Strategic management accounting: why are not expectations fulfil?

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Abstract: This paper analyses some reasons why strategic management accounting was not widely accepted. After initial boom of strategic management accounting there is stagnation in recent year. Application of strategic management accounting in practice does not exceed pilot case study. Strategic management accounting lessons are not commonly included in educational programs. Finally researches on strategic management accounting have only limited results. Paper is based on literature review and empirical research.

Key-Words: Strategic Management Accounting, Life Cycle Costing, Target Costing, Management Accountant, Accounting Information, Business Strategy

1. Introduction
Strategic management accounting (SMA) has gone through large development at the end of the twelve’s century and it supposed SMA replaces in future traditional cost a management accounting. Now it seems that this presumption has not been realized. The aim of this paper is confirm the hypothesis that after beginning development the strategic management accounting has not been widely adopted and applied in education and practice.

2. Methodology
The research is based on literature review and direct investigation of the actual situation in the Czech Republic. The questionnaire was developed and then sent to 50 biggest industrial and commercial companies in the Czech Republic. Twenty-six responses are included in this research. The companies included in the research operate in various areas of business. Then several top managers (Chief Executive Officers and Chief Financial Officers) were interviewed directly.

3. Literature review
3.1 SMA Definition
The one of very important problem of SMA outcomes from the fact that there is no general accepted definition of SMA in the literature. At its very simplest, SMA is about making management accounting more strategic (Roslender and Hart, 2003, p.272). Simmonds defined it as “the provision and analysis of management accounting data about a business and its competitors, for use in developing and monitoring business strategy” (Simmonds, 1981, p. 26). Bromwich (1990, p. 28) provides a definition that limits SMA to financial information, but which is focused on performance relative to competitors: The provision and analysis of financial information on the firm’s product markets and competitors’ costs and cost structures and the monitoring of the enterprise’s strategies and those of its competitors in these markets over a number of periods. The confinement of SMA to financial information and costs may be regarded by some as limiting; many consider that non-financial information is an important component of SMA.
Dixon and Smith (1993) present four stages to their SMA process: strategic business unit identification, strategic cost analysis, strategic market analysis, and strategy evaluation.

Like many SMA commentators, Lord (1996) and Dixon and Smith (1993) see SMA as lying at the interface of management accounting and strategy. However, some other authors see marketing as the more relevant orientation for SMA (See, for example, Foster and Gupta, 1994; Roslender, 1995, 1996; Wilson, 1995). Roslender and Hart (2002, p. 269) argued that SMA should become “more thoroughly infused with marketing issues, theories and concepts to form a ‘marriage of equal partners’”. The resultant “brand management accounting” would include performance measures such as market share, market growth and brand strength, and customer profitability reports would focus on sub-brands and specific market offerings.

Some authors define SMA as a process. For example, Lord (1996) describes SMA as a six-stage process as follows:
(1) Collection of competitor information.
(2) Exploitation of cost reduction opportunities.
(3) Matching of accounting emphasis with strategic position.
(4) Collection of competitor information.
(5) Exploitation of cost reduction opportunities.
(6) Matching of accounting emphasis with strategic position.

Review above shows that the most of definitions are very general and they have significantly different basic content: First, there is not clear if SMA should focus only on financial or also on non-financial information. Second, there is no clear boundary between strategic management accounting as information support of strategic management and strategic management itself. A lot of definitions focus on management and strategy process than on information support. Third, there is no clear relation between SMA and strategic marketing and business strategy.

Absence of widely accepted definition is one of the significant problems for application and education of strategic management accounting. Creators and users of SMA could have different requirements and expectation.

3.1 Techniques and methods of SMA
The other problems relate to absence of setting list of techniques and methods that should management accounting include. (Langfield-Smith, K., 2008). The only general accepted methods are target costing, life cycle costing, and strategic cost analysis. For example Cravens and Guilding (2001) identified 14 techniques of strategic management accounting:

-activity based costing/management (ABC/M) - the strategic focus of this technique consists in the management of the activities through which it is possible to define actions aiming at achieving a competitive advantage;

-attribute Costing - consider products / services as a bundle of features that differentiate the products which costs are determined, this technique can be interpreted as an externally oriented because the attributes of services are determined according to customer requirements;

-benchmarking - involves identifying the best practices and comparing the organization's performance to those practices with the goal of improvement; this technique underline the external strategic orientation toward competitors;

-competitive position monitoring - aims at gathering the information on competitors regarding sales, market share, volume and unit costs; Basing on the information provided, the company is able to assess its own position relative to main competitors and, consequently, control or formulate its strategy;

