. 2010, p. 456).

It is worth noting that, in Dimoda, the existence of one cultural feature that limited the use of accounting information was reported: managers used to pay attention to sales and to create very good product collections and there was no concern to closely monitor the profitability of the business.

7.2.2 The Modalfa Case

In Modalfa there are structural and functional aspects that facilitate communication and use of accounting information. From a structural standpoint, the mindset of managers contributed strongly to the communication and use of accounting information. In Modalfa, there was a constant concern for daily track of sales – comparing it to previous periods – and careful cost management (see Kaplan, in Robinson 1990, p. 3). The information system was also structured to facilitate communication and use of accounting information. Firstly, all information was linked to a database that was common to financial accounting, management control, marketing and sales. Secondly, information was collected and stored with much detail. This allowed two different forms of communication and analysis with two distinct purposes. The much detailed information enabled user customised reports and self-service accessed (see Hope and Fraser 2003a, p. 65). Each single manager accessed the computer system directly in order to obtain the much updated information to act in real time and immediately in the course of the business (see Johnson and Kaplan 1987, p. 14). There was also aggregated information generated by the management control department. The information was reported monthly, both written and by viva voce, discussed, explained and analysed by multi-functional and multi-hierarchical teams (see Hope and Fraser 2003a, p. 33; Simons 1995b, p. 108, 2000, pp. 217-218). The aim was to analyse the performance, to identify errors and opportunities for improvement, and to devise strategies and tactics for immediate action, in a coordinated and aligned manner (see Ahrens and Chapman 2007; Ambler 2003b; Simons 1995b, p. 123).

Modalfa also had some characteristics that contributed to the communication and intensive use of accounting information from the functional point of view. The first feature was frequent and systematic oral communication between managers (Hall 2010). It occurred prior to the yearly budget, across all functional managers, during a meeting to discuss the activities to be undertaken and the required resources; it was followed by the annual meeting, for the presentation of budgets (see Horngren 2004, p. 210). A meeting of product analysis was held quarterly. Every month a session of activity analysis took place, led by the management control department that lasted a day or two. All functional directors participated actively providing quantitative and qualitative information that complemented the information prepared by the management control department (see Ambler 2003b, pp. 8, 26). Every two weeks a meeting was held for marketing and sales analysis (see Kaplan, in Robinson 1990, p. 3).

The second feature was the focus of financial accounting department to collect, organise and process accounting information in order to be useful in the business management (see Boer, in Robinson 1990, p. 28). For this purpose, one or more representatives of the administrative and financial department were present at business meetings, both during the lifecycle of the business unit and at the initial phase of start-ups. They acted so with the aim of designing an accounting system tailored to the unique needs of each business unit, allowing the production of useful information for management and decision making (see Johnson and Kaplan 1987, pp. 14-15, 17).

The third feature was the availability and interest of the management control department to realise and understand the needs of managers in terms of accounting information; therefore producing reports tailored to each functional manager, adapted to the evolution of the business and incorporating information from competitors (see Ambler 2003b; Bromwich 1990; Hope and Fraser 2003a; Simon et al. 1954).

In short, management control, in addition to planning for the future and controlling the past, also supported managers in the diagnosis and decision making process, shaping up and trying to understand the unique characteristics and needs of each functional manager (see Preston 1986).

7.3 Managers' Demand of Accounting Information

7.3.1 The Dimoda Case

Dimoda marketing and sales managers use accounting information primarily for management control. From the budgetary point of view, they look in particular at the control of sales – at the level of the business unit – and at the control of costs, both in terms of the business unit and the MD. The MD itself does two separate analyses: from the commercial point of view, it analyses sales (though in a simpler form), from the functional point of view, it analyses the budget of costs and deviations.

Some problems, related to the use of accounting information, were observed and need to be considered in the analysis, i.e., how the information was being used did not match what was desired by the managers of marketing and sales at Dimoda.

First, from a focus on sales – looking to increase sales – they turned to a policy of cost reduction. There is not a focus on the profitability management, i.e., maximising revenues and minimising costs in coordination (see Section 5.3.3.1.3). The apparent lack of interest of senior management in analysing profitability in detail (sales less cost of sales) – as has been reported by a member of the board – contrasted with the interest of the Business Unit Director in profitability analysis (see Goebel et al. 1998, p. 498). Moreover, the management accounting system and the management control were not designed to meet the Business Unit Director's demands for profitability analysis (see Johnson and Kaplan 1987, pp. 14-15).

Second, the management control of the MD was done through the budget compliance (see Hope and Fraser 2003a, p. xviii). There was not an analysis of costs and benefits in terms of financial returns from marketing campaigns. It was a difficulty felt and expressed by the Dimoda marketing managers. They had no means to do so, although both the Marketing Manager and the Business Unit Director wanted it (see sec. 5.3.3.1.4).

Third, the Marketing Manager was not focused on simultaneously analysing costs and revenues, but in promoting the brand (limited by a certain budget). For her, the mission of the MD was to protect the brand, not necessarily to manage the costs and profitability.

7.3.2 The Modalfa Case

The performance of Modalfa between 2006 and 2009 in terms of sales growth, EBITDA and profit was equal or superior both to the other companies in the fashion sector and to the other companies of the Sonae group. The Modalfa managers explained their success by assigning it to five main factors. Two of which were related to the support from accounting and control department and to the use of accounting information. The reasons reported were:

- Locations outside the major urban centres;
- Dimension that gave them bargaining power in regions of Asia;
- Skills at back-office level in the renovation of stores and innovation of processes (see Johnson 1992, p. 9);
- Very much detailed accounting information (see Hope and Fraser 2003a, p. 65). It allowed the analysis of sales by store and the identification of business opportunities (see Simons 1995a, p. 86); and,
- A department of management control that sought to inform managers on the performance of Modalfa's competitors, making comparisons and establishing benchmarks and incentives for continuous improvement (see Section 6.3.1) (Ambler 2003b, p. 30; Bromwich 1990; Eccles 1991, pp. 4-5; Hope and Fraser 2003a, pp. 55, 123; Simons 1995b, p. 94).

The ultimate objective of Modalfa managers was EBITDA (see Ambler 2003b, p. 100). However, managers defined other objectives that, in their view, led to the latter (see Anthony and Govindarajan 2003, p. 416). One of the main objectives of the MD was to attract customers to the stores. The main objective of both the operations and the commercial department was turning visitors into buyers (see Kaplan, in Robinson 1990, p. 3). The MD had still two additional objectives: to create a brand image in the mind of consumers with long-term returns, and to design tactical operations (promotions, campaigns and discounts) with immediate effect on sales and profits.

The department of management control organised monthly review meetings of activity that contributed to a review of the performance of the various departments and a measurement of the impact of operational and commercial decisions on both EBITDA and the company's profit (see Ambler 2003b, p. 8). This interaction also contributed to an alignment of the various functional managers relating to brand positioning, competition and trade tactics.

Modalfa managers used accounting information intensively. In addition to using accounting information to control the extent to which the business managers met the established budgets, accounting information was used to diagnose problems in the marketing of products and establish internal standards for the management of products and stores (see Hope and Fraser 2003a, p. 61).

A peculiar feature of Modalfa's management accounting system was the use of accounting information oriented to action (see Simons 1995b, p. 123). Its aim was to identify – using accounting information prepared by the management control department – problems and opportunities in marketing and sales management and act accordingly and immediately (see Simons 1995b, p. 5). Internally, they compared the financial information – sales and margins – of each of the stores, brands and product lines (see Hope and Fraser 2003a, p. 61). The aim was to motivate competition between stores, to identify the best practices and replicate them in the other units (see Ambler 2003b, p. 201; Hope and Fraser 2003a, p. 134). Externally, Modalfa's accounting information was compared with their competitors' accounting information in order to set benchmarks for Modalfa managers – inspired by their competitors' performances (Ambler 2003b, p. 30; Bromwich 1990; Eccles 1991, pp. 4-5; Hope and Fraser 2003a, pp. 55, 123; Simons 2000, p. 315).

The Modalfa managers' purpose was to act in operational terms – managing the stores in order to improve the overall profitability of each store – more than to manage and maximise contribution margins by product or customer, e.g., they did not manage the contribution margin by product mix or portfolio of customers (see Shank, in Robinson 1990, p. 16; Shank and Govindarajan 1988b). In Modalfa there was not the concern of allocating indirect costs (see Johnson 1992, pp. 153-154). The marketing and sales management was in terms of the contribution margin by product line for the overall cost structure (fixed costs) of each store (see Shank, in Robinson 1990, p. 16).

7.4 Marketing Managers' Demand for Marketing Metrics

7.4.1 The Dimoda Case

In Dimoda, the MD was managed as a cost centre. The Business Unit Director set an amount for marketing expenditures that was, afterwards, submitted for administration approval. It was with this value that the Marketing Manager planned the brand communication activities. Both managers wanted more information on the return of marketing activities. It would help them to better manage the mix of media and the overall marketing budget. The most commonly used measure was the comparison of sales between periods with and without specific marketing campaigns. These comparisons were made with difficulty and had no support from the management control department. The indicator of marketing performance that the Business Unit Director referred to as the most important one for her was the impact of the marketing campaigns on the business unit's profit margin, i.e., she wanted to know what the impact of each marketing investment was in both sales and net profit margin (differential analysis). She also said that she would have performed more marketing campaigns if she had had the information about marketing returns, accurately produced by the MD with the support of management control staff (see Ambler 2003b, p. 253).

The Dimoda case reveals two aspects related to the marketing performance measurement. The first is that it is not enough to have a set – even if it is a comprehensive one – of operational indicators of marketing to satisfy the CEOs and protect the resources of the MD (see Lehmann 2004; Seggie et al. 2007). In the Dimoda case, the marketing managers had software that provided much information about the impact of campaigns in various marketing and sales operational indicators. Even so, they failed both to see the Business Unit Director satisfied with marketing and the department's technical and human resources maintained. Second, the indicator that really counted for deciding about the budget for marketing activities was the impact of marketing campaigns on operating cash flow, i.e., the impact of marketing investments (expenditures) on sales and gross margins (see Seggie et al. 2007; Srivastava et al. 1998).

In Dimoda, the absence of an assessment of marketing performance, with financial metrics, led to a significant reduction in resources used in the MD (e.g., budgets not spent in full) and a reduction of the influence of the Marketing Manager on marketing management decisions – both strategic and operational (see Lehmann 2004; Seggie et al. 2007; Verhoef and Leeflang 2009). The situation resulted from the Business Unit Director's little recognition towards the value added by marketing, the Dimoda Marketing Manager said (see Ambler 2003b, p. 62).

7.4.2 The Modalfa Case

In Modalfa, the Marketing Director made two types of MD performance measurements. First, he analysed deviations from the budget. Second, he measured the impact of marketing activities on EBITDA (see Ambler 2003b, p. 100). He used this second measurement to justify the MD budget and, therefore, protect the resources of the MD. Although the Modalfa Marketing Director stated that the marketing budget was based on a certain percentage of sales, he said that without a clear justification, demonstrating the value added by marketing, the marketing budget could be reduced, particularly during periods of cost contention (see Kotler et al. 2006, p. 71; Simons 1995a, p. 84; Srinivasan et al. 2005, p. 114; Webster Jr et al. 2005, p. 37).

The analysis of these two cases, calls attention to two aspects that are not explicitly addressed in the current literature on marketing performance measurement. The extant literature often refers to customer lifetime value, customer profitability analysis or brand equity as the most appropriate financial metrics to measure marketing performance (see Barwise and Farley 2004; Gao 2010; Srivastava et al. 1998). These two cases show a different situation. The unit of analysis is not the client, nor the brand, but the marketing project (activity) instead. The concern of each marketing director, in both cases, was to measure the return and the investment associated with each single marketing project (campaign) (see Ambler 2003b, p. 11). Secondly, the financial metrics reported in the literature are usually based on the concept of discounted cash flows. In these two cases, the marketing managers prefer a metric equivalent to EBITDA of each marketing campaign (project), i.e., income and spending differentials associated with each marketing project (see Ambler 2003b, pp. 5-6). They made efforts and tried to calculate the EBITDA value, supported by the management control department.

7.5 The Contribution of Management Accounting Departments

The contribution of the department of management accounting was crucial to enable the Modalfa's MD to perform calculations of the added value of their activities. The Marketing Director explained that he had no expertise in integrating the cost information in the analysis of marketing performance. As the Marketing Director wanted to know the profitability of his projects, i.e., the EBITDA, he needed the cost information. The role of the management accounting department as a collaborative department was fostered by Sonae's culture (see Nixon and Burns 2012, p. 226). The management accounting was seen as an element of information and support to decision making; not as an agent of "policing", the Director-General suggested (see Hope and Fraser 2003a, p. 107). The Modalfa Controller explained that she managed the management accounting department so that it was involved with management decisions, and had a comprehensive understanding of the business (see Boer, in Robinson 1990, p. 28; Shank 2006, p. 356) (see Section 6.3.3.2.2.8). The Modalfa Marketing Director reported that he was satisfied with the management accounting support. He said that the management accounting collaborated regularly to obtain accounting information, which supported his managerial work (see Ambler 2003b, p. 253; Shank 2006, p. 363). The Marketing Director also said that the MD was in permanent contact with the management accounting; their interaction was even more intense in the moments of economic uncertainty and difficulty (see Simons 1995b, pp. 94-96), he said (see Section 6.3.3.1.9). Both Modalfa Marketing Director and Controller classified the communication between both departments as “perfect”. The positive motivation of both departments, to collaborate in the calculations of financial returns of marketing activities, permitted the MD, in Modalfa, to obtain proof of the value added by the MD (Ambler 2003b, p. 8). According to the Modalfa Marketing Director, the demonstration of marketing added value was very important in nurturing the empowerment of the MD (see Verhoef and Leeflang 2009).

Conversely, Dimoda had weak relationships between the marketing and management accounting departments (see Section 5.3.3.2.1.2) (De Ruyter and Wetzels 2000). The marketing-accounting interaction focused on the budgeting process and cost control. In Dimoda, the MD was shaped as a cost centre; therefore, it was managed and controlled focusing on costs. Even though the Controller from Dimoda was aware of the importance of interacting with marketing, she did not interact. The Controller said that the lack of interaction was a consequence of the organisation’s culture, i.e., departmental self-sufficiency and isolation (see Hope and Fraser 2003a, p. 110). It was also because there was no top management rules for automatic and systematic inter-departmental reporting (see Section 5.3.3.1).

In Modalfa, the Marketing Director was involved with other departments, i.e., commercial, operations and accounting. He explained that he was concerned about the interaction with other functional areas within the company, because, through interaction with the other departments, the MD could be better understood, while promoting the spirit of unity in management. In this respect, the Modalfa Director-General commented that the MD fulfils the role of linking and conciliating the various functional departments (see Kohli and Jaworski 1990, p. 9).

