STRATEGIC MANAGEMENT ACCOUNTING – A MESSIAH FOR MANAGEMENT ACCOUNTING?

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ABSTRACT

When management accounting was introduced as an advanced version of cost accounting after second world war its early advocates had claimed that it would make accounting more useful in assisting managers in their decision making function. As the discipline has failed to live up to the promise now strategic management accounting has been presented as a messiah for the discipline of accounting. New promises have been made that while the traditional management accounting failed to make use of strategic thinking and other qualitative aspects of management the new discipline is likely to make accounting more relevant and important for managers. The empirical evidence on successful diffusion of strategic management accounting is still not overwhelming. It is therefore yet to be seen if strategic management accounting can live up to its promise in future or not.

Keywords: *Management, strategic management, cost accounting, strategic management accounting, decision making*

1. INTRODUCTION

Most textbooks of management accounting define the discipline in terms of its decision making role. It is generally stated that since managerial functions involve using information for better planning and control, therefore, management accounting is very important for effective and successful management at all levels. In this paper, we review the role of management accounting and after identifying its limitations we examine the claim that strategic management accounting is the future of this discipline. The analytical paper looks at the development of strategic management accounting as a new discipline which promises to be the flagship of the accounting profession. It makes a contribution to the general management literature by clarifying the role of management accounting in decision making and signifying the need for more empirical evidence on usefulness of strategic management accounting for general management.

The remaining of the paper is divided into four sections. In section 2 we review the role of traditional management accounting in decision making. In the second section 3, we describe the research methodology adopted for this paper and in the section 4 the potential of strategic management accounting in becoming a messiah for the management accounting discipline has been analysed. Finally in the section 5 conclusions are drawn and recommendations for further research are made.

2. MANAGEMENT ACCOUNTING AND DECISION MAKING

One comes across various definitions of ‘accounting’ in the textbooks; however, almost all definitions identify two important elements of accounting. First, ‘process’, where accounting is said to identify, measure, analyse and report economic information. Second, ‘purpose’ which is stated to be helping the users of that information make better decisions (American Accounting Association, 1966, p1). As opposed to financial accounting which provides economic information from the perspective of many external users, management accounting (MA hereafter) focuses mainly upon the needs of internal managers of an organisation (Hopper et al., 2007). In his review of the development of the discipline, Roberts (1989) states that the MA related practices do not owe their development to the MA as most of them were already in existence in the textile industry. It is further argued that the discipline of present day MA had grown out of cost accounting which had been in the curriculum since 1940s. The discipline of MA, however, promised to make up for two important deficiencies in the then cost accounting. First, the cost accounting focused entirely on numbers and second it was only interested in working out full cost of products. The existing discipline of MA was developed after the Second World War and soon it became so popular that it emerged as a standard course in all business schools. Many accounting scholars, however, started expressing their dissatisfaction with the new discipline and criticized its inability to deliver what it had promised. In a seminal article, Johnson and Kaplan (1987) criticized that MA systems had lost relevance as they were inadequate for the modern accounting environment, and that they were not useful in the process of control, product costing and evaluation of managers' performance amid mounting information processing capabilities. They very succinctly summarized the inadequacy of MA to cope with the demands of modern management by stating that the information generated by MA was:

"Too late, too aggregated and too distorted to be relevant for managers' planning and control decisions" Johnson and Kaplan (1987: p1)

The authors, therefore, identify three main limitations in their seminal book. One, MA information was acquired from the existing financial accounting information systems. As a result the focus generally remained on annual periodical targets and internal accounting systems thus failing in providing accurate and holistic information that mirrors the technology, products, and complexity of the operational processes on the one hand and on the other hand failing in integrating these for operating in a highly competitive environment (Baines and Langfield-Smith, 2003). Second, its aggregated form renders it less useful for a manager who wants information to be customised according to the specific managerial needs. Third, the window dressing applied by financial accountants to make it look good to the external users makes it less reliable for managerial decision making.

