Strategic management accounting

Business, Management

STRATEGIC MANAGEMENT ACCOUNTING This report will attempt to explain what Strategic Management Accounting (SMA) is, how it developed, why Traditional Management Accounting (TMA) is not sufficient to provide information for strategic decisions and the difference between SMA and TMA. It will further outline some of the essential analytical tools or techniques in SMA such as Activity Based Costing (ABC) and the Balanced Scorecard (BSC). SMA is an extremely broad concept, so in order to give a bird’s eye view of the subject this report mainly focus on comparing SMA to TMA and finally describes the importance and criticisms of SMA.

What is Strategic Management Accounting? “ A form of management accounting in which emphasis is placed on information which relates to factors external to the firm, as well as non-financial information and internally generated information. ” (CIMA Official Terminology) “ Strategic management accounting is a crucially important activity because it is outward-looking. It focuses specifically on the market, hence its common description as market-driven accounting. The main data it produces is on customers, products and competitors.

This is softer in form than the hard numbers associated with financial reporting, but it forms a part of the inclusive strategy process that is linked to the pursuit of competitive advantage. ” (Roslender and Hart, 2006) As mentioned above, SMA emphasis on information external to the firm, such as information about competitors and customers, and non-financial information such as product quality and customer satisfaction, along with emphasising on firm’s internal factors such as information regarding company’s overheads and management of raw materials.

The professional strategic management accountant engages with the organization’s top management team and contributes to strategy development and implementation with the aim of creating customer value and a strong competitive position for the organisation. The businessenvironmenthas undergone significant changes due to globalisation and developments in information and production technologies (Burgstahler et al. 2007). Trading on a global stage with exponentially advancement intechnologyhas indirectly and radically ffected the traditional management system. These sudden changes have generated the need for Traditional Management Accounting, which is preoccupied with numbers and accounting measures to shift to the next level, which is to focus on value addition and integration within a company. Strategic Management Accounting VS Traditional Management Accounting The three main limitations of Traditional Management Accounting (TMA) are, first, TMA 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. Just as TMA 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 TMA 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 SMA, differentiates it from TMA on the basis of its greater focus on the comparison of the business with its competitors. Bromwich, (1990) contends that SMA enables the management to have a bird’s eye view of the competitors’ procedure 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. Lords (1996) identifies the following functions which are commonly associated with SMA: 1.

Collecting information related to the competitors. 2. Using accounting for 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| | Programmed| Un-programmed| 8| Data orientation| Information oriented| 9| Based on existing systems| Unconstrained by existing systems| 10| Built on conventions| Ignores conventions| Critics have regularly complained that TMA focuses too much on internal business functions of accounting in order to meet the requirements of the internal managers. Some 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.

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. Some of the analytical tools which were developed in the fields of strategy and marketing, which are now considered an essential part of SMA toolbox, are: Attribute Costing: In this costing system the attributes of a product are emphasised, including the products features, certain purchase agreements, or after-sale 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 oncept as it permits comparison and benchmarking, 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 perspective 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 is linked in the form of a chain. Those activities which are vital for adding value are given more importance. 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 predetermined 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. Disadvantages of Strategic Management Accounting Some argue that Management accountants do not have a set of policies and procedures to follow, as financial accountants follow accounting procedures and principles outlined by IFRS committee or GAAP. Strategic accountants form their own standards and therefore information cannot be compared from company to company as in financial accounting.

Another form of criticism is that strategic accountants focus mainly on quantitative information, and quantitative information obtained are very rational. The drawback with focusing mainly at rational information is that other relevant and crucial information may be ignored. For example, they might determine a new office should be built at a specific location because wage and taxes are lower; however they might have failed to look at the bigger picture by only focusing on quantitative information.

Since there is no standard procedure or principle to follow, strategic accountants add their own personal beliefs and feelings into making decisions. Free of bias is next to impossible but even if there is one, requires individuals that can focus on the entire job at hand and take all factors into consideration. Expensive Conclusion: Strategic Management Accounting involves major decisions, business choices, and actions of organisation by using both financial and non-financial information with a greater focus on the comparison of the business with its competitors.

Implementation of SMA tools provides a sustainable competitive advantage for the company to build a stable economic position within the industry. TMA focuses too much on internal business functions and that result in lost of the external opportunities and potential business threats. Despite the disadvantages mentioned above, it can be concluded that SMA improves upon the traditional management accounting by enlarging its scope with other disciplines such as strategy and marketing. Bibliography: 1. Baines, A. And Langfield-Smith, K. 2003), ‘ Antecedents to management accounting change: a structural equation approach’. Accounting Organizations and Society, 28 (7-8). 2. Burgstahler, D. , Horngren, C. T. , Schatzberg, J. , Stratton, W. O. And Sundem, G. L. (2007), Introduction to management accounting, 14th ed. , Pearson/Prentice Hall, Upper Saddle River, NJ. 3. Smith, M (2005), Performance measurement and management: a strategic approach to management accounting, SAGE, London. 4. Simmonds K, (1981), ‘ Strategic Management Accounting’, Management Accounting, 59(4), 26-29. 5. Bromwich, M. (1990).

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