

CHAPTER 1 - Management accounting and the strategic management framework

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1.13 Strategy as practice and management accounting

Active reading. Note the viewpoint taken by supporters of the strategy as practice perspective and how the skills and day to day activities of management accountants can feed into the strategic management process.

More recently, in terms of academic development of the subject, there is a significant body of literature building around the concept of strategy as practice. Adopting a strategy as practice perspective provides some insight into how management accounting and the management accountant, can support the strategic management process.

The strategy as practice perspective takes the view that strategy is something that the various actors within an organization “do” rather than something an organization “has” (Whittington, 1996). Jarzabkowski et al. (2007: 7-8) note that strategy has been defined as “a situated, socially accomplished activity, while strategizing comprises those actions, interactions and negotiations of multiple actors and the situation practices that they draw upon in accomplishing that activity.” The use of the verb strategize, takes up the point that verbs grasp the dynamic nature of the strategic management process (Whittington et al., 2006).

Strategizing is broken down by Jarzabkowski (2005) into *procedural strategizing* and *interactive strategizing*. Procedural strategizing focuses on diagnostic control – the monitoring of strategic outcomes and taking corrective action, an activity that the traditional management accounting practices would support. Interactive strategizing focuses on the activities of communicating, persuading, negotiating, influencing, and sense-making in strategic management. The skill set of the T-shaped accountant described in section 1.13 - The role of accounting data and information within strategy, would be particularly useful in interactive strategizing.

The aspect of sense-making activities has been reported by Tillmann and Goddard (2008: 80) in respect of management accounting practices in a multinational company when they identified that “accountants consciously and unconsciously undertake ‘sense-making’ activities through the strategies of structuring and harmonizing; bridging and contextualizing; and compromising and balancing.” Accountants are good at organizing data and providing structure to data such as reporting by cost centers, thus making it more manageable and less complicated for the users of the information. Harmonizing activities, such as using accounting policies and rules, allows comparisons of data on a meaningful basis. Concerning comparisons, bridging activities take place by comparing data from one period to another, and spatial comparison provides an analysis of information across sectors, competitors, and within the organization across business units. Contextualizing occurs when comparing data for a specific purpose, such as benchmarking exercises. Compromising and balancing is used when there is a lack of

accurate information, and it is necessary to use the best possible alternative or best estimate. The accountants can use their professional experience and know-how to provide information that is relevant to inform the decision-making process.

Cuganesan et al. (2012: 257) identified that “management accounting created shared understanding by objectifying, mobilizing and connecting strategic concerns across strategic practices and practitioners.” In other words, management accountants are good at bringing together information from different sources, both financial and nonfinancial, to aid decision making in all disciplines. It is often the case that in small to medium-sized enterprises (SMEs), the accounting department is responsible for pulling together the management information from various functional departments and issuing a monthly reporting pack to senior managers.

Accountants also help identify and develop strategic priorities. Indeed, the development of strategic management accounting practices to support the strategic management process demonstrates a reciprocal relationship between strategic management and management accounting practices. These activities would fall with the mediating and shaping role described by Cuganesan et al. (2012). This role reinforces the need for management accounting to support the strategic management process and for accountants to work closely with functional managers of all disciplines and strategic business units to formulate, evaluate, and implement the strategy.

It is suggested that strategizing practices include strategic planning, resource allocation, decision making, and strategic change – all activities that accounting information can support, and all practices that occur within the strategic management process. So, where do accountants have the most impact? Dixon (1998: 273) suggested that the “identification, formulation and implementation of strategy by management is carried out using the techniques and language of the management accountant.” He goes on to suggest that the “strategic decision-making process can influence the procedures of management accounting and the design of management control systems in order to aid the control of strategy.” These observations imply that the focus is on the monitoring of strategy for control purposes, whereas Dixon was postulating that the accountant can be involved in all aspects of the strategic management process. Skærbæk and Tryggestad (2010) noted that accounting devices had a role in the formulation of strategy and helping to shape the various strategic options. Aver and Cadez (2009) found that, apart from the monitoring and control activity, the most likely areas for involvement was in the evaluation of strategic options and developing details about the strategic options activities. This learning resource is written on the basis that management accounting can contribute throughout the entire process of strategic management.

Whittington et al. (2006) highlight that the strategizing process encompasses the hands-on, practical skills of the strategists. Pye (1995) had earlier provided evidence that the strategist’s skills (the practices and use of artifacts) can mean the difference between success and failure of a strategy. While this learning resource argues that accountants possess a skill set that can make a significant contribution to the activities of strategizing, Ahrens and Chapman (2007) noted that the skills required take time to develop, and can only really be learned on the job, emphasizing the practical nature of strategizing. The mind-set of the accountant, and indeed the culture within an organization, can also influence the contribution made to strategizing, as accountants that believe they have something significant to contribute will be more likely to adopt a strategic approach to the management accounting activity, and

hold a desire to become involved in the strategic management process (Hutaibat et al., 2011; Pitcher, 2018; Hutaibat, 2019). It has also been found by Kalkhouran et al. (2017) and Pitcher (2015) that the degree to which the chief executive officer is supportive of the accounting function being involved in the strategic management process can have a positive influence on the use of strategic management accounting.

