

Critical analysis of strategic management accounting (sma)



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This essay presents a critical analysis of strategic management accounting and the roles of management accountants in it. The starting point for this analysis is the argument presented by Cadez and Guilding (2008, p. 838) that “ while the recent past has seen increased interest in SMA, the area is still under-defined and no universally accepted SMA framework exists”.

Principally, this essay argues that whilst strategic management accounting is somewhat under defined, it does have clearly agreed features and aspects which offer a basis for understanding. This essay generally supports the argument that no universally accepted SMA framework exists to date, concurrently it will argue that there are some accepted SMA practices and approaches, which can be drawn upon by organisations to create their own SMA framework, adapted to their own strategic needs.

An agreed upon definition of SMA is difficult to come across because management accounting and the role of management accountants are constantly evolving phenomena. Cooper (1996, p. 26) in particular, cites changes in management accounting practice over a period of less than a decade, including the influence of Japanese accounting practices on the UK, and the associated challenges for management accounting professionals. This changing environment is characteristic of the paradox of management accounting, in that new approaches are continually introduced globally, whilst often in the process of being superseded and replaced. Nixon and Burns (2012, p. 229) observed this in the “ apparent decline of SMA [in practice] and the sustained growth in the number of concepts, models, tools, theoretical perspectives” within the discipline. Ultimately, the process of developing theory and practice always lags behind the cutting edge of

business, where new concepts are put into practice immediately, often without significant study, in an effort to keep up with competitors and maintain a competitive business strategy (Simmonds, 1981, p. 28).

This process of development when considered, it is perhaps not surprising that there is limited agreement around the concept of SMA and the development of a universally accepted framework for the discipline.

Examining the work of Lord (1996, p. 347), who noted that “ the techniques and elements of strategic management accounting may in many cases already be found in firms. However, the information may not be quantified in accounting figures, and may not be collected and used by management accountants”. Therefore, this indicates that the process of developing SMA has indeed reduced the role of the management accountant as a uniquely qualified individual.

Instead, it is now more plausible that a strategy management accountant will be more focused on operational management, and as argued by Roslender and Hart (2003, p. 255) able to “ integrate insights from management accounting and marketing management within a strategic management framework”. A strategic management accountant is thus arguably a contradiction in terms because, to be truly strategic, a professional cannot narrowly define themselves as an accountant. Instead, a more open-minded, “ strategic thinker” is best positioned to deliver real value to their firm (Shah et al, 2011, p. 3).

When considering these arguments, it is apparent that SMA is under defined because it is one of numerous management skills, rather than the single

framework argued for by Cadez and Guilding (2008, p. 838). However, this fragmented nature of SMA makes Lord's (2007, p. 151) argument that "the concept of [SMA] may need to be developed further to show its role in emergent strategy and its benefits in strategy formulation" valid.

This postulates questions over whether SMA development should indeed continue through the use of conceptual frameworks and integrated theories, or instead via the development of a range of techniques which can be understood and learnt by accountants and operational management alike, in order to allow management accounting data to play a more strategic role. These techniques already exist, and are analysed by Cadez and Guilding (2008, p. 851), and the application of these techniques in a strategic manner, which is designed to support overall performance, can be seen as key to the role of the modern management accountant.

Modern firms are increasingly required to focus much of their attention on monitoring and assessing their competitors and ensuring they are not left behind by the moves they make in the market. This is an area in which management accountants can help contribute to strategic value creation through a process of competitor position monitoring, providing information to management in order to support effective decision making (Dixon, 1998, p. 274). For example, when analysing operational decisions, accountants can consider factors such as contractual agreements, competitive positioning and resource acquisition, thus providing support for strategic planning and coordination (Brandau and Hoffjan, 2010, p. 77). This hence provides for greater levels of information input into decision making processes, allowing management accountants to act as trusted advisors to operational managers

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and other individuals within the business. By doing this, management accountants can increase their value to the business by providing strategic insight into the operation of markets and the factors the organisation must attend to in order to ensure its success in business activities (Porter, 2008, p. 79).

Similarly, management accountants can play an important role by assisting in the application of other techniques of value to the business. For example, the strategic use of benchmarking techniques has been shown to help support learning and development effectiveness through challenging businesses to learn how and why they are performing as they are (Coleman and Ingram, 2004, p. 55). This can thus support improved outcomes and the development of a learning culture which is more open to external knowledge. The role of the management accountant in this area is thus to assimilate and provide the information in a way which is useful to the organisation and will support wider strategic goals. For example, Mosse and Whitley (2009, p. 150) highlight the role of management accountants in supporting the benchmarking of websites against factors such as navigational efficiency and user response. By applying management accounting techniques, benchmarking can be used to create more objective assessments of website performance, thus providing guidance around how to improve this vital marketing channel.

Expanding the management accountant's role

At the same time as applying management accounting techniques, the management accountant must ensure that they are able to go beyond a simple focus on numbers and accounting factors, and taking into account the <https://assignbuster.com/critical-analysis-of-strategic-management-accounting-sma/>

importance of qualitative factors in modern decision making. This is an area in which a management accountant needs to move beyond being a simple accountant, and towards a more strategic and operational management role, which considers a wider set of factors (Vandyck, 2006, p. 105). This may include a consideration of factors such as marketing, sales, human resources and other factors in order to make effective decisions (Alexander et al, 2011). Advanced strategic management accounting can thus be seen as a process of moving away from a focus on numbers and towards the generation of rounded insight from a range of sources.

This can be seen in one of the most important strategic management accounting techniques: the balanced scorecard. Indeed, Kaplan and Norton (1992, p. 73) argue that this technique “systematically expands the measurement areas traditionally involved in accounting”. Such an approach hence allows for the combination of qualitative and quantitative factors to develop the necessary levels of breadth and insight around a company’s sources of value and performance relative to the market and its competitors (Kaplan and Norton, 1996, p. 19). The balanced scorecard has thus been shown to help support the development of organisational strategies and improved performance in a range of contexts (Blooquist and Yeager, 2008, p. 24). However, the technique has also been developed over time to be more dynamic and responsive to changes in the environment (Nielsen and Nielsen, 2015, p. 2). This hence shows that the role of the management accountant is also to keep pace with such developments and ensure their company stays abreast of them in order to remain effective.

In conclusion, this essay has shown that, in general, SMA is relatively under defined and can apply to a range of concepts. However, rather than being a weakness of the discipline, this can actually be one of its main strengths. Specifically, this allows SMA techniques to be applied in a range of contexts, offering deeper and more strategic advice and insight than would be possible under simple management accounting models. The role of management accountants in this concept is thus to acquire, synthesis and analyse a range of quantitative and qualitative information in order to provide operational managers with the level of insight needed to make effective decisions. At the same time, the strategic nature of modern business and management accounting also requires operational managers to develop their own management accounting abilities, in order to make best use of this information and ensure optimal strategic outcomes.

SMA was initially introduced by Simmonds (1981), who 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’. During this period (early 1980s) conventional management accounting received heavy criticism for chiefly focussing on ‘ operational issues’ and not assisting management with external issues like strategic decisions (CIMA, 2016).