Sonae’s market oriented culture (cf. Section 6.3.4.3 and Appendix 2) and regular and systematic inter-departmental communication, enabled the exchange of updated market information (see Simons 1995b, p. 3). For example, the information about the competitors’ cost structure was collected, analysed and presented by the Modalfa Controller to the first-line directors – e.g., operations and marketing – establishing benchmarks for management (see Ambler 2003b, p. 30; Bromwich 1990; Eccles 1991, pp. 4-5; Hope and Fraser 2003a). The Dimoda managers did not obtain financial information about their competitors, for they did not interact with the control department beyond cost management control.

Modalfa included the software investments in the business unit's budget, while Dimoda included all IT investments at the head office's budget. The inclusion of a heading of IT investments in the budget of the business unit, and the existence of an IT expert at the business unit, allowed Modalfa to develop business-specific software applications that made accounting information more tailored to the operational and commercial decisions, the Commercial Director said (see Hope and Fraser 2003a, p. 135). The adequacy of the IT to produce real-time monitoring about the market response to marketing and sales tactics, was important for the Modalfa marketing management (see Eccles 1991, p. 4). Dimoda persisted with the malfunctioning software and incompatible databases. Therefore, Dimoda's directors allocated more time to collecting and processing management accounting information than to analysing it, as was reported by the Dimoda IT Director (see Section 5.3.3.2.1.2) (see Hope and Fraser 2003a, p. 6).

7.6 Communication of Accounting Information

These two cases present two different ways of collecting and communicating accounting information. In the following two sections, how each of the companies communicated accounting information is analysed.

7.6.1 The Dimoda Case

In Dimoda, the responsibility to collect, record, process, interpret, analyse and transmit accounting information is in the finance department. The responsibility lies with two people: the Controller and the Financial Accountant. These two people had different objectives. The Controller sought to gather and compare the actual values of income and expenses with the budgeted figures. She produced a monthly report with the analysis of deviations and sent it to the Director-General, who, afterwards, discussed it at the meeting of the group's board of directors at the head-office (see Hope and Fraser 2003a, p. xviii). There is a management control organised by responsibility centres (revenues, costs and results), therefore, the control is performed by comparing the actual figures with the budget. The communication of accounting information is aggregated and in written form, addressed to the group's board directors located in the head-office. There was not a regular and systematic communication between marketing managers and the accounting department staff. Therefore, the analysis of sales and prices was exclusively done through the computer system – which had been out of order.

It was verified that, in Dimoda, how managers collected and communicated accounting information was not adjusted to the needs of managers and to the company strategy. First, the lack of regular accounting information and reporting to the business unit directors contrasted with the firm's objectives to delegate responsibilities and make it like a sole business of the directors themselves (see sec. 5.2.2.). For example, the Dimoda Business Unit Director felt there was a lack of frequent and systematic accounting information – prepared and communicated by the accounting and management control department – to obtain explanations for the figures and to identify deviations in costs (see Simons 1995b, p. 71).

Second, the lack of accounting information shared regularly with the business unit directors also contrasted with the main Director-General objective, which was EBITDA, sales and cost control (see sec. 5.2.3). Dimoda's focus, between 2006 and 2009, was on profitability and cost control. However, it was found that the accounting department had not supported this strategy: there was missing automatic, detailed, and interpreted accounting information provided on a regular basis (see sec. 5.3.1) (see Hope and Fraser 2003a, p. xvii). The monitoring of sales was also considered a business vital aspect (see sec. 5.3.2) and the management accounting system did not support it (see Ambler 2003b, p. 253).

Third, the lack of accounting information did not fit the highly competitive business context which focused on low prices and frequent promotions. The Dimoda strategy was to open and to close stores according to the profitability of each store unit; this strategy was also not supported by the way the accounting information was communicated (see Hope and Fraser 2003a, p. xvii). Both the lack of frequent and systematic communication between marketing and financial managers, and the lack of linked computer systems and databases limited the profitability analysis, which resulted in focusing only on sales.

Fourth, the Dimoda management control was backward oriented (strict budgetary control) and reported to the top management only (see Anthony and Govindarajan 2003, pp. 416-417; Hope and Fraser 2003a, p. xviii). However, the Business Unit Director wanted to receive alerts from the accounting and control departments for managing forward looking (see Simons 1995b, p. 123). She aimed to correct her actions, contribute to the achievement of budgets and prevent deviations; therefore she expected support from the management accounting department (see Ambler 2003b, p. 253).

Fifth, the accounting information was organised and reported in an aggregated form. Though it satisfied the general management, it was insufficient for the management of marketing and sales. The Business Unit Director felt the lack of regular, frequent and detailed information, presented and discussed verbally by the controller in order to explain the numbers, identify problems and find solutions and opportunities for improvement (see Simons 1995b, p. 97).

Sixth, the accounting information was accessed by self-service. However, technical system failures hindered the analysis and interpretation of data. It was a factor that caused demotivation on the part of the Marketing Manager (see Anthony and Govindarajan 2003, p. 566; Horngren 2004, p. 207).

7.6.2 The Modalfa Case

In Modalfa, accounting information was communicated in two different ways, with two different objectives. Firstly, it was communicated through the daily information system and by self-service access (see Hope and Fraser 2003a, p. 65). The aim of the managers was to track daily sales and margins, and compare with other prior periods in order to monitor activity, diagnose problems and identify opportunities in the development of sales and business management (see Kaplan, in Robinson 1990, p. 3). In the second form, which complements the first one, it was the Fashion Controller that communicated accounting information, producing both a weekly and a monthly report. The monthly report was delivered both in written format and verbally. During the verbal communication, all frontline managers participated in the presentation and analysis (see Hope and Fraser 2003a, pp. 24-26). They actively explained the numbers and shared their management experiences (see Simons 1995b, p. 97). In this second form of communication the objective was to analyse the activity of the business as completely as possible, adding qualitative information and interpretations of the various functional managers to the financial figures (see Ambler 2003b, p. 26; Simons 1995b, p. 121). In addition to actions that lead to stimulation of sales and profit, cost reduction opportunities were also identified (see Johnson and Kaplan 1987, p. 40). Both forms of accounting information communication were intended to identify improvement opportunities; they were not only intended for management control or compliance with budgets (see Hope and Fraser 2003a, p. 33; Simons 1995a, p. 86).

The factors that impeded communication and use of accounting information in Dimoda – as reported above – and enhanced the communication and use of information in Modalfa are analysed in the following section.

7.7 Factors Influencing the Use of Accounting Information

7.7.1 Structural Factors

Three managers interviewed in Dimoda, i.e., the Business Unit Director, the Controller and the IT Director, explained that the lack of communication was due to the company culture. This situation led to an incipient exchange of accounting information between the marketing managers and the department of accounting and management control, resulting in an ineffective or reduced use of accounting information. They suggested that the administration never encouraged communication between different departments and the company was always organised into autonomous departments. They noted that they had done some *ad hoc* communication, but no automatic and regular sharing and analysis of accounting information (see Eccles 1991, p. 5).

Table 7-1 Factors Influencing Managers' Use of Accounting Information

No.	Factors	Dimoda	Modalfa
1	Managers' mindset	-	+
2	Interaction and communication between managers	-	+
3	Organisation and information technology	-	+
4	Financial accounting department mindset	-	+
5	Motivation for using accounting information	-	+
6	Cost containment	-	+
7	Collaboration between departments		+
8	Accounting information checked by managers		+
9	Detailed accounting information		+
10	Links between firms' databases		+
11	Automated accounting entries		+
12	Accounting information analysed orally		+
13	Management control involved in strategic planning		+
14	Control department focused on supporting managers		+
15	Collaboration from the management control department		+
16	A controller at the commercial department		+
17	Culture of projects		+

Key: +) Contributed positively to the use of accounting information;
-) Contributed negatively to the use of accounting information

The Operations Director and the Marketing Director from Modalfa reported that the company's culture, as well as encouraging communication and teamwork – as seen below – fostered a mindset of careful management of revenues and costs. That is, it gave conditions for interaction and exchange of accounting information, and it promoted the economic analysis of business and economic rationale of management decisions (Lehmann 2004; Srivastava et al. 1998). These two characteristics contributed to extensive use of accounting information by managers.

Comparing the two cases of Dimoda and Modalfa, both companies were focused on budget compliance and costs reductions. However, the organisational culture encouraged Modalfa managers to analyse budgets, identify deviations, detect problems and build solutions, through interaction and communication between cross-functional teams (see Simons 1995b, p. 96). Modalfa did it in a coordinated manner, through regular and systematic interaction between managers, from different functional departments (see Horngren 2004, p. 210). In Dimoda, each department was focused on itself and tried, with some effort, to control its own budget. The Dimoda department of management control was primarily focused on reporting to the boardroom directors (see Hope and Fraser 2003a, p. xviii).

In Dimoda, two structural aspects related to the organisation of accounting information limited the commercial and marketing directors in the use of accounting information. One was the software and hardware, while the other, the dependency that financial accounting had on the sales department as to the cost information related to the cost of goods acquired and sold. Being the two computer systems, from the commercial and administrative areas, separated in terms of hardware and software, both departments were dependent on each other to complete the process of collecting, sorting and reporting the accounting information. The financial accounting had information of overheads, but lacked the information on the cost of goods purchased. The commercial department had the information of sales and direct costs of goods sold, but lacked the information concerning remaining costs. The management control had none of this information in real time and waited two months to be informed by the financial accounting (see Johnson and Kaplan 1987, p. 14). In this context, the Marketing Manager had only cost information, though with a delay of two months. In order to analyse the sales and profitability estimates, the Business Unit Director had to make her own accounts. The Controller waited two months for information and only reported to the boardroom directors and the Director-General.

In Modalfa, the existence of a data warehouse for all accounting and business related data – commercial, marketing and operations – and the integration of IT systems allowed accounting entries that were mostly automatic, and also the verification and approval of documents, and schedule of payments, to be made through the systems without the need for human interaction. Therefore, the queries that the marketing managers made to the accounting information were updated in real time and customised (see Ambler 2003b, p. 84; Johnson and Kaplan 1987, p. 14; Shank 2006, p. 361).

Comparing the two cases, in Dimoda the commercial managers spent their time communicating accounting information from the perspective of financial accounting – of a bureaucratic nature – due to the separation of the IT systems, therefore reducing the time available to discuss the management accounting information. In Modalfa, the bureaucratic accounting information was approved and passed automatically through information systems – which were integrated – therefore, the management accounting information was personally present and discussed at the monthly meetings of activity analysis, as described in Section 6.3.3.1.

Both organisations had other structural factors that conditioned or encouraged the use of accounting information (see Table 7-1). In the case of Dimoda, firstly, there was a problem of low motivation of managers to use accounting information. For example, the Marketing Manager said that she did not know what the advantage was, of interacting more with the departments of accounting and management control; nor did she understand the extent to which information from the accounting department helped her in her work (see Gleaves et al. 2008; McManus and Guilding 2008). Secondly, the Dimoda financial difficulties reported by the Director-General, by the Business Unit Director and by the IT Director, conditioned investments in information systems, which in turn did not allow the integration of commercial software with accounting software, and prevented production of commercial reports and its analysis (see Eccles 1991, p. 4).

7.7.2 Functional Factors

The Dimoda Controller, the Marketing Manager and the Business Unit Director said that if they were to interact and communicate more, in a regular and systematic manner, more accounting information would be considered in commercial management and in the planning and management control. The Marketing Manager commented that some information about the development of specific campaigns was not transmitted to management control, preventing the Controller from explaining certain deviations in the budgetary analysis document that she, the Controller, sent to the Director-General. Moreover, the Controller stated that if she were to communicate more with the commercial directors, the business plan and budget could be better adapted to the real circumstances of the business – which she did not dominate and did not know (see Anthony and Govindarajan 2003, pp. 420-421; Hope and Fraser 2003a, p. 70).

One factor that led to accounting information being used by the marketing and commercial managers in Modalfa was their frequent interaction. These interactions occurred systematically and in two circumstances in particular: the phase that preceded the construction of the annual budget (the PAR meeting) and in the analysis of the monthly activity. Both circumstances involved the use of accounting information. The first, although being more qualitative, also included financial rubrics, e.g., sales and investments; the latter, supported essentially by financial information (prepared by the management control department) was complemented with qualitative or quantitative information prepared by each participant (Ambler 2003b, p. 8). The occurrence of these meetings in Modalfa, to share financial and non-financial information (see Anthony and Govindarajan 2003, p. 495; Simons 1995b, p. 64), contributed to Marketing Director using and analysing the accounting information in intensive and varied forms, as already described in Section 6.3.3.1 and discussed in Section 7.3.2. (see Hope and Fraser 2003a, p. 155).

Comparing Dimoda with Modalfa in this respect, it can be asserted that in Modalfa, systematic and regular communication between the various functional managers with the aim of, first preparing and discussing the annual budget, and second, analysing the monthly activity, determined that the accounting information was used; whereas in the case of Dimoda, the lack of interaction and formal communication between the management control department and the marketing managers hampered the use of accounting information in marketing management. In Modalfa these regular face-to-face interactions contributed to the non-financial managers learning how to both read and interpret management accounting reports as well as to understanding the usefulness of management accounting information (see McManus and Guilding 2008, p. 785; Ratnatunga et al. 1990, p. 41). Also, the face-to-face interactions allowed the department of management control to be able to comprehend the information needs of managers; therefore the management control department was able to produce reports that were useful in practice and adapted to the real circumstances of the business – from the perspective of managers who were the users of accounting information (see Ratnatunga et al. 1990, p. 41).

In Dimoda, the financial accounting department was especially oriented towards external reporting (cf. Section 5.3.3.2.2.2). The Dimoda Financial Accountant revealed that she spent a lot of time answering the questions of the sales department when she should have been more focused on responding in a timely fashion to the legal requirements of financial reporting, for entities outside the company, she said (see Langfield-Smith 2008, p. 209). Moreover, the Director-General considered the control of inventories a priority – it was a function with an allocated team and exclusive resources (see Shank 1989, p. 47).

In Modalfa, the Financial Accounting Director sought that he or its directors were in close liaison with the managers of the business through participation in meetings, PAR or executive committee meetings. They understood the concern of the administrative needs of each business and matched these through the organisation of administrative processes and accounting information in order to provide accounting information for the commercial and operational management (see Boer, in Robinson 1990, p. 28).

While the department of administrative services and accounting at Dimoda was more focused on external clients – concerned about the consolidation of accounts and external financial reporting – the very same department in Modalfa was attentive to the needs of internal clients, i.e., commercial and operational managers, seeking to organise the accounting processes and accounting information in order to help managers solve their internal problems themselves (see Section 6.3.3.2.2.2) (see Hope and Fraser 2003a, p. 37).

In the following section, the differences between the managers of the two companies regarding the use of the accounting system are analysed, in particular how these different managers demanded and used accounting information.

