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TITLE: **Management Accounting and Strategy**

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INTRODUCTION

Management accounting strategy is a relatively new phenomenon in accounting. Management accounting in support of strategy, explores how management accounting can support the strategic management process of analysis, formulation, implementation, evaluation, monitoring, and control (Hopper, 2000). A management accountant must be knowledgeable about the operations of the company in order to bring value to it. In addition to accounting techniques, management accountants have access to strategy models and frameworks in their toolbox. Equipped with these diverse tools, the management accountant can make a substantial contribution to the company's worth. The main goal of management accounting is to give managers the information they need to run the company. As part of this, the organization's operational, business, and strategic decision-making processes are supported (Hilton et al., 2011). Many conventional accounting methods are said to be too inwardly focused, mainly financial in nature, and more appropriate for assisting with operational than with strategic decision making.

Beginning in the early 1980s, writers proposed that accountants should conduct market research and offer information about rivals and competitors (Hopper, 2000). Accounting methods that prioritised the strategic elements of the company were distinguished from the more conventional, tried-and-true methods by using the term "strategic management accounting." This led to studies on the adoption of strategic management accounting techniques; however, the term is still uncommon among practicing accountants, and the applicability of these techniques is questionable. Organisations now operate in a more complex, dynamic, and unpredictable business environment. There isn't a better moment for management accountants to reach their full potential

in aiding and assisting with the organization's strategic initiatives. Supporting all tiers of management during the course of the strategic management process is the goal of management accounting as strategy support. In order to highlight the connection between management accounting and strategy in the use of accounting data to further a company's strategic objectives, I have tried to examine management accounting from a wide perspective. I'll also look at how management accounting aids in the creation of complete and accurate financial statements for internal use, the assessment of outside data on rivals and industry trends, the conversion of goals into budgets and targets, and the tracking and management of business performance.

MANAGEMENT ACCOUNTING

Definition of Management Accounting and perspective

Early definitions of management accounting focused on a company's costs and production. Indeed, the Chartered Institute of Management Accountants, one of the most prestigious professional organisations in management was founded in 1919 as the Institute of Cost and Works Accountants.

The direct costs of manufacturing products were primarily materials and labour, also known as the prime costs of production. Towards the end of the nineteenth century, an element of indirect costs, also known as production overhead costs, such as utility, building, and administrative costs, were incorporated into product prices. Solomons (1952) observed that the typical method of applying production overheads to product costs was by adding a percentage of the labour cost, or to establish a company-wide overhead cost rate per labour hour. Traditional methods of management accounting concentrated on productivity metrics like cost per hour,

cost per kilogramme produced, cost per process, or cost per worker because labour and materials constituted the majority of the costs. These productivity metrics were applied as performance indicators and fed into goal-setting, budgeting, and employee and manager motivation (Johnson and Kaplan, 1987). Thus, the supply of cost and productivity data to support managers in their operational planning (through budgeting), decision-making, and control tasks was known as management accounting. The main goal of management accounting is to give managers the information they need to run the company. Supporting decision-making at the organisational operational, business, and strategic levels falls under this category. It is said that many traditional accounting methods are too inwardly directed, essentially financial in character, and better suited to assist operational than strategic decision making. Early in the 1980s, writers made the suggestion that accountants should conduct market research and look outward for information about rivals and competitors. Strategic management accounting is a term used to distinguish accounting methods centred on strategic business aspects from more conventional, tried-and-true methods (Pitcher, 2020). Research on the adoption of strategic management accounting techniques was spurred by this; however, the term is still uncommon among practicing accountants, and the applicability of strategic management accounting techniques is questionable. In order to prepare internal financial reports, records, and accounts to support managers' decision-making in accomplishing business goals, management accounting—also known as managerial accounting or cost accounting—is the process of analysing business costs and operations (Pitcher, 2020). Stated differently, it is the process of interpreting financial and costing data and turning it into information that managers and other organisation officials can use. A speciality area of accounting is management accounting. Senior managers can make wise business decisions with the aid of management accountants' reports, which are produced after they analyse financial and other data. They are crucial to a company's daily operations and have the power to shape its future course. Analytical skills, commercial awareness, and financial knowledge are necessary for management accounting. To assist managers in achieving their business objectives, it entails locating, evaluating, and sharing financial data.

