

Strategic Management Accounting Development during Last 30 Years[#]

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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.

In 1981, Simmonds claimed that SMA was “spreading rapidly in practice” and that “management accountants are spending a significant proportion of their time and effort in collecting and estimating cost, volume, and price data on competition and calculating the relative strategic position of a firm and its competitors as a basis for forming business strategy”(Simmonds, 1981). This is a curious claim, as in later years, several writers maintained that such practices have not been adopted widely (Guilding et al., 2000; Lord, 1994, 1996; Shank, 2007). Was Simmonds exaggerating, or was he using the term SMA, or viewing SMA, more loosely that of subsequent researchers and writers?

In the years following Simmonds (1981), many papers that promoted SMA appeared in the professional literature and were largely normative papers or descriptive case studies. It was not until the late 1980s that more significant academic writing emerged presenting SMA within a more theoretically-grounded research framework. Prominent were works by Bromwich (1990) and Bromwich and Bhimani (1989, 1994).

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Bromwich (1990) provided persuasive arguments in favour of SMA and compared papers, which up to that time relied on common sense to justify the case for SMA. He stated that we need to release “management accounting from the factory floor” to assist it to meet the global challenges in product markets, and to allow management accountants to focus on the firm’s value-added relative to competitors.

The first theme, is that products are desired for the attributes that they provide (Lancaster, 1979), and, thus, accountants have a role to play in costing various product attributes and monitoring the performance of such attributes over time. “Attribute costing” would require accountants to embrace strategic information as well as cost information. This would entail costing the attributes or characteristics provided by goods and monitoring and reporting these costs regularly. However, information about the demand and cost factors associated with those attributes must be relative to those of current and future competitors. To survive, a firm must continue to offer the cheapest way for consumers to obtain the desired bundle of attributes. Bromwich stated that this may require some organizational restructuring to enable the accounting and finance functions to be situated closer to the function that require and work with this new information. In a later work, Bromwich explained that attribute costing was quite distinct from ABC and ABM: ABC/ABM costs the functions in the value chain that provide value to the customers, whereas under attribute costing it is the attributes provided by a product that customers desire which are costed (Bromwich and Bhimani, 1994).

The second theme draws on the theory of contestable markets, which suggests that a company needs to maintain its cost advantage over current and potential competitors to have a sustainable strategy (Baumol, 1982; Baumol et al., 1988). This will involve reporting on the cost structures of competitors and potential rivals, to survive in a competitive market that is horizontally differentiated. The costs of barriers to entry and sunk costs related to those cost barriers, requires accountants to adopt a more external focus to cost analysis (Bain, 1965).

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.

1 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.

2 Literature review

2.1 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). 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). Bromwich (1990) 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). Roslender and Hart (2002) 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.

While SMA is a term used by accounting academics and sometimes practitioners in the UK, Australia and New Zealand, in the USA the term strategic cost management (SCM) is more commonly used in the literature. Shank and Govindarajan (1994) describes SCM as “the blending of the financial analysis elements of three themes from the strategic management literature – value analysis, strategic positioning analysis, and cost driver analysis”.

The emergence of SCM is described by Shank as the third stage of the development of the management accounting discipline: from cost accounting to managerial accounting to SCM. Cost accounting transformed into management accounting in the period 1945 to the 1960s. While management accounting emphasized the role of financial information in decision making across a range of business problems, it did not consider, explicitly or even implicitly, the business context in which those decisions were embedded.

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.

2.2 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, 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.)

2.3 Practice of SMA

The 1990s are described as “the glory decade” where academics, consultants and practitioners all played a role in popularizing strategic accounting. Shank notes that many strategic cost management (SCM) tools were implemented as pilot studies in US companies and published

as teaching case studies, or as chapters in books. Professional journals carried articles with SCM themes and the training activities of professional accounting bodies focused on SCM tools and techniques. Global consulting firms developed very active practices in the area of SCM and some specialized in the design and implementation of specific SCM techniques.

In contrast to this activity, Shank notes that in many business programs traditional management accounting continued to be taught and none of the major US management accounting textbooks gave coverage to the new SCM topics. At this time Shank assumed this was simply a publishing time lag. However, during this period, an aspect that disturbed Shank was the lack of involvement of “internal” accounting departments in SCM implementations in corporations. Again he assumed that this would be corrected over time. 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). At that time, Shank still disagreed with Cooper’s views.

Shank chronicles the “unraveling of the pieces” from 2000 to 2005 and documents a litany of troubles that cast doubt on the future of SCM. He noted with surprise that companies that he had documented in case studies, and other corporations that had started to implement SCM, had not moved beyond pilot studies or cameo pieces, and few could showcase their success. The decline of management accounting as a profession in the USA was apparent in their changing focus. 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. The staffing levels of accounting functions in corporations in the 2000s were close to 1 per cent of total staffing numbers, whereas in the 1980s it was typically 2 per cent, and in the 1960s it had been 4 per cent.

3 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 does 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 whit internal financial and non financial information.

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

- 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 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 then needed. Hard work is the use of effort to complete the task. Coad (1996) 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.

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Summary and 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.

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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.

JEL classification: M41.