7.8 Managers' Demand of Accounting Information

7.8.1 Accounting Information for Diagnosis and Control

In Dimoda, the accounting information was used to analyse sales. The software allowed for analysing sales by articles and by customers – only if the customer had a customer card. However, the information was stored in the commercial computer system and the business department numbers were often estimated. Accounting and management control had no access to the sales information in real time (see Johnson and Kaplan 1987, p. 14). The formal reports of sales and profits, directed to the administration, were processed through a different pathway and sometimes with a time lag, because the accounts were closed, normally two months after the end of the accounting period. Some problems in the commercial software had been preventing instant access to detailed sales information which was considered important as an incentive to the lower management levels in the organisations (see Anthony and Govindarajan 2003, p. 566).

In Modalfa, the commercial managers demanded the sales information daily through direct consultations and customised information systems reports (see Hope and Fraser 2003a, p. 65). The accounting system was oriented to support the intensive use of accounting information and the management control department produced detailed reports on the activity, on a monthly basis (see Shank 2006, p. 363). The accounting information on sales was presented in specific meetings for business activity analysis, led by the management control department and attended by all heads of business, e.g., marketing, sales and operations (see Hope and Fraser 2003a, pp. 24-26). The information was analysed and explained by the managers who were directly related to each activity reported.

In both companies the marketing managers demanded accounting information to analyse sales. In Modalfa, it was daily, through integrated information management systems, while in Dimoda it was with some restrictions due to the software limitations. The marketing directors from both companies did not report a use of accounting information on sales as intensively as the commercial directors. However, in Modalfa, during the monthly meetings led by the management control department, the sales information was presented, discussed and interpreted in a systematic form. The Modalfa Marketing Director had an interest in that information. In Dimoda, the Marketing Manager had stopped doing these analyses because of flaws in the commercial software.

In Dimoda, the Business Unit Director showed much interest in having accounting information for profitability analysis. However, she complained that the department of management control did not give her the necessary information voluntarily and regularly. The costs calculations were inaccurate and the real indirect costs were not allocated; therefore, it was not possible to manage the profitability or to take corrective actions in a timely manner (see Simons 1995b, p. 123). Although the results were discussed with the Director-General on a monthly regimen, the discussion was made late. The Business Unit Director said that information about the profitability was insufficient and, as it was, did not help her manage to correct any errors quickly (see Anthony and Govindarajan 2003, p. 566). The Dimoda Marketing Manager made no analysis of profitability.

In Modalfa, both the Commercial Director and the Marketing Director were very focused on EBITDA (see Ambler 2003b, p. 100). The Commercial Director looked daily to the contribution margins (see Shank, in Robinson 1990, p. 16) and the Marketing Director was concerned to see to what extent his activities had contributed to changes in EBITDA – the Marketing Director reported that it was a way of protecting his MD resources.

Both companies were interested in accounting information for profitability analysis. However, in Dimoda the process of profitability analysis was limited by the lack of appropriate information systems and the limited cooperation of the department of financial accounting and management control. In Modalfa, analysis was done on a daily basis, with the information available automatically in the computer systems. Unlike Dimoda, in Modalfa the Marketing Director used the accounting information to analyse the returns of the business and the impact of marketing activities on the company's profit.

Both the Marketing Manager and the Business Unit Director of Dimoda used accounting information to control costs (see Johnson and Kaplan 1987, pp. 33, 40). The Business Unit Director sought accounting information to identify opportunities for cost reduction through process changes or renegotiating contracts; the Marketing Manager to control the level of expenditures so as not to exceed the budget. In this case two problems arose. First, the information was not produced with the necessary speed – it normally took two months to close the accounts. Second, it was not produced with the necessary detail (cf. Section 5.3.3.1.3). The management control, who produced the cost information, made its reports to the board directors, being discussed at that level. Thus, the information was aggregated so that it was useful for analysis and decision at the boardroom; but it was insufficient for most operational decisions (cf. Section 5.3.3.1.3).

In Modalfa, accounting information was demanded by both the Marketing Director and the Operations Director to control costs. The Marketing Director said that his main focus – at the monthly activity analysis meeting – was looking at each line of costs, identifying deviations from the budget and understanding the reasons for the problems in order to take corrective actions during the subsequent month (see Ambler 2003b, pp. 29-30; Horngren 2004, p. 210; Simons 1995b, p. 123). The analysis of costs was done systematically every month with the management team, i.e., all functional directors, the support services departments and a member of the administration.

In both companies there was concern in using accounting information to manage costs. However Modalfa was characterised by having detailed information available every month. The interaction between senior managers at Modalfa, during the monthly review meeting, allowed them to understand and explain deviations, find solutions and define corrective actions in a multi-functional context (see Simons 1995b, pp. 96, 123).

In Dimoda, the Marketing Manager and the Business Unit Director also demanded accounting information to measure the impact of marketing promotional activities, e.g., promotions carried out through SMS. The directors said it was a difficult calculation to do. Neither the financial accounting department nor the management control department participated in this process.

In Modalfa, accounting information was also demanded by the Marketing Director and the commercial department to analyse the impact of marketing campaigns on the results. Apart from the impact on sales, the incremental costs and incremental revenues were also analysed, thus trying to identify the net effect of each marketing campaign on results (EBITDA) (see Ambler 2003b, p. 100). These analyses were produced by the department of management control.

Although the two companies performed financial analyses of the return on marketing campaigns, Modalfa did it differently; firstly, they sought to go beyond the sales and identified the outcome differential; secondly, the management control department participated actively doing the calculations. While in Dimoda the marketing managers did the analysis with the means they had available within the MD, in Modalfa the analysis was done in coordination with the department of management control.

Apart from these common practices of the two companies, Dimoda also demanded accounting information to analyse sales by customer account – only for those with loyalty card. In the case of Modalfa, the accounting information was demanded to analyse and diagnose business problems, and to measure the performance of managers and employees (see Section 7.3.2).

In the following sections, the demand of accounting information in the management of marketing that aimed and supported management action are identified.

7.8.2 Accounting Information for Management Action

The Dimoda Business Director noted that the accounting information was also useful for her to identify opportunities for improvement in the organisation. However, she commented that for the use of accounting information to be effective for this purpose, it was important that there was face-to-face communication and interaction between business managers and those responsible for the management control department that produced the information (see Simons 1995b, pp. 97-101). She justified, saying that these were discussions that contributed to identifying the problems (Ambler 2003b, p. 1). Moreover, she told that this type of interactions did not occur with regularity in Dimoda, which was against her desire (see Foster and Gupta 1994, pp. 66-67).

In Modalfa, accounting information in respect of stores, e.g., sales, contribution margins and results, was used to identify the best performing stores and revenue drivers (see Foster and Gupta 1994, p. 69) – particularly in converting visitors into buyers (see Hope and Fraser 2003a, p. 61). The causes of above average performances were identified through qualitative analysis (see Ambler 2003b) at the point of sale, and replicated in other stores with lower performances. This methodology allowed the identification of efficient processes and successful products (see Johnson 1992; Johnson and Kaplan 1987, p. 9; Simons 1995b, p. 5).

Although the two companies had identified different ways to use accounting information to identify opportunities for improvement, both suggested that the information system and the interaction between senior managers are critical in this process (see Simons 1995b, p. 96). In both companies, the senior managers reported that the financial reports, as written, were insufficient to diagnose the cause of the problems, identify opportunities for improvement and support management action (see Ambler 2003b, p. 1; Hall 2010, pp. 307-308).

Dimoda managers, i.e., commercial, marketing and control, said they had no formal process of strategic reflection and strategic definition for the business. However, when referring to the use of accounting information, they revealed that some long-term decisions and strategies – including closing and opening stores, negotiating leases, and decisions to compete with low cost structures – considered account information in the analysis, which was processed by the accounting and management control department.

In the case of Modalfa, the accounting information was necessary for the MD to propose and justify, financially, structural changes or investments in projects with implications in the medium and long-term, e.g., to hire more people for the MD or to launch a loyalty card program. The Modalfa department of management control had the responsibility to promote the processes of strategic reflection across the organisation and perform strategic planning (see Shank 1989, p. 50); it also made the business plans for expansion or internationalisation projects. In the budgetary process, the control department also made five year projections which included the respective business plans (see Hope and Fraser 2003a, p. 78; Simons 1987b, p. 4).

In both companies, the commercial and marketing managers demanded accounting information to justify strategic decisions (see Shank 2006, p. 356). In Dimoda, it was the Business Unit Director who collected and processed information for decision support (see Horngren 2004, p. 207), while in Modalfa, the planning and control department had the responsibility to integrate accounting information with the strategy formulation (see Ambler 2003b, p. 253). For example, in Modalfa, during the strategic thinking, the process was stimulated by the PCG; after the strategy formulation, it was the PCG that established the indicators and monitored the business, to align the managers' performance to the objectives set in the strategic plan (see Shank 2006, p. 356).

Another common aspect in both companies was the demand of accounting information for pricing. The Dimoda Business Director estimated the product cost and added to it a margin for indirect costs, i.e., a mark-up over cost.

The Modalfa Marketing Director said they considered two factors for the establishment of prices and promotions: firstly, a profit margin that would allow paying adequate returns to the shareholders; secondly, sufficiently attractive prices that resulted in proper stock rotation (see Johnson and Kaplan 1987, p. 41).

Both companies considered accounting information in pricing, however the perspectives were different. The prospect of Dimoda was centred on cost, i.e., the price was established in order to cover the direct and indirect costs. Modalfa was focused on satisfying shareholders, i.e., with prices determined by the profit margin; and the customers, i.e., offering sufficiently attractive prices for customers, which would lead to a rotation of inventories.

The two companies also had in common the fact that they demanded accounting information for planning and controlling marketing activities. The Dimoda Marketing Manager received the maximum value for her marketing budget and it was according to this value that she did the planning of her marketing activities (see Hope and Fraser 2003a, p. 21). Throughout the year, she controlled the fulfilment of the plan and costs according to the budget. Sometimes she did not spend all that had been budgeted for marketing due to the absence of instructions from her director, she said. In Dimoda, the MD was a cost centre, only the costs were controlled by the Marketing Manager; she had no information for analysing returns.

In Modalfa, accounting information was used by the Marketing Director to plan and control the activities of the MD. The plan had four phases, beginning in April and ending in December. It was a process where all the directors participated in order to reflect strategically, analyse the activity and project sales and profits. The process was led and controlled by the management accounting department using input from the business managers, i.e., commercial, marketing and operations.

Although the two companies performed the budgeting and budgetary control, in Modalfa the process was interactive and all directors participated (see Horngren 2004, p. 210). It was the responsibility of departments to propose and defend their budgets (see Anthony and Govindarajan 2003, p. 420). It was a bottom-up process of planning activities, fundraising and budgeting (see Anthony and Govindarajan 2003, pp. 420-421; Hope and Fraser 2003a, p. 177). In Dimoda, the budget was set by the Business Unit Director and the activities planned by the Marketing Manager; it was a top-down process in setting goals, organising resources and budgeting (see Hope and Fraser 2003a, p. 21). In the case of the Modalfa Marketing Director, the accounting information was used to propose, defend and execute marketing activities; in Dimoda, the Marketing Manager accepted the budget, planned activities but had no authority to fully implement marketing plans defined at the beginning of the year – she was dependent on the Business Unit Director. In Modalfa, the overall business plan and the control of both activity and returns involved all directors, including the Marketing Director (see Hope and Fraser 2003a, p. 28). In Dimoda, that discussion was not made at the level of the Marketing Manager; she only controlled the costs of the MD and was not informed of the overall performance of the business unit (see Simons 1995b, p. 4).

Table 7-2 Managers' Demand of Accounting Information

No.	Type of Use	Dimoda	Modalfa	Backward	Forward
1	Sales revenue analysis	Yes	Yes	Yes	
2	Profitability analysis	Yes	Yes	Yes	
3	Cost management	Yes	Yes	Yes	
4	Measuring marketing performance	Yes	Yes	Yes	
5	Customer analysis	Yes		Yes	
6	Business analysis and diagnosis		Yes	Yes	
7	Staff performance measurement		Yes	Yes	
8	Identify improvement opportunities	Yes	Yes		Yes
9	Strategic management	Yes	Yes		Yes
10	Setting prices	Yes	Yes		Yes
11	Marketing planning	Yes	Yes		Yes
12	Motivating marketing managers	Yes			Yes
13	Protecting marketing department resources		Yes		Yes
14	Contribution margin analysis		Yes		Yes
15	Product mix decisions		Yes		Yes
16	Manage in changing market context		Yes		Yes
17	Understanding competitors		Yes		Yes

Key: LB) Looking backward;
LF) Looking forward.

In addition to the eight coincident managers' demands of accounting information (see Table 7-2), other managers' demands were identified in each of the organisations (see Table 7-2, Section 5.3.3.1 and Section 6.3.3.1). In Dimoda, the Business Unit Director and the Marketing Manager also considered accounting information as a motivation factor for marketing management (see Anthony and Govindarajan 2003, p. 566; Horngren 2004, p. 207). In Modalfa, accounting information was demanded with several other purposes related to management action, For example, they demanded it to protect the levels of marketing expenditures in situations of widespread cost reductions, giving account of what they did and their contributions to the business profitability; to justify spending on construction and activation of the brand; to do analysis of contribution margins by product line (business unit) (see Shank, in Robinson 1990, p. 16); to help to manage in contexts of market change (see Simons 1995b, p. 92); and, finally, to realise the situation of competitors (Ambler 2003b, p. 30; Bromwich 1990).

The following section analyses and discusses how the MDs of Dimoda and Modalfa were organised, how they measured their performances, and what their situation and influence was on marketing management.

7.9 Marketing Department Situation: Comparative Analysis

In Dimoda, the MD was reduced in terms of people. One explanation given was the reduction in the number of brands sold, another was the fact that the MD was limited to the activity of communications and public affairs (see Ambler 2003b, p. xiii). The amount of the marketing budget is set by the Business Unit Director and by the Director-General of retailing (see Hope and Fraser 2003a, p. 21). The distribution of the marketing budget by the various marketing activities is the responsibility of the Marketing Manager. The board directors typically approve the marketing budget proposed by the Business Unit Director (see Hope and Fraser 2003a, p. 4).

In Modalfa, the marketing budget is proposed by the MD with the support of the department of planning and management control. The Marketing Director seeks to justify spending money on marketing with the impact marketing activities have on the profits of the business (Ambler 2003b, p. 11) – despite the fact that the budget can be defined in terms of a percentage of sales. For operational marketing activities, e.g., communication and digital media, Modalfa is supported by external agencies. The staff of the Modalfa MD is focused on in-store communication, on public affairs and brand management. It is the MD that decides how to communicate about new products, prices and promotions, controlling the extent to which these decisions are aligned with the strategic decisions for the business as well as for each of the brands, e.g., positioning and targeting (see Section 6.3.4.1 and Appendix 2).