Among their duties include interpreting operational and financial data, analysing costs and revenues, reporting on the financial status of the company, and offering insight into the performance of the enterprise. Their conclusions support decision-making by data-driven leaders in their future planning. The position of management accountant in most companies entails a lot of power and accountability.

In addition to creating forecasts and budgets, management accountants prepare monthly management accounts. In sizable businesses, they might be in charge of a group of junior accountants who handle routine accounting duties. There are times when management accountants go by different names, like lead accountant, cost accountant, or enterprise accountant.

Management accountants, no matter their title, are essential to the majority of businesses. They can contribute to future success because they are familiar with the organization's operations, business model, and strategic context.

Management accounting distinguishes itself from financial accounting by focusing on providing information for management activities such as planning, decision making, and control (Aver and Cadez, 2009). The legal requirement for financial accounting stems from the need for organisations to accurately record financial transactions and report profits and losses to capital providers and tax authorities. As a result, financial information is primarily provided to external audiences.

Reporting conventions such as those outlined in the U.S. GAAP (Generally Accepted Accounting Principles), the U.K. GAAP (Generally Accepted Accounting Practice), and the International Financial Reporting Standards (IFRS) must be followed in financial accounting. On the other hand, there are no set guidelines for management accounting, so businesses can employ any methods, strategies, or instruments they see fit. Since the audience is internal, needs rather than outside norms dictate the information's format and frequency. The main purpose of management accounting is to support managers in managing.

STRATEGY IN MANAGEMENT ACCOUNTING

Definition and perspective of strategy

A well-considered plan for reaching a particular goal over an extended period of time is called a strategy (Chenhall, 2007). A business strategy is a collection of decisions or actions that support an organisation or entrepreneur in achieving particular targets. Additionally, it aids in an organization's ability to live up to stakeholder expectations, including those of consumers, workers, and investors. Your strategy focuses your efforts and resources on the goals of your company. Every business requires a strategic framework that outlines how to, among other things, win clients, draw in talent, generate value, and outperform competitors. Business benefits from strategy in the following ways. Your planning process is guided by strategy, which aids in selecting the decision-making processes for each facet of your business. Planning lays out the steps you must take to succeed, whereas strategy chooses the most effective way to allocate your resources in order to meet organisational goals. Making sense of various business decisions is made easier for your organisation when it has a well-defined strategy framework. This enables individuals working at different levels to coordinate their resources in support of the shared objective. An effective strategy is meticulously planned, well-researched, and well-thought out. It's critical to compile data and information from previous experiences to inform your future data-driven decision making process if you want to develop a solid, long-term strategy. For instance, seasonality affects the business of certain industries. A good example of strategic thinking and leveraging historical data to your advantage is understanding how to take advantage of that seasonality.

Giving managers access to financial and non-financial data for decision-making is known as management accounting. In management accounting, also known as managerial accounting, managers make better decisions for their organisations by using accounting information to better inform themselves. This helps them manage more effectively and carry out control tasks (Sunami, 2013). A unique area of accounting is management accounting. It is a cutting-edge, scientific accounting innovation. Accounting for efficient management is known as management accounting. According to Uyar (2010), management accounting is the process of identifying, measuring, accumulating, analysing, preparing, interpreting, and communicating information to help executives achieve organisational goals. It supports management in carrying out all of its duties, such as organising, staffing, directing, and controlling. Stated differently, management accounting is the area of accounting that supplies managers and other internal users with financial and economic data.

Management accounting is a selective technique. It makes partial use of the information supplied by financial records. It picks and chooses only the data from various financial records (profit and loss statement, balance sheet, etc.) that is pertinent and helpful to the management in making critical choices regarding various business aspects (Hilton et al., 2011). To put it another way, management accounting is focused on the future. To make future plans, it gathers and evaluates

data. Making decisions regarding future actions is management's main responsibility. Management accounting formats the next course of action with the aid of various techniques. Planning and decision-making are aided by the useful information that management accounting provides. It cannot prescribe; it can only give information. It is up to management to what extent it. It can use the information based on how wise and efficient it is. According to what was previously said, management accounting investigates the relationship between causes and effects. Accounting for finances performs and examines the factors that lead to gains or losses. Management accounting examines the various factors influencing the business's profitability and profits in an effort to investigate the cause-and-effect relationship.

