MANAGEMENT ACCOUNTING IN SUPPORT OF THE STRATEGIC MANAGEMENT PROCESS
KEY CONCLUSIONS

- Accountants’ involvement in the strategic management process depends on:
  - organisational position, the culture of the organisation, relationship with CEO, and credibility
  - abilities of the accountant both technical and interpersonal and, importantly, desire to contribute to strategy development
  - resources available. Routine monthly reporting may squeeze out longer term strategic activity.
- The term ‘strategic management accounting’ was not looked upon favourably by participants who preferred the term ‘business partnering’ to describe their activities in supporting the strategic management process.
- Many of the techniques often packaged as ‘strategic management accounting’ are little used.
- Key techniques that are used in strategy formulation include benchmarking, customer profitability analysis (at contribution margin level) and investment appraisal. Sophisticated costing techniques are little used.
- There is little evidence of an ‘external focus’ as suggested by the CIMA definition of strategic management accounting, although there is tracking of competitor position and pricing but no evidence of deeper competitor analysis.
- Management accounting aids strategic decision making via the provision of financial analysis, but the focus is on providing some assurance that the strategic decision has the potential to be viable, with strategic factors often given more weight.
- Participants stressed monitoring of margins, re-forecasting and variance analysis as key activities during implementation and valuable inputs to future strategy development, often via signalling the need for strategic action.

ABSTRACT

This paper reports on the findings of a CIMA-sponsored study into the extent to which management accounting supports the strategic management process.

It was during the 1980s that writers began to criticise management accounting for not adequately serving the needs of senior managers in the formulation of strategy and sustaining a competitive advantage. At the same time a body of literature emerged around the development of strategic management accounting (SMA) which promised to answer the criticism. However, to date there has been no agreement on what constitutes SMA. Neither has the term entered the lexicon of accounting professionals.

The findings of this study, based on 14 interviews with finance professionals working in business, indicate that despite not using the term SMA, accountants can, and do, make an active contribution to the strategic management process. The range of techniques utilised may not be as extensive as previous studies into SMA have suggested. Also the degree to which accountants are able to become involved is influenced by organisational factors, the range of attributes possessed by the accountant, and the practicalities involved in enabling the accountant to perform his/her role. The closest term that defines the role of accountants when involved in the strategic management process is that of ‘business partnering’.
INTRODUCTION

In the 1980s management accounting was criticised for becoming too internally focused on operational issues and was providing little help to managers making strategic decisions. The term strategic management accounting (SMA) was introduced by Simmonds (1981, p.26) and defined by him as ‘the provision and analysis of management accounting data about a business and its competitors, for use in developing and monitoring business strategy’.

Since then several attempts have been made to refine this definition and identify a set of techniques that can be classified under the banner of SMA. However there has been little agreement within the academic and professional literature on the definition of SMA and the associated techniques, nor is the term widely used by practising accountants (Langfield-Smith, 2008; Jorgensen and Messner; 2010; Nixon et al., 2011).

RESEARCH METHODOLOGY

The methodology adopted is one of narrative research (Czarniawska, 1998; Riessman, 2008). This allows the interviewees to tell their own stories (narratives) based on personal experience.

The data was then analysed utilising a method of thematic analysis developed by Creswell (2007) from the earlier work of Moustakas (1994) in which data is first analysed into meaning units which can then be grouped into themes. NVivo 10 software was used to aid this process.

The business-oriented social networking service, LinkedIn, was used to send a total of 68 invitations to participate in the study to senior finance professionals. The initial target was to recruit 12 participants representing a range of industry sectors. However 14 potential participants responded positively which represented a range of sectors and size of organisation and all 14 were interviewed. Of the 14 participants nine are Finance Directors or Finance Director Designates and five are Consultants/Interim Finance Directors (see table 1 – Interview schedule).

The discussion with the Finance Directors and Finance Director Designates focused around their current appointment but in the spirit of narrative research discussions included experiences from previous employments. The Consultants/Interim Finance Directors were invited to discuss not just their current appointment but to draw on their wider experience of organisations within which they had worked.

