

Management Accounting in Support of Strategy?

Dr Graham Simons Pitcher
Nottingham Business School
6th Floor, Newton Building
Burton Street
Nottingham
NG1 4BU

+44 (0)115 848 3830

graham.pitcher@ntu.ac.uk

Management Accounting in Support of Strategy?

Abstract

The term Strategic Management Accounting (SMA) was coined in the 1980's to both describe and encourage the development of accounting techniques that addressed strategic decision-making. This prompted the production of books and research papers into SMA techniques. However, there is very little research into how management accounting supports strategy making. Adopting the lens of strategy-as-practice and utilising a narrative research approach this developmental paper addresses the question: How does management accounting support the strategic management process?

Although the term strategic management accounting may not be appropriate, there is evidence that management accounting supports the *practice* and *praxis* associated with the strategic management process via a range of activities and artifacts, that could be described as the 'stuff' of strategizing, with accountants contributing as *practitioners* involved in analysing, evaluating, interpreting, educating, and generally supporting the activity of strategizing.

[Paper length: 1,932 words]

Introduction

This paper attempts to take a practice view of management accounting by exploring the question: How does management accounting contribute to the strategic management process?

Management accounting has been described as being concerned ‘with the generation, communication and use of financial and non-financial information for managerial decision making and control activities’ (Groot and Selto, 2013, p3). As a discipline management accounting has developed in a variety of ways depending on the judgements or decisions required by the business environment in which practitioners found themselves operating (Weetman, 2006). In 1981, Simmonds coined a term Strategic Management Accounting (SMA), which was a recognition that accounting needed to pay more attention to external factors, such as competitors. However, it was also a criticism that management accounting had become too operationally focused and ignored strategic issues (Johnson and Kaplan, 1987). As if to answer the call to arms books appeared titled Strategic Management Accounting (Ward, 1992; Smith 1997; Hoque, 2003), and later research papers were published on the use of strategic management accounting techniques (see for example, Guilding et al., 2000; Cadez, et al., 2005; Cinquini and Tenucci, 2007), but these were asking the question ‘what SMA techniques were being used? There has been debate about whether there really is a practice of strategic management accounting or whether it is just a figment of academics imagination (Lord, 1996). Some years after Simmonds first used the term, Langfield-Smith (2008) determined that the term was used sparingly in organisations and with limited appreciation of its meaning. More recently Jorgensen and Messner (2010) and Nixon et al. (2011) found that SMA was not a term that occurred in the communication lexicon within case organisations being studied. However more recently, Nixon and Burns (2012) discussed the paradox of strategic management accounting in the context of the evolution of strategic management literature and suggested that SMA has a future if the bundle of techniques that usually constitute SMA are integrated into a coherent framework to compliment strategic management.

There are a number of ways of describing the activities of the strategic management process such as planning, implementing and controlling (Ward, 1992) or formulation, implementation and evaluation (Barney, Hesterley and Hesterley, 2010). However, broad consensus could be reached on the fact that given the nature of the business environment it is invariably an iterative and not a one off exercise. The vast majority of extant research into SMA focuses on the techniques that are used, i.e. the ‘what’ of *management accounting* rather than the ‘how’ or practice of *strategic management*. This is why adopting a strategy-as-practice lens to explore how management accounting supports the strategic management process could provide a useful insight into the role and function of management accounting in today’s organisations.

Practice is defined by Reckwitz (2002) as ‘routinized types of behaviour which consists of several elements inter-connected to one [an]other: forms of bodily activities, forms of mental activities, ‘things’ and their use, a background knowledge in the form of understanding, know-how, states of emotion and motivational knowledge’ (p.249). In a strategizing context, practice is concerned with ‘... all the meeting, the talking, the form-filling and the number-crunching by which strategy actually gets formulated and implemented’ (Whittington, 1996, p.732). In this respect the preparation, interpretation, and the putting to use of management information could constitute ‘practice’, and in the sense that many individuals within an organisation perform strategy work (Grant, 2003) and much of this is mundane and everyday strategizing practice (Jarzabkowski, et al., 2013) accountants