FUNCTIONS OF MANAGEMENT ACCOUNTING

Declaring the relevance of this phenomenon in relation to other accounting procedures, such as financial accounting, is crucial. Helping management carry out its duties efficiently is the fundamental purpose of management accounting. The management's duties include organising, directing, controlling, and planning. Accounting includes management accounting. It emerged from the necessity of using accounting frequently in managerial decision-making. Each of these tasks is facilitated by management accounting in the following ways. Haldma and Laats (2002) suggest using management accounting for the following purposes:

(a) Provides data

An essential source of information for management planning is management accounting. A significant amount of historical data about the enterprise's performance be found in the accounts and documents, which is essential for forecasting future performance.

(b) Modifies data

To make the accounting data more useful to management, management accounting rearranges and modifies the data. Data is rendered more comprehensible and useful when it is grouped according to similarity. Accounting data is correctly compiled and categorised in order to support management decisions. Purchase totals for various months, for instance, could be categorised to determine the total amount of goods, suppliers, and territories purchased during each time frame.

One crucial channel of communication is management accounting. Various kinds of information are required at different management levels (upper, middle, and lower).

(c) Communication

Throughout the company, management plans can be communicated upward, downward, and outward with the help of management accounting. It first entails determining whether the plan's various segments are consistent and feasible. In the later phases, it informs everyone involved about the plans that have been decided upon and their respective roles within them. Lower management is interested in detailed information at short intervals, middle management needs information frequently, and top management needs concise information at relatively long intervals.

Communication both inside the company and with the external environment is established through management accounting.

(d) Analyses and interprets data

Planning and decision-making are made more efficient by the meaningful analysis of the accounting data. To achieve this, the information is compared, ratios are computed, and probable trends are forecasted.

DISTINCTIONS BETWEEN MANAGEMENT ACCOUNTING AND FINANCIAL ACCOUNTING

Management accounting takes a large portion of the data from financial accounting and adapts it for managerial use, so there is a close relationship between the two fields. A company's assets and liabilities are accurately recorded thanks to financial accounting, which also gives information to creditors, tax authorities, and shareholders. Conversely, management accounting offers data, particularly for managers who are in charge of making wise choices inside a company.

Documenting the day-to-day business transactions is the focus of financial accounting. While financial and management accounting share a common foundation of financial data, they differ in a few key ways. Within the field of management accounting, strategic management accounting focuses on information pertaining to external factors, non-financial data, and internally generated data. Analysing external data about rivals in the market, monetary and political policies that impact the industry, and current trends in prices, share, and expenses are all part of strategic management accounting. The evaluation's findings are then concentrated on the firm's resource availability. Thus, management is able to ascertain the actions that the company must take in order to lead the market. In the field of management accounting, strategic management accounting and control is a relatively new paradigm. In the late 1980s and early 1990s, professionals and academics alike criticised traditional management accounting, which led to the rise in popularity of this new viewpoint on management accounting and control systems.

COMPONENTS OF STRATEGIC MANAGEMENT ACCOUNTING

The accounting information gathering and processing system known as "strategic management accounting," which concentrates on a company's long-term and external prospects, has components that enable it to accomplish its goals. Decision-makers use the components as tools in their daily business operations. This section of the article provides a quick overview of the most typical elements of an accounting system used in strategic management. Target costing is a method of costing whereby businesses start by determining what customers are willing to pay for a product.

Once a complete and accurate cost of the product has been determined, management can then concentrate on lowering the cost of manufacturing the product. Activity-based costing and management: These approaches are based on the idea of identifying weaknesses in companies. Any activity that does not generate revenue for the company, either directly or indirectly, is discontinued.

Life cycle costing: In today's fiercely competitive market, a company must do its costing correctly to stay a force to be reckoned with. Accurate and comprehensive cost data collection and processing are guaranteed by life cycle costing.

Characteristics of a robust strategic management accounting system According to Sunami (2013), the major characteristics of a robust management accounting system involve the following tenets:

- Futuristic
- Focus on external information
- Aggregates information
- Integration of risk analysis into traditional process

The profession of management accountants is under significant pressure due to advancements

in computing technology and the integration of once-complex systems into simpler, fully integrated ones. However, one should not undervalue the contribution that a management accountant makes in the form of perceptive analysis.

