

Prognosis of the Concept of Strategic Management Accounting

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Abstract—Strategic Management Accounting is relatively new concept on the cross roads of strategy, accounting and marketing. Despite high expectations and bright future forecasting of the 'Flagship of Accounting Profession', this concept is still slowly developed having more deficiencies and gaps in day- to-day growing literature which in turn leads some authors to seek concept development as a paradox. Therefore, the intention of this paper is to offer understanding of the concept with specific focus on strategic management accountings position as a field of study, definition, techniques, process and future research directions.

Keywords: Strategic Management Accounting, Strategic Management Accounting Research Streams, Strategic Management Accounting Techniques.

1. INTRODUCTION

The basic problems of conducting Management Accounting is its relationship with strategy. One part of the long suffering challenge for managers, management researchers, consultants, the one of aligning the functional activities and disciplines, with each other and simultaneously support corporate strategy is also alignment of strategy and management accounting. In this regard, some authors are emphasizing that (i) Managers in series of studies have shown their dissatisfaction with the current accounting system (ii) Due to crucial importance of accounting information for strategy development, strategy implementation and strategic change processes, it is imperative that the issue of strategic accounting be addressed. The conventional management accounting practice during the 1980s and 1990s have been criticized and have provoked a surge of interest in strategic management accounting as an approach that tries to give more strategic role for management accounting. According to Roslender and Hart the term 'Strategic' in the name was intended to convey that strategic management accounting incorporated a longer term outlook, as well as broader emphasis than the greater part of management accounting. Shah H states that strategic management accounting was launched and developed by accounting scholars as a new state of the art discipline for which it is intended to be a flagship of the accounting profession with greater focus on comparison of the business with its competitors, a something that enables management to

have birds eye view of the competitor, procedures, business techniques and to take decision accordingly. However, some authors like Smith M see the development of strategic management accounting as a threat for conventional management accounting as a discipline due to strategic management accounting broader/external focus and existing overlaps between the two disciplines. On the other hand, some authors suggest that strategic management accounting is criticized as nothing more than an approach to enlarge the importance of management accountant and increase the attractiveness of the profession by including strategic tasks. Hence, it is very important to make clear distinction between management accounting and strategic management accounting as done by Wilson and Chua (1993). (Table 1). Ten basic distinctions listed in Table 1 clearly show strategic management accounting as future oriented, externally focused, less rules led and more creative as opposed to past oriented, internally focused and rules led and more programmed traditional management accounting.

Table 1: Basic Distinctions Between Traditional Management Accounting and Strategic Management Accounting.

Traditional management accounting management accounting	Strategic
Historical	Prospective
Single entity	Relative
Introspective	Out-ward looking
Manufacturing focus	Competitive focus
Existing activities	Possibilities
Reactive	Proactive
Programmed	Un-programmed
Data orientation	Information oriented
Based on existing systems	Unconstrained by existing systems
Built on conventions	Ignores conventions

Despite substantial growth of SMA literature since the emergence of the approach, there is no widely accepted definition of SMA, whereas empirical researches are relatively scarce, and are primarily oriented on SMA techniques implementation and usage in companies. In this sense there is still limited consensus on what is meant by „strategic

management accounting" and that despite substantial attention, SMA suffers from relative dearth of empirically based research, and the existing empirical research are predominantly focused on investigating the level of use of collection of SMA techniques. Furthermore, the progress of the concept has been modest and now it is difficult to continue to argue that it is early days for the concept, indicating the existence of accounting lag. Thus, for SMA concept's development it can be argued that it is a paradox in terms of high interest, yet minimal empirical investigation.

1. Defining Strategic Management Accounting.

The strategic management accounting (SMA) is seen as an approach that lies at the interface between strategic management and accounting

(Table 2).

The first mention and introduction in the literature of the SMA term was made by Simmonds which defined SMA as:

the provision and analysis of management accounting data about a business and its competition for the use in developing and monitoring the business strategy, particularly relating levels and trends in real costs and prices, volume, market share, cash flow and proportion demanded of a firm total resources (Simmonds, 1981)

Table 2: Most Influential Definitions of Strategic Management Accounting.