The organisations discussed as part of the Consultants/Interim Finance Directors interviews covered a range of sectors which included logistics, property investment, FMCG manufacturing, weapons manufacturing, private equity banks, industrial conglomerate, high street retailing, service provision, horticulture, waste management, pharmaceuticals, and engineering.

TABLE 1 – INTERVIEW SCHEDULE

<table>
<thead>
<tr>
<th>INTERVIEW</th>
<th>DESCRIPTION OF BUSINESS</th>
<th>TURNOVER</th>
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<tbody>
<tr>
<td>1</td>
<td>Private healthcare diagnostics</td>
<td>£1m</td>
</tr>
<tr>
<td>2</td>
<td>Consultant/Interim Finance Director</td>
<td>n/a</td>
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<tr>
<td>3</td>
<td>An organisation specialising in vibration measurement which delivers technological solutions and products</td>
<td>£37m</td>
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<tr>
<td>4</td>
<td>Consultant/Interim Finance Director focusing on small and medium-sized enterprises(SMEs)</td>
<td>n/a</td>
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<tr>
<td>5</td>
<td>A not-for-profit professional society and publisher</td>
<td>£47m</td>
</tr>
<tr>
<td>6</td>
<td>Consultant/Interim Finance Director</td>
<td>n/a</td>
</tr>
<tr>
<td>7</td>
<td>Provider of fertility treatment, genetic diagnosis and screening techniques</td>
<td>£20m</td>
</tr>
<tr>
<td>8</td>
<td>An international fragrance house</td>
<td>$100m (USD)</td>
</tr>
<tr>
<td>9</td>
<td>Consultant/Interim Finance Director</td>
<td>n/a</td>
</tr>
<tr>
<td>10</td>
<td>A professional services organisation</td>
<td>£12m</td>
</tr>
<tr>
<td>11</td>
<td>An innovator of enterprise location intelligence products and solutions</td>
<td>£27m</td>
</tr>
<tr>
<td>12</td>
<td>Consultant/Interim Finance Director specialising in turnaround services</td>
<td>n/a</td>
</tr>
<tr>
<td>13</td>
<td>A pan-European technical solutions provider, combining electrical, ICT and mechanical services</td>
<td>£650m (UK T/O)</td>
</tr>
<tr>
<td>14</td>
<td>A private education provider</td>
<td>£120m</td>
</tr>
</tbody>
</table>
RESEARCH METHOD

Interviews were face-to-face except for one, which was a telephone interview.

The meetings lasted between 45 minutes to one hour which included informal discussion prior to and following the formal interview. The formal interviews lasted on average 40 minutes and were recorded and transcribed. Prompts were utilised to ensure the data collected covered the objectives of the research but discussions were allowed to flow as freely as possible. During the interviews participants were invited to discuss the management accounting information that was utilised within the organisation and the purposes for which it was used and in particular to narrate instances of strategic decisions and strategy development. The term strategic management accounting was also discussed along with the strategic management process and participants experience of the role that accountants play within that process.

THEORETICAL FRAMEWORK

The strategic management process constitutes the theoretical framework for the study together with the concept of strategic management accounting and the role of the accountant.

The strategic management process has been described in a variety of ways but there is broad consensus that the key activities are (1) development of a grand strategy, purpose or sense of direction, (2) formulation of strategic goals and plans to achieve them, (3) implementation of plans, and (4) monitoring, evaluation and corrective action (Nixon and Burns, 2012, p.229). It is also acknowledged that the strategic management process is a continuous activity and is not necessarily a formal process, but can be informal and emergent (Mintzberg and Waters, 1985). A formal version of the strategic management process is represented in figure 1. This recognises that a key role of management accounting is to provide support for decision making and thus incorporates the typical elements of information gathering and analysis, generation of options, choice, implementation, monitoring and evaluation. The corporate appraisal signifies the bringing together of internal and external data gathering and analysis to ask the question: Given the changes in the environment and the current resource position can the objectives still be achieved? A negative response or desire for change stimulates the generation of strategic options from which a choice is made and any modifications to the strategy are then implemented and monitored and evaluated against the corporate objectives. The feedback loops represent the iterative and flexible nature of the process.

