Research Journal of Finance and Accounting www.iiste.org
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.6, No.9, 2015

Strategic Management Accounting: Challenges in Accounting Practices

Ira Novianty
Doctoral Student Of Accounting Program, Faculty of Economics and Business, Padjadjaran University, DipatiUkur Street, PO Box 40132 Bandung, Indonesia
Lecturer in Accounting Departement at State Polytechnic of Bandung, GegerkalongHilir Street, Ds Ciwaruga Bandung, Indonesia
E-mail: iranovianty95@yahoo.com

Abstract
Strategic management accounting has developed for the last thirty years and has not shown similar agreement in comprehending the concepts and the techniques. Strategic management accounting techniques which are adapted depends on the point of view towards the concepts of strategic management itself. Various concepts and applications of accurate Strategic management accounting has been developed and studied in order to achieve competitive advantage. It becomes a challenge for the practice of accounting in providing relevant information in making strategic decisions for the company. The study aims at providing a knowledge concerning the point of view of recently developed Strategic management accounting, the definition of Strategic management accounting, and employed techniques.
Keywords:Management Accounting, Strategic management accounting, Strategic management accounting Techniques

1. Introduction

In general management accounting means to identify, collect, measure, and report useful information for the manager in planning, controlling, and making decisions (Hoque:2003). Information resulted from the management accounting is financial report and non-financial report used by the manager in planning, controlling, and making decisions (Atkinson, et al :2004). Accounting information is provided as a means to help the manager conduct the functions of management in order to achieve the goals of the organization (Hoque:2003).

Nowadays companies are facing global competition that obliges them to have a strong strategy in order to succeed at the market (Brewer *et al*: 2010). Business is also in a dynamic and complex environment for it is influenced by social, technology, economy and political factor. In order to be able to survive this complex business environment, an organization has to reconsider the strategic philosophy and the role of management accounting within (Hoque:2003).

According to Chapman (2007:173) changes of the environment which are full of competitions relate to strategies, the design of the organization and technology, which are all related to non-financial aspects. Strategies are "*game plans"* that enable a company to attract customers by showing them that the company is different from its competitors. It is called *customer value propositions,* this is the core of the strategies (Brewer *et al*: 2010).

Changes in business environment demand changes within the system of management accounting as well. (Hoque:2003). These days, business environment has demanded innovations and relevant management accounting practices (Hansen & Mowen:2007). Since management accounting plays an important role in every decision making, challenges faced are how management accounting can provide relevant data to make strategic decisions. This is what is called strategic management accounting (Hoque :2003). The development and the use of strategic management accounting and the techniques really relate to the external information especially in facing the uncertainty of the environment and supporting strategic decisions (Cinquini& Tenucci:2007).

This paper is divided into five parts, the first is the introduction that explains the role of management accounting and dynamic environment; the second part covers the concepts of management accounting; the third part covers various point of views of strategic management accounting techniques; the fourth part covers the application of strategic management accounting techniques; and the last part covers the summary of the study.

2. The Concepts Of Strategic Management Accounting

In the context of Strategic Management Accounting (SMA), the definition of accountancy that is based on internal accountancy or managerial accountancy, that is related to the supply of information of management accounting for various goals (Roslender:2010). There are not any agreements concerning the definition of Strategic Management Accounting (SMA) in literatures (Kim Langfield-Smith:2008). Followings are some definitions of Strategic Management Accounting (SMA):

1. Simmonds (1981) define SMA as the provision and analysis of management accounting data about a business and its competitors, for use in developing and monitoring business strategy.

2. *Strategic management accounting is the process of identifying, gathering, choosing, and analyzing accounting data for helping the management team to make strategic decisions and to assess organizationaleffectiveness*(Hoque,2003).
3. *SMA as the provision and analysis of financial information on the firm's product markets and competitor's costs and cost structures and the monitoring of the enterprise's strategies and those of its competitors in these markets over a number of periods* (Bromwich:1990).
4. *SMA being defined as an attempt to integrate insights from management accounting and marketing management within a strategic management framework* (Roslender& Hart:2003)
5. SMA as a process (Dixon and Smith, 1993)
   SBU Identification, Strategic cost analysis, Strategic Market Analysis, Strategy Evaluation.
6. SMA as a process (Lord 1996)
   Collection of competitor information, exploitation of cost reduction opportunities, matching of accounting emphasis with strategic position.

From some definitions above it can be stated that Strategic Management Accounting (SMA) is a process of identification, noting, analyzing, and reporting accountancy data by putting attention to the internal and external factors for the interests of the companies.