The comparison of the two cases reveals that in Dimoda the marketing budget is set outside the department and has reduced values as regards in terms of percentage of sales – usually accepted in the boardroom due to its small value. In Modalfa, the marketing budget amount is defined within the department in collaboration with the department of planning and management control (see Hope and Fraser 2003a, p. 37). It is justified by analyses of the impact of marketing projects on profits and negotiated with the Director-General. In this context, in Dimoda the MD has low level responsibilities, e.g., communication activities and public affairs, as well as few resources (0.69% of sales in 2010) compared to Modalfa; the Modalfa MD participates in strategic and operational marketing management, and its budget was equivalent to 3.71% of sales in 2010 (see Low and Mohr 2000; Stewart 2009).

The lack of analysis of the costs and benefits associated with the marketing activities in Dimoda, limited their decisions on the media used and the budget allocated to marketing (Ambler 2003b, p. 11). The software failure – related to the commercial analysis and the analysis of commercial transactions with the customer loyalty card – was used as an argument to explain the inability to analyse the impact of marketing campaigns. However, it was found that the fact that this software already worked in the past was not enough to justify the assignment of human resources and budget for marketing activities. It is also worth mentioning that the absence of analysis of the impact of marketing activities on sales and profits led to another analysis to justify the marketing activities undertaken. Such analysis did not compare the costs and benefits differentials in the operating account of Dimoda that derived from developed marketing activities. It just compared the alternative costs: the costs incurred (i.e., the cost of clothing supplied to TV presenters) were justified with the costs saved (i.e., if they had to pay for the space occupied by television advertising cards, after the sponsored program). The impact that caused the advertising on sales and profits was not assessed, and there was no optimisation of the mix of media used. Although the Business Unit Director desired the calculation of marketing activity's impact on profits, there were no technical or human resources to make this analysis.

In Modalfa, in addition to analysing the impact of marketing campaigns in terms of sales – with detail, customisation and promptness – the Marketing Director also sought to calculate the EBITDA of marketing campaigns (see Ambler 2003b, p. 100). The calculation was done supported by the department of planning and management control (see Lehmann 2004; Srivastava et al. 1998). The Marketing Director used this financial information to propose activities to the board level and to communicate with his colleagues from other functional departments. This methodology for calculating the marketing performance was used especially in periods of economic contraction and cost containment, to protect the human and financial resources assigned to the MD (see Kotler et al. 2006, p. 71; Simons 1995a, p. 84; Srinivasan et al. 2005, p. 114; Webster Jr et al. 2005, p. 37). In addition to the quantitative information, the MD also received qualitative information about campaigns (see Ambler 2003b), such as failures in the implementation of in-store campaigns. The qualitative information allowed identifying situations in which the failure of campaigns was not due to its configuration inputs but to its implementation (see Figure 2-1). Quantitative analysis, including financial information, was not able to explain the failures of marketing campaigns (see Ambler 2003b, pp. 26-30). The explanation was achieved through the information provided by the Operations Director, who contacted directly with staff in the stores and identified the reasons for the deviations in the operational and financial indicators.

When comparing the two cases, one can see that it is not sufficient to have the tools available (e.g., software for analysing the impact on sales of certain marketing campaigns) or other means (e.g., comparison of alternative scenarios for using marketing media and minimisation of costs) to justify the marketing expenditures. In Modalfa, what actually helped to strengthen the financial resources allocated to the MD was its ability to calculate the EBITDA for specific marketing campaigns. Moreover, the contribution of the department of planning and management control was necessary to calculate these values. The MD by itself had no expertise or tools to develop these financial calculations that required information in terms of costs.

In Dimoda, the MD has a very limited influence on strategic and operational decisions related to marketing management (Ambler 2003b, p. xiii). The Marketing Manager said that this situation led to decisions that harmed the Dimoda brand, e.g., (1) an excessive focus on promotions through price reductions, (2) the marketing ads using poor quality materials, and (3) the SMS messages not adequate to the Dimoda customer segment. The limited influence of the Dimoda MD was explained by the Marketing Manager as a result of both low motivation of the Business Director and financial constraints that conditioned the resources devoted to the MD (see Ambler 2003b, p. 253). The Marketing Manager added that the MD was recognised and its participation was active in the other brands managed by the GR.

In Modalfa, the MD was recognised by the other directors as a department that (1) coordinated marketing management in its various facets (e.g., product, price, promotions, merchandising, customer segmentation and brand positioning); (2) that participated in strategic decisions; and (3) that controlled the operational decisions related to marketing – those managed by other departments, e.g., commercial, operations and purchasing. The importance of the MD within the company was seen by both the Marketing Director and the Director-General as a consequence of the company culture. However, the MD's ability to demonstrate the value of its activities strengthened its position and the resources allocated to it – particularly in years of economic downturn and cost containment (see Kotler et al. 2006, p. 71; Simons 1995a, p. 84; Srinivasan et al. 2005, p. 114; Webster Jr et al. 2005, p. 37).

Comparing the two cases, one can see that the existence of a MD with influence and recognition within the organisation (e.g., in Modalfa), contributed to considering strategic orientations as the brand was managed (see Webster Jr et al. 2005). The marketing decisions took into account the long-term impacts, e.g., the impact of both the locations of stores and their decoration, in brand positioning (see Appendix 2). Also, in the Modalfa case, the promotions were controlled by the MD, so as not to adversely affect the brand positioning – even if they were decided by the commercial department. In the case where the MD had no influence or was not recognised by the business director (e.g., Dimoda), its responsibilities were limited to operational aspects related to communicating promotions and to public relations – which were decided by the Business Unit Director. The status and influence of the MD was positively influenced by its ability to demonstrate the contribution of its activities to the company's profitability (see Ambler 2003b, p. 62). However, when analysing these cases, one may conclude that the MPM ability, by itself, was not enough. In Modalfa the board directors and the Director-General understand and appreciate the role of marketing in business management and it was a crucial aspect for the MD situation (see Homburg et al. 1999; Nath and Mahajan 2008).

Finally, the literature suggests that it is important to use financial metrics, e.g., customer profitability analysis, CLV, customer equity and brand equity, to demonstrate the value that marketing activities add to the company (see Gupta and Zeithaml 2006; McGovern et al. 2004; Verhoef and Leeflang 2009). When observing these cases, it became evident that these companies do not use these metrics, do not feel its need, and do not have the desire to do so. Notwithstanding, it was noted that it is very important for both these companies to calculate the return of certain marketing projects, i.e., specific marketing campaigns – but this is not suggested in the literature. This was done by calculating the EBITDA of certain marketing campaigns as Modalfa did, i.e., the increase in net income deducted from the increase in costs associated with the specific marketing campaign. It is a calculation that the Modalfa's management accounting department was able to do, and it is information that the various functional managers understood (see Simons 1995b, p. 108) – as stated by the Modalfa Marketing Director (see Section 6.3.4.2). This understanding of the marketing managers' perspective regarding performance measurement produces two findings. First, the unit of analysis is the marketing project – not the customer or the brand as suggested in the literature (see Barwise and Farley 2004; Gao 2010; Srivastava et al. 1998). Second, the metric is the difference between the relevant revenues and the relevant expenditures associated with each marketing project – not the discounted cash flows as suggested in the literature (e.g., Gupta et al. 2004; Kumar et al. 2008).

The next section analyses the relationship between marketing and accounting departments and to what extent this interaction influenced the situation of the MD within these organisations.

7.10 Conclusion

The individual analysis of each case supports the conclusion that the ability of the accounting system to meet managers' demand of accounting information is influenced by several factors in each of these companies. This conclusion is reinforced when comparing the two cases. One may classify these factors according to two dimensions – structural or organisational and functional or behavioural – to facilitate the understanding and systematise the explanation.

From the structural point of view, (1) the integration of databases and automation of accounting entries contribute to the availability and reliability of management accounting information to managers. Another factor is that (2) the management accounting system design regards the aggregation and the detail of accounting information equally important and complementary. It is related to how information is collected, stored and made available to managers. Aggregation of accounting information is important for report and analysis at the boardroom level – oriented to strategic decisions. The detailed information is required for staff direct access and analysis (at all hierarchical levels) – oriented for store operations, marketing and sales. Finally, (3) the mindset of both managers and management accounting department staff is another structural factor influencing the ability of the accounting system to meet managers' demand for information. In Modalfa the management accounting department staff go beyond their role of planners and controllers; it makes them proactive and dynamic because they feel responsible for supporting managers in an always changing business contexts. They assume the role of facilitators of information.

From the functional (behavioural) point of view, it is the way accounting information is communicated. In the Modalfa case there are two complementary forms to communicate information which contributed to the intensive use of the accounting system: (1) it was the personal, direct and real-time access to information through the information system – for daily analysis and managerial decision making; and (2) it was the regular and systematic team-based access to accounting information, both communicated and interpreted in face-to-face meetings which were led by the management control department (see Horngren 2004, p. 208) – for a holistic and strategic business analysis aiming at short and medium term management alignment. From this form of communication and interaction there also resulted opportunities of mutual learning (see Abernethy and Brownell 1999, p. 199; De Haas and Kleingeld 1999; Mundy 2010, p. 501; Shields and Shields 1998). Managers learn how to use the accounting information as well as realise the potential of the accounting system; and the management accounting staff understand the managers' need of accounting information in each particular situation (see McManus and Guilding 2008, p. 785; Ratnatunga et al. 1990, p. 41).

Regarding managers' demand of accounting information, in both cases the managers do value and seek accounting information. In both companies the managers demand information on sales revenues, costs and profits. They also demand information on contribution margins by product line and stores. Also in the two companies, managers seek accounting information for budgeting and variance analysis. However, only Modalfa managers make use of strategic cost analysis, specifically through internal and external benchmarking, analysis of competitors' accounting information, and cost management considering structural and executional drivers (see Ambler 2003b, p. 30; Bromwich 1990; Eccles 1991, pp. 4-5; Hope and Fraser 2003a; Shank 1989, pp. 56-57). Also, only Modalfa managers do an interactive control through systematic face-to-face multi-functional and multi-hierarchical meetings aiming at team-based business activity analysis – in order to identify risks and strategic opportunities (see Simons 2000).

In addition to the applications of accounting information common to both companies (e.g., sales analysis, profitability analysis, cost analysis, MPM, strategic planning and pricing), the Dimoda Marketing Manager in particular considered that the accounting information on the return of marketing campaigns also contributed to her motivation (see Anthony and Govindarajan 2003, p. 566; Horngren 2004, p. 207). Analysing the Modalfa Marketing Director's demand of accounting information – and unlike what happened in Dimoda – the accounting information was used to protect the technical and human resources of the MD, and to protect spending on creation or activation of the brand. Therefore, the accounting information contributed to Modalfa marketing managers to strengthen the competitive position of Modalfa (see Simons 1995b, p. 123).

It is worth noting that in Dimoda, the existence of operational metrics to assess the results of marketing activity was not enough to protect the MD from downsizing, which contrasts with the theories in the literature (see O'Sullivan et al. 2009; Verhoef et al. 2011). The Dimoda business, which had specific software to analyse marketing, had the MD reduced in terms of both staff and decision-making power. Though the Modalfa Marketing Director considered the capacity to use the financial measurements in marketing a crucial factor in preserving the power and influence of his department, the manager commented that Modalfa was a market oriented company which recognised the marketing function as crucial (see Simons 1995b, p. 3).

At Dimoda, where the marketing activities (cf. Appendix 2) were not financially assessed, the marketing budget was allocated to the promotional activities, not to the strategic brand management (see Low and Mohr 2000; Nijs et al. 2001; Stewart 2009). In Dimoda, the MD had responsibilities at the operational level, e.g., communication of promotions and events, rather than at strategic marketing management, e.g., deciding on brand positioning, and customer segmentation (see Sheth and Sisodia 2005; Verhoef and Leeflang 2009). In Dimoda, the promotional activities focused on price reductions, being misaligned with both the concept of brand and the business strategy, said the Marketing Manager. The business management focused more on cost saving tactics, than on sales boosting strategies (see Hope and Fraser 2003a, p. 49). Finally, in the Modalfa case, where the MD preserved both decision-making power and influence over the other departments, the promotional campaigns were aligned with the brand positioning, and the brand activation activities were oriented for short-term returns.

The perspectives of both the financial accounting and management accounting departments are also fundamentally different in the two organisations (see Figure 8-1 and Table 8-1). In Dimoda, the financial accounting was very much focused on reporting to both external entities and boardroom directors (see Anthony and Govindarajan 2003, pp. 416-417; Langfield-Smith 2008, p. 209). In Modalfa, the financial accounting was very much focused on understanding managers' needs of information, in order to gather and organise information so the business managers can use it conveniently (see Boer, in Robinson 1990, p. 28) – there is a dedicated department focused on external reporting. In Dimoda, the management accounting was mainly focused on both budgetary control and reporting to the boardroom directors. In Modalfa, the management accounting in addition to its responsibility in budgeting and variance analysis, also had the responsibility of strategic planning; still it focused on supporting managers, seeking to realise their needs for accounting information, producing timely reports tailored to each specific case (see McManus and Guilding 2008, p. 785; Ratnatunga et al. 1990, p. 41; Boer, in Robinson 1990, p. 28).

The comparative analysis reveals that these two companies, although apparently similar in the demand of accounting information for the budgetary management of the MD, are very different in the way they did so, and in the motivations they had for the use of accounting information (see Horngren 2004, p. 210). While Dimoda was focused on cost control and in written reports for senior management, Modalfa was oriented in the use of accounting information to support management, with face-to-face presentations in multi-functional and multi-hierarchical meetings (see Simons 1995b, p. 108, 2000, pp. 217-218). In Dimoda, accounting information was demanded geared to the analysis of past activity – in this regard, with some time delay in the production of reports – and less focused on management action, e.g., the identification of corrective measures or improvement opportunities (see Simons 1995b, p. 123). In Dimoda, the analyses and diagnoses were made primarily at the level of the boardroom, contributing to strategic decision making, e.g., closure of unprofitable businesses or opening new stores, however it was not useful for identifying operational problems and corrective measures at marketing management level (see Johnson 1992, p. 15).

In conclusion, the analysis of these cases suggests that managers seek accounting information and the accounting system is able to provide such information. Regular and systematic face-to-face interactions between managers are a key factor; it creates favourable conditions and facilitates the exchange of accounting information. These meetings are opportunities for sharing and learning. They create learning opportunities for managers without financial training, and offer accountants the possibility to understand the managers' demand of accounting information (see McManus and Guilding 2008, p. 785; Ratnatunga et al. 1990, p. 41).

CHAPTER 8 CONCLUSION

This study explores the factors that influence the ability of the accounting systems to meet the managers' demand of accounting information, in two fashion retail companies. The managers' demand of accounting information is also researched, in particular the marketing managers' demand. The management accounting departments' perspectives on their role in supporting managers, as well as how accounting information is communicated is also explored. The chapter starts by offering a summary of the research findings. The contribution of the study including how it builds on prior research is discussed in Section 8.2 and the research limitations are identified in Section 8.3. The chapter concludes with suggestions for further research in Section 8.4.