would fall within the definition of practitioners - those people who do the work of strategy, (Jarzabkowski, 2005). Management accounting information is often produced on a regular basis to reaffirm that the strategy is working, or to indicate that actions need to be taken. Techniques such as budgetary control become part of the culture of the organisation. Indeed one of the criticisms of management accounting is that information is produced on a routine basis simply because it always has been, the techniques have been passed through generations of managers, even if it is no longer appropriate for the current business model (Johnson 1992). The techniques have become in Bourdieu's (1990) terms, part of the habitus, a 'durably inculcated system of structured, structuring dispositions' (p.52). The idea of praxis is therefore relevant in that the contribution of management accounting information (either financial or non-financial, management reports, analysis, cost management techniques) becomes part of the 'routines and formulae of the formal strategy process, laid down in the corporate culture and systems' of how the enterprise formulates, implements and evaluates strategy' (Whittington, 2002, p.2). These reports and numerical analysis become meaningful artifacts within the strategy process as they are developed, discussed, imbued with knowledge and tweaked during the continuous process of strategic management (Jarzabkowski, et al., 2013). The strategy-as-practice framework of praxis, practitioners, and practice is therefore of particular value to the research question. As Nixon and Burns (2012) suggest the 'effectiveness of a combination of management accounting techniques, or SMA systems, depends very much on *how* [my emphasis] it is used and on the extent to which it is a part of the organisational process that manages the formal, semi-formal and informal information and communication systems' (p. 235.)

SMA literature

The introduction of the term strategic management accounting by Simmonds (1981) and subsequent attempts to refine a definition (Bromwich and Bhimani, 1989, 1994; Bromwich, 1990; Roslender and Hart, 2003) generated research papers reporting studies into identifying the extent to which strategic management accounting is used. I focus here on strategic management accounting as it is under this heading that management accounting is purported to support the strategic management process.

Several surveys into the extent to which SMA is utilised have been conducted via questionnaires in which the use of a predefined set of techniques which the researchers have ascribed to SMA has been researched. However, there are variations in the techniques defined. For example, Guilding et al. (2000) defined 12 techniques; Cadez et al. (2005) defined 17; Cinquini and Tenucci (2007) 14 techniques; Cadez and Guilding (2008) 16; and Feldbauer-Durstmuller et al. (2012) 20 techniques. These surveys report limited utilisation of defined SMA techniques. Other surveys have been reported based on studies undertaken in specific sectors or countries, e.g. Fowzia (2001), SMA practices in Bangladesh; Said et al. (2010), Malaysian Local Government Authorities; Noordin et al. (2009), Malaysian Electrical and Electronic sector; Agasisti et al. (2008), Italian Universities. These studies tend to focus on specific techniques rather than support for strategic management.

Several more recent papers look at specific instances of SMA and from different perspectives, for example, Jorgensen and Messner (2010) and Nixon et al, (2011), into the role of management accounting in new product design and development; Tillman and Goddard (2008) into sense-making in a multinational company; and Ma and Tayles (2009) into the development of management accounting from an institutional perspective. However, there is also limited evidence that accountants are involved in the strategic management process within firms, (see for example Aver and Cadez, 2009). However, it is also recognised

that strategic management activities, and indeed information purported to be required by SMA is gathered and utilised by professionals within the firm other than accountants (Dixon and Smith 1993; Lord, 1996).

By adopting a strategy-as-practice viewpoint it is hoped to shed some light on how management accounting is used to support the strategic management process and to contribute to the discussion of the role of management accounting information as part of the praxis of strategy, and accountants as practitioners in the activity of strategizing.

Methodology

The existing studies primarily adopt two methodologies: questionnaire surveys that require a pre-defined set of SMA techniques or case studies. The questionnaire approach carries the problems of identification of SMA techniques and the interpretation of SMA as discussed above. The case studies invariably investigate a specific and predefined area, thus providing limited insight into the range of support that management accounting provides (or not) to the strategic management process. This pilot study has been undertaken adopting a narrative research approach (Kohler-Riessman, 2008) utilising a data collection method of interviews with finance professionals working in a range of organisations. A total of 13 interviews were conducted, of which 8 were with finance directors working in single organisations and 5 accountants who worked as consultants and interim finance directors. This enabled ‘stories’ about how management accounting information is used to be collected covering a range of organisations and sectors. An important aspect of the narrative research methodology is that participants be allowed to describe events and issues in their own words without being prompted or encumbered with specific terminology or to focus on a specific activity. The interviews were transcribed and coded using NVivo 10. Meaning units were identified (Creswell, 2007) that were then used to develop the main themes that helped determine how, and whether, management accounting supports the strategic management process.