THE LINK BETWEEN MANAGEMENT ACCOUNTING AND STRATEGY

It was reasonable and practical to support a new management accounting strategy given the fierce competition in the challenging business climate of today. Hopper (2000) made this observation in response to a question about what strategic management accounting is and how it has been determined to be the only viable solution. Managers and executives of contemporary, dynamic businesses have turned to management accounting and accountants for information that will help steer their companies in the right direction in an effort to combat the information overload that corporations in the "now economy"—which many believe resulted from efficiency in the information super high way—are facing. One of the main issues with the outdated and traditional methods of collecting and analyzing cost data is the excessive emphasis on internal operations, which are easily manipulated by managers.

The issue of internal business process manipulation resulted in biased internal decisions that were more likely to be based on noncompetitive data. A company becomes significantly less competitive if its managers make decisions based only on the information generated by this system.

Therefore, it is necessary to have a system that will compile and evaluate outside data so that the data processed internally can be compared. The management accountant is the most qualified person to provide information of this kind.

There is a need for a more extrovert-oriented approach to processing accounting information. It also marked the introduction of the idea of strategic management accounting. Officially described, it is a type of management accounting in which non-financial, external, and not internally processed information is given more weight than information that is derived from a business entity.

Studying this definition of strategic management accounting in more detail shows that it is essentially traditional management accounting with some added features, such as combining management accounting, marketing management, and strategy under one roof.

Accounting supports efficient managerial decision-making, and profitable organisations are made possible by successful managerial decisions (Roslender and Hart, 2002). During the 1980s, management faced criticism for focusing too much on internal operational issues that did not contribute significantly to strategy formulation or maintaining competitive advantage, despite the goal of optimising the decision-enabling substance of accounting. Simmonds (1981) recognised the significance of accounting's wider influence on managerial decision-making and established strategic management accounting (SMA), which he defined as "the provision and analysis of management accounting data about a business and its competitors, for use in developing and monitoring business strategy." The significance of organisations adopting strategic management accounting theory to improve organisational performance and strategic decision-making has thus been emphasised more and more (Alamri, 2019). In order to improve their performance and competitiveness, organisations need to develop internal policies and procedures like strategic management accounting that are in line with their business strategies and take changing market demands into account, as noted correctly by Turner et al. (2017). By doing that, the accounting instrument for strategic management will be able to be used to propel business success. According to Opute (2017), the task of satisfying customers profitably is getting harder. Organisations must acknowledge the significance of sound decision-making in

order to meet that challenge. In order for organisations to make decisions effectively, accountants are essential (Granlund, 2011). The organisation can ascertain the going concern with the use of accounting information. Accounting gives management the pertinent data they need to maintain and assure growth and profitability.

The strategic management accounting foundation highlights that accounting practices need to pay equal attention to the internal and external aspects of an organization's operations in order to fully fulfil their role of enabling management decision-making. Stated differently, accounting ought to adopt a more comprehensive and market-driven methodology, emphasising cost estimation, planning, control, and performance evaluation, strategic choice-making, customer accounting, and competitor accounting (Creswell, 2014). There is still a growing interest in learning more about strategic management accounting because of its significance for successful corporate decision-making and efficient management decision-making. Thus, it should come as no surprise that the case for additional research to improve our knowledge of the strategic management accounting practices that organisations use and the factors that influence their decision to use one method over another is still strong (Alamri, 2019). The adoption of strategic management accounting is a crucial step towards facilitating efficient managerial decision-making and enhancing organisational performance. However, the success of the organisation in adapting its strategic management accounting practices to its strategy and surroundings will determine the impact of strategic management accounting practice on enablement (Cadez, 2012). Strategic management has been defined differently, but there is "wide agreement that the main activities are:

- (1) creation of a grand strategy**, purpose or sense of direction,
- (2) formulation of strategic goals and plans to achieve them,**
- (3) implementation of plans,** and
- (4) monitoring, evaluation and corrective action**

," according to Nixon and Burns (2012). Effective decision-making is one of management accounting's functions, and it usually entails obtaining and analysing information, identifying options, putting those options into action, monitoring those actions, and evaluating the results (Cima, 2005). Therefore, the goal of strategic management accounting, which is also known as accounting for strategic positioning (Roslender, 1996), is to adopt a more comprehensive strategy that effectively integrates a strategic management focus into its dynamics in order to support organisational performance and management decision-making (Cadez, 2012). Strategic management accounting has been defined as "the provision and analysis of management accounting data about a business and its competitors, for use in developing and monitoring business strategy" by Simmonds (1981).