8.1 Summary of Findings

The result of this research – based on the study of the two cases – can be summed up to five main findings. First, several factors were identified, specific to each organisation, that influenced the ability of the accounting system to meet the managers' demand of accounting information. These factors may foster the use of accounting information – supporting the desire of managers – or may hinder the transmission and use of accounting information.

There are two aspects, in the organisation and communication of accounting information, that influence the managers' use of accounting information. One is related to how information is structured (stored), another one is related to how information flows (is communicated). At the level of the information structure, it is important for Modalfa that the information is organised and stored at a very detailed level. This facilitates detailed analysis in terms of product or product line sales and profitability. It supports individual managers' daily decisions, which are more operational in nature (see Hope and Fraser 2003a, p. 65). The aggregation of information is also necessary and done by Modalfa management control staff with the aim of performing analysis at the business unit level. It supports both a team based business analysis and team decision making; it is reflexive and strategic (see Hope and Fraser 2003a, p. 82).

At the level of information flow, it is important for these observed companies to have a personal, immediate and real time access to accounting information (see Hope and Fraser 2003a, p. 65; Johnson and Kaplan 1987, p. 14). The direct access to accounting information, through self-service mechanisms, was aimed at supporting managers in daily individual decision-making. It was also useful for identifying problems and good internal practices that contributed to find opportunities for improvement. It was also important for Modalfa to have information prepared, interpreted and explained by the management accounting department (see Shank 2006, p. 363). This second form of communicating accounting information – which was customised and verbally transmitted – was enriched by the managers' interaction from both different hierarchical and functional areas (see Simons 1995b, p. 97). The different managers' perspectives added qualitative information and explained the management accounting numbers produced by management accounting staff (see Ambler 2003b; Simons 1995b, p. 118). It also allowed comparisons with competitors and the establishment of internal and external benchmarks (Ambler 2003b, p. 30; Bromwich 1990; Eccles 1991, pp. 4-5; Hope and Fraser 2003a, p. 55). Through teamwork analysis Modalfa managers identified problems and opportunities, which, in turn, led to action plans decided and agreed collectively by all chief executives every month (see Hope and Fraser 2003a, p. 28; Simons 1995b, p. 123).

The importance of the financial accounting department being focused on the internal clients (see Figure 8-1) is also highlighted. The Modalfa Financial Accounting Director was focused on internal users of accounting information; he collected and organised the information considering its future treatment by the department of management control and its utilisation by business managers (see Boer, in Robinson 1990, p. 28; Shank 2006, p. 356). Conversely, the Dimoda Financial Accountant was focused on producing legal accounting information directed to external clients, e.g., nationwide statistics institute, income tax administration, and value added tax administration (see Langfield-Smith 2008, p. 209). The latter situation produced delays in processing the accounting information for the purpose of internal use.

The combination of the two factors mentioned above created a favourable context that supported the managers' use of the accounting system, i.e., the combination of both the accountants recognising their role in supporting managers and the interactive face-to-face interpretation of accounting information. The combination of these two factors created contexts of learning: managers learned the potential of the accounting system and management accountants learned the real needs of managers in terms of accounting information (see McManus and Guilding 2008, p. 785; Ratnatunga et al. 1990, p. 41). This mutual learning contributed to both the design of the accounting system and the content of management account reports be aligned with Modalfa managers' demand (see Figure 8-1) (see Lere 2001, p. 589).

Figure 8-1 Accounting System Design Circles

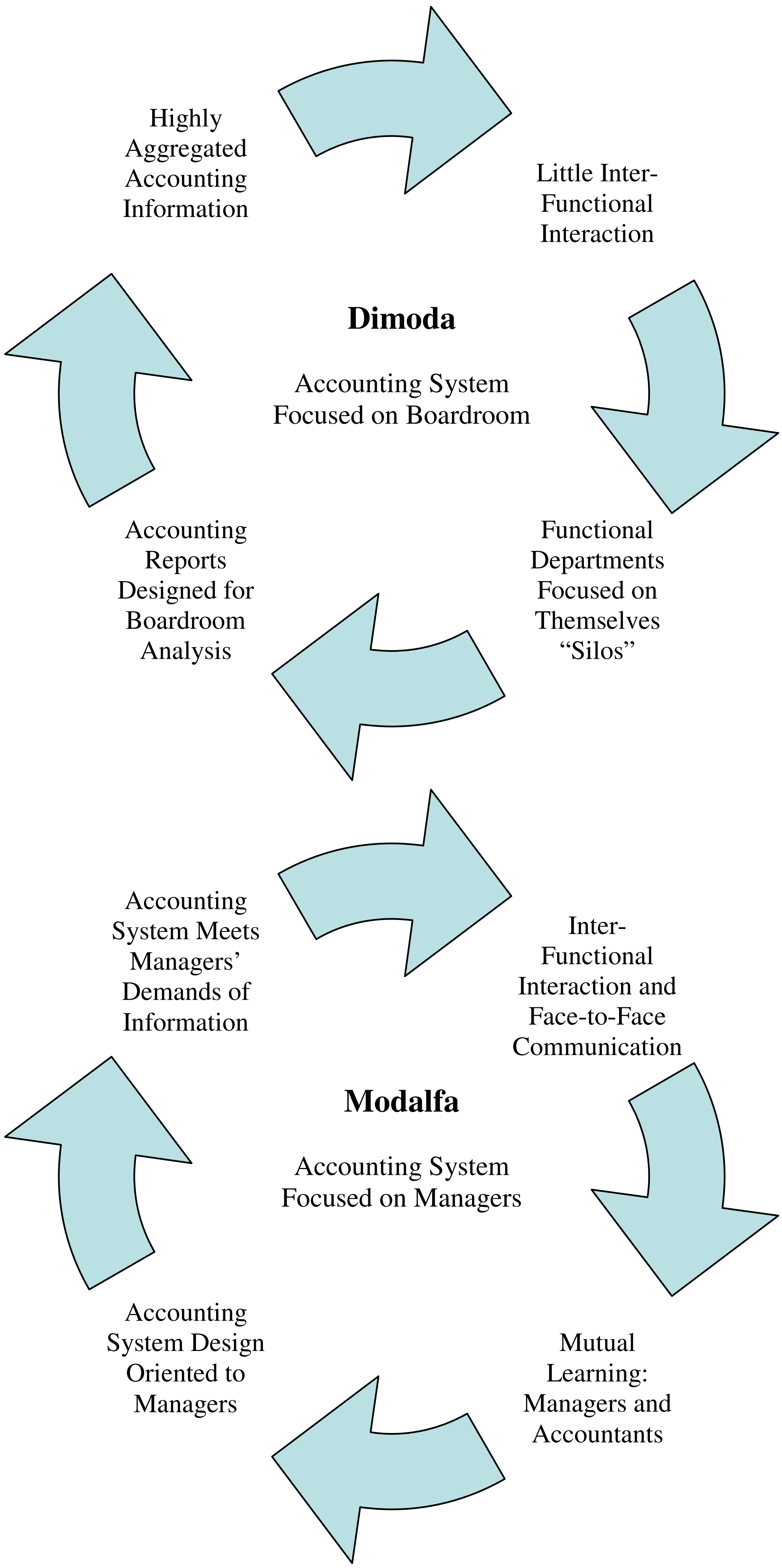


Table 8-1 Summary of Findings: Dimoda vs. Modalfa

Concept	Dimoda	Modalfa
Organisational Form	Functional Departments, Silos	Projects Teams, Interactions
Use of Accounting Information	Light	Intensive
Communication	Written to Board Directors	Oral in Functional Meetings
Analysis of Accounting Reports	Boardroom Directors Director-General (ad-hoc)	Multi-Hierarchical Multi-Departmental
Frequency of Management Accounting Reports Analysis	Monthly 2 months lag in financial acc.	Monthly 6 days lag in financial acc.
Marketing Department Perspective	Cost Control Budget as a Limit	Value Added by Activities Budget as a Guide
Financial Accounting Focused	External Clients Balance Sheet Accuracy	Internal Clients Timeliness and Efficiency
Management Accounting Focused	Report to Boardroom Budget Control	Support Business Managers Analysis of Activity
Marketing Influence or Stature	Low Operational: Communication	High Strategic: Big Picture
Publicity Expenditures (% sales, 2008-2010)	0.69%	2.86%
Sales Growth (2007→ 2010)	1.84%	16.84%
Profitability (% sales, 2008-2010)	-7.26%	6.19%

The second result of this study is to realise that the managers of these firms seek accounting information and consider it very important – apart from the Dimoda Marketing Manager.[389] Managers seek information for various purposes: some more

[389] She showed, however, interest in receiving accounting information if the utility of it was explained to her. The Marketing Manager's commentary confirms the importance of the aspect of team-based learning in multi-functional face-to-face interactions (see Figure 8.1).

operational, others more strategic. When information is sought for operational management, managers value the personal, direct, updated and detailed access to it. In this regard, managers seek information on sales, costs and profitability; both companies are identical in this kind of demand for accounting information.

In the strategic perspective, managers demanded accounting information to identify improvement opportunities in both stores and back-office processes as well as in marketing campaigns (see Ambler 2003b; Johnson 1992; Simons 1995b). For example, in the Modalfa case, the managers identified the retail stores with the best results and best practices using accounting information (see Ambler 2003b, p. 201); afterwards, they replicated the more efficient business processes or successful marketing decisions, e.g., product mix or merchandising (see Appendix 2) in the remaining stores (see Johnson 1992, p. 9; Simons 1995b, p. 5). However, the way in which the information was shared and analysed, conditioned its efficacy in this process. The information was more often used as it was automatically available and customisable by the users (e.g., Modalfa). Moreover, the written presentation, in the form of reports or printouts, was not enough, by itself, to identify problems and find solutions (e.g., Dimoda). It was more effective (see Table 8-1) when it was discussed and analysed verbally in multi-functional and multi-hierarchical face-to-face meetings (see Simons 1995b, pp. 101, 108, 2000, pp. 217-218).

The accounting information was also demanded to plan and budget marketing activities (see Anthony and Govindarajan 2003, pp. 420-421). Two distinct approaches were again observed depending on each company case. Dimoda adopted a top-down model, i.e., the value of the budget was set by the directors of business and the Marketing Manager just decided on the mix of media (see Hope and Fraser 2003a, p. 4). In Modalfa, the model was bottom-up, i.e., a plan of actions and resources (mainly human resources) was submitted, presented and discussed in advance in multi-functional meetings (see Simons 1995b, p. 4). The plan of actions, after it had been approved, led to the development of the budget (at the departmental level) and its approval by both the business directors and the board directors (see Anthony and Govindarajan 2003, pp. 420-421). The Modalfa's approach stimulated departmental managers' entrepreneurship and initiative to launch innovative projects (see Simons 1995b, p. 16). It also encouraged cost-benefit analyses in the MD which, in turn, facilitated the approval of departmental initiatives and fundraising for both promotional and brand activation activities (Roslender and Hart 2003, 2006; Stewart 2009).

Concluding, accounting information was demanded by Modalfa managers, with two major purposes. One was strategic through the team based interactive analysis of both business activity and competitors' accounting information (see Bromwich 1990) – in order to formulate, communicate and implement strategic decisions (see Shank 1989, p. 50). Another one was an individual daily analysis of online accessed business activity data, with the aim of guiding the daily management decisions. In Dimoda, managers sought accounting information for two main purposes. One was the budgetary control of revenues and costs; the other was to manage the business in a daily basis, demanding information mainly on sales, but also on costs and profitability.

The third finding is that in both companies, the marketing directors wanted to use performance metrics to help them justify the expenditures they would like to make in marketing. They desired metrics that might be easy to explain and easy to understand by other functional managers. Three characteristics from the marketing metrics in practice were identified: first, the unit of analysis was the marketing activity. Second, the metric unit was earnings before interest, tax, depreciation and amortisation. Third, it was complemented with qualitative information related to the implementation of the marketing campaigns; the qualitative information contributed to identify the causes of poor marketing performance, and to distinguish implementation errors from design errors (see Ambler 2003b). In Modalfa the support given by the department of management control allowed to calculate EBITDA for certain marketing campaigns. The absence of such support in Dimoda limited the Business Unit Director in calculating the financial returns from the MD's activities (see Ambler 2003b, p. 253).

Moreover, in the situation where the MD developed financial metrics for marketing performance measurement, it maintained an influential position, e.g., in Modalfa. The Marketing Director was focused on customers, as he had long-run concerns about the brand positioning. In the Dimoda case, where the MD's influence was low, the daily operational and commercial decisions were not aligned with the brand strategy (see Low and Mohr 2000; Stewart 2009). The Business Unit Director was focused on maximising sales and minimising costs and the Marketing Manager was absorbed in carrying out the Business Unit Director's instructions. Therefore, the Marketing Manager was carrying out operational tasks (see Sheth and Sisodia 2005; Verhoef and Leeflang 2009); she was not involved with strategy formulation neither with its implementation (see Hope and Fraser 2003a, p. xvii). For example, in Dimoda, (1) the MD did not participate in the strategic or operational decisions; (2) the Marketing Manager was in disagreement with the stores' promotional flyers, (3) promotional SMS messages and (4) low-priced products. The marketing planning was being driven by immediate returns, using sales as the performance indicator. The most managed marketing instruments were price and promotions (see Section 5.3.4.3). The strategy resulted in efforts for price reduction, cost reduction and reduced profit margins. Conversely, in Modalfa, the brand management, the stores' construction, the products and the pricing policy were controlled by the MD – though it was managed by the commercial department (Homburg et al. 1999).

The fourth finding is related to the perspective of the accounting staff regarding their role in supporting managers; it was substantially different in the two organisations. In Dimoda financial accounting was mainly focused on fulfilling the legal obligations with external entities and on the rigor of financial accounting and reporting (Bromwich and Bhimani 1994; Langfield-Smith 2008; McManus and Guilding 2008; Shank 2006). In Modalfa the financial accounting department was present at meetings with managers since the start-up of each business unit. Its aim was to understand the needs of managers in each specific context, and design the accounting system to match the specific needs of these managers (see Preston 1986; Boer, in Robinson 1990, p. 28; Shank 2006, p. 356). Management accounting in Dimoda was mainly focused on the construction of the annual budget and on monitoring of deviations throughout the year; they reported to the boardroom and interacted little with the other functional managers (see Ambler 2003b, p. 202; Hope and Fraser 2003a, pp. 34, 110). In Modalfa, the department of management control was seen by other managers as the "soul" of business.[390] The management accounting staff considered that their primary role was serving the business managers and supporting them with accounting information (Cooper and Kaplan 1988b; Shank and Govindarajan 1993; Shillinglaw 1982; Simons 1995b). They did this in several ways: (1) they were responsible for driving the process of strategic thinking (Shank and Govindarajan 1993); (2) they did the five years business planning (Simons 1987b); (2) they constructed the annual budget and controlled the deviations along the year (Anthony et al. 2010, pp. 742-750); (3) they did a weekly activity report (Simons 2000); and (4) they directed a monthly review meeting of business activity (Simons 1995b). In addition to these systematic tasks, they also developed and designed templates for automatic tailored reports for each functional manager who demanded it (see Ambler 2003b, p. 253). They were likewise available to support the MD in measuring the results of marketing campaigns with financial metrics (see Lehmann 2004; Srivastava et al. 1998).