This serious criticism soon led to a rising chorus of discontent with the MA systems. For instance Cooper (1996) and Parker (2002) bemoan the fact that management accountants make little use of strategic management in their work. Using the concept of progression Åhlström and Karlsson (1996) also argue that MA had not advanced to take advantage of innovative techniques in the field of management. Roslender and Hart (2006) express great concern over the apparent lack of importance given to effective strategic brand management by the MA discipline. Similarly, MA is also believed to be wanting in facilitating 'intragroups' communications and as a result it has failed to bridge the gap due to breakdown in communications between members of different countries (Bayou,1993; Bhimani, 2009).

The business environment has undergone significant changes due to globalisation and developments in information and production technologies (Burgstahler et al. 2007). These have collectively resulted into significant changes in the management and organisation of companies. These changes have indirectly and radically affected the field of MA, especially its information functions within an organisation. These unfolding realities have generated the need for MA to shift concern from its traditional preoccupation with numbers and accounting measures and instead focus on value addition and integration within a company.

Critics have regularly complained that MA focuses too much on internal business functions of accounting in order to meet the requirements of the internal managers. For instance, Chapman (2005) argues that while special attention is given to the internal affairs of the business sight is lost of the external opportunities and potential business threats.

It is, therefore, reasonable to conclude that there is a rising chorus over the failure of MA in delivering what it had promised when it replaced cost accounting as a core discipline of accounting.

3. RESEARCH METHODOLOGY

There is a growing literature on strategic management accounting (SMA hereafter) and increasingly SMA is taught as a subject in accounting degree courses. The underlying assumption of this discipline is that it improves upon the traditional management accounting by enlarging its scope and realigning it more tightly with other disciplines such as strategy and marketing. The research question which guides this paper draws its inspiration from the title of the paper. We have examined the discourse found in the literature with a view to answering the question:

Can SMA become a messiah for the management accounting discipline?
In order to answer the research question we adopted the analytical method of research (Norreklit, 2000; Wilson, 1969, 1986). In this method an attempt is made to improve the level of clarity and precision in the meaning of the concepts used in a given theory or a model. The benefit of using analytical method is that a given answer is evaluated for its accuracy and a model is assessed for its robustness (Norreklit, 2000). In this way it helps in making any theoretical framework more useful and contributes to its further development.

4. STRATEGIC MANAGEMENT ACCOUNTING (SMA) AS A MESSIAH

Numerous calls for improvement in MA have repeatedly been made so that the discipline is able to regain its lost relevance (Baines and Langfield-Smith, 2003). Just as MA was developed and introduced as a recipe for the shortcomings of the traditional cost accounting textbooks, SMA has, arguably, been launched by the accounting scholars as the new state of the art discipline. It has been claimed that the development of the field of SMA would render the old fashioned MA extinct as the newer version focuses not only on the internal financial information, but also upon the external aspects of the business operations (Smith 2005). Simmonds (1981), who is credited with phrasing Strategic Management Accounting (SMA), differentiates it from MA on the basis of its greater focus on the comparison of the business with its competitors. Bromwhich, (1990) contends that SMA enables the management to have a bird's eye view of the competitors' procedures and business techniques business and to take decisions accordingly. In this way a major hallmark of SMA is its inclusion of non-financial aspects for the purpose of decision making (ibid) What is this?. Lords (1996) identifies the following functions which are commonly associated with SMA:

1. Collecting information related to the competitors.
2. Using accounting for a strategic decisions.
3. Cutting costs on the basis of strategic decisions.
4. And, gaining competitive advantage through it.

Wilson and Chua (1993) tabulate ten key differences between MA and SMA as following:

	Traditional MA	Strategic MA
1	Historical	Prospective
2	Single entity	Relative
3	Introspective	Out-ward looking
4	Manufacturing focus	Competitive focus
5	Existing activities	Possibilities
6	Reactive	Proactive
7	Programmed	Un-programmed
8	Data orientation	Information oriented
9	Based on existing systems	Unconstrained by existing systems
10	Built on conventions	Ignores conventions

As stated in the earlier section, strategy writers have been complaining that the accounting discipline had failed to make use of strategic management. For instance Porter (1985) and Hergert and Morris (1989) argue that the cost analysis based data of accounting systems inhibit instead of helping strategic level analysis. In order to address such concerns authors of management accounting have been advocating the use of analytical tools which were developed in the fields of strategy and marketing. Given next is a brief review of those tools which are now considered an essential part of SMA toolbox.