Since then, many attempts have been made to improve this definition and pinpoint the fundamental methods of strategic management accounting. Strategic management accounting, for instance, is defined by CIMA (2005) as a type of management accounting that places a strong emphasis on information pertaining to the entity's external factors as well as non-financial and internally generated information. Providing and analysing financial data on the organization's product markets, competitors' costs and cost structures, and the organization's and its competitors' strategies are all part of strategic management accounting, according to Bromwich (1990), in a much earlier work. The query "What is strategic management accounting?" was posed by Cadez (2012) in his 2008 study (p. 838). There are two perspectives on strategic management accounting, according to the same study's conclusion, which is supported by data from the reviewed literature.

The real participation of accountants in the process of making strategic decisions is the subject

of the other viewpoint, whereas the first one concentrates on technically focused accounting methods.

In line with the earlier viewpoint (Ojra, 2014), the literature currently in publication breaks down sixteen (16) strategic management accounting methods into five SMA themes:

- 1. Strategic costing;**
- 2. Strategic decision-making;**
- 3. Strategic planning, control, and performance measurement;**
- 4. Accounting for competitors;**
- 5. Accounting for customers.**

According to literature on strategic costing (El Deeb, 2012), organisations can use cost data based on marketing and strategic information to ensure strategies that are effective in achieving sustainable competitive advantage.

As a result, organisations need to understand how important it is to integrate cost strategies and carry out several strategic cost analyses. The literature breaks down the five main costing approaches as follows: value chain costing (Creswell, 2014), life-cycle costing (Codez, 2012), quality costing, target costing, and attribute costing (Roslender and Hart, 2002). The literature on strategic planning, control, and performance measurement has also emphasised the necessity for organisations to adequately consider the planning, control, and performance measurement aspects of strategic management accounting, since doing so is crucial to the proactive market orientation approach that is required for successfully competing in the marketplace (Chenhall, 2005). According to Cadez (2008), integrated performance management and benchmarking are essential elements of the strategic planning, control, and performance measurement tool.

THE ROLE OF MANAGEMENT ACCOUNTING IN STRATEGY FORMULATION

Strategic management accounting is a type of accounting where business decisions and strategies are made based on financial data. To get a better understanding of the business and the industry as a whole, these accountants use both internal and external data. Employers of strategic accountants benefit greatly from this kind of accounting. Strategic accountants gain a broader understanding of the company by examining and analysing both internal and external data about it. Information from outside sources can include details about the sector as well as anticipated future trends and fashions. One of the things that strategic accountants search for is the possibility of new products joining the market. If they learn of this, they develop a plan to combat it and decide whether their business should look into and potentially produce this new product. Because management accounting practices give an organisation a significant competitive advantage that directs managerial action, inspires behaviour, and fosters the cultural values required to meet an organization's strategic goals, they aid in an organization's survival in the cutthroat, rapidly changing global marketplace (Gichaaga, 2013). According to Ahmad and Zabri (2013), research on management accounting practices (MAPs) indicates that MAPs may also enhance performance and play a significant role in guaranteeing the effectiveness of the company's management.

Management can obtain pertinent information through management accounting practices, which facilitates meaningful decision making (Alleyne and Weekes-Marshall, 2011). Additionally, management accounting techniques lower the risk of business failure and enable companies to compete in the marketplace (Mitchell & Reid, 2000). Organisations are facing more difficulties, complexity, and changes in the global economy in the current business environment. There is also more competition and a rapid spread of data. Accountants should change their roles within

organisations to have a stronger strategic focus in order to be relevant in the new environment. Strategic management accounting creates up-to-date, perceptive reports on business performance using data from operations within organisations. Using strategic management accounting, small businesses can enhance their decision-making over time, leading to increased profitability and competitive advantages. Accounting for strategic management is presented as a way to adapt to the competitive and business environment of today.