Finally, in Modalfa, the organisation in which the inter-departmental communication was strong, i.e., through systematic annual and monthly meetings, all executive directors performed a joint analysis of both the business action plan and the

[390] Interview with the Financial Director on 09/08/2012 (M06.38)

business activity. They discussed the challenges and commented on the results, using accounting information produced by the management accounting department. The meetings were led by the Fashion Controller, who reported the business performance to all directors, using a single monthly report. The objectives and the strategy were clear for all executives (see Anthony and Govindarajan 2003, pp. 352, 416); it was an opportunity to discuss the promotional activities, therefore aligning the short-run promotional campaigns with the strategic marketing orientations (see Webster Jr et al. 2005). The Marketing Director was present at these meetings, therefore he commented on the operational decisions made by other departments, and controlled their alignment with both the marketing strategies and the brand positioning (see Simons 1995b, p. 3). In Dimoda case, where the level of inter-departmental communication was low, the MD was not informed about the strategy and the management control focused only on budgetary control (see Anthony and Govindarajan 2003, p. 350; Hope and Fraser 2003a, p. xvii). The management accounting reports were based on financial accounting data and directed to the board directors (see Johnson 1992). The strategy and the objectives were not shared by the different functional managers (see Anthony and Govindarajan 2003, p. 350) and the managerial decisions, both commercial and operational, were not supported by updated management accounting information (see Simons 1995b, p. 117).

This case study has revealed that marketing managers appreciated the availability and access to accounting information, used it for various purposes and regarded as necessary a proactive stance of the management accounting department, so that information was in due time collected, processed and reported, both orally explained and analysed in teamwork (see Table 8-1) (see Anthony and Govindarajan 2003, p. 505).

8.2 Contributions of the Research

As to the factors which influence the ability of the accounting system to meet the managers' demand of accounting information, this study contributes to the identification of a set of factors that facilitate the use of accounting information and others that render it difficult. These can be distinguished between functional (behavioural) and structural (accounting system design) factors. This is a contribution to the understanding of the difficulties of both management accounting in practice (Langfield-Smith 2008) and interaction between marketing and accounting mentioned in the extant literature (see Gleaves et al. 2008). The current literature explains this lack of interaction because of a lack of willingness, of relational attitude and of knowledge of accountants and marketers

(De Ruyter and Wetzels 2000; Foster and Gupta 1994; McGovern et al. 2004). This study suggests that these difficulties may be mitigated through the design of an accounting system that takes into account how the information is communicated and the importance of face-to-face cross-functional interactions – in both the access to the information and in the discussion of the management accounting reports. Firstly, in terms of information flow, it is important for Modalfa to have two complementary forms of access to accounting information (see Shank 2006, p. 360). On the one hand, an automatic access, self-serviced, customisable, and updated in real time for supporting managers' daily decisions is required (see Hope and Fraser 2003a, p. 65). On the other hand, information collected, prepared and interpreted by the management control department and transmitted orally in the multi-functional and multi-hierarchical teams is needed (see Anthony and Govindarajan 2003; Simons 1995b, p. 108, 2000, pp. 217-218). This second path for communicating and analysing accounting information contributes to collective tactical and strategic decision making at the level of the business units (see Shank 2006, p. 356). It also contributes to mutual learning: managers understand the potential of accounting system and management accounts understand the managers' demand from the accounting system (see McManus and Guilding 2008, p. 785; Ratnatunga et al. 1990, p. 41). In terms of information structure, it is important for these companies to have much detailed information – stored in shared databases – so that managers can give support to daily product and product-line marketing decisions (see Hope and Fraser 2003a, p. 65). It is also important to have accounting information aggregated at the level of the business units with the purpose of being examined by first-line managers to support strategic analyses and decisions (see Shank 1989, p. 50). Two structurally different organisational forms were observed. The Dimoda departments were organised into silos and the Modalfa ones with a high degree of cross functional interactions (see Hope and Fraser 2003a, p. 34). The analysis of these cases suggest that the use of accounting information by marketing managers was mainly determined by the organisational forms and not by the propensity of marketing and commercial managers to use accounting information as suggested in the literature (see Gleaves et al. 2008).

This research contributes with new perspectives on the demand and use of accounting information, particularly in marketing management. Contrary to what is suggested in the marketing literature (see Baker and Holt 2004; Barker 2008; De Ruyter and Wetzels 2000), in these cases the marketing managers do value and do desire to use accounting information (see Nixon and Burns 2012, p. 226). However, these very same marketing managers feel they need to have the support of the management control department, so that the communication and use of accounting information is effective (see Ambler 2003b, p. 253). Therefore, the collaboration of the accounting and management control departments is critical for marketing managers make use of accounting information and measure the performance of marketing with financial metrics (see Ambler 2003b, p. 263; Hope and Fraser 2003a, p. 37). In these cases, the marketing managers on their own do not know how to do the financial calculations in marketing (McGovern et al. 2004; O'Sullivan and Abela 2007; Srivastava et al. 1998).

The focus of the financial accounting department on internal users of accounting information is critical (Boer, in Robinson 1990). This aspect contributes to the design of the accounting information system and its databases oriented to the demands of the final users, i.e. the managers (see Johnson and Kaplan 1987, p. 14).

It is suggested in the literature that the development of information systems and standardised management accounting information would reduce the need for staff in accounting and management control department (Shank 2006, p. 362). In Modalfa it turned out that there was no accounting staff redundancy but there existed complementarity between the IT system and the management accounting staff. It is necessary accounting staff to identify ever-changing managers' information needs in order to design the automatic accounting information reports. Accounting and control staff are also needed to lead the process of management accounting reporting and information interpretation, adding managers' qualitative information to systems' quantitative information (see Ambler 2003b; Johnson 1992; Simons 1995b).

This case study also shows that the discussion of budgets is not a case of rivalry between marketing and accounting managers as suggested in the literature (De Ruyter and Wetzels 2000). In Modalfa, the preparation, the face-to-face discussion and the multi-functional interactive presentation of budgets, linked positively the various functional areas, including marketing and accounting (see Horngren 2004; Libby and Lindsay 2010).

In the context of marketing and with regard to the metrics used in the performance evaluation systems, this study reveals that the metric and the unit of analysis desired by the marketing managers of the two companies differs from those suggested in the marketing literature (e.g., Gupta et al. 2004; Kumar et al. 2008). The literature suggests three measures to evaluate the financial performance of marketing: CPA, brand equity and CLV (e.g., Bick 2009; Gleaves et al. 2008; Kumar et al. 2008; Van Raaij et al. 2003). The study of these cases revealed that CPA and CLV are not used or sought in these cases of fashion retail (see Ambler 2003b, p. 32). The measure brand equity was also considered impractical and complex (see Ambler 2003b, pp. 54-55). In addition, the

Modalfa Marketing Director indicated that it was important to have a measurement that is easy to calculate, to explain and be understood by the other directors (see Simons 1995b, p. 108). First, for these managers the relevant unit of analysis is the marketing project (campaign) and not the brand or the portfolio of customers, as suggested in the literature (see Bates and Whittington 2009; De Ruyter and Wetzels 2000; McManus and Guilding 2008). Second, the desired metric for these managers is the earnings (EBITDA) of each marketing project, i.e., the differential income less differential spending (excluding interest, depreciation, amortisation and tax) associated with each marketing project and not the discounted cash flows as suggested in the extant marketing literature (e.g., Gupta et al. 2004; Kumar et al. 2008). Third, it is important for these managers to include qualitative information about the implementation of marketing projects. Using the qualitative information, managers may identify and explain low marketing performances, distinguishing marketing implementation related causes from marketing design related causes for low performances (Ambler and Roberts 2008). Considering all these aspects, this research has helped to identify the concept of EBITDA applied to the evaluation of marketing projects as a financial metric to assess the performance of marketing (see Ambler 2003b, p. 100). Beyond what has been said, the EBITDA was also a measure that allowed Modalfa to balance the long-term actions (brand) with the short-term ones (promotional), which is suggested in the literature as difficult to balance (e.g., Low and Mohr 2000; Stewart 2009; Webster Jr et al. 2005).

In this research one can also conclude that accounting information is not mainly used for the purpose of profit maximisation (see Lucas and Rafferty 2008), contrary to what is suggested in the literature (see Nueno and Simon 1999, pp. 153-205; Sloman 2003, pp. 170-173). Although it had been used in the management of contribution margins for calculating the stores' profitability, this was not its primary use (see Shank, in Robinson 1990, p. 16). Additionally, the managers of these firms were not concerned with the methods of allocating indirect costs. Although Modalfa utilised the concept of transactions to assign the indirect costs of shared central services (administration and accounting) to diverse SBUs served, both the controller and managers were not concerned in the allocation of indirect costs at the product, the business unit, or the store level (see Goebel et al. 1998, p. 505). They made the profitability analysis using the contribution margin per unit of analysis, e.g., product, product line or store level.

Finally, this study describes and analyses the management accounting system of Modalfa which is the leader in the retail business in Portugal (see Section 6.2). The description and analysis of the use of accounting information by managers of marketing in the fashion retail sector is also a contribution of this research.

8.3 Limitations of the Research

Some limitations are identified in this research. The interviews were conducted at medium-high hierarchical levels, i.e. with managers and directors. If there had been more interviews, including with lower hierarchy managers (product managers or store managers) the investigation would have been more complete and would have produced findings more related to the practice of accounting.

The research did not have access to the Modalfa's activity analysis meetings, nor to the internal documents produced by the department of management control, namely the activity analysis reports and the methodologies used for MPM. Although applications have been made to get access to it, the information was confidential and not available for research. The lack of these elements limited the conclusions drawn from this research, particularly in terms of specific tools for marketing activity monitoring systems.

The study of only two cases may also be a limitation. Though it has allowed both an in-depth interpretative analysis – aiming at "emic" understandings and "etic" "thick" explanations (see Kakkuri-Knuuttila et al. 2008, p. 268; Lukka and Modell 2010, pp. 463-464) – and the obtainment of answers to the research questions, the findings cannot be generalised. More case study research (for theoretical generalisation) or the development of an appropriate quantitative analysis (for statistical generalisation) is required if one aims at generalising the findings.

The research focuses only on cases of the fashion retail sector. The data collected, the discussion and the conclusions are largely contextualised in the fashion retail. This sector represents a context where there are no large customer accounts and the format of sales teams are different from those in business-to-business situations, e.g., there are no key account managers. Therefore, the conclusions drawn in this research about the tools and priorities on MPM may not be applicable in business-to-business contexts.

Finally, the companies were observed in a macroeconomic context extraordinarily difficult, as Portugal was in a situation of external bailout. The conclusions drawn in this context may not apply in different macroeconomic situations.

8.4 Suggestions for Further Research

Considering the impact of both PAR meetings and business activity analysis meetings in Modalfa, more research focusing on the processes of planning and control in the retailing industry is suggested (see Ambler 2003b, pp. 29-30). It will possibly contribute to better understand whether retailing requires specific forms of business planning and control.

Research on the use of accounting information by marketing managers in contexts of business-to-business is also suggested, to ascertain to what extent in these businesses the metrics recommended in the literature (e.g., CLV and CPA) have a higher relevance than they have in retail and what are the factors that influence their use.

Another suggestion is related to control systems and the role of the marketing departments in it (see Hope and Fraser 2003a, p. 52). The importance of controlling the marketing management is evident. In the Modalfa case, even though the MD had influential power, some marketing decisions were made by another department, e.g., prices, commercial promotions and product placement were managed by the commercial department. The directors at Modalfa, i.e., the Director-General, the Operations Director and the Commercial Director, gave evidence about the important role of the MD to control the alignment of marketing management. Considering the positive experience of Modalfa in using the MD as a non-financial controller of marketing decisions, it seems interesting to investigate new forms of management control which may include the marketing expertise in the process (see Johnson 1992, p. viii; Simons 1995b, p. 138). This approach to management control is even more relevant when the marketing management is dispersed by several functional departments across the organisation (see Webster Jr 1992).

More research on the relationship between difficult financial situations, the functioning of the accounting system and the managers' use of accounting information is also suggested (see Figure 8-1). In Dimoda, the difficult financial situation limited investments in technical and human management control resources, e.g., the management accounting system software was not updated. This factor limited the ability of the accounting system to meet the information needs of managers, which negatively affected their work. If this situation negatively influences the company's performance, then it runs the risk of entering a negative spiral. Subsequent studies may help to understand these relationships.

Finally, it is noted that some marketing activities are sub-contracted to outside agencies (outsourcing). This produces three consequences: (1) the companies that subcontract the marketing services reduce the staff of their own MD; (2) their marketing directors get closer to the CEO and the CFO, participating in strategic decisions; and (3) their budgets for promotional activities are reduced, and budgets increase for brand focused activities. This conclusion emerges from the interviews made in Modalfa and has implications on how one interprets the results from quantitative research (e.g., Verhoef et al. 2011) and may reveal that some conclusions may be skewed. There are two factors for this bias: (1) companies may be using more financial metrics to assess marketing, but the motivation may come from marketing agencies and not from the marketing departments or their director; and (2) the reduction of staff in marketing departments, and eventually the marketing budget, caused by efficiency savings in the use of external means, may be related to subcontracting the marketing services to outside agencies and may not mean a decrease in the importance of the MD within the company. This situation could be exploited in future quantitative studies, e.g., changing or adding other variables to distinguish these situations; or in qualitative research, e.g., to explore how marketing outsourcing has implications in the use of accounting information to manage marketing.