Initial findings

A key activity undertaken by all participants was the ‘pulling together of the ‘Board Pack’’. This included non-financial as well as financial information, and in some cases reports from other professionals with the accountant acting as coordinator of the pack information. Four of the participants described ‘taking the Board through the pack’ and acting as interpreter of the information. The pack was then used to identify areas of concern and improvement – in effect to monitor whether the strategy was working or not. This was seen as providing assurance or encouragement as well as identifying the need for action. Again, in all cases, although some in more detail than others, the deliberations on the performance were fed into a re-forecasting of the year. In five cases this was in the form of a rolling forecast. It was interesting that two participants working in SME’s and recruited for their experience, specifically spoke of the Board Pack as being an educational tool, helping managers to understand the impact of their decisions.

All participants spoke of the budgetary and forecasting process as being a key activity in their work. This was described as an iterative process with involvement of a range of managers and Board Directors. In effect the output of this process was seen as crystallising the strategic plan into something that could be operationalised. The act of reforecasting the short term based on deliberations on the current performance highlighted the potential financial implications of decisions made.

Three of the participants talked about how they had used the provision of information and the demonstration of its worth to managers to help reshape the accounting department and its role within the organisation. These individuals specifically mentioned a business partnering role of working closely with managers within the business to provide assistance where possible. Also seven of the participants (including the three who reshaped their departments) spoke of having to change the reporting systems in line with organisational change from acquisition, internal re-organisation or rapid growth. They described the need to make sure that the information provided supported the changed structure.

It was interesting that apart from customer profitability analysis none of the participants utilised techniques that might be described as strategic management accounting. However, all participants described providing information for ad hoc decisions of a strategic nature, but stressed that decisions were not made on the numbers alone.

Preliminary conclusions

Although the term strategic management accounting may not be accurate, there is evidence that management accounting information supports the strategic management process via a range of activities and artifacts that could be described as the ‘stuff’ of strategizing with accountants playing a role as practitioners involved in analysing, evaluating, interpreting, educating, and generally supporting the activity of strategizing.

Acknowledgements

The author would like to thank the CIMA General Charitable Trust for sponsoring the project and also the reviewers for their extremely valuable comments on the first submission.

The paper will be developed by expanding the literature review to be more inclusive of the aspects highlighted in the analysis and findings. The justification of the research methodology will be expanded to strengthen the relationship to the practice-concept and to give more detail on the types of organisations covered within the study. The analysis and findings section will be expanded to include quotes from participants and to provide more discussion and analysis of the major themes outlined in the paper. The discussion will be helped by the expanded literature review and providing stronger links to the 3P’s framework of strategy-as-practice.

References

- Agasisti, T., Aenaboldi, M. and Azzone, G. (2008) Strategic management accounting in universities: The Italian Experience, *Higher Education*, 55, pp.1-15
- Aver, B. and Cadez, S. (2009) Management accountants' participation in strategic management processes: A cross-industry comparison, *Journal of East European Management Studies*, 3, pp.310-322
- Barney, J., Hesterley, S.W., and Hesterley, W. (2010) *Concepts, Strategic Management and Competitive Advantage*, 3rd edn. London: Prentice Hall
- Bourdieu, P. (1990) *The logic of practice*. Cambridge: Polity Press
- Bromwich, M. (1990) The case for strategic management accounting: the role of accounting information for strategy in competitive markets. *Accounting Organizations and Society*, 15 (1), pp.27-46
- Bromwich, M. and Bhimani, A. (1989) *Management Accounting: Evolution not Revolution*, London: CIMA Publications
- Bromwich, M. and Bhimani, A. (1994) *Management Accounting pathways to progress*, London: CIMA Publications
- Cadez, S. and Guilding, C. (2008) An exploratory investigation of an integrated contingency model of strategic management accounting, *Accounting, Organizations and Society*, 33, pp.386-863
- Cadez, S., Marko, H. and Maja, Z. (2005) A cross-industry comparative analysis of strategic management accounting techniques application evidence for Slovenia, conference proceedings International Conference Enterprise in Transition, 25-28 May 2005, University of Split, Croatia
- Cinquini, L. and Tenucci, A. (2007) Is the adoption of strategic management accounting techniques really 'strategy-driven'? Evidence from a survey. Conference paper, Cost and Performance in Services and Operations, Trento, IT, June 18-20
- Creswell, J.W. (2007) *Qualitative Inquiry and Research Design, Choosing Among Five Approaches*, 2nd edn. London: Sage Publications
- Dixon, R. and Smith, D.R. (1993) Strategic Management Accounting, OMEGA, *International Journal of Management Science*, 21(6), pp.605-618
- Feldbauer-Durstmüller, B., Duller, C. and Greiling, D. (2012) Strategic Management Accounting in Austrian Family Firms, *International Journal of Business Research*, 12 (1), pp.26-42
- Fowzia, R. (2011) Strategic Management Accounting Techniques: Relationship with Business Strategy and Strategic Effectiveness of Manufacturing Organizations in Bangladesh, *World Journal of Management*, 3(2), pp.54-69
- Grant, R. M. (2003) Strategic planning in a turbulent environment: Evidence from the oil majors, *Strategic Management Journal*, 24 (6), pp.491-517
- Groot, T and Selto, F. (2013) *Advanced Management Accounting*, Harlow: Pearson
- Guilding, C., Cravens, K and Tayles, M. (2000) An international comparison of strategic management accounting practices, *Management Accounting Research*, 11, pp.113-135
- Hoque, Z. (2003) *Strategic Management Accounting*, 2nd edn. Harlow: Pearson
- Jarzabkowski, P. (2005). *Strategy As Practice; An Activity Based Approach*, London: Sage
- Jarzabkowski, P., Spee, P., and Smets, M. (2013). Material artifacts: practices for doing strategy with 'stuff'. *European management journal*, 31 (1), 41-54
- Johnson, H.T. (1992) *Relevance Regained: From Top-down Control to Bottom-up Empowerment*. Free Press, New York
- Johnson, H.T., Kaplan, R.S., (1987) *Relevance Lost: The Rise and Fall of Management Accounting*. Boston, MA: Harvard Business School Press