Author	Definition
Simmonds (1981)	the provision and analysis of management accounting data about a business and its competition for the use in developing and monitoring the business strategy, particularly relating levels and trends in real costs and prices, volume, market share, cash flow and proportion demanded of a firm total resources
Shank (1989)	the managerial use of cost information explicitly directed at the stages of the strategic management cycle
Bromwich (1990)	provision and analysis of financial information on the firm's (product) markets and competitor's costs and cost structure and the monitoring of the enterprise's strategies and those of its competitors in these markets over a number of periods
Ward (1992)	accounting for strategic management
Roslender and Hart (2003)	generic approach to accounting for strategic positioning, defined by an attempt to integrate insights from management accounting and marketing management within a strategic management framework
Certified Institute for Management Accounting (2005)	a form of management accounting in which emphasis is placed on information which relates to factors external to the entity, as well as non-financial information and internally generated information

Langfield-Smith (2008)	taking a strategic orientation to the generation, interpretation and analysis of management accounting information and competitors activities
Ma and Tayles (2009)	the body of management accounting concerned with strategically orientated information for decision making and control

According to Simmonds" definition SMA can be generally defined as a generic approach that tries to connect management accounting and strategy and strategic positioning of the company. The concept of SMA requires management accounting to focus on performance measurement using strategic rather than tactical indicators. Bromwich states that SMA is distinguished by its focus on providing information relevant to evaluating a firm"s competitive position in an industry, with an emphasis on customers and competitors as externally located objects of management accounting analyses. Namely, Bromwich defines SMA as the provision and analysis of financial information on the firm's (product) markets and competitor's costs and cost structure and the monitoring of the enterprise's strategies and those of its competitors in these markets over a number of periods. From this it follows that SMA can be identified as a generic approach to accounting for strategic positioning, defined by an attempt to integrate insights from management accounting and marketing management within a strategic management framework

According to above listed definitions, the SMA literature has undergone several different development directions. Some authors divides SMA literature into two main research traditions: (1) the research that uses label SMA to investigate management accounting that is strategically oriented, and (2) research that examines inter-relationships between strategy and management control systems (MCS). More concretely, from the relevant literature two main approaches in conceptualizing SMA can be distinguished:

1) Simmonds"s approach to SMA

which is based more on Porter"s frameworks, which catalysed stream of research, focused more on the cost management needed to support low price competitive strategies than on the research on development, design and innovation required to earn a price premium through product differentiation. In this approach Simmonds maintained that sustainable competitiveness is an outcome of the organization"s ability to counter its core competitors" moves and thus there is a need for financial information about competitors.

2) Bromwich"s SMA approach is based on attribute costing technique, where the objective of attribute costing is to cost the benefits that products provide for customers, as opposed to reasoning underlying activity-based costing (Simmonds cost management approach) where it is the costs of the activities that the product consumes that are seen to drive costs of the products Bromwich (2001) sees SMA as

going beyond collecting data on businesses and their competitors, to considering the benefits that products offer to customers, and how these benefits contribute to building and sustaining competitive advantage.

From just stated definitions and basic research approaches, it is obvious that the term SMA has a multitude of different interpretations, depending on researchers' scientific background, underlying assumptions and starting points. Since Simmonds' definition and the concept's introduction into the relevant literature over 30 years ago, there is still little or no agreement what is and what constitutes SMA. Langfield-Smith (2008) emphasizes that SMA, with its „external orientation“, is well established by the scholars who dealt with it, but can be interpreted in different ways and there is no clear definition in literature. The term itself is open to a number of interpretations due to the varied nature of research associated with it, where some SMA researchers emphasize the interface between accounting and marketing, while others focus on linkages to strategy. In this sense it is not surprise that various authors have posited slightly different, but largely overlapping terms for this phenomenon, including accounting for strategic position, strategic cost management (SCM) and strategic management accounting (SMA)

2. Strategic Management Accounting Techniques

When it comes to techniques that are used or proposed for use under the SMA term, also due to the abovementioned absence of generally agreed conceptual framework, there is a multitude of listing and propositions of various accounting techniques that have strategic focus. The purpose of these techniques is to provide the strategic decision makers (managers and consultants) with information on the financial implication of alternative business strategies.

According to Cadez and Guilding listed SMA techniques can be classified into five broad categories: (1) costing, (2) planning, control and performance measurement, (3) strategic decision making, (4) competitor accounting and (5) customer accounting (Table 3). These classifications imply that SMA is a multi-dimensional construct, not just the collection of techniques. When analysing the listed SMA techniques it is obvious that they demonstrate external orientation of SMA and most of them are cost based. Also, from the Table 3 it can be seen that there are a significant overlaps between the classifications of SMA techniques, whereas the differences exist only in customer accounting category and usage of brand valuation technique. Various authors have analysed strategic management accounting techniques. A deep analysis by Langfield-Smith (2008) in her influential SMA concept's review paper concludes that „we do not need further surveys of practice, rather we need to know more detail of the extent and the manner in which techniques are used in practice, how they emerge and how the change process of their adoption occurs“.