Management accounting has been characterised as being concerned with the ‘generation, communication and use of financial and non-financial information for managerial decision making and control activities’ (Croot and Selin, 2013, p.3). This could encompass a range of decision making from operational to strategic. Criticisms of management accounting in the 1980s suggested that the work undertaken by accountants was internally focused and limited to the activities of planning and control at an operational level (Kaplan, 1984; Johnson and Kaplan, 1987; Hiromoto, 1988; Bronwich and Bhimani, 1989). The development of SMA had the potential to address this criticism. CIMA (2005) defined strategic management accounting as ‘a form of management accounting in which emphasis is placed on information which relates to factors external to the entity, as well as non-financial information and internally generated information’. Normative contributions to SMA often suggest templates for SMA practices. For example, a focus on competitor analysis (Simmonds, 1981; Word, 1992); competitive advantage and strategic cost management (Porter, 1980, 1985; Shank and Govindarajan, 1988, 1989, 1993); strategic cost management and the value chain (Shank and Govindarajan, 1992; Shank, 1996); strategic investment appraisal (Tomkins and Carr, 1996; Grundy, 1992); integrating management accounting and marketing (Roulander and Hart, 2002). Developments such as activity based costing (Cooper and Kaplan, 1991) and the balanced scorecard (Kaplan and Norton, 1992) have also been put forward as strategic tools to be utilised by accountants. It has been suggested that accountants should take a more proactive role in the strategic management process (Bromwich, 1990; Kaplan and Norton, 1992; Cadiz and Guidling, 2008). One of the objectives of this study was to identify the extent to which this has happened.


**DISCUSSION AND FINDINGS**

**INVOLVEMENT WITH THE STRATEGIC MANAGEMENT PROCESS.**

A simplified version of figure 1 was utilised to generate discussion around the degree to which accountants are able to become actively involved and hence utilise management accounting to support the strategic management process. This also led to a discussion of the role of the accountant. It became apparent that there are three main factors that influence the degree to which this is possible. (1) Those that could be described as emanating from the organisation; (2) those relating to the attributes possessed by the accountant; and (3) the practicalities involved in enabling the accountant to perform his/her role. These are illustrated in figure 2.

The organisational influences consist of the level at which the accountant operates within the organisation, the culture of the organisation and the relationship between the CEO and the accountant. Allied to the relationship aspect is the trust element. The CEO and Board of Directors need to trust the judgement and advice provided by the accountant before the accountant is allowed to participate fully in the strategic management process.

The organisational position is perhaps a lesser influence but it was apparent that within large organisations not all accountants are able to become involved in the strategic management of the organisation as there is inevitably a requirement that some individuals within the function will focus on what could be described as a reporting and compliance role, e.g. providing information and ensuring company procedures are followed, whilst others are free to become more involved with the business managers. The interviewees within the SMEs tended to be the main representative of the accounting function that was involved in the strategy process. It was evident that within the larger organisations that enjoyed a finance department in which the structure was more well defined in terms of levels of staff, the more senior accountants, in terms of experience and qualification, were more likely to interact with other managers on matters of strategy, reinforcing the view that the more senior the accountant the more likely the opportunity to become involved in strategy development. However, it was noticeable that those organisations that embraced a business partnering philosophy tended to be more engaged with the strategy process.

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So we have a Business Development Team and Finance Business Support Team, which basically is the finance business partners who work very closely with Business Development. So together we basically launch products, we look at acquisitions which is mainly where my Finance team has been involved in the last couple of years.' (Interview 3)

However, as a contrast to this two of the participants told stories of working as a Finance Director but still being viewed as the ‘bean counter’ and firmly situated in the monitoring and evaluation box, reinforcing the cultural aspect and the organisational view of the accountant’s role.