APPENDICES

Appendix 1 Publicity Expenses of Major Fashion Brands

Table A-1 Publicity Expenses of Major Fashion Brands

% of sales

Company	2006	2007	2008	2009
Zara	0.04	0.04	0.04	0.04
Modalfa	3.03	2.66	2.50	2.37
C&A	2.40	1.74	1.26	1.27
Cortefiel	3.64	n.a.	2.17	1.33
Dutti	1.24	0.99	0.79	0.61
H&M	2.75	n.a.	n.a.	n.a.
Lanidor	3.34	2.25	3.16	1.80
Calzedonia	0.86	0.78	0.83	1.64
Dimoda	1.02	1.14	0.59	0.80

Source: adapted from the Informa DB database

Table A-2 Sales, Profitability and Publicity Expenditures of Major Fashion Brands 2006-2009

Thousands of euro

2006	Chanel	C&A	Dimoda	Dior	Lanidor	Modalfa
Turnover	7,224	82,263	3,305	3,094	37,017	74,015
Net Profit (Loss)	429	4,010	152	282	3,079	1,158
Net Profit (% sales)	5.9%	4.9%	4.6%	2.5%	8.3%	1.6%
Publicity Expenditures	2,274	1,973	34	820	1,236	2,244
Publicity Expenditures (% sales)	31.5%	4.9%	1.0%	26.5%	3.3%	3.0%

2007	Chanel	C&A	Dimoda	Dior	Lanidor	Modalfa
Turnover	7,722	98,369	5,264	7,760	42,447	88,463
Net Profit (Loss)	414	5,329	329	-412	1,785	2,546
Net Profit (% sales)	5.4%	5.4%	6.3%	-5.3%	4.1%	2.9%
Publicity Expenditures	2,336	1,716	60	2,794	974	2,356
Publicity Expenditures (% sales)	30.3%	5.4%	1.1%	36.0%	2.3%	2.7%

2008	Chanel	C&A	Dimoda	Dior	Lanidor	Modalfa
Turnover	8,049	106,590	5,401	11,152	46,646	100,606
Net Profit (Loss)	273	5,102	137	282	382	6,158
Net Profit (% sales)	3.4%	4.8%	-2.5%	2.5%	0.8%	6.1%
Publicity Expenditures	2,356	1,348	32	4,215	1,475	2,516
Publicity Expenditures (% sales)	29.3%	1.3%	0.6 %	37.8%	3.2%	2.5%

2009	Chanel	C&A	Dimoda	Dior	Lanidor	Modalfa
Turnover	7,625	111,389	5,099	10,778	49,451	107,035
Net Profit (Loss)	406	4,633	-836	386	505	8,181
Net Profit (% sales)	5.3%	4.2%	-16.4%	3.6%	1.0%	7.6%
Publicity Expenditures	1,970	1,414	41	3,365	900	2,539
Publicity Expenditures (% sales)	25.8%	1.3%	0.8%	31.2%	1.8%	2.4%

Source: adapted from the Informa DB database

Appendix 2 Concepts' Definitions

Ability to Generate a Comprehensive Set of Marketing Metrics
"Company's current ability to provide the following MPM information […:] - financial indicators of marketing performance. - non-financial indicators of marketing performance. - benchmark indicators of marketing performance against plans. - benchmark indicators of marketing performance against competitors." (O'Sullivan et al. 2009, p. 861)
Idem (O'Sullivan and Abela 2007, p. 91)

Ability to Measure Marketing Activities (MPM ability)
"Ability to measure marketing activities For each of the following marketing activities please rate your company's ability to measure performance (1 = poor, 7 = excellent): • Branding • Direct mail/e-mail campaigns • Web site and internet presence • P[ublic] R[elations] and internal communications • Channel marketing • Market research • Telemarketing and contact management • Tradeshows and events • Analyst and stakeholder relations • CRM systems • Budgeting." (O'Sullivan et al. 2009, pp. 860-861)
idem "• Marketing planning […] • Promotions • Sales and marketing collateral […]." (O'Sullivan and Abela 2007, p. 91)

Accountability of Marketing Department
"The responsibility for the systematic management of marketing resources and processes to achieve measurable gains in return on marketing investment and increased marketing efficiency, while maintaining quality and increasing the value of the corporation." American Marketing Association, 2005:1
"The Marketing Function's Customer-Financial Accountability Connection Knowledge and Skills […] • Marketing is effective at linking customer satisfaction/retention to financial outcomes. • I would be willing to rely on marketing to link customer satisfaction/retention to financial outcomes. • My firm's (division's) ability to link customer satisfaction/retention to financial outcomes resides in marketing. • Marketing has the knowledge and skills to link customer satisfaction/retention to financial outcomes." (Moorman and Rust 1999, p. 196)
"Marketing department in our firm […]: - is effective at linking their activities to financial outcomes. - shows the financial outcomes of their plans. - has little attention for financial outcomes of their activities. (R[everse scored])." (Verhoef and Leeflang 2009, p. 31)

Accounting Information
"Accounting information is quantitative, relates to an entity, is based on observation, and is prepared according to rules." (McKinnon and Bruns 1992, p. 4)

Brand
"Can be either: a name, term, symbol or design (or a combination of them) which identifies one or more products (mostly used in the USA); the identification plus the product itself and its packing, i.e. the gestalt (mostly used in the UK). For example, ''A product is something that is made, in a factory; a brand is something that is bought, by a customer. A product can be copied by a competitor; a brand is unique. A product can be quickly outdated; a successful brand is timeless'' (Stephen King)." (Emphasis and quote in original) (Ambler 2003b, pp. 280-281)
"A product or service's brand is actually a collection of beliefs – a core belief that the customer has about the product or service and then a compilation of data/memories (experiences, information, stories from others, observations, etc.) that support/reinforce this core belief. This opinion – what the product or service *means* to the customer – is the essence of that product or service's brand." (emphasis in original) (Nordhielm 2006, p. 9)
"The set of physical attributes of a product or service, together with the beliefs and expectations surrounding it – a unique combination which the name or logo of the product or service should evoke in the mind of the audience." The Chartered Institute of Marketing (CIM), 2012, www.cim.co.uk

Brand Activation
"Brand Activation is the smooth integration of all available means of communication in a creative platform to activate consumers. Activate means the stimulation of: 1 interest 2 trial 3 loyalty" www.brandbase.nl/visie

Brand Equity
"An important intangible asset for the company, it can be seen as the reservoir of results gained by good marketing but not yet delivered to the profit and loss account." (Ambler 2003b, p. 281)
"A set of associations and behaviours on the part of a brand's customers, channel members and parent corporation that permits the brand to earn greater volume or greater margins than it could without the brand name and that gives a strong, sustainable and differential advantage." (Srivastava and Shocker 1991, p. 5)

Customer focused (Customer oriented)
"Where all the operations of a company are carried out with the customer in mind; not just marketing activities but also logistics, R&D and finance." (Ambler 2003b, p. 287)

Four Ps
"Shorthand term for the classic elements of marketing: product, price, place and promotion. ''Place'' refers to sales and distribution and ''promotion'' here includes all forms of marketing communications." (Ambler 2003b, p. 290)

Marketing
"Three main meanings: (a) A company-wide business philosophy, which gives priority to satisfying customers' wants and needs as a means to achieving the company's goals. In this sense, marketing as customer-oriented culture can be applicable to non-profit organizations as well as businesses. (b) What the company's marketers do, typically developing and launching products, packaging, branding, pricing, advertising, promotion, and distribution. (c) The activities covered by the marketing budget, usually just advertising and promotion. This is what people typically mean when they talk of the ''return'' on marketing." (Ambler 2003b, pp. 293-294)
"Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large." American Marketing Association (AMA), 2012, marketingpower.com
"Marketing is the management process responsible for identifying, anticipating and satisfying customer requirements profitably." The Chartered Institute of Marketing (CIM), 2012, www.cim.co.uk

Marketing Activities
"• Branding • Direct mail/e-mail campaigns • Web site and internet presence • P[ublic] R[elations] and internal communications • Channel marketing • Market research • Telemarketing and contact management • Tradeshows and events • Analyst and stakeholder relations • CRM systems • Budgeting." (O'Sullivan et al. 2009, pp. 860-861)
idem "• Marketing planning […] • Promotions • Sales and marketing collateral […]." (O'Sullivan and Abela 2007, p. 91)

Marketing Department Influence
"The exercised power of the marketing subunit within a business unit, relative to other subunits, over activities important to the success of the business unit." (Homburg et al. 1999, p. 2)
"[T]he impact of the marketing function, relative to other functions, on the strategic direction of the business unit." (Merlo 2011, p. 1153)
"Refers to the extent to which the marketing department (MD) is considered important within the firm and has power within the organization in comparison to other departments. Three measures: 1. Perceived importance of the MD; 2. Top management respect for the MD; 3. MD decision influence." (Verhoef et al. 2011, pp. 60-62)

Marketing Metric
"Quantified marketing performance measure regularly reviewed by top management. Lower level measures that explain variances in metrics are *diagnostics*. Can be classified into six categories: (1) ''Consumer intermediate'', for example, consumer awareness and attitudes. The word ''intermediate'' is used because these measures lie between inputs (like advertising spend) and behaviour (such as sales). (2) Consumer behaviour, for example quarterly penetration. (3) Direct trade customer, for example, distribution availability. (4) Competitive market measures, for example, market share, measured relative to a competitor or the whole market. (5) Innovation, for example, share of turnover due to new products. (6) Financial measures, for example, advertising expenditure or brand valuation." (emphasis in original.) (Ambler 2003b, p. 293)
"A ''metric'' is a performance measure that top management should review regularly. It is a measure that matters to the whole business. The term comes from music and poetry and implies periodicity: the reviews should typically take place yearly or half-yearly." (Ambler et al. 2001, p. 17)
"Measurements that help with the quantification of marketing performance, such as market share, advertising spend, and response rates elicited by advertising and direct marketing." The Chartered Institute of Marketing (CIM), 2012, www.cim.co.uk

Marketing Mix
"The variety of marketing activities, see *four Ps*, which has been put together to form the marketing campaign. For services, the mix is sometimes extended to seven Ps: people, process and physical evidence." (emphasis in original) (Ambler 2003b, p. 294)
"The combination of marketing inputs that affect customer motivation and behaviour. These inputs traditionally encompass four controllable variables ''the 4 Ps': product, price, promotion and place. The list has subsequently been extended to 7 Ps, the additions being people, process and ''physical evidence''." The Chartered Institute of Marketing (CIM), 2012, www.cim.co.uk

Marketing Variables
Four main operational marketing variables (i.e., product, placement, promotion and price) and three strategic marketing variables (i.e., segmentation, targeting and positioning. (cf. Nordhielm 2006)

Market Orientation
"An organisation that is marketing orientated focuses on the needs of the customer. It aims to meet customer demands, and therefore profit through customer satisfaction and loyalty. Marketing orientation is sometimes referred to as customer orientation." The Chartered Institute of Marketing (CIM), 2012, www.cim.co.uk
"Business culture in that the culture places the highest priority on the profitable creation and maintenance of superior value for customers while considering the interests of other stakeholders." (Verhoef et al. 2011, pp. 60-62)

Merchandising
"No longer used in the traditional sense of being a synonym for ''marketing'', it now means product display, usually with added material, at point of purchase and elsewhere, e.g. on T-shirts. Essentially it means exposing products to the risk of purchase." (Ambler 2003b, p. 294)
"A term of many varied and not generally adopted meanings. It can (1) relate to the promotional activities of manufacturers that bring about in-store displays, or (2) identify the product and product line decisions of retailers." American Marketing Association (AMA), 2013, marketingpower.com

Positioning
"[Brand essence is] [T]he smallest compression (six words or less) of what is special about the brand. Derived from ''interrogate the brand until it confesses its essence'' (David Ogilvy). […] [Positioning is a] [b]rief description of the unique identification of the brand in the consumer's mind. Similar to *brand essence*." (emphasis and quote in original) (Ambler 2003b, pp. 281,296)
"It is here that all elements of the marketing strategy coalesce into a single, focused idea. Positioning is the last stage in the segmentation, targeting, and positioning (STP) process. Segmentation informs us of *how* we will define our market; targeting describes very specifically *who* we will attempt to reach; and, our positioning statement outlines *what* we will say to them." (emphasis in original) (Nordhielm 2006, pp. 92-93)
"The creation of an image for a product or service in the minds of customers, both specifically to that item and in relation to competitive offerings." The Chartered Institute of Marketing (CIM), 2012, www.cim.co.uk

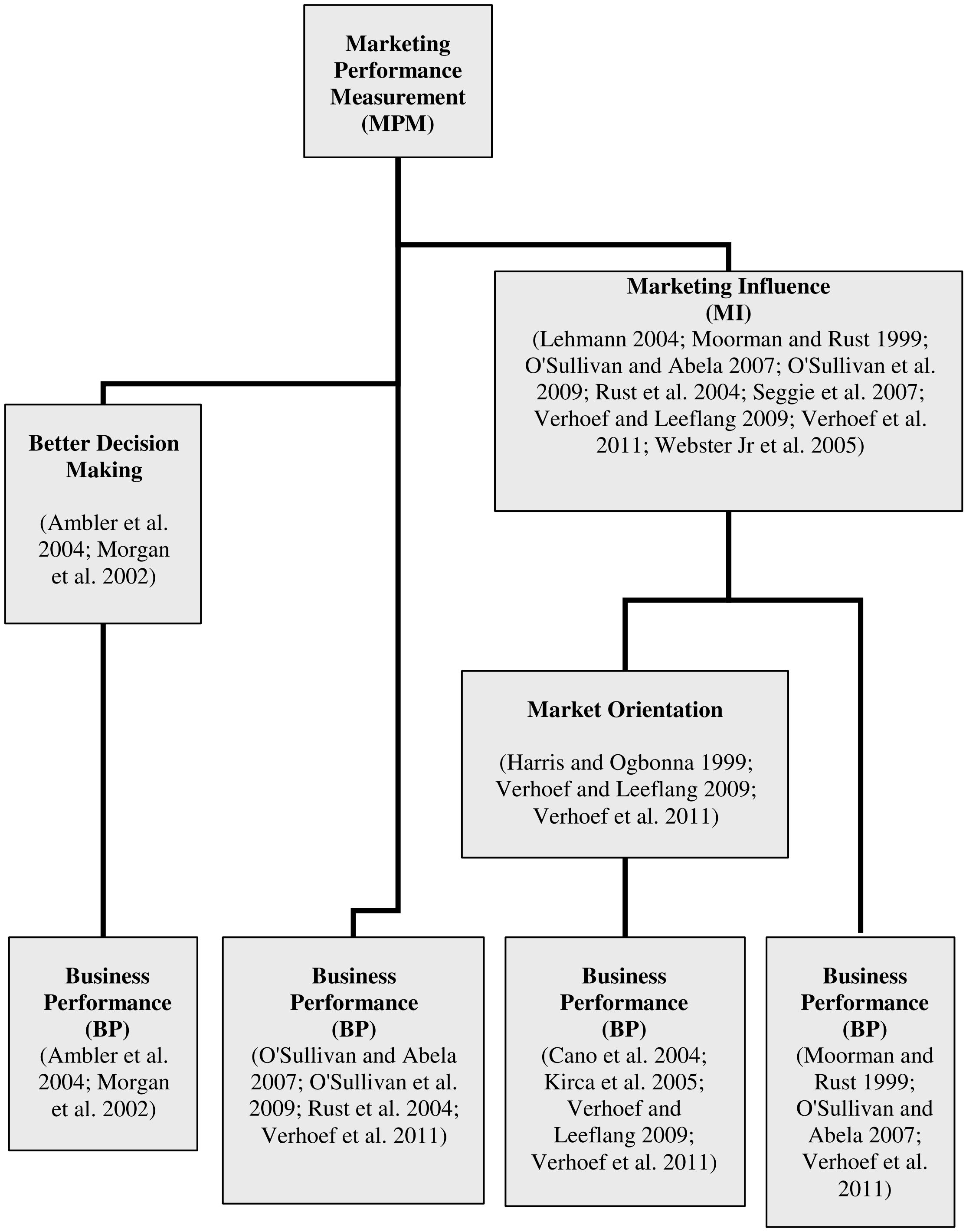
Segmentation
"A means for analysing a total market, typically *demographic*, geographic, *psychographic*, or by product usage so that marketing can be more efficiently and/or effectively targeted at one or more subsets of customers. Each such subset is a *segment*." (emphasis in original) (Ambler 2003b, p. 300)
"In undertaking the process of segmentation, marketers generally consider four basic types of segmentation variables: demographic, behavioural, attitudinal and aspirational.", "By segmenting the market, we outlined the general space in which we will be competing; we found a differential position for our differentiated position for our offering relative to competitors and substitute goods." (Nordhielm 2006, pp. 62,82)
"The division of the market place into distinct subgroups or segments, each characterised by particular tastes and requiring a specific marketing mix." The Chartered Institute of Marketing (CIM), 2012, www.cim.co.uk