Attribute Costing: In this costing system the attributes of a product are emphasised, including the products features, certain purchase agreements, or after-sales services. The information inspected, however, has to be relevant to current or future competitors.

Competitor Cost Assessment: Taking advantage of the increasing trend of readily accessing available information, the competitors' costs (production, labour, raw materials) are keenly analysed. Bromwich (1990) stresses the need for studying competitor's costs as understanding them helps in managing a business's own costs.

Competitor Appraisal Based on Financial Statements: It is another effective concept as it permits comparison and benchmarking, the process is also reasonably inexpensive. In their CORE framework, Moon and Bates (1993), argue that the information contained in financial statements can be strategically used with the help of ratio analysis.

The Balanced Scorecard(BSC): The BSC was proposed by Kaplan and Norton (1992) in which financial and non-financial measures were integrated for strategic performance management purpose. It aimed to create a balance by linking vision and strategy of the business with multi-dimensional perspectives of customers, internal business processes, learning and growth, and financial position.

Strategic Costing: A further concept of relevance as costs are broken down to measure them for strategic relevance, such as matching the amount competitors spend on areas such as marketing and pricing.

Valuing Customers as Assets: It is a concept that illustrates the importance of a customer or particular group of customers, Guilding and McManus (2002) state that it can be assessed through a method where the present values of estimated profits are discounted from the trading correlation of particular customers.

Value Chain Costing: The technique has been developed from value chain analysis proposed by Porter (1985) for gaining competitive advantage. In this analysis all value-creating activities related to the development of a product or service are linked in the form of a chain. Those activities which are vital for adding value are given more importance.

Brand Management Accounting: Roselender and Hart (2003) carried out studies on implementation of this concept which links accounting information with brand improvement and customer loyalty.

Activity Based Costing (ABC): The ABC is a costing system in which manufacturing overhead costs are assigning to products through a cogent approach, as opposed to allocating the costs on the basis of a pre-determined rate. It initially assigns costs to an activity that is directly linked to overheads; and subsequently assigns the costs to those products that require the production activities.

Scholars are not unanimous in their verdict on the question that whether SMA has been able to deliver what it had promised. On one extreme there are authors who are very skeptic and even question the role of accounting information in decision making. They contend that managers often first make decisions and then use accounting information to justify and rationalise those decisions. In this way accounting is used as an ammunition machine rather than a facilitator for decision making (Thompson and Tuden, 1959). There are other authors who believe that the hype around SMA is not proved by empirical results. For instance Lord (1996) contends that the techniques advocated by SMA are ordinarily used in all organisations and that those techniques do not need management accountants. Alkaran et al. (2006) carried out an empirical survey of businesses in the UK to find out managerial use of strategic investment appraisal methods which included most of SMA related tools such as BSC and value chain accounting. They concluded that not much evidence was established that such methods were widely practiced.

There are other authors, however, who believe that the future of management accounting relies heavily on diffusion of SMA practices (see for example Hopper et al. 2007). SMA utilises the traditional management accounting methods of acquiring and understanding financial information and then goes on using the same to strategically formulate informed business plans thus aiding improvement in the performance of such enterprises at a strategic level. In this way it differs from management accounting as it broadly looks into internal and external issues that directly or indirectly affect a company or business (Hopwood 2007).

Roselender and Hart (2003) contend that SMA was not only about making management accounting 'more strategic' but it also brings more benefits to an organisation. The writers on SMA have highlighted different defining characteristics of SMA. For instance, Simmonds (1981) believes SMA to be primarily marketing focused, Wilson (1995) calls it future oriented while Bromwich (1990) and Guilding (1999) sees the competitor's perspective as the most important one. For Baines and Lang field-Smith (2003) redirecting energy towards the non-financial aspects is the main promise of SMA.