I think that’s situationally because there are clearly companies where the accountants are kept in their box and there are companies where they are shoulder to shoulder with the CEO, they are the top people.’ (Interview 2)

Within the accountant-led factors the importance of accountants possessing good interpersonal skills, of being a ‘people person’, was highlighted by all participants, but it was also noted by three participants that in their experience not all accountants wanted to get involved in the strategic aspect of the business and had entered the profession simply because they ‘liked doing numbers’. A general theme emerged suggesting that although an accountant may possess the technical skills there needs to be a desire to get involved in the business and to have a genuine interest in business issues. This will be of interest to professional bodies and also educators in that there is still a perceived view, strange as it may appear, that not all accountants enter the profession with a genuine interest in business.

The third aspect relates to the practicalities of being able to perform the role. One of the key areas where accountants provide support to managers is in the provision of information. Two participant Finance Directors indicated that they did not have access to an appropriate system and spent more time on the collection, collation, analysis and presentation than they felt was necessary due to the limitations of the information system being utilised. This limited their time to get involved in other aspects of the business. The capacity with the department was also cited as an issue, i.e. a shortage of personnel to free up time to become more involved in the business.

‘... and we’re at that inflection point whereby we can’t keep doing what we’re doing at the moment, it’s not adding enough value but we need to get the capacity right to be able to step out of that box. And also there is a demand … I don’t know if demand’s the right word … there’s a recognition from internal management that this is required.’ (Interview 11)

These three factors are linked in that providing relevant information and being in a position to add value to the organisation via a broad skill set and appropriate business knowledge requires adequate systems and capacity within the function. This is all part of building the relationship and trust. But then:

‘... it is difficult to command additional resources if you are not seen to be adding value in the first place and you haven’t got the backing of the Board.’ (Interview 14)
THE ROLE OF ACCOUNTANTS

Business partner?

Seven of the participants stated, without prompting, that they actively undertake and use the term ‘business partnering’ within the organisation. Two of these participants had been in a position to instigate the process themselves by virtue of being recruited with a remit to improve the management information within the organisation. There was an implication that the culture of the organisations that embraced business partnering was more team-led than function-led, although no participants explicitly stated this but their descriptions referred to teams rather than functional names. In these organisations the accounting department was structured so that it facilitated contact between members of the accounting team and managers. ‘Because the value that they [the accounting team] bring to our business is out there [points to outside of the office]. It’s to use the skills that they’ve got to get managers to run their businesses. And the more time that they spend away from their desk, the better.’ (Interview 10)

Two of these participants explicitly spoke of an educational role by working closely with senior managers to help them understand the financial implications of their decisions. ‘So we’re delivering a whole suite of project management training, this is where the forecasts come back as well. Getting the finance business partners even more involved at the front of decisions.’ (Interview 5)

There were three instances where the participants had taken advantage of changes within the organisation to promote business partnering indicating that being involved in the change meant that they could ensure the accounting information and support provided followed the needs of the business. ‘...from a change perspective to be able to handle organisational change, as a management accountant, you need to understand what a decision’s going to do to the business, what are the new requirements that are going to come out of this and how well it change? How will this affect the information requirements? How will it affect your interpretation of what’s going to start coming through the business so that you can start commenting accurately on it? So business partnering was the solution because you’re essentially working with the business managers as change is being initiated.’ (Interview 3)

This provides a strong argument that suggests if accountants are to become more involved in the strategic management process a system of business partnering is desirable. ‘If you are a good quality management accounting team, to me it’s not about accountancy, it’s about providing that financial acumen, good quality business grounding in the wider business to say right, I’ve got the financial background, I can call on that, let me help you run this business in a good financially robust manner.’ (Interview 10)

