Analysis Of Term Strategic Management Accounting

Introduction

Since the early 1980s the term 'Strategic Management Accounting' (SMA) has been floating around in the Management Accounting world. Evidence, or little of it, suggests that SMA has not been as popular as early advocates hoped for. One of the major reasons picked out by most academics is that it has no clear definition or conceptual framework, only interpretations which can lead to numerous issues. Despite this, there is a general understanding that SMA is accounting for strategic position. Worryingly, research has shown two very different ideas of SMA: Guilding, Cravens and Tayles (2000) conflict Simmonds' idea of a completely new concept by suggesting SMA is not in fact this, but "a combination of existing techniques" just rebranded. It has been found to exist somewhat in firms albeit not always under the name SMA. Arguably, it has not been adopted as the techniques are already adopted, hence the lack of popularity of adoption. Sometimes it also appears to have or require no involvement of the management accountant, so it could be argued that SMA is not the best term to use and could be a partial reason to its lack of popularity. Thus, the extent of SMA's popularity cannot fully be known, but it can be argued that there are several reasons that could be influencing firms not to adopt it.

Definition and Conceptual Framework

The general consensus from several academic writings is that SMA is not clearly defined, and there is no method of implementation. Each researcher has coined their own interpretation of what they think it means, but one of the first advocates, Simmonds (1981), defined SMA as "the provision and analysis of management accounting data about a business and its competitors, for use in developing and monitoring business strategy". Most, however, agree that in general that SMA is accounting for strategic position. Some define it in a sentence, some in key steps or concepts, such as Lord (1996), and Nixon and Burns (2012) who suggest it has 3 main concepts - planning, implementation and control - but even then, this is up to many interpretations, again adding to the lack of consensus on its definition, and potentially the lack of adoption. Simmonds (1981) definition focuses on external orientation, namely competitors. Several academics agree on the external focus, however Shank and Govindarajan (1993) suggest suppliers and customers are crucial as you can obtain key information for exploring linkages, which is part of Simmonds' view of SMA. Roslender and Hart (2003) believe attention should also be drawn to the market as this is also key. Although, the focus is not solely external, the emphasis on this can lead to ignoring other aspects that are vital to strategy (Roslender, 1995). If this is seen by organisations, this could add to their reasoning for not adopting SMA. Without a clear definition, adopting SMA will become challenging as there is little advice on how best to implement it and how it should or will benefit organisations. This is potentially off-putting and not convincing for novices to the technique. Further, Langfield-Smith (2008) suggests the term is not used in the US, however the term 'strategic cost management' is. The definition of SCM has similarities with SMA but some people view SMA to be broader. (Langfield-Smith, 2008) Maybe SCM seems to be more popular as it is easier to understand and comprehend? This could be viewed to show if SMA was better explained and conceived it could have and can be more popular, just as early advocates hoped. Nixon and Burns (2012) suggest the reason for

SMA lacking a concise definition could be due to there being no clear definition for strategy as it is such a varied and complex term.

Many academics suggest a number of techniques within SMA: Langfield-Smith (2008) lists 9 techniques, for example target-costing, life-cycle costing and strategic cost analysis, whereas Guilding, Cravens and Tayles (2000) considered 12 techniques in their survey and Cinquini and Tenuccci (2010) used 11 techniques in their research. The variety in types and number of techniques can cause confusion when looking at which to implement when adopting SMA, therefore can add to the lack of adoption.

Furthermore, although a wide range of techniques exist, not every technique is beneficial to every firm (Cinquini and Tenucci, 2010; Shank, 1989; Nixon and Burns, 2012). Most of the SMA literature does not provide clear guidance on which techniques are best for which type of strategy and how much emphasis should be placed on different ones, which again can be unappealing to firms looking at adopting it. Cinquini and Tenucci (2010) found that factors affecting choice of technique include firm size (Cadez and Guilding, 2008; Guilding, 1999) and market orientation (Guilding 1999; Guilding and McManus, 2002). They found that prospector firms used SMA techniques that focused more on customers, competitors and performance, when compared to defenders. This was also found to be more popular for differentiators than cost reducers (Cinquini and Tenucci, 2010). On the other hand, SMA techniques that have a more cost orientation are more popular with defenders than prospectors, and for cost leaders than differentiators. This proves that technique usage does fluctuate/differ with type of strategy. However, as this is not common within literature and research, it is unlikely that firms will know clearly what techniques are best for their type of strategy and as there is so much choice, this might discourage firms from adopting SMA altogether. The SMA literature’s lack of attention to strategies affecting techniques implies that any technique will work for whatever strategy firms adopt, however this is not the case (Cinquini and Tenucci, 2010). Some surveys carried out by academics exploring the popularity of SMA techniques, do not have background knowledge of firms and how they operate or strategies, so arguably the techniques could be being used but not actually be beneficial to the firm (Nixon and Burns, 2012). Thus, one could say they may not actually be popular. In Lord (1996) study of Cyclemakers, their strategy was predominantly differentiation, which Shank (1989) suggests for that they should focus on marketing costs. Also, the case proved that emphasis on different techniques was not always anticipated by the SMA literature (Lord, 1996). In addition, Carlsson-Wall, Kraus and Lind (2015) advocate that SMA literature suggestions of techniques differ to what is actually put into practice.