- Jorgensen, B. and Messner, M. (2010) Accounting and strategising: a case study from new product development, *Accounting, Organizations and Society*, 35(2), pp.184-204
- Kohler-Riessman, C. (2008) *Narrative Methods for the Human Sciences*, London: Sage Publications
- Langfield-Smith, K. (2008) Strategic Management Accounting: How far have we come in 25 years? *Accounting, Auditing & Accountability Journal*, 21 (2), pp.204-228
- Lord, B. R. (1996) Strategic Management Accounting: the emperor's new clothes? *Management Accounting Research*, 7, pp.347-366
- Ma, Y. and Tayles, M. (2009) On the emergence of strategic management accounting: an institutional perspective, *Accounting and Business Research*, 39 (5), pp.473-495
- Nixon, B. and Burns, J. (2012) The paradox of strategic management accounting, *Management Accounting Research*, 23, pp. 229-244.
- Nixon, B., Burns, J. and Jazayer, M. (2011) The role of management accounting in new product design and development decisions, *CIMA Research Executive Summary Series*, 9 (1), Nov. London: CIMA
- Noordin, R., Zainuddin, Y. and Tayles, M (2009) Strategic Management Accounting information elements: Malaysian evidence, *Asian-Pacific Management Accounting Journal*, 4(1), pp.17-34
- Reckwitz, A. (2002) Toward a Theory of Social Practice: A Development in Culturalist Theorising, *European Journal of Social Theory*, 5 (2), pp.243-263
- Roslender, R. and Hart, S.J. (2003) In search of strategic management accounting: theoretical and field study perspectives, *Management Accounting Research*, 14, pp.255-279
- Roslender, R. Hart, S.J and Ghosh, J (1998) Strategic Management Accounting – refocusing the agenda, *Management Accounting*, December, pp.44-46
- Said, J., Hui, W.S. and Othman, R. (2010) The Mediating Effects of Organizational Learning orientation on the relationship between strategic management accounting information use and organization performance, *Asia-Pacific Management Accounting Journal*, 5 (2), pp.11-29
- Simmonds, K. (1981) Strategic Management Accounting, *Management Accounting*, 59 (4), pp.26-29
- Smith, M. (1995) *Strategic Management Accounting*, Oxford: Butterworth-Heinemann
- Tillman, K. and Goddard, A. (2008) Strategic management accounting and sense-making in a multinational company, *Management Accounting Research*, 19, pp.80-112
- Ward, K. (1992) *Strategic Management Accounting*, London: CIMA Publications/ Butterworth-Heinemann
- Weetman, P. (2006) *Management Accounting*, Harlow: FT Prentice Hall
- Whittington, R. (1996) Strategy as Practice, *Long Range Planning*, 29 (5), pp.731-735
- Whittington, R. (2002) Practice Perspectives on Strategy: Unifying and developing a field, *Academy of Management Proceedings*, OMT