 Provision of information

All participants were asked to describe the routine management information provided and this invariably included the ‘Monthly Board Pack’, which in the majority of cases contained non-financial information as well as financial, although none of the participants had adopted the formal technique of the balanced scorecard (Kaplan and Norton, 1992). All organisations utilised a budget or plan with which to compare actual performance and the majority fed this back into a re-forecast or updated estimate of end of year performance. Six participants described the use of rolling forecasts. The use of variance analysis and exception reporting were also highlighted in relation to the reporting of performance against plan. Those participants that described the use of rolling forecasts indicated that the monthly monitoring activity fed back into the strategic management process as adjustments to strategy could be made based on a review of performance and evaluation of the potential consequences of changes in the business environment.

‘So we produce a lot of information around the forecast and the impact that’s going to have on the P&L... so that that can be fed back into the decision making.’ (Interview 10) ‘And so you can advise the Board on likely outcomes because when you take the strategic aspects into account you can actually start to evaluate them and say, well what happens if we did lose the 20% market share?’ (Interview 6)

This provides some evidence that the activity of re-forecasting and the employment of scenario planning could be described as ‘aiding the strategic management process in that it helps shape future strategy by feeding the monitoring and evaluation process back into the strategic analysis phase of strategy formulation.’

SUPPORT FOR STRATEGIC DECISIONS

All participants described instances of where accounting information had been utilised to support strategic decisions or the development of strategy, and significantly all participants pointed out that decisions were not taken based on the numbers alone. Although there was input from an accounting perspective the majority of instances indicated that the degree of significance placed on the financial outcomes was limited. ‘I always had the view really as I got more and more experienced that whenever you make a business decision, you need the analytical bit, the financial bit, the numbers bit and that that might form the basis, but there’s always got to be an element of business nous or gut-feel because if you just base it purely on numbers you probably wouldn’t invest in it.’ (Interview 6)

The strategic decisions described by the participants can be grouped into four main areas: pricing, business/market development, product development, merger and acquisition activity. Within the area of pricing an understanding of the cost behaviour in terms of variable and fixed costs was significant but the pricing methods discussed fell into two main methods – market pricing and cost plus. There was a strong emphasis placed on margins and in one instance the margins achieved per market sector served were monitored, rather than individual product lines. The analysis and allocation of fixed costs was minimal with none of the organisations using techniques such as activity-based costing. In fact there was only one instance of an ABC exercise being discussed in detail which was undertaken within a manufacturing organisation as a one-off exercise for the purposes of checking costs and pricing. The main reason for not undertaking ABC was the resources required and volume of information needed to undertake a meaningful analysis.

In terms of business/market development the significance placed on the input provided from an accounting perspective was more for assurance purposes than a make or break situation for the decision. The degree of uncertainty was recognised. ‘...if you then made the decision on a cost benefit analysis you probably wouldn’t do it. But the reason we’re doing it is partly access to market but it’s partly profile, partly brand evolution which is very difficult to put any finance behind. So we’re very good at understanding the cost of decisions, the value of decisions dependent upon that decision is a little bit more difficult to identify sometimes. So as long as we feel that the cost is reasonable and we stand a reasonable chance of that cost being covered, potentially with some profit also, then we tend to risk it subjectively the benefits are perceived to be there.’ (Interview 10).

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‘I think at the very basic level if you’re not using data to improve your own decision-making skills then you’re working on little more than guesswork and instinct. [But] the interesting thing is that successful business people have fantastic guesswork instinct, from my observations, because they get more decisions right without the use of data than you would believe...’ (Interview 9)

Sensitivity analysis was utilised to test the potential viability of the decision, but once the decision had been made, accounting information was used to monitor the situation to evaluate continued investment. A key strategic factor in business development was flexibility, and controlling the level of investment. Therefore accounting performed the role of monitoring and evaluating, and to an extent controlling the success of the decision rather than being the key factor in the initial decision.

This is in contrast to a reported situation of product development in which a financial model was built that aided the setting of target costs and the choice of attributes/make-up of the product.

