

# Strategic management accounting essay examples

[Business](#), [Management](#)



## **Introduction**

The underlying research is an effort to exploring and critiquing the strategic pricing technique of strategic management accounting. Thus, the main aim of the paper is to evaluate the effectiveness of emerged strategic management accounting pricing tactics against traditional management accounting model used for the purpose of pricing products.

## **Literature Review**

Strategic management accounting is one of the most novel but highly effective emerged disciplines in the modern business environment (Shah, Malik, and Malik, 2011). The concept has emerged with the critiques of traditional management accounting practices (Talha, Raja and Seetharaman, 2010). It was proclaimed by the early researchers of the discipline that management accounting only focuses on internal process, costs, and benefits and apply traditional markup techniques (Gitman, 2003).

Further, the advocates of the strategic management accounting proclaimed the need for more comprehensive systems to manage accounting information for the purpose of developing sustainable competitive strategies in alignment with current competitive market trends (Malinić, Jovanović & Janković, 2012). The term “ strategic management accounting” was first stated by Simmonds (1981) with the argument that focus of accounting gauges of the businesses should be more on outward view to gain competitive advantage rather than only focusing internally (Collier, 2005). Whilst, Egbunike, Ogbodo, & Onyali (2004) stated the critiques of the discipline in their research paper and maintained management accounting is

a sub-part of strategic accounting as it only presents accounting information on the grounds of internal process and developments. In addition to that, CIMA (n. d.), research paper presented a comprehensive view of strategic management as conceptual model and maintained that management accounting is an integral part of management process but not the whole decision-making tools in the current business scenario.

(CIMA, n. d.)

Traditionally, management accounting discipline was the main “ pricing” tool for the firm that was focused on the costing calculations in financial terms and adding the markup in terms of attaining aimed profits. However, “ strategic pricing” is the approach of pricing that is adopted by SMA with the concept of profitability as a follower but not a leader (Ward, 2012). Accepting the viability of the concept, Hogan and Nagle (2005) effort to explain the concept of strategic pricing and discussed the pyramid that depicts the effective layers of the strategic pyramid as illustrated below.

(Smith, 1997)

Closely evaluating the pyramid, it can be inferred that model is highly aligned with matter of fact that management accounting is sub-part not the comprehensive discipline to pricing the offers of a company. The emergence and acceptance of SMA concepts have transformed the traditional management accounting cost-based pricing model into many different alternatives accordingly as discussed above by presenting Drury’s matrix. Below is the elaboration of some modern techniques that are developed considering the competitive pressures and customer value creation concepts of competition-based and value-based pricing (Hinterhuber, & Liozu, 2012).

Some of the widely practiced modern costing techniques are life cycle costing, target costing and kaizen costing (Collier, 2005). Life-cycle costing refers to address all the costs of whole life-cycle of the product, this utilized to estimate the whole cost covering profits for the product. While, target cost is more of customer-oriented type downward procedure that focuses to estimate the cost coverage of product with the customers' inclination to pay for the product. Finally, Kaizen is a during procedure costing measure that allow firms to price products during production phase by capitalizing on cost efficiencies in procedures (Collier, & Agyei-Ampomah, 2006). All the above techniques are the counteractive developments of a traditional costing system that was utilized by businesses to price their products.

### **Role of Strategic Pricing in creating or sustaining competitive advantage**

Drury (2011) presenting a critical review of concept evolution discussed that SMA is the evolution of management accounting which is utilized to develop a competitive business strategy on the ground of relationships among cost management and strategy as depicted below.

(Drury, 2011)

The model depicted above explains the effectiveness of strategy and costing amalgam in a nutshell. As depicted, the strategy provides guidance that allows technical management accounting to align costing of a product according to the market developments in terms of competition and customer value. In addition to that, as explained in the strategic pricing approach allows the manager to gather and evaluate large information base for the purpose of pricing a product.

Roslender and Hart (2003) maintained that SMA is an accounting practice that allow the firm to gain strategic position in the market. Performing an empirical strategy for the purpose of digging deep roots of connection between accounting and marketing practices, the author concluded limited evidence of SMA effectiveness, however, maintained that it is emerging as brand performance management tool in large organizations.

## **Conclusion**

The document presented above critiqued the evolution of SMA concept and the strategic pricing evolution in terms of turning around from cost-based to market(competition and consumer)-based pricing. Exploring the grounds, it is found that strategic management accounting is emerging as the revised management accounting discipline for the purpose of costing and pricing products. However, it undertakes management accounting as an integral part of a comprehensive pricing and strategic management process.

The turnaround of strategic thought is developed on the grounds of gaining a sustainable competitive advantage by focusing on market dynamics rather than profit generation. For the purpose, new models of costing are emerging among which life-cycle, target and kaizen costing is considerably well-known modern methods of costing. Further, strategic pricing tactics are highly useful and accepted to be a supportive tool for developing the business competitive strategy. Critics maintained that information-driven right amalgam of strategy and costing allow firms to gain competitive advantage.

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