Target Market (Targeting)
"The particular segment of customers for whom the brand and its marketing are primarily intended." (Ambler 2003b, p. 301)
"In the targeting step we will focus this analysis [segmentation] into an understanding of who will respond to this offering relative to competitors and substitute goods." (Nordhielm 2006, p. 82)
"The use of ''market segmentation'' to select and address a key group of potential purchasers." The Chartered Institute of Marketing (CIM), 2012, www.cim.co.uk

Top Management Respect
"The top management at our firm: - has little respect for the activities of the marketing department (R) - considers the marketing department as expensive department (R) - recognizes the strategic importance of the marketing department" (Verhoef and Leeflang 2009, p. 32)

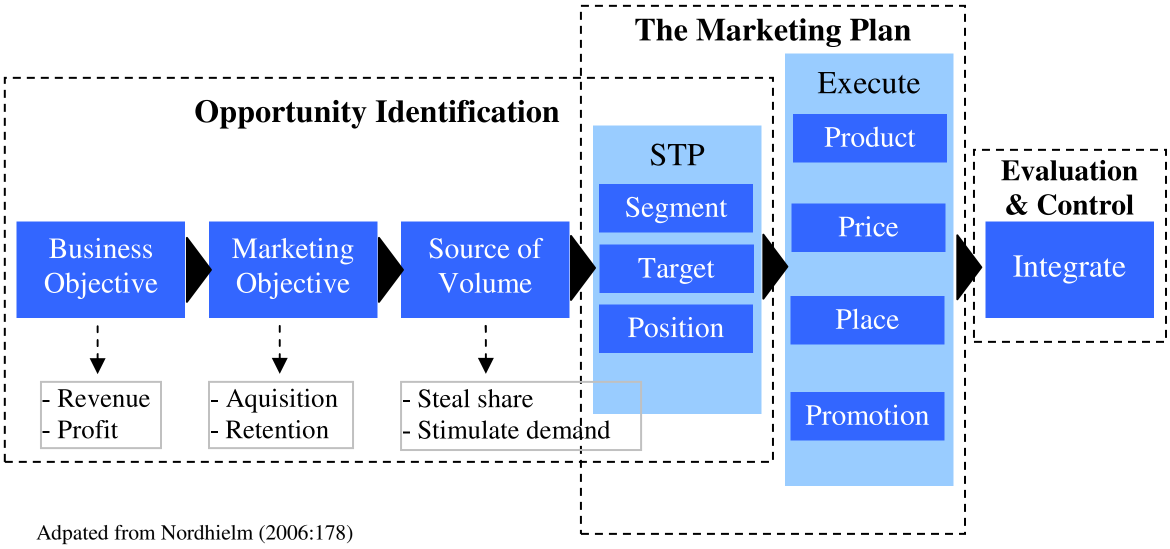
Appendix 3 Statistical Correlations Between Concepts

Figure A-1 Statistical Correlations Between Concepts



Appendix 4 The Big Picture Framework

Figure A-2 Marketing Management: The Big Picture



Adpated from Nordhielm (2006:178)

Appendix 5 Grupo Regojo Businesses

Figure A-3 Grupo Regojo Businesses Structure (2011)

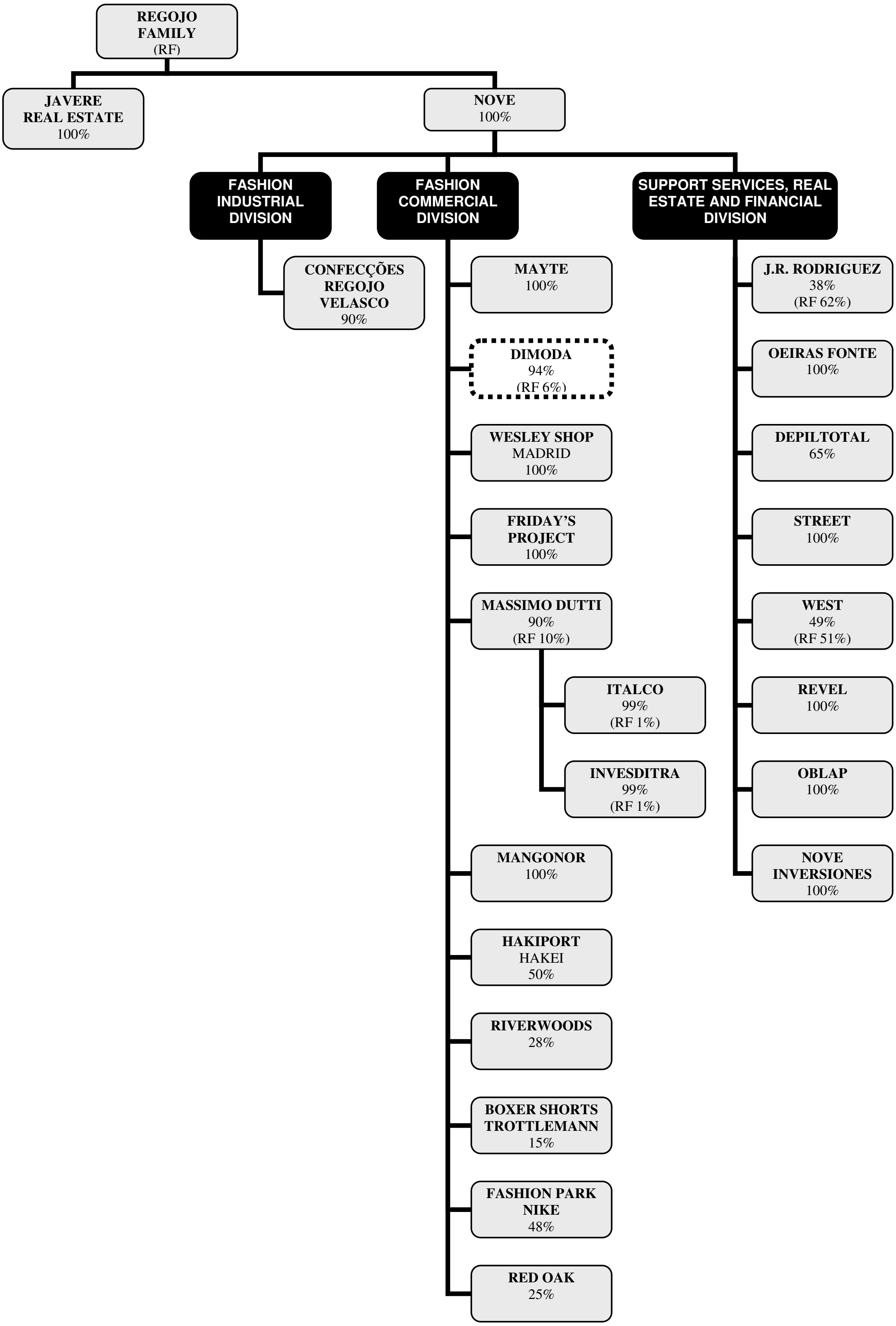


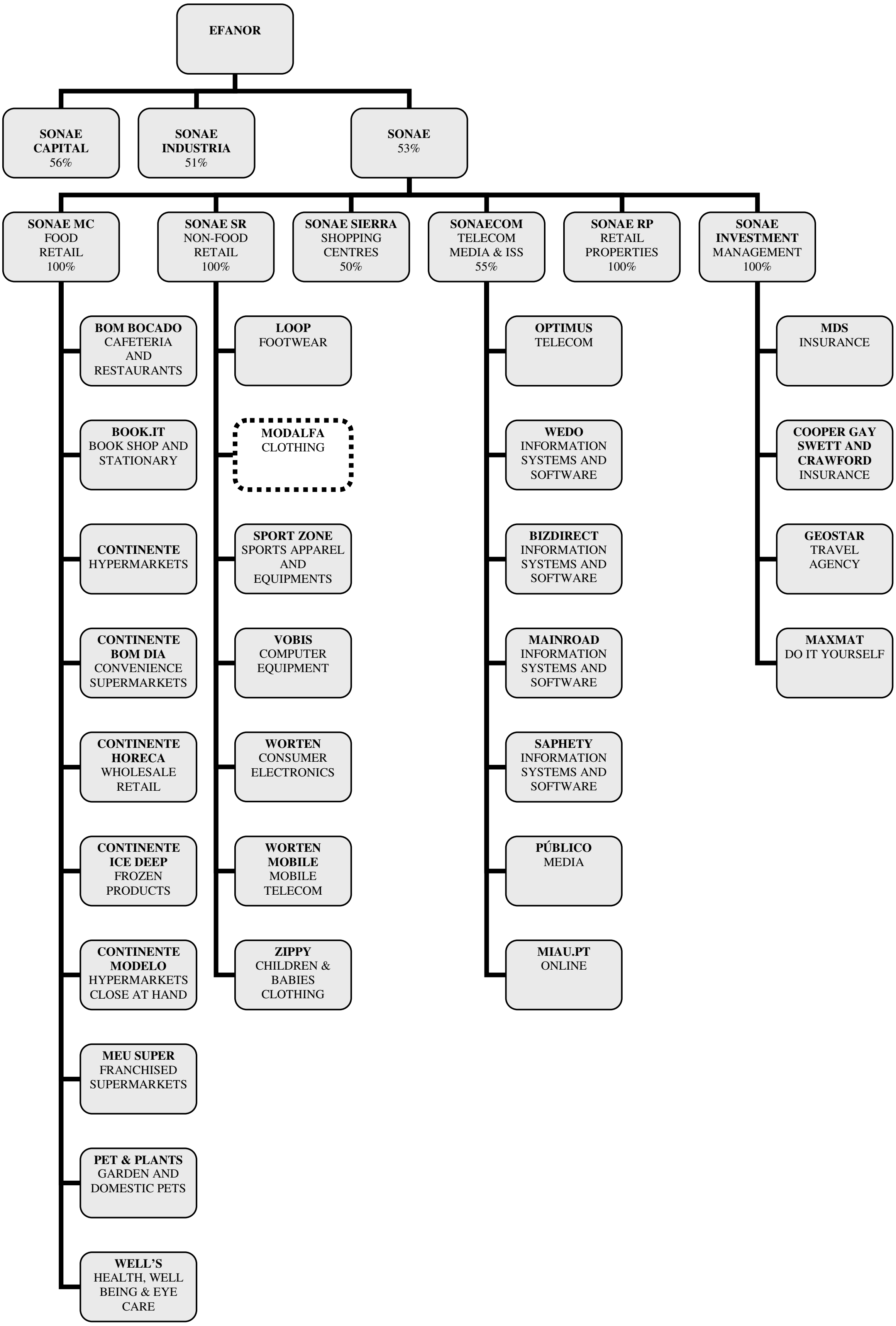
Table A-3 Dimoda Stores in 2010

Store Name	Place	Inhabitants 2011	Type	Sales by Sq. Mt. 2010
Ferrara Plaza	Paços Ferreira	56,327	SC	1,835
Palácio do Gelo	Viseu	99,593	SC	3,037
Parque Nascente	Gondomar	168,205	SC	4,682
Grijó Outlet	Vila Nova Gaia	302,092	Outlet	2,471
Factory	Vila do Conde	79,390	Outlet	5,751
Rio Sul Shopping	Seixal	157,981	SC	1,783
Odivelas Shopping	Odivelas	143,755	SC	3,029
Spacio Shopping	Lisboa	545,245	SC	2,284
Campera Outlet	Carregado	42,362	Outlet	3,296
Freeport	Alcochete	17,565	Outlet	4,368
Caldas da Rainha	Caldas da Rainha	51,645	Street	3,444
Braga Liberdade	Braga	181,819	Street	88
Rua Augusta	Lisboa	545,245	Street	2,758
Saldanha	Lisboa	545,245	Street	2,106
Santa Justa	Lisboa	545,245	Street	3,190

Key: Outlet – outlets stores; SC – Shopping centre; Street – Street shops
Sources: Dimoda Annual Report, INE, facebook/dimoda

Appendix 6 Sonae Businesses Structure

Figure A-4 Sonae Businesses Structure (2011)



Appendix 7 Chronology of Sonae Businesses

**Table A-4 Chronology of New Businesses
1984-2010**

Year	Company	Model	Activity
1984	Modelo Continente	Set up partnership	Food retailing
1984	mds	Start up	Insurance
1986	Porto Sheraton	Start up	Hotel
1986	Orbitur	Acquisition	Camping
1988	Sonae Tecnologias Informação	Start up	Information technology
1989	Sonae Imobiliária	Start up	Real state
1989	Ibersol (Pizza Hut, Burger King)	Start up	Restaurants franchising
1989	Star	Acquisition	Travelling agencies
1989	Rádio Nova	Start up	Radio broadcasting
1990	Público	Start up	Newspaper
1991	Cascais Shopping	Start up	Shopping centre (first)
1995	Modalfa	Start up	Fashion retail
1995	Solinca	Start up	Health club
1996	Worten	Start up	Consumer electronics retail
1997	Vobis	Start up	Computer retailing
1997	Sport Zone	Start up	Sport equipments retail
1997	Torralta	Acquisition	Real state
1998	Optimus	Start up	Mobile telecommunications
1998	Barbosa & Almeida	Acquisition	Glass packaging
1999	Clix	Start up	Internet access
1999	Novis	Start up	Landline tel. operator
1999	Box Lines	Start up	Shipping company
2000	Norscut	Start up	Motorways
2001	WeDo	Start up	IT Consultancy
2002	Lazam-mds (Brazil)	Partnership	Insurance
2003	Mainroad	Start up	IT services
2004	Zippy	Start up	Children clothing retailing
2006	Área Saúde	Start up	Health products retail
2007	Carrefour (Portugal)	Acquisition	Food retailing
2007	Cooper Gay	Acquisition	Insurance
2007	Book.it	Start up	Bookshop and stationary
2007	Cape Technologies (Ireland)	Acquisition	Revenue Assurance
2008	Bom Bocado	Start up	Coffee shops
2008	Loop	Start up	Footwear retailing
2010	Zippy (Saudi Arabia)	Start up	Children clothing retailing

Source: adapted from www.sonae.pt (accessed on 14/01/2012)

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