‘So what I did from a business case perspective is basically spent a lot of time sitting with engineers and building models on costing out the product and product variations and setting target costs for the new product. So we built up a cost profile which then got wrapped into the overall business case...’ (Interview 3)

In terms of mergers and acquisition the accounting input was limited to what could be described as the due diligence process. Whilst the strategic and cultural fit and possibility of cross selling and potential cannibalisation of existing business were considered there was no significant attempt to evaluate the financial impact of these potential strategic outcomes. This was partly due to the uncertainty surrounding the findings of any financial analysis that could be produced, which several of the interviewees felt could be potentially more damaging than not knowing.

KEY TECHNIQUES

Participants were invited to discuss strategic decisions and accounting techniques used. The techniques described by the participants included target costing, net present value and cost benefit analysis, benchmarking and customer profitability. The use of non-financial information and performance monitoring was also discussed. The discussions also revealed that the majority of interviewees emphasised the importance of monitoring margins.

‘...Understanding the mix of our production is very, very important and...MMargin is very important to this business. We analyse margins by customer, by manufacturer and also by fragrance and product.’ (Interview 8)

Very few of the techniques classified by previous surveys undertaken to determine the use of strategic management accounting were considered by the participants (see table 2). A key factor in choice of technique used appeared to be the availability of information and the resources required to undertake the analysis. There was also some scepticism about the more sophisticated techniques when raised with the interviewees as to their value mainly due to the availability of accurate information. However, it is important to note that the list in table 2 was not shown to participants but that techniques which might have been appropriate to the business were introduced into discussions by the interviewer.
The most popular technique used was customer profitability analysis, with all participants either describing the extent to which they utilised customer analysis or in the case of two participants expressing how they intended to develop the analysis in the future. The extent to which the technique is used ranged from ‘keeping an eye on the profitability of market sectors’, to ‘classifying customers’ in terms of strategic, key accounts, major accounts and other customers, with business managers actively targeting particular customers or customer groups. One of the consultants mentioned the use of ABC to help allocate customer driven indirect costs, all other participants using the technique analysed up to margin or contribution only.

‘But what you’re really looking at is drilling down into the company at product service level to really understand where the profitability is so that customers could look quite profitable until you actually start to look at the costs associated with that customer. Not just a direct cost but the indirect overheads. And obviously the ABC costing methodology comes into that which I’ve used in simple ways. And I think if you’re in a big company you can apply it because you’ve got the resources and the time and you’ve got the expertise and you’ve got your management that are more articulate, that can understand the information. But when you’re in an SME business, the dynamics of an SME business make it more difficult.’ (Interview 12)

‘Sometimes you would look at a customer who was very heavy maintenance and you might say well that customer alone is taking two customer service reps virtually full-time. And you might actually then revisit your pricing because you’re providing such a high level of service, you might say well look you’re not going to get this kind of service at this price.’ (Interview 6)

The use of benchmarking was mentioned in the context of competitor analysis and the use of industry and best in class benchmarking. The extent to which competitor analysis was undertaken is minimal with most participants indicating that they monitored the sector, knew who the competitors were and understood their own position within the market. The majority of interviewees noted the difficulty of obtaining accurate information about their competitors to undertake any extensive analysis.

‘The ones that I’ve worked in I think there’s an awareness of who the competition is; I don’t think there’s much intelligence about what they’re doing and how they’re doing it.’ (Interview 4)

Attention was also paid to competitor pricing and product/service offering but no attempt was made to analyse a competitor’s strategy.

‘From a pricing perspective, yes. So we’re always comparing our prices, where do we sit in the marketplace with competitors? And we’re very aware of the level of service that they give...’ (Interview 7)

In terms of performance measurement only one participant utilised what could be described as a moving towards a balanced scorecard approach. This was facilitated by the introduction of an Enterprise Resource Planning (ERP) system.