1.14 The 3 Ps of strategy as practice

Active reading. Note the difference between practice and praxis. Praxis can mean ‘practice’ as distinct from theory, that is, the application of knowledge or skill in a practical way, but with habitual use, it becomes the standard custom and practice, and part of the culture, both of the organization and the profession. Note how the training of accountants and the use of accounting techniques feed into the praxis of strategy.

As Whittington (1996) states, strategy as practice is concerned with the *doing of strategy*. Strategy as practice focuses on the praxis, practices, and practitioners of strategy – what Whittington refers to as the 3Ps (Whittington, 2006a). Practice is defined by Reckwitz (2002: 249) 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.” In a strategizing context, Whittington (1996: 732) suggests that practice is concerned with “... all the meeting, the talking, the form-filling and the number-crunching by which strategy actually gets formulated and implemented.” In this respect, the preparation, interpretation, and the putting to use of management accounting information could constitute *practice*, particularly in the sense that many individuals within an organization perform strategy work (Grant, 2003), much of which is mundane, everyday activities, involved in implementing the strategy.

Accountants would fall neatly within the definition of practitioners - those people who do the work of strategy (Whittington, 1996; Jarzabkowski, 2005), and the activities and practices of accountants fall neatly within the terminology of strategy as practice. The budgets, spreadsheets, and numerous reports produced by accountants constitute artifacts – the stuff of strategy, as defined by Jarzabkowski et al. (2013). These artifacts become imbued with knowledge and invested with meaning as they are developed and continually changed and updated, the various components often being used by multiple individuals for different purposes. The business plans and forecasts of future outcomes in which accountants are often heavily involved would constitute strategy texts, as defined by Fenton and Langley (2011). The accounting techniques and their output from activities such as gathering, analyzing, interpreting, and reporting could be viewed as knowledge artifacts, as defined by Jarzabkowski and Wilson (2006).

Professional accountants undertake a rigorous qualification process as part of their training. This training enables them to bring a specific kind of expertise and thinking to the strategizing process. As Schatzki (2005: 480) suggests, “different combinations of a practice’s

organizing elements are incorporated into different participant's minds due to differences in participants' training, experience, intelligence, powers of observation and status." Therefore, management accounting practices and their use by management accountants with their training, defined in part by professional accountancy bodies, forms part of the practices of the profession that impact on the organization. These practices adopted by the practitioner accountants impact on the collective experiences and thus become part of the praxis, (the process of using a theory or something that you have learned practically) or standard routine practices (Whittington, 2006b).

Fauré and Rouleau (2011) undertook case study research investigating the interactions between accountants and managers in preparing budgets. They noted how the participants' practical knowledge of strategy helps to shape the numbers and interpretation when using numbers as part of justifying local projects, both internally within the organization and to external partners. They highlight the use of numerical analysis in the justification of strategic decisions and the way different viewpoints, experiences, practical knowledge, interactions, and discourse between managers with different functional responsibilities, other than accountants, can be brought to bear on the decision-making process. This example illustrates that accountants, working closely with other managers, can contribute to the process of strategizing.

Management accountants regularly produce information to reaffirm that the strategy is working or to indicate a need for action. Techniques such as budgetary control become part of the culture of the organization. Indeed, one of the criticisms of management accounting is that information is produced on a routine basis only because it always has been. The traditional techniques and practices have been passed through generations of managers, even if they are no longer appropriate for the current business model (Johnson, 1992). That said, the idea of management accounting forming part of the praxis associated with strategizing is relevant in that the contribution of management accounting, as Whittington (2002: 2) says, the practice 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."

As practices become embedded within the culture of an organization, they can be passed on and acquired tacitly by newcomers (Martin, 2002). The techniques of management accounting have, therefore, in terms used by Bourdieu (1990) - a principal author about practice, become part of the habitus. Habitus is embodied within individuals (Hurtado, 2008) but at the same time becomes part of the collective experience of individuals with similar socialization or within the same class (Whittington, 2006b); in other words, part of the culture of an organization or profession. This observation implies that the theories and practical management accounting support provided to managers over a period become part of the culture of the organization. This phenomenon may add some support to why organizations are reluctant to adopt new strategic management accounting techniques.

We could be seeing the beginnings of an isomorphic element. Just as firms in the same industry display similar strategic responses over time (Spender, 1989), the training and recognized practices of accountants passed on via their training and the attainment of a professional qualification can help to develop the body of accepted practices as a form of normative isomorphism associated with professionalization (DiMaggio and Powell, 1983).

That is, as the professional syllabi include more of the new techniques described as strategic, they are more likely to be adopted by newly qualified accountants taking up employment in different organizations. Once organizations report the use of newer techniques and the performance benefits, more organizations in the sectors will follow suit, and their use becomes part of the standard practice.

The strategy as practice framework of praxis, practitioners, and practice is, therefore, of value to understanding how management accounting can support the strategic management process. Remembering that the term strategizing refers to a hands-on, practical activity of enacting the strategy helps to provide insight into how the practice of management accounting can contribute to that process. As Nixon and Burns (2012: 235) suggest the “effectiveness of a combination of management accounting techniques, or SMA systems, depends very much on how it is used and on the extent to which it is a part of the organizational process that manages the formal, semi-formal and informal information and communication systems.”