3. VARIOUS POINTS OF VIEWS OF STRATEGIC MANAGEMENT ACCOUNTING

Robin Roslender(2010) states that the concept of strategic management accounting is an idea that is very rich since the literature ofSimmonds (1981) about Strategic Management Accounting was published and was still debated up to these days. Various different approaches of strategic management accounting have been discovered in the literature of strategic management accounting (Cinquini:2007).

Simmonds (1981) states that strategic management accounting is used to identify various approaches that give potential values to management accounting.Simmonds limits the techniques that focus on the competitors, such as assessing the budget of the competitors, monitoring the position of the competitions, and determining strategic prices (Guilding:1999). This is in line with Porter (1996) that states strategic management accounting opens knowledge of how a company has to be the best between its competitors through *cost leadership, product differentiation, or focus.*

Strategic management accounting is the future of management accounting (Haider Shah:2011). It is stated because the strategic management accounting answers all criticisms towards traditional management accounting. As stated by Haider, there have been many writers indicate that strategic management accounting is the bridge that connects strategic management and management accounting. Different from others, Lord (1996) and Dixon & Smith (1993) state that strategic management accounting lies between management accounting and strategies. Meanwhile Roslender& Hart (2002) state that strategic management accounting is the integration between management accounting and marketing. Even Foster & Gupta (1994), Roslender (1995,1996), and Wilson (1995) state that marketing is a more relevant orientation for management accounting.

Strategic management accounting can help management accounting moved away from simply monetary concerns and closer to multidimensional business matters (Mike:2009). Thus strategic management accounting can make management accounting be more relevant (Bromwich & Bhimani:1994). Besides, management accounting can make management accounting be more strategic (Roslender& Hart:2003).

Shank &Govindarajan (1994) state that the term strategic management accounting is used by practitioners and academicians in the United Kingdom, Australia, and New Zealand, meanwhile in The US *Strategic Cost Management (SCM)* is used. Shank describes *Strategic Cost Management* as a combination of financial analysis elements (*strategic management literature, value analysis, strategic positioning analysis)* and *cost driver analysis.* It is in line with Lord (1996) and Dixon & Smith (1993) that explain *Strategic Cost Management* is similar with the process of strategic management accounting.

Debates concerning strategic management accounting have been resulted many points of view. It shows that strategic management accounting is really different from what has been admitted by the academicians as *accounting*. As results, strategic management accounting keeps on causing questions for everyone that relate to accountancy practice. Academicians are challenged to think of how they can widen their knowledge into two fields in a row, marketing and strategies (Roslender:2010).

Simmonds (1981) states that strategic management accounting has been practiced in a wide scope and is more effective in terms of time use including the collection of data, estimation of the budget, volume, and prices that relate to the competition and measurement of strategic position of the company as a base to form a business strategies. It is contradictive with what is stated by Kim Langfield-Smith (2008) that states strategic management accounting or strategic management accounting techniques have not been widely used, and there is not any term that state strategic management accounting has been widely understood, yet the effect of strategic management accounting has influenced the language and the paradigm of business and the code of conduct of business process. It means the definition has got into the area of management and not only in the area of management accounting.

Bhimani (2006) states that the role of accountancy in its relation with strategies, using Bromwich's approach, strategic management accounting insists that the company and the management accountants see the company and the structure of its budget for competitors' companies and customers' demands, not only on daily or nowadays' base but also all competitors and potential customers in a long term decisions making. The control of company's internal budget is also necessary, yet the managements and the accountants have to see much wider, whether it is now or in the future, compiling and processing information in various paradigms. Strategic management accounting is assessed as a complementary in financial report, which is in " Operating and Financial Review (OFR), which obligates listed companies in England (Bhimani:2006).

4. The Applications Of Strategic Management Accounting Techniques

The development and use of strategic management accounting techniques relate to the external information to face the uncertainty of environment and to support various strategic decisions (Cinquini& Tenucci:2007). Various studies and surveys have been conducted concerning the use of relevant techniques for the needs of the companies.