‘We introduced an ERP system and it also had a scorecard which is more like a dashboard. So the idea being that it’s simply red, amber and green and it draws the attention in on the key parameters.’ (Interview 13)

### STRATEGIC MANAGEMENT ACCOUNTING

Discussions around the meaning of the term strategic management accounting as a sub concept of management accounting revealed unanimously that participants did not subscribe to a view that such a separate concept existed. This agrees with the findings of Langfield-Smith (2008) and Nixon et al. (2011), that the term is not used within the lexicon of accountants in practice. The discussions returned to the notion of business partnering in that management accounting is about supporting managers and that placing a definition on the specific activity or technique is counterproductive as it highlighted the activity of accounting when the focus should be on supporting the business. Three participants felt that there was no clear definition of strategy or in the term to describe accounting was problematic.

The majority view was that business partnering was the most appropriate term to describe management accounting as this described the activity of accountants without prescribing a set of specified techniques.

‘So this is the more holistic view as an accountant …, this is working with senior management, this is getting requests in that are more strategic. So that enables decision making. But obviously to do that you need to have a solid foundation in reporting and transactions.’ (Interview 3)
CONCLUSIONS

1. Three key factors were identified that could influence the degree to which accountants were involved in the strategic management process. These were organisational influences, accountant-led influences and practicalities. There was recognition that even though there may be a desire by the accountant to become involved, the organisational influences and practicalities may limit the degree to which this is possible. Even then, the skill set of the accountant is important in that it is not just accounting skills that are required but the wider skill set, including business acumen, interpersonal skills and the ability to build a relationship with senior management that enables the accountant to add value to the process.

The main areas to which management accounting information and techniques are utilised to support strategic decision making is in the information gathering and analysis stage, albeit mostly in connection with current performance; strategy formulation; and the monitoring and evaluation stage (see figure 3). This was mostly via the provision of performance information, reforecasting and investment appraisal.

The use of simple re-forecasting techniques was also seen as contributing to the strategic management process in that it helped to shape future strategy or indicate the need for strategic action. The implications of strategic decisions on the re-forecast was also seen as a contributing factor to strategy development.

There was no suggestion that accountants develop or initiate the strategy but there was an emphasis on working with other senior management within the organisations to assist in the analysis, formulation, and monitoring and evaluation of strategy. However, in those organisations where the concept of business partnering was not paramount the focus was still on the monitoring and evaluation aspect. This had a strong link to the practicalities and having the capacity to become more involved.

2. The most common aspects of strategic decision making where management accounting is seen to make a significant contribution is in the validation of strategic decisions. It was the assurance that the strategic decision is viable rather than a make or break input. Typical strategic decisions involved pricing, business/market development, new product development and mergers and acquisitions (see figure 3).

3. A range of management accounting tools were utilised. Sometimes simple concepts such as the analysis of margins, variance analysis and exception reporting were seen as contributing to the interpretation of the monitoring and evaluation of strategy which in turn contributed to the identification of the need for strategic action. Techniques such as benchmarking, customer profitability analysis, and investment appraisal techniques were most commonly used. Access to information and resource required were a key determinant in the use of techniques with the basic techniques being seen as adding the most value. There was some scepticism about the value of some of the more sophisticated techniques due to the uncertainties around the accuracy of information available.

4. The term strategic management accounting was not looked upon favourably by the participants as being a sub concept of management accounting. It was felt that using a term such as ‘strategic’ was problematic due to its subjective nature. The closest definition that incorporated what accountants do was encapsulated in the term ‘business partnering’.

RECOMMENDATIONS

PROACTIVE APPROACH

The interviewees who were more involved with the strategic management process invariably made a point of engaging with other managers concerning strategic issues. Therefore adopting a proactive approach and positively offering up the skill set may achieve a higher degree of involvement in strategy formulation. This includes the opportunity to undertake an education role with non-financial managers. In discussing the trust issue of business partnering, it became apparent that the more non-financial managers understand about the financial implications of decisions the more value they place on the accountant being actively involved as a participant.