Table 3: Essential Techniques in Strategic Management Accounting Toolbox

SMA techniques SMA techniques categories		Guilding et al. (2000)	Cravens & Guilding (2001)	Cinquini & Tenenbaum (2007)	Cadez & Guilding (2008)	Shah et al. (2011)	Fowzia (2011)
Costing	Attribute costing	✓✓✓	✓	✓	✓	✓	✓
	ABC/M	✓	✓	✓	✓	✓	✓
	Life-cycling costing	✓	✓	✓	✓	✓	✓
	Quality costing	✓	✓	✓	✓	✓	✓
	Target costing	✓	✓	✓	✓	✓	✓
	Value-chain costing	✓	✓	✓	✓	✓	✓
Planning, control and performance measurement	Benchmarking	✓	✓	✓	✓	✓	✓
	Integrated performance measurement/ BSC	✓	✓	✓	✓	✓	✓
Strategic decision-making	Strategic costing (strategic cost management)	✓	✓	✓	✓	✓	✓
	Strategic pricing	✓	✓	✓	✓	✓	✓
	Brand valuation (budgeting and monitoring)	✓	✓	✓	✓	✓	✓
Competitor accounting	Competitor cost assessment	✓	✓	✓	✓	✓	✓
	Competitor position monitoring	✓	✓	✓	✓	✓	✓
	Competitor performance appraisal	✓	✓	✓	✓	✓	✓
Customer accounting	Customer profitability/cost analysis	✓	✓	✓	✓	✓	✓
	Lifetime customer profitability analysis	✓	✓	✓	✓	✓	✓
	Valuation of customers as assets	✓	✓	✓	✓	✓	✓

2. FUTURE RESEARCH DIRECTIONS

Having in mind that the concept of SMA till now did not meet expectations of its most influential advocates, desirable future research directions in this area are more than few. In this sense, numerous authors are calling for new researches

aimed for filling gaps and empty spaces in the concept and its development. One of the most influential calls in this manner is “The paradox of strategic management accounting” editorial text preceding the special issue of *Management Accounting Research* on SMA, in which they reason the need for this special issue with several major drawback of SMA literature as follows: (1) further development of rapidly growing area of research labelled „strategy-as- practice” which focuses on the nature of strategies that the SMA techniques are intended to support, how they are developed and implemented, by whom, and for whom, as opposed to dominant SMA empirical research focused on adoption and implementation of SMA techniques; (2) the pursue of broader dimension of SMA as opposed to former quite narrowly on formal aspects of SMA analysis focused researches; (3) dealing with the problem that SMA and SMA techniques have not been adopted widely, nor is the term widely understood or used. Furthermore, some authors stress the problems of (1) organizational actors even inside the company perceiving the term „strategic” differently, thus contributing to confusion about what SMA might mean, (2) normative SMA literature often tending to draw on idealistic picture of how SMA ought to be performed, thereby not fully taking real organizational settings into account, and (3) further definition of desirable management accountants’ extensive professional skills, which cannot be simply knowing accounting or management accounting techniques, but also much broader know-how. The two major limitations of SMA literature, i.e.: (1) researches largely focused on investigating usage levels and factors that influence usage, meaning that extant literature sheds „little light on how SMA practices are implemented and used in practice” , and (2) researches have overlooked the important characteristics of public sector, which is increasingly concerned with issues of strategy and accounting. Finally, in listing possible future directions of SMA researches, maybe the most comprehensive identification of SMA future research directions is drawn in *Special issue on strategic management accounting* call for paper for special issue of *Management Accounting Research* on SMA, in which they emphasize following desirable SMA research directions focused on links between SMA and strategic management literature: (1) case studies and action research of SMA design and use, especially cases that exemplify particular conceptual perspectives, (2) how SMA can integrate related reinforcing activities like cost, value and risk management, management control and performance measurement, (3) SMA in environments with recurring discontinuities and disruptive changes, (4) SMA to support a knowledge-based view of strategy, (5) prospective, concurrent and retrospective use of SMA to formulate and implement strategy, (5) SMA and the evolution of strategy as a portfolio of businesses to a portfolio of capabilities and,

more recently, to a portfolio of relationships, (6) the strategy mplementation gap and SMA, (7) SMA and new software systems, and (8) SMA support for simultaneous management of dual and multiple strategies. All above listed desirable future research directions, drawn from the very recent relevant SMA literature, are indicating that in the concept’s researches there is a lot of work to be done in order for SMA to position itself as a well established and developed field of study.

3. CONCLUSION

SMA concept, even after thirty five years of researches and growing literature, is still lacking in numerous areas of development. The concept itself is still not clearly defined, which has resulted in a multitude of conceptually different research approaches and directions, and also in modest concept and concept’s techniques adoption by the practice. Exactly these deficiencies are often leading scholars to conclude that the concept did not meet the expectations, posed by the early authors. On the other hand, bearing in mind that SMA literature heavily relies on and is closely related to strategic management literature, which, due to its dynamism and multi-faced nature, is constantly changing research areas, it is somewhat understanding that the concept is still in pursue for clear definition and more or less clear research areas. All this points out that the SMA concept is still long way to go from clearly established field of research which needs to link strategy, accounting and marketing.

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