It is claimed by some authors that whereas MA fairly supports implementation and management of quality improvement by applying various methods, it is conspicuously evident that there are gaps in this approach. Strategic management accounting fills the gaps by promoting and supporting mechanisms of implementing total quality management and its improvement. This, therefore, goes a long way in enhancing improvement of product quality as well as ensuring the existence of cost efficiency (Khan and Jain 2007).

The new discipline of SMA does not break away from the existing MA. In fact both MA and SMA generally offer similar functions at an operational level however SMA endeavors to develop these ideas and to refine them further to meet the requirements of the increasingly developed accounting industry. Vaivio (2008) argues that since SMA looks at the firms' competitive position in the market rather than merely concentrating on internal competencies, it is, therefore, a better tool for rational decision making. It is further contended that SMA focuses on an in-depth review of decision making compared to traditional MA. SMA is able to look beyond financial aspects through competitor analysis and market analysis.

With so many scholars stressing the need for adopting SMA practices does it mean that SMA will deliver what it has promised? There is a need for some caution as the supporting empirical evidence is not overwhelming. In a study of SMA techniques applied by firms in the UK, USA and New Zealand it was concluded by Guilding et al (2000) that the uptake was not extensive. Innes et al. (2000) also found that several companies had not considered using ABC, and that the adoption of these concepts was not guaranteed as many managers viewed them as costly, time consuming and complicating. According to Guilding et al. (2000), SMA can be misunderstood as they found in their report based on the survey of12 SMA practices in different countries. They also reported that accountants still disagree over what constitutes SMA and concluded that the extent of diffusion was not uniform in New Zealand, UK and USA.

5. CONCLUSION

In this paper we reviewed the claim that SMA is the future of MA. The underlying assumption in this assertion is that SMA addresses all the criticisms that have been leveled against traditional MA. Various authors have indicated that SMA has bridged the gap that existed between strategic management and MA. It is suggested that SMA can help MA moved away from simply monetary concerns and closer to multi-dimensional business matters (Mike et al, 2009). Analysts view with great favour that SMA focuses on financial information of a business' product markets and competitors' cost structures and the monitoring of the enterprise's strategies and those of its competitors in these markets over a number of periods (Bromwich, 1990). This leads to a greater emphasis on the information related to the external factors of the business including internally generated and non-financial information (Inman, 1999). Another promising feature of SMA is that performance measurement is not based on profit related measures but strategic tools such as BSC are utilized for strategic performance management purpose.

Authors, therefore, pin their hopes on SMA to rescue the beleaguered discipline of MA from going further down the hill (Jablonsky et al, 1993). There is a growing realisation for pedagogical changes in the teaching of accounting if it has to recover and retain its relevance. Greater emphasis should be placed on the interrelationships of accounting with other disciplines like strategy, marketing and human resources management. For that, as suggested by Scapens (1999), there should be greater inclusion of case studies, practical projects and group research projects that highlight external issues as opposed to just evaluating internal costs related ones.

Prominent management accounting scholars (for example, Otley, 2001) express their optimism over the fact that SMA concepts and processes have been applied in the recent years in MA, and are gaining wider publicity through business reviews and journals and the work of management consultants. While the integration of strategy with MA is a source of optimism, there is a need for caution as well. Empirical evidences so far are not very strong to lead us to a convincing belief that SMA will deliver all that it promises today. However, since there is a strong relationship between organisational performance and a formal strategic plan (Herold, 1972) SMA can play an important role in filling the gap between accounting and strategic management. Some authors (for example, Anderson, 2007; Roselender and Hart, 2003) believe that SMA would not only overlap with strategic management but that it would infuse all boundaries of management, and hence it can be concluded with some caution that the future of MA was not only SMA but the integration of all management fields. There is a need for further empirical research on diffusion, implementation and usefulness of SMA practices. Only empirical evidence can establish whether SMA can perform its promised role of a messiah for MA effectively or not.

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