Several methods are used in strategic management accounting to comprehend how strategies are carried out and to create cohesive approaches to performance evaluation. These are the strategic tools for performance measurement proffered by Darwish (2020):

1. Target Costing: a lot of outside variables come into play with this method. When using price-based target costing, a company compares the costs of similar products to determine its target cost. They must gather information on the market value and deduct the target profit margin.

2. Analysis of Customer Profitability: Knowing whether a particular customer is costing you money instead of bringing in is one of the most vital pieces of information that needs to be measured for ongoing business success. The profitability of each individual customer becomes the new primary goal, replacing the previous one of the merchandise line.

3. Life Cycle Costing: This method attempts to determine the overall cost of a product at each stage of its life cycle, from introduction, growth, and maturity to decline and planning. It has a market orientation and long-term accounting perspective. The expenses incurred from using the asset under observation, including those related to planning, design, acquisition, support, and other expenses.

4. Benchmarking: The process of measuring goods, services, and procedures is what gives benchmarking its definition. Benchmarking gives you the knowledge you need to know how your company stacks up against other similar companies. The first step in improving systems or processes, whether gradually or dramatically, can be assisted by benchmarking.

5. Activity Based Management: Using value chain analysis, activity-based management, or ABM, analyses a company's business operations. Utilizing the ABM method, one can also analyze an activity's cost in relation to its value-added in order to make strategic improvements. The management of the activities that make it feasible to characterize acts intended to obtain a competitive advantage is the strategic focus of this approach.

6. Just-in-Time Method: Production costs and quick marketing can make or break a company in the manufacturing industry. A workflow methodology called just-in-time (JIT) may be used to reduce response times from suppliers and customers, as well as flow times inside production systems. JIT aids businesses in managing process variability in manufacturing. They can cut expenses and increase productivity as a result.

7. SWOT Analysis: A straightforward and useful kind of assessment model is the SWOT analysis. SWOT analysis looks at both internal and external variables while evaluating a company's strengths and weaknesses. A SWOT analysis is particularly helpful for obtaining a radical overview of a company, product, brand, or new project too early in the project life cycle because of this combination of evaluation metrics. SWOT stands for Strength, Weakness, Opportunities, and Threats.

8. Strategic Pricing: This approach centres on utilising competitor data, such as price elasticity, competitors' responses to price adjustments, economies of scale, and experience, in the pricing procedures.

Every business must prioritise data accuracy and precision if it hopes to succeed. You won't be able to plan long-term business moves or assess the current situation without insightful and

useful information. Businesses that apply concepts of strategic management enjoy greater success and profitability. Comparing its sales, profitability, and productivity to businesses without systematic planning activities, it demonstrates a considerable improvement. Strategic management accounting becomes a cornerstone of contemporary business under such conditions. It is crucial to understand strategic techniques if you are creating strategic management accounts. It calls for broader abilities, such as interpersonal and business acumen, and consequently, the capacity to build rapport with upper management.

CONCLUSION

Management accounting is the application of appropriate techniques and concepts in processing the historical and projected economic data of an entity to assist management in establishing a plan for reasonable economic objectives and in the making of rational decisions with a view towards these objectives. The majority of businesses evaluate their operations using management accounting techniques. These consist of breakeven analysis, variance analysis, and budgeting. These techniques support businesses in achieving profitability by helping them plan, manage, and control operating expenses. Good management accounting techniques assess the operational environment and give management information from it so that decisions can be made more easily, resulting in changes and competitive advantages. Three main forces—technological change, globalisation, and customer needs—drive organisational change, which management accounting adjusts to. A critical examination of these aspects of management accounting practice reveals that it can help to reduce the causes of the manufacturing sector's subpar performance in the majority of global economies. Management, also known as managerial accounting, is the process of setting organisational goals through the identification, measurement, analysis, interpretation, and communication of information to managers. All accounting intended to inform management about operational business metrics is referred to as management accounting. It makes use of information about the costs of products or services that the company purchases. Budgets are frequently used to quantify the decisions made in operational planning. Management accountants use performance reports to identify differences between budgeted and actual results. The primary distinction between management accounting and financial accounting is that financial accounting is the collection of accounting data to generate financial statements, whereas management accounting is the internal processing required to account for business transactions.

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