Diminishing Role of the Management Accountant and SMA Techniques Already Exist Throughout Firms

Linking back to Guidling, Cravens and Tayles (2000) challenging Simmonds’ argument that SMA is a new concept, Lord (1996) argues that some of the techniques are already used in organisations, and hence it could be argued that in fact SMA is popular to some extent without being realised. The Cyclemakers case study shows they collected competitor information and utilised linkages to reduce costs (Lord, 1996). Although this links to Simmonds’ vision of SMA, there was no mention of SMA as the ‘brand’ for carrying out these activities. Thus, proving the existence of techniques within organisations, and arguably, this is why it is not being adopted. If techniques are not new to SMA, and are already used then why is there a need to rebrand them/adopt SMA? It is also thought that SMA has been created to “restore the lost relevance of management accounting” (Roslender and Hart, 2003; Oboh and Aijbolade, 2017). Lord (1996) shows through Cyclemakers that information gathered is not necessarily quantitative, nor collected and analysed by the management accountant, which early advocate Simmonds (according to Lord) implied “only people with highly developed management accounting skills” could handle the information required. Anderson (2007) was sitting on the fence in that the skills of management accountants are “well suited to the task”. However, it could be argued that other employees within the firm may have better or just as good knowledge and skills required to carry out tasks, as seen in Cyclemakers. Operating staff have specialised knowledge that could only be known from working hands on in specific departments (Lord, 1996). Further arguing the case that techniques are already within systems, Nixon and Burns (2012) study found that a company had several SMA techniques already within their information system, and without ‘SMA’ being mentioned anywhere. Again, why would firms adopt SMA and/or change their system when it is already working in a way that is somewhat the same and similar to SMA?

Does it matter if SMA techniques are carried out by the accountant if they can be done just as successfully if not more by other employees? Dixon and Smith (1993) suggest that the management accountant’s skills are important and means they can work with strategy, however if other people in the firm can do it just as well then the accountant could be there to audit the information. As management accounting is changing, management accountants are going to have to adapt to the changes otherwise they are going to find their role as it stands now coming to an end as they are no longer required (Cooper 1996). One could argue that ‘Strategic Management Accounting’ could be better named without ‘accounting’ when arguably the accountant is not required, however this idea is still very much conflicting.

Collecting customer information, albeit mentioned as a technique of SMA, is arguably more appropriately a fundamental part of business. This can further argue that SMA is not a new idea.

Firms can create the benefits from SMA without technically implementing it.

Cugnesan, Dunford and Palmer (2012) argue that SMA cannot properly be applied to the public sector/needs adapted to be beneficial for public sector organisations, meaning SMA cannot be successfully adopted by every type of company. This can further contribute to the reason SMA is not as popular as expected, as less firms are actually able to adopt it. For example, the profit maximising focus of private sector organisations makes techniques such as competitor and cost accounting (Guilding, Cravens and Tayles, 2000) less important, and mostly ineffective for public sector organisations. In addition, Nixon and Burns (2012) argue that SMA literature focuses on some assumptions, namely a stable environment and aim to maximise shareholder wealth, that are not necessarily always true, especially with corporate governance increasing in importance. Adaptations to make SMA ____ for public sector companies, potentially requires a lot of time and money, and as the benefits of SMA are not clearly known, firms may not be willing to give up its resources for potentially no benefit.

The agreement of most on the definition of SMA is the competitor focus. However, competition has changed since the first advocation of SMA, and competitive environments are constantly changing (Nixon and Burns, 2012). They argue that SMA needs to keep up with the fast-changing environment of today’s business world. This suggests that SMA will need regular adapting or changing to ensure it is keeping up with the times and staying effective. Arguably, SMA needing regular adapting for several reasons can be timely and costly and put firms off from adopting it. In addition, gathering competitor information can be timely, yet may be outdated and of no use very quickly, so will require the investment of more time. One could say firms may not want to invest this much time into a technique that could potentially be of little or no benefit to them. Also, it could be suggested that the risk of adopting SMA could be high, hence risk adverse individuals/firms are going to avoid this.

Carlsson-Wall, Kraus and Lind (2015) advocate that SMA literature is not yet incorporating the inter-organisational perspective, which they prove to be an important factor in strategy. One of the main aspects of strategy links to having close relationships with other organisations (McLoughlin and Horan, 2002), hence if SMA incorporated this more it could be enhancing the adoption rate. Carlsson-Wall, Kraus and Lind (2015) found that, for example, target costing impacted on strategy. Research has little, if any, evidence or analysis of how organisational functions can shape strategy (Carlsson-Wall, Kraus and Lind, 2015). In their study of the firm 'Robotics', they found that inter-organisational relationships allowed them to find resources or activities that enabled them some competitive advantage, linking to Simmonds (1981) view of SMA.

In theory, SMA might seem effective but in practice this is yet to be seen. Nixon and Burns (2012) argue this could be due to SMA literature not integrating fully with SM, and only selectively using perspectives of its literature that advocates want to address. – EXPAND BUT I DON'T UNDERSTAND HOW TO INTERPRET READING

A review of surveys in the 80s and 90s in the UK and North America by Bromwich and Bhimani (1994) found that there was little evidence of adoption of SMA, however some of those surveyed suggested they were planning to adopt ABC in the future (a technique with differing views as to whether or not is a technique of SMA). It could be argued that it has not yet been uptaken due to the downfalls/shortcomings of implementing on profits and other aspects of business. Firms may be reluctant to adopt techniques if it does not automatically benefit them – this could be a part of the lack of popularity.

Further, Lord (1996) advocates that for linkages to be explored, firms would be better organised in strategic business units than the traditional divisionalisation. Arguably, with better organisation SMA could potentially become more useful, potentially increasing its implementation in firms. – BETTER WAY TO DO SMA? COULD MAKE IT MORE POPULAR – mention in conclusion?