LinoCinquini& Andrea Tenucci (2007) conducted a survey of companies in Italia. The focus is in the characteristics of strategic management accounting that is classified into various variables that influence strategic management accounting techniques in the companies. Followings are fourteen techniques that have been identified (Cinquini& Tenucci:2007) :

a. ***Activity Based Costing/Management (ABC/M).*** The technique is based on the definition of the activities performed by the company; they are considered the ultimate causes of **indirect cost** (Cooper *et al.*, 1992). ABC strategic focus consists in the **management** of **the activites** through which is it possible to define action aiming at achieving a with **competitive advantages** (Palmer, 1992; Shank and Govindarajan, 1989).
b. ***Attribute Costing***. It considers products as a bundle of different features; in this vein, Bromwich (1990) suggests product attributes can be viewed as cost objects. The attributes differentiate the products, and from the contact between product attributes and customers' taste, **the market share** is determined. In this sense it can be interpreted the external (market) orientation of the technique.
c. ***Benchmarking***. The technique involves identifying the best practices and comparing the organization's performance to those practices with the goal of improvement. There are many types of ***benchmarking*** (Miller *et al.*, 1992; McNair &Leibfried, 1992) but; in general, they underline the external strategic orientation toward **competitors**.
d. ***Competitive Position Monitoring***. The technique is constituted by the provision of competitor information. These include **sales, target market, volume and unit costs** (Simmonds, 1981). Basing on the information provided, the company is able to assess its own position relative to main competitors and, consequently, control or formulate its strategy.
e. ***Competitor Cost Assessment***. In contrast to the previous techniques, ***competitor cost assessment*** concentrates uniquely on **cost structures of** competitors (Simmonds, 1981). There can be different source of such information. Ward (1992) suggests some indirect sources such as **physical observation, common supplier or customers** and **ex- employees** of competitors.
f. ***Competitor performance appraisal based on public financial statements.*** A relevant source of competitors evaluation is constituted by **public financial statements**. Moon &Bates (1993) underline the strategic insights that it is possible to obtain from this type of analysis. The technique, which represents an elaboration of common and traditional methods, finds a strengthness in today's evolution of IASB that could permit a simpler comparison between the companies of different countries.
g. ***Customer Accounting.*** The technique considers **customers or group of customers** as a unit of accounting analysis (Bellis-Jones, 1989; Guilding& McManus, 2002). **Customer accounting** includes all the practices directed to appraise profit, sales, or costs deriving from customers or customers segments. Because it is widely related with to "*relational marketing*", this accounting approach is classified as a SMA technique.
h. ***Integrated Performance Measurement***. The consideration of both financial and non-financial measures defines an Integtated performance measurement system (Cross & Lynch, 1989; Nanni*et al.*, 2002). Balanced Scorecard belongs to this class, and its role in strategic management cycle is apparent through the four perspectives (Kaplan & Norton, 1996a, 1996b, 2000; Malina&Selto, 2001).
i. ***Life Cycle Costing***. It aims at calculating the total cost of product throughout its life cycle (from the design to the decline**,** through **introduction**, **growth** and **maturity**) (Berliner &Brimson, 1988; Shields & Young, 1991; Wilson, 1991). It's clear long term accounting perspective and market orientation make it part of the group as SMA techniques. In similar vein, Total Cost of Ownership has been underlined as a long term and strategic orientations SMA tool (Ellram & Siferd, 1998) .

j. ***Quality Costing.*** Product quality has become a precondition to compete in the market. This technique classifies and monitors cost as deriving from quality prevention, appraisal, internal and external failures (Heagy, 1991). Modern competition requires also the monitoring of safety and environmental cost. In a strategic perspective, the technique must the pursuit of quality (Simpson &Muthler, 1987; Carr & Tyson, 1992).

k. ***Strategic Costing***. According to Shank &Govindarajan (1989, 1993a, 1993b) costing system are progressively getting into the strategic management process. It means that costing systems must explicitly consider and the pursuit of long term competitive advantage. The authors underline the marketing and competitive concepts to which the technique refers (product positioning and market penetration).

l. ***Strategic Pricing***. Simmonds (1982) describes this pricing technique. Its focus is on the use of competitor information, like competitor's reaction to price changes, price elasticity, economic of scale and experiences, in the pricing process.

m. ***Target Costing***. According to the technique, a target cost result from the difference between the products' price, derived from how much the market is willing to pay, and a desire target profit. Through an accurate product design, the cost must be contained to achieve the target cost (Monden& Hamada, 1991; Morgan, 1993). External Market Factors intervene frequently in this SMA technique.

n. ***Value Chain Costing***. Developing the value chain model (Porter, 1985), Shank &Govindarajan (1992) propose an approach to accounting that considers all the activities performed from the design to the distribution of products. The strategic implications regard the exploiting of the economies and efficiencies deriving from the external linkages between the company and both suppliers and customers.

Cinquini&Tenucci (2007) divide the strategic concepts into three main concepts which are explained below:

Table 1. Operationalization of Strategic Concepts

STRATEGIC PATTERN	
Defender	The business is characterized by a constant competition, relatively stable set of product/service, efficiency and specialization tendency and a centralized organization.
Prospector	The business is characterized by a dynamic competition, relatively frequent changes in its set of product/service, continuous efforts to pioneer in new market areas and a flexible structure.
Analyser	The business combines characteristics of the previous ones.
STRATEGIC MISSION	
Build	Increase sales and market share, be willing to accept low returns on investment in the short-medium term.
Hold	Maintain market share and obtain reasonable return on investment.
Harvest	Maximize profitability in the short-medium term, be willing to sacrifice market share.
STRATEGIC POSITIONING	
Cost leadership	The primary focus is to achieve low costs relative to competitors.
Differentiation	The primary focus is to create something that is perceived as unique by the customers through superior product features, customer service, brand image and/or performance.

Source: Cinquini & Tenucci (2006).

Cinquini&Tenucci (2007) summarize in a survey that Attribute Costing, Customer Accounting, Strategic Pricing and Competitive Position Monitoring is the techniques that are mostly used. In the opposite, Integrated Performance Measurement Systems and Life Cycle Costing are techniques that have limited use.

Langfield&Smith (2008) identify Activity Based Costing (ABC) / Activity Based Management (ABM) as examples of Strategic management accounting. It is in line with Bromwich &Bhimani (1994) that adopt *Activity Based Costing (ABC)* and consider ABC as a potential technique in solving problems. It is contradictive with what is stated by Shank &Govindarajan (1994) that suggest *Strategic Cost Management* as an umbrella of Activity Based Costing and other techniques. ABC only focuses on the accuracy of budget allocation, nit as a support of the company.

Roslender& Hart (2003), Dixon & Smith (1993) state that strategic management accounting is a concept that integrates management accounting and marketing. The technique employed is *Target Costing, Balanced Scorecard, Brand Management Accounting (market share, market growth, brand strength, customer profitability reports, specific market offering)*.

Other strategic management techniques which are developed and used in many studies are described below:

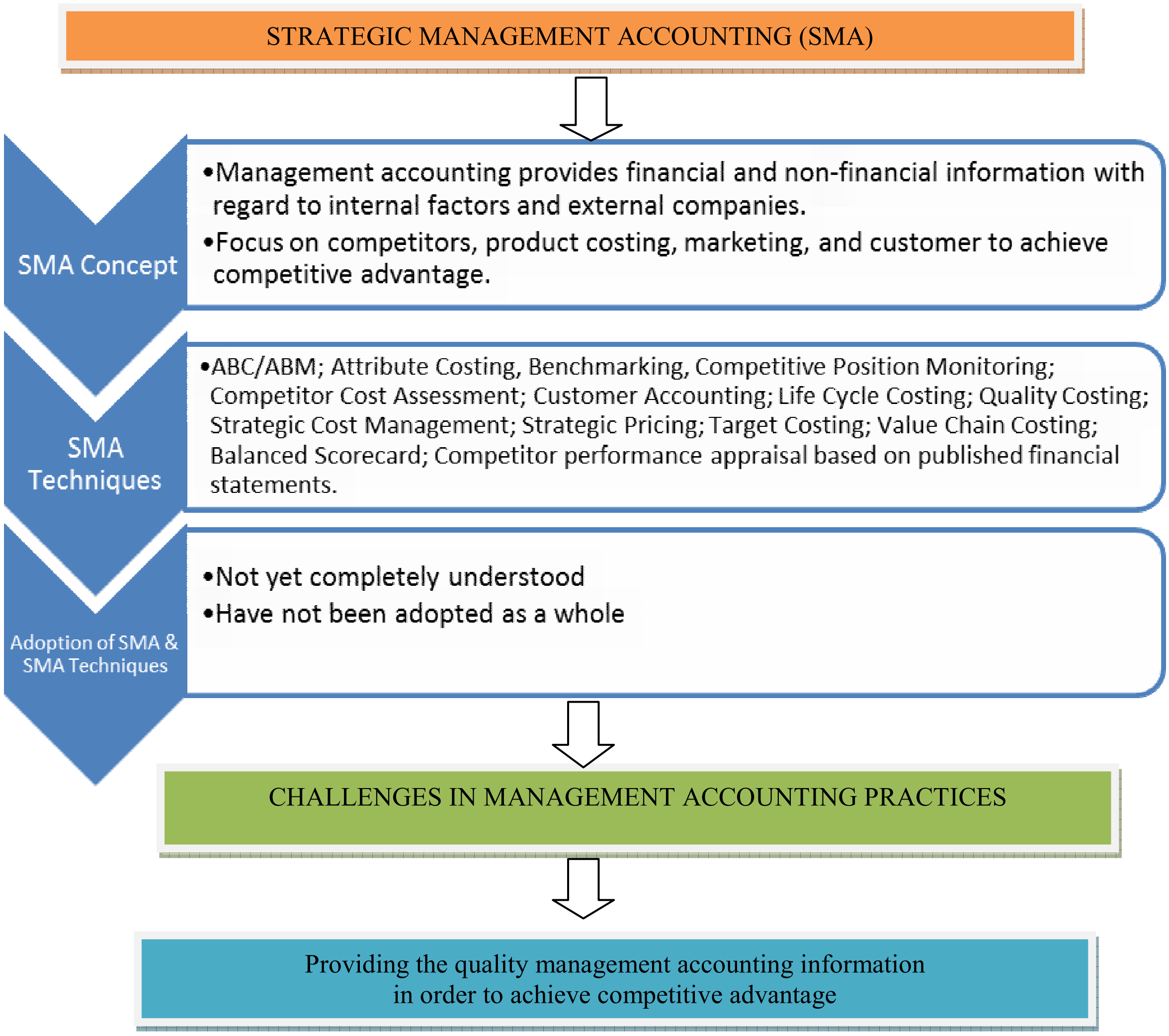
Table 2. Essential Techniques in Strategic Management Accounting Toolbox

SMA Techniques Category	SMA Techniques	Guilding et al. (2000)	Cravens & Guilding (2001)	Cinquini & Tenucci (2007)	Cadez & Guilding (2008)	Shah et al. (2011)	Fowzia (2011)
Costing	Attribute costing	√	√	√	√	√	√
	ABC/M		√	√		√	√
	Life-cycling costing	√	√	√	√		√
	Quality costing	√	√	√	√		√
	Target costing	√	√	√	√		√
	Value-chain costing	√	√	√	√	√	√
Planning, control and performance measurement	Benchmarking		√	√	√		√
	Integrated performance measurement/BSC		√	√	√	√	√
Strategic decision-making	Strategic costing (strategic cost management)	√	√	√	√	√	√
	Strategic pricing	√	√	√	√		√
	Brand valuation (budgeting and monitoring)	√			√	√	
Competitor accounting	Competitor cost assessment	√	√	√	√	√	√
	Competitor position monitoring	√	√	√	√		√
	Competitor performance appraisal	√	√	√	√	√	√
Customer accounting	Customer profitability/cost analysis		√	√	√		√
	Lifetime customer profitability analysis				√		
	Valuation of customers as assets				√	√	

Source: Ana Juras (2014)

Various strategic management accounting techniques have been developed, yet the uses have not been widely adopted, and there are not any statements that claim strategic management accounting has been widely understood and used (Kim Langfiels-Smith:2008). It is in line with Cinquini&Tenucci (2007) that state the adoption of strategic management accounting techniques seem not to be a*strategy-driven.*An empirical prove of the small spread of strategic management accounting has not been able to be seen as a promising strategy (Shah: 2011). Thus, the practice of strategic management accounting and the use of the techniques keep being the challenge for practitioners in the field of accountancy (Roslender&Hart:2010).

Figure: Strategic Management Accounting, Concepts, Techniques & Practical Challenges



5. Conclusion

The role of management accounting is to provide relevant information for the manager in conduction his function in planning and controlling the organization.Changes in business environment demand changes within the system of management accounting as well. These days, business environment has demanded innovations and relevant management accounting practices which are necessary for the company. Management accounting is demanded to be able to provide relevant information in determining strategic decisions which are named strategic management accounting.

The use of techniques in the practices of strategic accounting is various and it creates suggestions of the accurate techniques which can be adopted. The choice and the use of the techniques in the strategies are the effort of the company to develop its competitive position within the competitions. There are many experts that have developed the techniques which help the companies to be the best. There are also many literatures that explore the use of strategic management techniques. Yet, many studies state that the use of strategi8c management accounting techniques gave not been widely adopted and understood. Even, the term itself has not been able to be defined which makes the concept has multi interpretations. These are the challenges for the practitioners of accountancy in the future.

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