INVESTIGATE THE USE OF OTHER TECHNIQUES

Whilst there appears to be no detriment to the business by not utilising sophisticated costing techniques the use of certain techniques may yield some benefit as a one off exercise, such as the ABC exercise and target costing exercise undertaken by two of the interviewees. Therefore accountants may benefit from investigating some of the techniques for relevance to their business.

DEVELOPMENT OF INTERPERSONAL SKILLS

There is a message for professional educators and those responsible for staff development that strong interpersonal skills are still just as important as the technical skills if accountants are to continue to make a significant contribution to the success of the organisations in which they work.
Figure 3: Representation of the main contribution of management accounting to the strategic management process as identified by participants to the study.

Vision, Mission and Objectives

Information Gathering and Analysis

External Environment

Corporate Appraisal

Internal Environment

Strategy Formulation

Options Generation

Strategy Choice

Implementation

Monitoring and Evaluation

Monitoring and Reporting

Investment Appraisal

Benchmarking

Customer Profitability

Key Techniques utilised by participants

Business Partnering

Strategic Choice / Decisions

Pricing

Business Development

New Product Development

Mergers and Acquisitions

Corporate Appraisal

Budget / Forecasting

Variance Analysis

Exception Reporting

Margin Analysis

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REFERENCES


APPENDIX A

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SMA TECHNIQUE

DESCRIPTION

Activity based costing

An approach to the costing and monitoring of activities which involves tracing resources consumption and costing final outputs. Resources are assigned to activities and costs to objects based on consumption estimates. The latter utilise cost drivers to attach activity costs to outputs.

Attribute costing

An extension of activity based costing using cost-benefit analysis (based on increased customer utility) to choose the product attribute enhancements that the company wants to integrate into a product.

Benchmarking

The establishment, through data gathering, of target and comparators, that permits relative levels of performance (and particularly areas of underperformance) to be identified. Adoption of identified best practices should improve performance.

Brand value budgeting and monitoring

Brand valuation assigns financial value to the equity created by the name or image of a brand. It can be represented as the net present value of the estimated future cash flows attributable to the brand.

Capital budgeting

The process of selecting long-term capital investments.

Competitor cost assessment

A technique in which the competitor cost per unit is attempted to be ascertained from available information. It is often at best an estimate.

Competitive position monitoring

Monitoring the market position and competitive strategy (market positioning) of the key competitors.

Competitor appraisal based on published financial statements

Looking for strengths and weaknesses in the competitors’ financial position.

Customer profitability analysis

CPA is the analysis of the revenue streams and service costs associated with specific customers or customer group.

Integrated performance measurement – balanced scorecard

The balanced scorecard is a strategic planning and management system that is used to align business activities to the vision and strategy of the organisation, improve internal and external communications, and monitor the organisation’s performance against strategic goals.

Life-cycle costing

Life-cycle costing is the profiling of costs over the life of a product, including the pre-production stage.

Quality costing

The concept of quality costs is a means to quantify the total cost of quality related efforts and deficiencies. It can be broken down into appraisal costs, prevention costs, internal and external failure costs.

Strategic cost management

Strategic cost management is the overall recognition of the cost relationships among the activities in the value chain, and the process of managing those cost relationships to a firm’s advantage.

Strategic pricing

Strategic pricing takes into account market segments, ability to pay, market conditions, competitor actions, trade margins and input costs, as well as other potential factors affecting market position and demand for the product.

Target costing

Target costing is an activity which is aimed at reducing the life-cycle costs of new products, by examining all possibilities for cost reduction at the research, development and production stage. It is not a costing system, but a profit-planning system – the selling price and profit requirement are set during the research stage, thus creating a target cost.

Value chain costing

Based on Porter’s Value Chain analysis, a firm may create a cost advantage either by reducing the cost of individual value chain activities or by reconfiguring the value chain. Once the value chain is defined, a cost analysis can be performed by assigning costs to the value chain activities.

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