-competitor cost assessment - in contrast to the previous technique, competitor cost
assessment concentrates uniquely on cost structures of competitors; the main criticism of this technique regards the information sources;

- **competitor performance appraisal based on public financial statements** - a relevant source of competitors’ evaluation is constituted by public financial statements; today’s international accounting harmonization permits a simpler comparison between companies of different countries;
- **customer accounting** - this technique considers customers or group of customers as unit of accounting analysis and aims at appraising profit, sales or costs deriving from customers or customer segments;
- **integrated performance measurement** - implies a definition of an integrated performance measurement system, which contains both financial and non-financial measures (balanced scorecard);
- **life cycle costing** - aims at calculating the total cost of a product throughout its life cycle, from the design to the decline, through introduction, growth and maturity; it is a clear long term accounting perspective and market orientation;
- **quality costing** - product quality has become a precondition to its market success; this technique classifies and monitors costs as deriving from quality prevention, appraisal, internal and external failures;
- **strategic costing** - costing systems are progressively getting into the strategic management process, which means that costing systems must explicitly consider strategy and the pursuit of long-term competitive advantage;
- **strategic pricing** - focuses on the use of competitor information, like competitors’ reactions to price changes, price elasticity, economies of scale and experience, in the pricing process;
- **target costing** - within this technique many external factors intervene;
- **value chain costing** - propose an approach to accounting that considers all the activities performed from the design to the distribution of the product; the strategic implications regard the exploiting of the economies and efficiencies deriving from the external linkages between the company and both suppliers.

But most of these techniques mentioned above bring no specific advancement, but they present ideas that should be applied in strategic management. Some techniques are only extended application of traditional methods (ABC, quality costing etc.)

### 4. Empirical research

The empirical research confirmed that the all top managers considered all topic cover by strategic management accounting (competitor performance appraisal, strategic cost analyses, integration financial and non-financial information, competitors cost analyses) very important and useful for strategic development. On the other hand they mostly confirm that this information do not result from the activities of controlling/management accounting departments but they have other sources, how to gain this information:

- they use services of management consulting firms that regularly or on requirement prepare required reports
- they have special department oriented on strategy development or mergers and acquisitions and these departments provide to top managers external information including integrations with internal financial and non-financial information.

Departments of controlling/management accounting “only” supply external consulting firms or special departments with tradition management accounting information, but they do not prepare SMA information. The reasons why department of management accounting are perhaps:

- the departments of management accounting/controlling have no capacity to cover topic of strategic management accounting. The employee are “over tasked” solving operating and tactical
problem as and analyses and they have no disposition for very wide themes of SMA - traditional management accounting required very hard and accurate work, SMA required creative work and unbundling form rigid practice and it is very difficult to fulfil both sides - precisions work and creative work.

These conclusions are very similar to previous research. Coad (1996) argued that to undertake SMA projects, accountants need to work smart and hard. Smart work involves choosing clever and ingenious approaches to deal with a task, and then modifying the approach intelligently and resourcefully hen needed. Hard work is the use of effort to complete the task. Coad argues that SMA requires a learning orientation, as this motivates both smart and hard work, whereas a performance orientation only motivates hard work, and is not sufficient to undertake SMA. He speculated that in addition to undertaking smart work, the effective strategic management accountant requires high levels of communication skills and the ability to empathize with others.

However, his colleague, Robin Cooper, expressed doubt that this would ever occur, as accountants did not have the ability to learn “new tricks”. Cooper highlighted that SCM activity was developing outside of the view of the accounting profession and he is quoted by Shank as saying that accountants are “intellectually and emotionally un-equipped” for the transformations (Shank, 2007, p.359). At that time, Shank still disagreed with Cooper’s views.

The North American professional bodies that had been dedicated to management accounting – IMA in the USA and CIMA in Canada – faced a shrinking membership and their attempts to reposition their professional magazines as “strategic” were not successful. The topic of management accounting was dropped from the core curriculum of major US MBA schools and the large SCM-based management accounting practices of the accounting and consulting firms were dying.

5. Limitations
This paper focuses on only several aspects of SMA, there is not included complete list.

6. Conclusions
This paper was inspired a lack of success of SMA. Thirty year ago, SMA started with great promise and for many years there was much enthusiasm from the professional and academic accounting communities.

Now, the lack of widespread adoption SMA is evident, the main reasons are absence of general accepted definition, unclear methods and techniques of SMA and lack of skill of management accountants to fulfil requirements of SMA.

References:


