CHAPTER 1 - Management accounting and the strategic management framework

Contents

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1.1 Introduction

The business environment that organizations face today is increasingly complex, dynamic, and uncertain. There is no better time for management accountants to optimize their potential in supporting and contributing to the strategic activities within the organization. The premise behind the production of this learning resource is to provide an understanding of the standard strategy models and frameworks and to discuss the management accounting techniques that complement the strategic management process.

Perhaps the best way to begin an exploration of strategy and management accounting is to provide an overview of a strategic management framework and review the purpose and development of management accounting as the discipline adapts to meet the changing needs of businesses.

The purpose of management accounting is to provide managers with the information they need to manage the business. Traditional management accounting, however, has been criticized for not supporting managers in making strategic decisions. The term *strategic management accounting* emerged as academics promoted techniques that would provide more support within the strategic management process. This chapter discusses the criticisms of traditional management accounting and the emergence of strategic management accounting with reference to the academic literature.

The chapter then looks at what is meant by strategic management, outlines how the understanding of the term has changed, and presents a strategic management framework that forms the structure for the rest of this learning resource. The exploration goes on to discuss questions such as who sets the strategy, the different levels, planned versus emergent, and the inside-out or outside-in perspective. There then follows an overview of how management accounting can support the strategic management process. Chapters 2 – 11 deals with this in detail. The chapter concludes with a discussion of the concept of *strategy as practice* to illustrate the role that management accounting can play throughout all aspects of the strategic activity within organizations.

The strategic management framework presented here follows a rational approach to the analysis, formulation, implementation, evaluation, monitoring, and control of strategy. In practice, the process is much more flexible. Taking a rational approach facilitates a discussion of management accounting within a strategic context. The danger of taking this approach, however, is that it may give the impression that the position within the framework in which the strategy model or accounting technique appears is the only place it can be applied. Many of the models and practices are useful within several areas of the strategic management framework. It is crucial to appreciate that strategic management is essentially a continuous and iterative process. The business environment in which many organizations operate today is complex and dynamic, and the ability to respond and adapt appropriately to changes can mean the difference between success and failure. Management accounting in support of strategy is about providing support for all levels of management throughout the entire strategic management process.

1.2 Learning outcomes

After studying this chapter, you will be able to:

- Understand the purpose of management accounting
- Understand what is meant by strategic management
- Critically evaluate the development of management accounting in response to criticism of traditional techniques
- Critically evaluate management accounting from a *strategy as practice* perspective
- Understand how management accounting can support the strategic management process

1.3 What is management accounting?

Active reading. As you study this section, note the difference between financial and management accounting, the functions of management accounting, and the criticisms of traditional accounting. Also, note the changing definition of management accounting as it takes on a more strategic perspective. Think about why this change happened.

Management accounting has been distinguished from financial accounting by its focus on providing information for management activities such as planning, decision making, and control (Kaplan and Atkinson, 1989; Aver and Cadez, 2009). Financial accounting is required by law, as organizations must ensure that they can accurately record financial transactions, and report profits and losses to the providers of capital, and the tax authorities. Thus, the provision of financial information is predominantly to an external audience. Financial accounting must conform to reporting conventions such as those set out in the International Financial Reporting Standards (IFRS), the U.S. GAAP (Generally Accepted Accounting Principles), and the U.K. GAAP (Generally Accepted Accounting Practice). Management accounting, however, is not governed by any rules, and organizations are free to use whatever tools, techniques, and practices they think fit for their organization. The audience is internal; hence the format and the frequency of information are determined by need, not external standards. Essentially management accounting is there to help managers manage.

Traditionally, the management accounting information was typically internally generated, financial in nature, and focused on identifying the product cost (Bhimani and Bromwich, 2010; Drury, 2012; Ward, 2016). The cost formed the basis for pricing decisions, as well as the planning and control of operations. The method of valuing products, to some extent, was influenced by the need to include the value in the financial accounts within the cost of goods sold, shown in the income statement (also known as the profit and loss account), and the value of inventory, shown as a current asset, on the balance sheet. There is a requirement to record inventory within these statements at cost, including materials, labor, and factory overheads, and in relevant cases, freight, handling, and import duties.

The early definitions of management accounting focused on the cost and production aspects of a business. Indeed, one of the leading professional bodies in management accounting, the Chartered Institute of Management Accountants, was initially created in 1919 as the Institute of Cost and Works Accountants. The direct costs of producing products were predominately materials and labor, known as the prime costs of production. Towards the end of the nineteenth century, an element of indirect costs, also referred to as production overhead costs, such as utility, building, and administrative costs, were included in the product costs. Solomons (1952) noted that the typical method of applying production overheads to product costs was by adding a percentage of the labor cost, or by creating a company-wide overhead cost rate per labor hour. As the main costs were labor and materials, traditional forms of management accounting focused on measures of productivity such as cost per hour, or cost per kilogram produced, per process, or per worker. These measures of productivity were used as measures of performance and fed into budgeting, target setting, and the motivation of workers and managers (Johnson and Kaplan, 1987). Management accounting was, therefore, the provision of cost and productivity information to assist managers in the activities of operational planning (via budgeting), decision making, and control.

In the late 1980s, traditional definitions of management accounting received much criticism for being inappropriate for modern business (Johnson and Kaplan, 1987; Hiromoto, 1988; Bhimani and Bromwich, 1989) in that they focused on cost and operational control. More recent definitions include an explicit reference to nonfinancial information. For example, Groot and Selto (2013: 3), refer to management accounting as being, "… concerned with the generation, communication and use of financial and non-financial information for managerial decision making and control activities." Other authors alluded to providing support for broader strategic management activities (Dixon, 1998). Anthony's (1965) categories of management activity shown in Figure 1.1, operational, tactical, and strategic, demonstrate the change of focus required. Management accounting focused on the lower end of the hierarchy, which ignored the higher end of strategic activity within the organization. As we move up the levels, the focus of information required by managers changes from internal, quantitative, and short-term, to include information that is more external, qualitative, and future-oriented.

Towards the 1990s, academics began to suggest that management accounting should become more externally focused and should take a more proactive role in the strategic management process (Johnson and Kaplan, 1987; Bromwich, 1990, 1994). It was also becoming recognized that it is the strategy that drives the information needs. Therefore, the best approach is to tailor the management accounting systems to each organizations' specific requirements. Kaplan (1984: 414) notably commented, "… management accounting can no more exist as a separate discipline, developing its own set of procedures and measurement systems and applying these universally to all firms without regard to the underlying values, goals, and strategies of particular firms, but it must serve the strategic objectives of the firm."

A change of focus was needed which met the needs of the managers who were formulating strategies in a changing business environment.

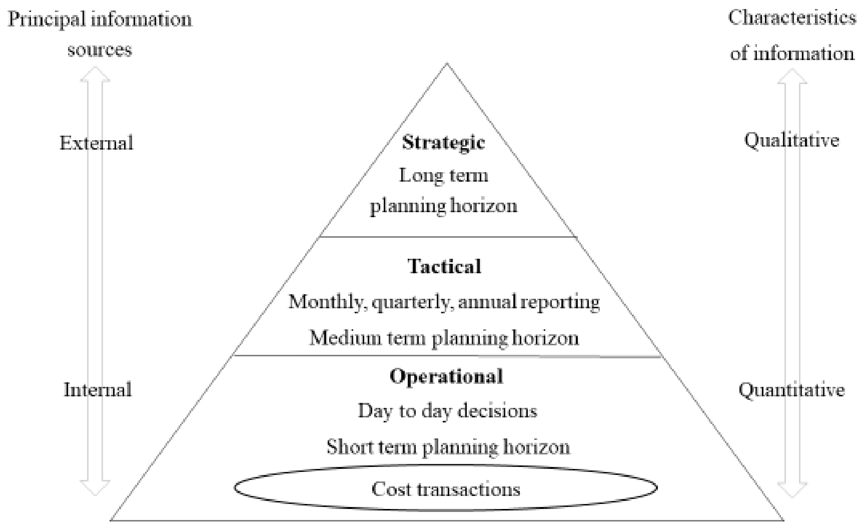

Figure 1. 1 Typical management information requirements at different levels of the management hierarchy.

Over the year’s management accounting has developed in a variety of ways to meet the changing requirements of the business (Burns and Scapens, 2000; Weetman, 2006). As the business environment became more competitive, and the emphasis moved from strategic planning to strategic management (Whittington, 1996; Hoque et al., 2001; Nixon and Burns, 2012), the call from academics was not only for the need for management accounting practices to respond to the changing needs of the business but for accountants to become more involved in the strategic management process (Shank, 1989, 1996; Bhimani and Keshtvarz, 1999; Mia and Clarke, 1999; Tayles et al., 2002; Pitcher, 2015, 2018; Stein Smith, 2017).

The definitions of management accounting began to recognize this change of emphasis. For example, The Institute of Management Accountants' (U.S.) description (IMA, 2008) included the phrases “partnering in management decision making” and “to assist management in the formulation and implementation of an organization’s strategy.” The inclusion of these terms indicates that the accountant is no longer seen as just the person with the numbers but is an active member of the management team involved in the strategic management process. Brewer (2008: 29) suggests that the “ultimate responsibility of management accounting is adding stakeholder value … by providing leadership, by supporting a company’s strategic management efforts, by creating operational alignment throughout an organization, and by facilitating continuous learning and improvement.”

1.4 The development of strategic management accounting

Active reading. Note the differences between traditional and strategic management accounting shown in Table 1.1, and the definition of a strategic accounting system given by Brouthers and Roozen (1999), think about the key differences that distinguish strategic from traditional management accounting. Ideally, successful organizations would embrace both traditional and strategic accounting practices. Also, note that the early researchers disagree as to what constitutes a strategic management accounting technique (shown in Table 1.2).

Simmonds (1981) promoted the development of the concept of strategic management accounting. He focused his attention on the need for external information and specifically on data related to competitors and markets. The term strategic management accounting, however, has not found favor with practitioners (Guilding et al., 2000; Roslender and Hart, 2003; Jorgensen and Messner, 2010; Nixon et al., 2011; Pitcher, 2015), and an agreed definition has defied academics. Bromwich (1988), like Simmonds, emphasized gathering and analyzing information about competitors and benefits to customers over the long term. Govindarajan and Shank (1992), however, placed the emphasis more on the concept of strategic cost management, while Ma and Tayles (2009) defined it as being concerned with strategically orientated information for decision making and control. Hopwood (2007), however, recognized the continued benefit of traditional accounting practices and proposed they be used to aid the formulation of strategic plans.

In contrast, Roslender and Hart (2003) adopted a broader viewpoint and suggested merging management accounting and marketing principles within a strategic framework. Hoque (2001) also takes a more comprehensive view and argues that strategic management accounting is a process of identifying, gathering, choosing, and analyzing accounting data for helping the management team to make strategic decisions and to assess organizational effectiveness.

Brouthers and Roozen (1999: 311-312) talk in terms of a strategic accounting system and suggest that it should, "… provide information necessary to perform the following strategic functions: (1) environmental analysis, (2) strategic alternative generation, (3) strategic alternative selection, (4) planning the strategic implementation, (5) implementing the strategic plan, and (6) controlling the strategic management process. In order to fulfil these information functions, a strategic accounting system must contain information that is (1) mostly non-financial; (2) focused on the future; (3) both internal and external to the firm; and (4) based on realistic projections of the future, not simple extrapolations of the past." Whatever the definition, the need for management accountants to become actively involved within the strategic management process was compelling.

Table 1.1 summarizes some of the differences between traditional management accounting and strategic management accounting.

Table 1.1 The difference in orientation of traditional and strategic management accounting

Traditional management accounting	**Strategic management accounting**
Historical	Future-oriented
Internal focus	External focus – outward-looking
Predominantly financial	Places equal importance on nonfinancial information
Quantitative – transaction-based	Makes use of qualitative measures
Short term in nature – planning, and control	Long term outlook and use of scenario planning
Uses variance analysis to determine corrective action	Seeks to understand the reason behind the variance to inform future decisions
Supports operational decision making	Supports strategic decision making
Programmed decision making	Un-programmed, uncertain, and ad hoc decisions
Reactive	Proactive
Developed to support manufacturing	Developed to support the competitive position
Focuses on reporting performance of existing activities and explaining the past performance	Also reports on consequences and potential impact on future performance, as well as alternative strategies
Reporting of actual versus plan – comparison	Reviews performance against external benchmarks

Early research into the development of strategic management accounting (SMA) focused on the extent to which organizations use SMA techniques. These surveys typically use questionnaires to collect data. A problem, however, is the fact that it is the academics that predefine the set of techniques ascribed to SMA. There are, however, variations in the number of techniques defined. For example, Guilding et al. (2000) identified twelve techniques; Cadez (2006) identified seventeen techniques; Cinquini and Tenucci (2007) fourteen techniques; and Cadez and Guilding (2008) sixteen techniques. McLellan (2014), however, took a slightly different approach and tested the use of forty-two management accounting techniques, some of which were deemed to be strategic. Table 1.2 provides a brief explanation of the techniques included within these studies. Some of the techniques have fallen by the wayside in recent years, often due to the difficulties of implementation. Therefore, this learning resource only deals with the accounting techniques deemed to provide the most benefit in the strategic management process.

Table 1.2 Strategic management accounting techniques

1. Guilding et al. (2000) 2. Cadez (2006) 3. Cinquini and Tenucci (2007) **4.** Cadez and Guilding (2008)					
Strategic management accounting (SMA) technique		**Authors**			
	Brief description	**1**	**2**	**3**	**4**
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 activities to cost objects based on consumption estimates. The latter uses 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. This technique has fallen by the wayside.	✓	✓	✓	✓
Benchmarking	The establishment, through data gathering, of targets and comparators, that permits relative levels of performance (and particularly areas of underperformance) to be identified. The adoption of recognized best practices should improve performance.		✓	✓	✓
Brand value budgeting and monitoring	Brand valuation assigns a 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 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 financial appraisal	Looking for strengths and weaknesses in the competitors' financial position.	✓	✓	✓	✓
Customer profitability analysis	Customer profitability analysis (CPA) is the analysis of the revenue streams and service costs associated with specific customers or customer groups to ascertain their relative profitability.		✓	✓	✓
Integrated performance measurement	The use of a range of performance measurements other than financial. The balanced scorecard is a typical example, which includes nonfinancial as well as financial, internal, and external measures, quantitative and qualitative. The balanced scorecard reviews performance from several different perspectives, for example, customer, internal business, and learning and growth as well as financial.		✓	✓	✓
Life cycle costing	Life cycle costing is the profiling of costs over the life of a product, including the preproduction stage and recycling.	✓	✓	✓	✓
Lifetime customer profitability analysis	Estimating the profitability of a customer over its lifetime, considering future revenues and costs, including the cost of acquisition and retention.		✓		✓
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, and 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 considers 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.	✓	✓	✓	✓
Strategic planning and budgeting	A system of developing strategic objectives and ensuring that budgets developed by individual units contribute to their achievement – essentially ensuring alignment of departmental budgets to strategic objectives.				
Target costing	Target costing is an activity that 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.	✓	✓	✓	✓
Valuation of customers as assets	A technique like lifetime customer profitability that attempts to ascertain the net present value of a customer.	✓	✓		✓

1.5 The uptake of strategic management accounting

Active reading. Note the range of countries covered by recent studies on the use of SMA techniques and the finding on why the uptake in developing economies might be better than in developed nations. Think about other functional specialists, apart from management accountants, that provide information for strategic management in the organization.

Since the late 1990s, there has been a surge of studies undertaken to explore the uptake of strategic management accounting in practice. Many of the research surveys conducted have focused on uptake in specific sectors or countries. Examples include: Fowzia (2011) investigated SMA practices in Bangladesh; Cadez (2006) undertook a cross-industry analysis of SMA techniques in Slovenia; AlMaryani and Sadik (2012) reported on Romanian companies; Said et al. (2010) on Malaysian Local Government Authorities; Noordin et al. (2009) Malaysian electrical and electronic sector; Bahaa et al. (2019) hospitals in Malaysia; Agasisti et al. (2008) on Italian universities; Shah et al. (2011) conducted a study in Australia; Oboh and Ajibolade (2017) on Nigerian banks; Glushchenko and Yarkova (2016) on the Russian chemical industry; Alamri (2018) on the Saudi industrial sector; and Jbarah (2017) on Jordanian industrial companies.

Most studies use questionnaires asking about the usage of techniques determined by the researchers as being classified as strategic management accounting. Early surveys reported limited use of the defined SMA techniques. Still, more recent studies indicate that usage of some techniques, such as strategic planning and budgeting, customer accounting, target costing, and integrated performance management, is increasing. Nevertheless, Al-Abdel and McLellan (2013) argue that the specific strategy of an organization needs to be supported by particular accounting practices, echoing the calls of previous writers that accounting should support the strategic management process. The need to support a specific strategy means that different organizations will use different techniques, and the adoption of some techniques may not be universal.

Some surveys note that respondent organizations perceived that a higher benefit accrued from more traditional management accounting techniques, for example, Sulaiman et al. (2002) in Malaysia, Cadez (2006) in Slovenia, and McLellan (2014) in the U.S. The perceived benefit may be due to the comfort factor of the conventional techniques and the uncertainty surrounding the value of the more sophisticated advanced techniques. Conversely, more recent studies suggest that organizations are gaining performance benefits from using strategic management accounting and can use it to support competitive advantage. For example, the studies by Noordin et al. (2015) and Bahaa et al. (2019) in Malaysia, Oboh and Ajibolade (2017) in Nigeria, Alamri (2018) in Saudi, and Jbarah (2017) in Jordan all suggest performance benefits. Interestingly, Guilding et al. (2000), in an international comparison of SMA practices, felt that organizations established in the more developed countries were less inclined to move away from the tried and tested techniques of the conventional accounting systems, whereas, organizations in developing economies were perhaps more inclined to seek advantage from newer techniques.

There are also published papers that look at specific uses of SMA concerning particular activities or take a theoretical perspective. For example, Jorgensen and Messner (2010) and Nixon et al. (2011) investigated the role of SMA in new product design and development. Tillmann and Goddard (2008) reviewed SMA as sense-making in a multinational company. Ma and Tayles (2009) and later, Sunaryanto et al. (2017), explored the development and use of SMA from the perspective of institutional theory.

An interesting finding from several studies is that the practitioners of management accounting do not use the term strategic management accounting (Guilding et al., 2000; Roslender and Hart, 2003; Nixon and Burns, 2012; Pitcher, 2015). Although increasing in usage, it is also evident that the uptake of the techniques is not as widespread as early proposers of SMA had hoped. Despite this, evidence suggests that management accountants are becoming more directly involved in the strategic management process (Cuganesan et al., 2012; Pitcher, 2015; Glushchenko and Yarkova, 2016; Jbarah, 2017; Oboh and Ajibolade, 2017).

It is worth noting, however, that not all the accounting information is necessarily the preserve of the management accountants (Dixon and Smith, 1993; Lord, 1996; Anderson, 2006). This observation alludes to the fact that functional managers now have access to a range of information through integrated management information systems and decision support systems that include accounting information (Dixon, 1998; Laudon and Laudon, 2006). Couple this development with the increased importance of nonfinancial information involved in strategy formulation, implementation, and evaluation (McNair and Mosconi, 1989; Lynch and Cross, 1992; Kaplan and Norton, 2005) and it is clear that management accountants are part of a management team involved in the strategic management of an organization. The focus of this learning resource is the role that the management accountant can play in that process.

1.6 The need for a strategic management process

Active reading. Note how the need for strategic management developed to cope with changes in the business environment and the all-encompassing definition of the strategic management process.

In the 1950s and 1960s, management writers were discussing long-range planning. In many cases, organizations were taking their annual budgets as a start point and extending them for a period of five to ten years by adding in a growth factor, thus creating a long-range plan. In the 1970s, and particularly in the 1980s, the focus shifted toward strategic planning as markets became more competitive, and a definitive strategy was needed to develop the business. Toward the end of the 1980s and into the 1990s, the focus changed again, this time more broadly encompassing the activity of strategic management, as organizations needed to become more responsive to changes in what was becoming a more dynamic and complex business environment. Rather than just producing a strategic plan that would be implemented by the business units, it was becoming necessary to adopt a proactive approach, not only to strategy development but to managing the environment. Hence, strategy as a management process.

Despite SMA not becoming the messiah that some had hoped, the sentiment that management accounting should support the strategic management process is still overwhelming (Smith, 1997; Brewer, 2008; Blocher, 2009; Pitcher, 2018). Here, however, arises another difficulty – how to define the strategic management process. Barney et al. (2010) describe it as formulation, implementation, and evaluation of the strategy. A more encompassing and generally accepted definition is offered by Nixon and Burns (2012: 229) as containing the following key activities: "(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." This description aligns with the definition of the strategic accounting system outlined by Brouthers and Roozen (1999) described in section 1.4 - The development of strategic management accounting. However, both the Brouthers and Roozen definition of strategic accounting and the Nixon and Burns definition of the strategic management process, implies that strategic management is a routinized and formal process.

Although many firms adopt a rational planning process (Chenhall and Langfield-Smith, 1998; Rigby, 2001), there is a recognition that strategic decisions are often complicated, non-linear and fragmented (Hendry et al., 2010). Therefore, as a necessity, the strategic management process is iterative, rather than a formalized step by step process undertaken by senior managers in the organization (McNulty and Pettigrew, 1999). Indeed, many would describe strategy formulation as being a social and political process (Eden, 1992) in that strategy involves consensus, and may not always appear rational. The influence of particular power groups within an organization can also impact on the strategy development. For simplicity, this learning resource adopts a normative and logical approach to strategy as the structure for the work. Still, the author recognizes that there is considerable debate in academia about *how* and *who* determines the approach to strategic management in an organization.

1.7 The strategic management framework

Active reading. Note how logically the steps follow each other to produce a rational approach to strategic management. In practice, the process is more complex and flexible than is described here, but the logic is still the same.

This section provides an outline of a strategic management framework (Figure 1.2).

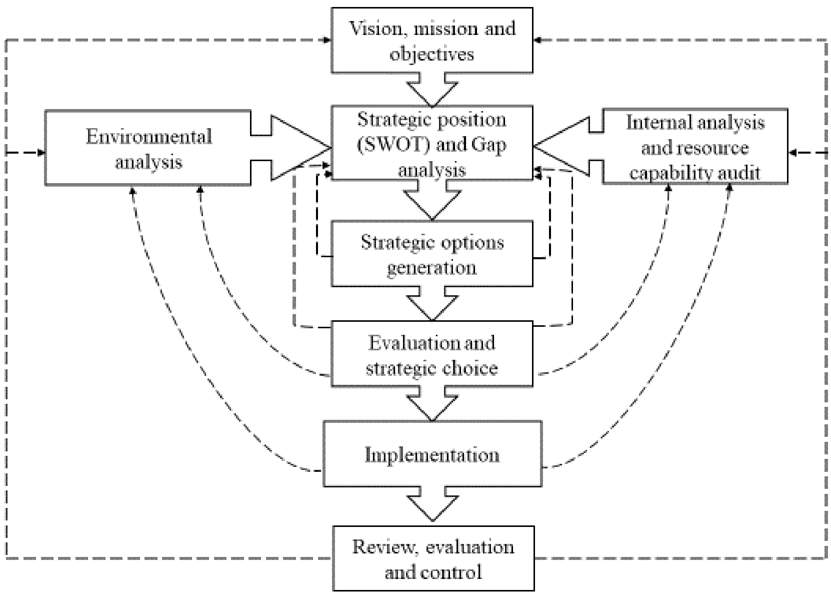

Figure 1.2 The strategic management framework

Academic and practitioner texts discuss various methods, processes, and frameworks for the development of strategic plans. The framework shown in Figure 1.2 is based on the concept of a rational approach to strategic planning and forms a structure for the subsequent chapters. The explanation here is, therefore, deliberately brief as each element is discussed in detail in Chapters 2 – 11.

The framework incorporates the critical phases of strategic management, highlighted in Figure 1.3.

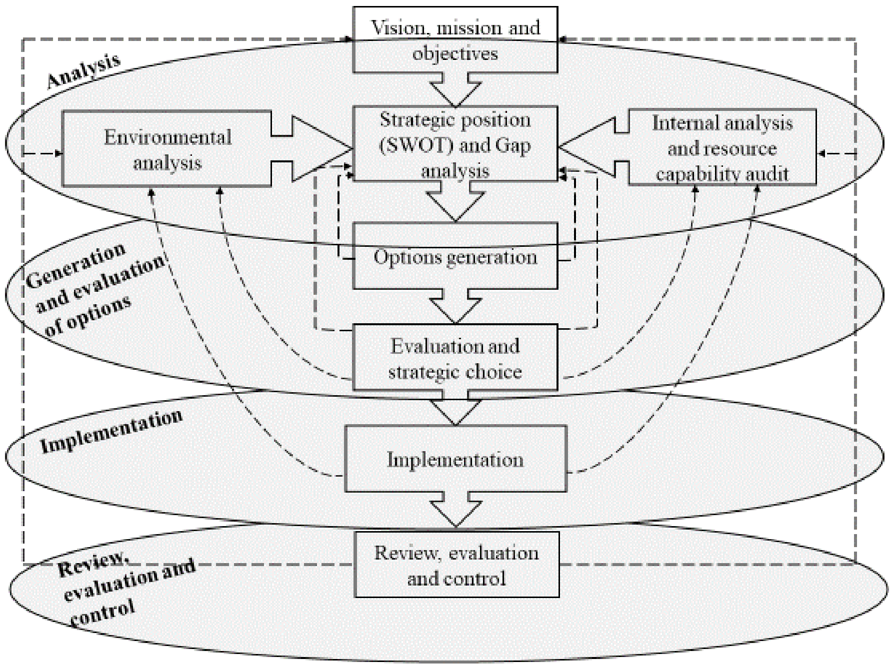

Figure 1.3 Critical phases of strategic management

The phases of strategic management encompass the external and internal analysis resulting in the strategic position (often set out as a SWOT analysis – strengths, weaknesses, opportunities, and threats); the generation and evaluation of strategic options and strategic choice; followed by implementation; and finally the review, evaluation, and control of the current strategy. The dotted lines illustrate the iterative nature of the process and the feedback loops.

Vision, mission, and objectives

The mission is the rationale behind the business. It sets out the long-term aims and purpose of the organization as well as indicating the purpose, strategies, behavior standards, and values (Campbell and Yeung, 1991). Organizations often develop a vision alongside the mission. The vision is usually broader and shorter than the mission statement and is often intended as a point of inspiration for employees to drive the business forward. It is common for organizations to promote their vision, mission, and values that underpin these statements on their websites. Many organizations now publicize a brief outline of their strategy and their long-term strategic objectives. These are provided in broad terms as they are for external consumption but would be much more specific when communicated internally to employees. Chapter 2 explores the link between the vision, mission, objectives, and the management accounting system.

Environmental analysis

The environmental analysis is the subject of Chapter 3 and provides a means for identifying external factors that could affect an organization's ability to achieve its objectives. A strategic tool known as PESTEL (political, economic, sociocultural, technological, environmental, and legal) provides a framework for analyzing changes in the general business environment. The focus of the analysis is on how the changes will impact the industry and hence the organization. Models such as Porter's five forces (Porter, 1979) can aid the analysis at an industry level to identify the forces that will impact on the profitability and attractiveness of the industry, now and in the future. Understanding the concept of the business ecosystem and the process of competitor analysis are also key areas in this stage of the process. Strategically the environmental review helps to identify the opportunities and threats to the organization that is evident or could emerge from the business environment.

Internal analysis and resource capability audit

The internal analysis and resource capability audit, as the label suggests, analyzes the organization's resource capability to achieve its objectives, given that environmental factors will impact on this ability. Chapter 4 discusses the various models that are useful in a resource audit. These fit within a simple framework known as the Nine Ms: manpower (human resources), money, markets, machinery, materials, makeup, methods, management, and management information. These headings merely point towards broad areas requiring more detailed analysis to help identify the strengths and weaknesses of the organization.

Strategic position (SWOT) and Gap analysis

Establishing the strategic position pulls together the issues identified during the environmental analysis and internal appraisal and is the subject of Chapter 5. The environmental review is the source of opportunities and threats, while the internal assessment is the source of strengths and weaknesses. However, during the environmental analysis, it is not known whether a change creates an opportunity or a threat—any changes in the environment need assessing with regard to the resource capability. If the organization has the resources to deal with the change, it may present an opportunity. If not, it may be a threat. Hence, the strategic position (SWOT) provides the framework for bringing together the external and internal analysis.

It is also worth noting that changes in the environment can provide an opportunity for some organizations while creating a threat for others, depending on the organization's ability to deal with the change. There is a connection here to competitor analysis as strengths and weaknesses in resource capability are relative to competitors and a potential source of competitive advantage. The completion of the SWOT analysis helps the management to formulate strategies that build on the strengths, address the weaknesses, grasp the opportunities, and minimize or avoid the threats, and that is consistent with the mission and objectives.

As part of the strategic position, an analysis is undertaken that ascertains the gap between an organization's stated objectives and the level of performance that will be achieved based on the current strategy, given the changes in the environment and its current resource position. If there is a gap, it requires the formulation and evaluation of strategic options to close the gap.

Strategic options generation

The strategic options generation considers three elements: competitive strategy, the direction of growth, and the method of growth. Deciding a competitive strategy will be one of the first decisions an organization makes. The strategy needs continually reassessing as to its appropriateness, given any identified changes in the environment. Competitive strategy based on cost leadership and differentiation, as defined by Porter (1985), are discussed in Chapter 6. Options to generate growth include market penetration, product and market development, and diversification, as identified by Ansoff (1965) in the product and market growth matrix. Chapter 7 considers the Ansoff options, together with the methods of achieving organic, sometimes referred to as internal growth, and inorganic growth options, such as acquisition, merger, and joint development.

Evaluation and strategic choice

The various strategic options available to organizations need evaluating with respect to the resource capabilities and the ability to close any gap between the stated objectives and the forecast performance based on the existing strategy. A framework such as suitability, acceptability, feasibility, and risk provides a means to evaluate various strategic options, which would also include a financial evaluation. Suitability asks whether the strategy builds on the strengths, addresses the weaknesses, grasps the opportunities, and avoids or minimizes the threats. Acceptability checks to see whether the proposal meets the approval of interested stakeholders. Feasibility reviews the practical aspects as well as financial evaluation, and risk assesses whether the proposed strategy is within the risk appetite of the organization. Chapter 8 explores this SAFeR framework in more detail.

Strategic implementation

Once the various strategic options have been evaluated and chosen, the next step is implementation. The strategy needs crystallizing into operational budgets, targets, plans, and so on. These then form the mechanisms to communicate the strategy to the various stakeholders. Changes in strategy could also mean implementing changes to management information systems, including the management accounting techniques used to support strategy. Chapter 9 discusses the management accounting support during implementation.

Review, evaluation, and control

Review, evaluation, and control is the area where models such as the balanced scorecard are useful. The balanced scorecard, and similar frameworks, provides a means to review performance using a range of appropriate performance indicators that include nonfinancial as well as financial measures. Ultimately the review is considering how well the organization is meeting its objectives, which establishes the feedback loop to the start of the process. Part of the reason for any variation from the plan could be a change in the environment or resource capability, which illustrates the iterative nature of the strategic management process. Chapter 10 discusses performance management, including the balanced scorecard.

Traditional management accounting focuses attention on the review, evaluation, and control aspects of long-range and strategic planning and evaluation of various strategic options. The strategic management process is more iterative and dynamic, and management accounting needs to support the whole strategic management process, especially in the analysis phase, and in assessing the impact of environmental changes on the business. Indeed, the choice of strategy and implementation will impact the business environment, particularly the competitive environment. In cases where innovations and new technologies are involved, if most organizations in a sector adopt similar strategies over time, it can change the way the industry operates. For example, the first bank to adopt online banking, or the first retailer to embrace online shopping changed the way the industry works. Part of strategic choice is about assessing what this impact might be and proactively influencing the environment for competitive advantage.

1.8 Who sets the strategy?

Active reading. Note that strategic management affects all levels of employees. It is also relevant to all types of organizations, including not-for-profit.

There is a debate in the academic literature concerning who sets the strategy and who enacts strategy. There is a view that middle and lower-level managers determine strategy rather than being the sole preserve of the senior managers. The *strategy as practice* school of thought drew attention to the activities and discourse of strategy formulation and enactment (Whittington, 1996). Proponents of *strategy as practice* use the term *strategizing* to promote the idea that strategy is something that people do, rather than describing a published plan or strategic intent set by senior managers. It is therefore worth remembering that it is people, rather than organizations, that formulate and implement a strategy. However, with that in mind, the term organization is used throughout this learning resource when discussing strategy as the management accounting techniques considered can be used by people working at different levels within an organization and may also be of interest to not-for-profit organizations. Another essential aspect to note is that the process depends on the organization and its organizational context; that is, it is not necessarily a case of one-size-fits-all. In today's business environment, organizations need to be flexible and adaptable, which also extends to their strategic management process.

1.9 Levels of strategy

Active reading. Note how the strategy extends to all levels and all functions within an organization.

There are principally three levels of strategy within an organization. These relate to the notion of Anthony's hierarchy, referred to in Figure 1.1, section 1.3 - What is management accounting? The characteristics of information required at each level will differ; therefore, the management accounting system needs to be able to satisfy the needs of the users at each level of corporate, business, and operational strategies.

Corporate strategy is concerned with the overall purpose and scope of the organization. It is often most associated with a divisionalized organization that has several strategic business units. The strategy is concerned with how to manage the overall business to create value for the stakeholders. The objective is to ensure that each business unit contributes to the best of its ability to the whole organization. In some instances, it is deciding how best to manage a portfolio of businesses, involving the allocation of investments and resources between business units. It is concerned with strategies such as growth, stability, and consolidation of its current position, recovery, reduction, or survival of the corporate whole.

Business strategy is concerned with how a strategic business unit competes in a market. It is about the management of products and markets dealt with by one strategic business unit. Under this definition, many small to medium-sized enterprises (SMEs) might only be concerned with a business strategy.

At the lower end of the spectrum is the operational or functional strategy. To achieve the business strategy, an organization will need functional strategies, such as a marketing strategy, production or operations strategy, a human resources strategy, information systems strategy, and a financial strategy. These strategies, illustrated in Figure 1.4, should support each other in a way that is consistent with and helps to achieve the business strategy, and in turn, the corporate strategy.

In a large organization with several business units, these functional strategies may well extend across the whole corporate organization. In this way, there may be a corporate human resources strategy that governs the formulation of the HR strategy in each business unit.

It was suggested by Lindblom as long ago as 1959 that what organizations do in practice is to adopt an incremental approach in which they accept the first outcome that satisfies the strategic objectives (Lindblom, 1959). Quinn (1978) used the term logical incrementalism, suggesting that organizations determine a broad direction with the detail emerging later. Incrementalism in practice suggests that organizations make small changes to their existing strategy. It is unlikely that managers in small and medium-sized enterprises will have the resources and time to evaluate every strategic option available to them. Hence, it is logical that they will make decisions based on a limited evaluation of alternatives.

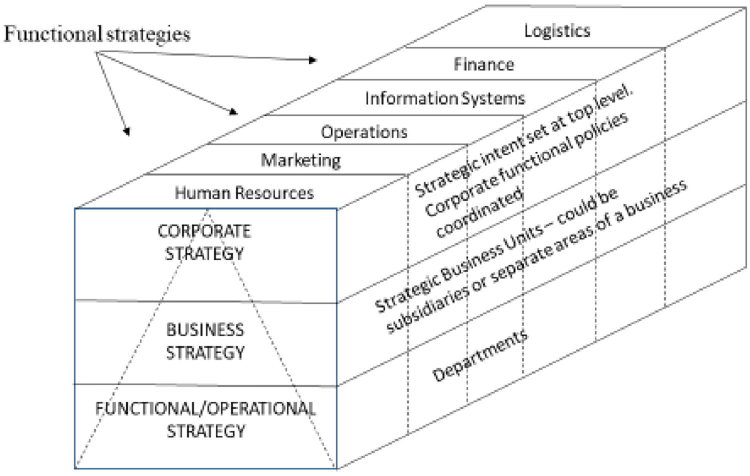

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Figure 1.4 Levels of strategy and functional strategies within an organization

Mintzberg and Waters (1985) identified the concept of emergent strategies illustrated in Figure 1.5.

Organizations articulate a planned and deliberate strategy that could either be realized or unrealized. However, even though the intended strategy was not successful, targets such as sales or profits could still be met. This example indicates that the management team should not focus solely on the outcome in terms of performance targets but need to understand why performance targets have been met or missed. For example, in the case of a sales and profits target being achieved, analyzing the data could reveal a different story. An analysis may show that the mix of products is different from that of the plan, the category of customers buying various products differs from that expected, and the primary geographic location of sales is a surprise. This example is somewhat extreme; however, on further analysis, it appears that the actual strategy is not the reason for achieving the headline targets. It could be that a potential market of international sales is emerging to a different customer demographic, and this needs to be, in Mintzberg's terms, *crafted* into the future strategy of the organization.

Emergent strategies can emerge based on a pattern of ad hoc decisions taken in response to a given situation, perhaps a competitor action or environmental factor, that when looked at in retrospect, emerges as a potential strategy. They can also develop based on what operational employees are doing. Perhaps the plan is to spend heavily on marketing a particular type of product. Sales staff, however, identify that demand for other products is higher and push those at a local level, meeting sales targets, but not by the mix of sales initially planned. Management teams have a natural inclination to examine the reasons for not achieving a strategic objective. It is just as important to analyze the reasons as to why they have been met.

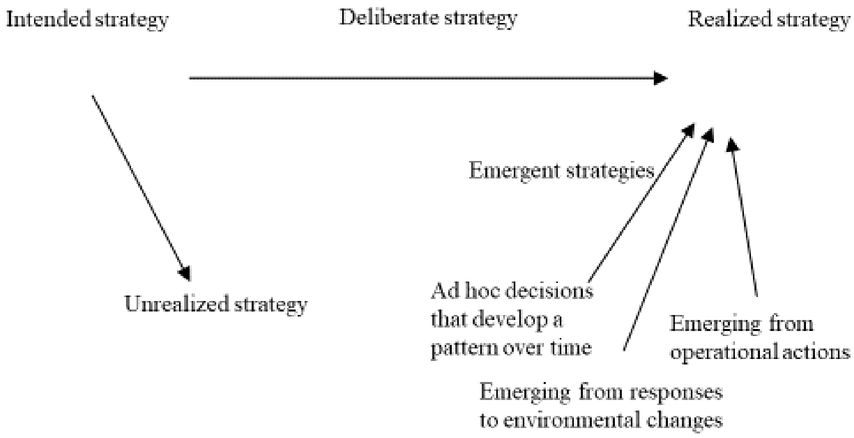

Figure 1.5 Emergent strategies

1.10 Inside-out and outside-in view of strategy

Active reading. Note the different views between strategy as positioning or strategy based on core competence, and the source of competitive advantage from the strategic analysis undertaken of the environment and resource capability as part of the SWOT.

The strategic management framework presented in Figure 1.2, shown in section 1.7, implies that the start point for strategy formulation is the vision, mission, and objectives. In other words, if you want to start a business, you begin with establishing the vision, mission, and objectives, then develop the strategy to achieve them. This may be true in an ideal world, but often the strategy can be triggered by external or internal factors. The idea for a new business opportunity may begin with identifying a trend or gap in the market by conducting an environmental analysis. The strategy can, therefore, stem from the business environment and the organization's competitive strategy developed to position certain products in specific markets. Alternatively, determining an internal strength that provides a competitive advantage could be the trigger. So, the strategy can exploit an existing distinctive competence held by the organization.

The schools of thought that relate to developing a strategy for competitive advantage fall within two broad areas. The strategy as position school of thought suggests that strategy is about positioning the organization in the market, for example, as a value for money offering or a high-quality offering (Andrews, 1980; Porter, 1980, 1985; Day, 1994). The resource-based or competence-based view suggests that competitive advantage comes from basing the strategy around the key strengths, resources, distinctive competencies, and strategic capabilities of the organization (Barney, 1991; Grant, 1991).

The positioning approach suggests that organizations set strategy, taking into account stakeholders, competitors, market needs, and the business environment. This approach requires an external focus and attention paid to competitive position, market share, and products. The organization first identifies the opportunities from the environment and then develops the appropriate competencies and resources it needs to compete effectively.

The resource-based view suggests that many environments today are too complex and dynamic to undertake the continuous environmental analysis that would be required, and the opportunities and threats would be similar for all organizations in the industry. Therefore, sustaining a competitive advantage is challenging. Barney (1991) suggests that competitive advantage and any core competence of an organization lies mainly in the application of its strategic resources that are distinct to the organization, difficult to copy, and non-substitutable. The resource-based view is, therefore, more about developing a competitive advantage by focusing on the possession of unique resources and capabilities of the organization. In terms of the strategic management framework outlined in this chapter, positioning focuses on the environmental analysis, whereas the resource-based approach focuses on the internal review. In practice, both can be effective.

These viewpoints cross into functional strategies, and marketers refer to an outside-in and inside-out approach to developing an organization's strategy (Day and Moorman, 2010). Principally the outside-in approach focuses on identifying customer needs and customer experience and developing a strategy to ensure that the organization satisfies these better than the competition. The inside-out approach focuses on the inner strengths and capabilities of the organization. Steve Jobs, for example, did not ask the customer what they wanted when he was at the helm of Apple but relied on innovative skills and creativity to develop a product that would have market appeal. Part of the key to Apple's success is its ability to be creative. So, taking an internal view of sustaining a competitive advantage appears to work. There is, however, a danger of an inside-out approach in that focusing on the development of strategic competencies may mean that the organization takes its eye off the customer needs. The activity of analyzing the strategic position, however, brings the external and internal analysis together, allowing consideration of both market position and resource capability in the pursuit of a competitive edge.

1.11 Supporting the strategic management process

Active reading. Note the range of accounting techniques that can be employed for management accounting to support all aspects of strategic management. Also, note that many of the models, accounting techniques, and practices discussed are useful under more than one heading. Using techniques in different combinations can provide powerful insight into how the business can be improved.

Each chapter in this learning resource discusses the strategy models and frameworks and the management accounting techniques and tools, highlighting how management accounting can contribute to the strategic management process. This section provides a brief overview of how management accountants can contribute to the whole process and indicates where in the learning resource a more detailed treatment of each technique occurs. Although a detailed discussion may appear within a specific section, it does not preclude its use and benefit to other areas of the process. For example, many of the techniques discussed under internal analysis are also relevant to competitor analysis.

Vision, mission, and objectives

The mission and objectives, discussed in chapter 2, need articulating and crystallizing in quantifiable terms so that they can be measured. The performance measures could be financial or nonfinancial. Many of the information systems that organizations have at their disposal can capture nonfinancial as well as financial data. Accountants can incorporate both aspects into management reports designed to evaluate the success of the current strategy. The reporting should not, however, focus solely on the explanation of past performance but on the impact of known events on future performance. For example, suppose an organization in the travel industry focuses on certain parts of the world where political unrest has affected sales for the first half of the year. The reporting should not only highlight the reason for the past performance being worse than expected but report the expected outcome for the full year considering the known changes in the business environment.

This form of analysis and extrapolation can lead to the early identification of a strategic gap, discussed in section 5.4, and, more importantly, the size of the potential gap. Scenario planning, discussed in section 3.15, can also provide insight into possible strategic options, and the management accountant can contribute their knowledge and skills to the construction and playing out of various scenarios.

Environmental analysis

The accountant can contribute to an environmental analysis by evaluating the potential financial impact of changes in the business environment as well as the more obvious monitoring of information of a financial nature, such as exchange rates, interest rates, and so on. It will always be the best estimate of the potential impact, often based on incomplete information. Assessing the impact can, however, help in determining the priorities of which environmental changes require more immediate attention and which are put on a watch list.

Organizations cannot respond to every change in the environment, and close monitoring of the resource capability, particularly financial resources, discussed in sections 4.11 and appendix B – section B.7, can be an essential part of the early warning system. Competitor analysis, discussed in section 3.11, is also a necessary aspect of environmental review. The accountant can contribute to an analysis of the competitors' financial position as well as working with other functional colleagues, such as research and development, production, logistics specialists, and marketing teams, to ascertain as accurately as possible the cost structure of significant competitors.

Internal analysis, resource capability audit and strategic position

Contributions to the internal analysis and strategic position (SWOT), discussed in section 5.3, include the identification of financial strengths and weaknesses and the determination of any profits gap. More importantly, indicating how big the gap could become if no action is taken based on the balance of elements within the SWOT, for example, the incidence of significant weaknesses and threats. Other areas where the accountant can provide substantial input include analysis of supplier performance (section 4.10) and customer profitability analysis (section 4.7), the profitability of the product life cycle (section 4.4), and the mix and balance of product portfolios (section 4.5). Accountants can also contribute to benchmarking exercises to identify improvements to the effectiveness of business operations and processes (section 10.9), and assistance in the analysis of the value creation system (section 4.9).

Options generation, evaluation, and strategic choice

The accountant can contribute to the financial and strategic evaluation of strategic options, discussed in sections 8.3, 8.4, and 8.5. For example, by evaluating the long-term viability of competitive strategies, such as cost leadership (section 6.3.1), and by monitoring the current profit margins and forecasting future profit margins. In markets where the price is the main focus of competition, watching the profit margin is an essential activity. Enhancing and maintaining a cost advantage via strategic cost management and activity-based management (section 6.6) is a crucial area where the accountant can provide specific expertise. The development of lean manufacturing and lean accounting (section 6.7) has emerged to support cost-efficient and responsive manufacturing strategies. Accountants are also able to contribute to the maintenance of a differentiation strategy (section 6.3.2) by undertaking competitor analysis (section 3.11) and using the value creation system (section 4.9) to identify areas where value can be added to the product or service.

Analyzing the relative profitability of different market segments can help to identify possibilities for organizations to pursue a focus strategy (section 6.3.3), which could be either a cost-focus or differentiation-focus. Assisting in the evaluation of product development (section 7.4.4) via techniques such as target costing (section 7.8), life cycle costing (section 7.9), quality costing (section 6.8), and pricing strategies (section 6.4) provides opportunities for accountants to contribute to strategy development. Similarly, assisting in market development strategies (sections 7.4.5 and 7.5) by evaluating the potential profitability of entering new markets or exploiting new marketing channels can provide the management team with valuable information on which to base strategic decisions.

A more obvious area where the accountant can contribute to the choice of strategic option is in the financial evaluation via investment appraisal techniques, such as net present value (section 8.5) and real options (section 8.6). The investment appraisal techniques and financial analysis are also useful during the evaluation of the various methods for implementing the chosen strategy, such as evaluating potential mergers and acquisitions, and the possibilities for joint development (section 7.10). All options involve the assessment of risk and developing appropriate risk management strategies (section 8.7) has become more significant since the financial crisis of 2008 and 2009.

Strategic implementation

Crystallizing strategic plans into operational budgets, discussed in section 9.3, is part of the implementation process, but also ensuring that the information systems can provide the information required to monitor and evaluate new strategies. All too often, organizations fall victim to the reliance on legacy systems that are not capable of providing the necessary information to manage the business as it grows and develops. It is also essential for the accountant to support management by employing appropriate accounting techniques. For example, the techniques to aid sustaining a cost leadership strategy are different from those that will support one of differentiation. It is equally important to ensure that the use of appropriate reporting formats (section 9.6) helps the organization understand the underlying causes of good or bad performance and thus take appropriate action.

The preparation of budgets viewed as a traditional accounting practice has received some criticism in recent years, and a movement known as beyond budgeting (section 9.4) is growing in popularity. Beyond budgeting encompasses a system of setting stretch targets that strives towards continuous improvement. Implementing such a system involves changing the way the organization operates and often a change of culture. Indeed, adopting new strategic models, such as the concept of the business ecosystem (section 3.13), or accounting techniques, such as lean accounting (section 6.7), involves educating managers in understanding the insight that the analysis and evaluation provides. Management accountants can assist in facilitating change (section 9.5) not just for changes in accounting systems, or adopting new accounting techniques, but for a change in strategy that may result in a shift of focus to the management information required.

Review, evaluation, and control

Implementation feeds into the review, evaluation, and control of the current strategy that closes the loop to the mission and objectives. The accountant of twenty years ago would have focused mainly on reporting on actual performance versus plan. Today’s accountant, however, would be involved in reporting on the effectiveness and continued viability into the future of the current strategy using integrated performance measurement and highlighting any potential emergent strategies and the need for a strategic response to any potential profits gap.

The concept of multidimensional performance management (section 10.3) and reporting on critical success factors (section 10.3.2) are important here, as is reporting on divisional or business unit performance (section 10.6). To ensure the reported performance of divisions and business units accurately reflects the value-added and motivates employees, the accountant can set appropriate transfer prices of goods and services provided between divisions (section 10.8). Economic value added (section 10.7) seeks to provide a performance management system that aids the management of an organization to enhance shareholder value and can also be used to evaluate divisional performance by understanding where value is added or lost. Techniques such as benchmarking (section 10.9) aid performance enhancement and the accountant can assist in both the process of benchmarking and the subsequent monitoring of any improvements implemented.

Performance management can be an emotive topic, particularly at an individual level, and understanding the behavioral aspect of performance management (section 10.10) is key to establishing the right measures to encourage the desired behavior.

An aspect of strategy and organizational performance that is highly relevant in today's business environment is the issue of sustainability, discussed in Chapter 11. It is becoming popular for organizations to publish corporate social responsibility reports that report on the implementation of environmental, social, and governance practices to demonstrate their commitment to sustainability. Management accounting has much to offer here, as many of the techniques discussed in this learning resource lend themselves to the inclusion of sustainability as a consideration.

Frameworks, models, and techniques

The diagram shown in Figure 1.6 provides a summary of how the strategy models and accounting techniques can be viewed within the strategic management framework. The models are not fixed, and there is no intension, or desire, to constrain techniques within specific boxes. Several models and techniques are useful within different phases of the process. For example, many of the models and techniques used to assess an organization's resource capabilities can be used to determine the capabilities of the competitors, albeit with the added difficulty of access to accurate information.

Other examples include stakeholder analysis, which is relevant to the objective-setting process, as well as the evaluation of strategic options that are acceptable to the stakeholders, and performance management to monitor the achievement of objectives. Benchmarking can be used to support competitive strategies but is also part of performance management. It is important, therefore, that the reader does not assume that the technique is restricted to the box in which it is depicted. Indeed, it will be noted in the discussion of the techniques that they are very seldom used in isolation but provide a toolbox of complementary tools that can support the strategic management process.

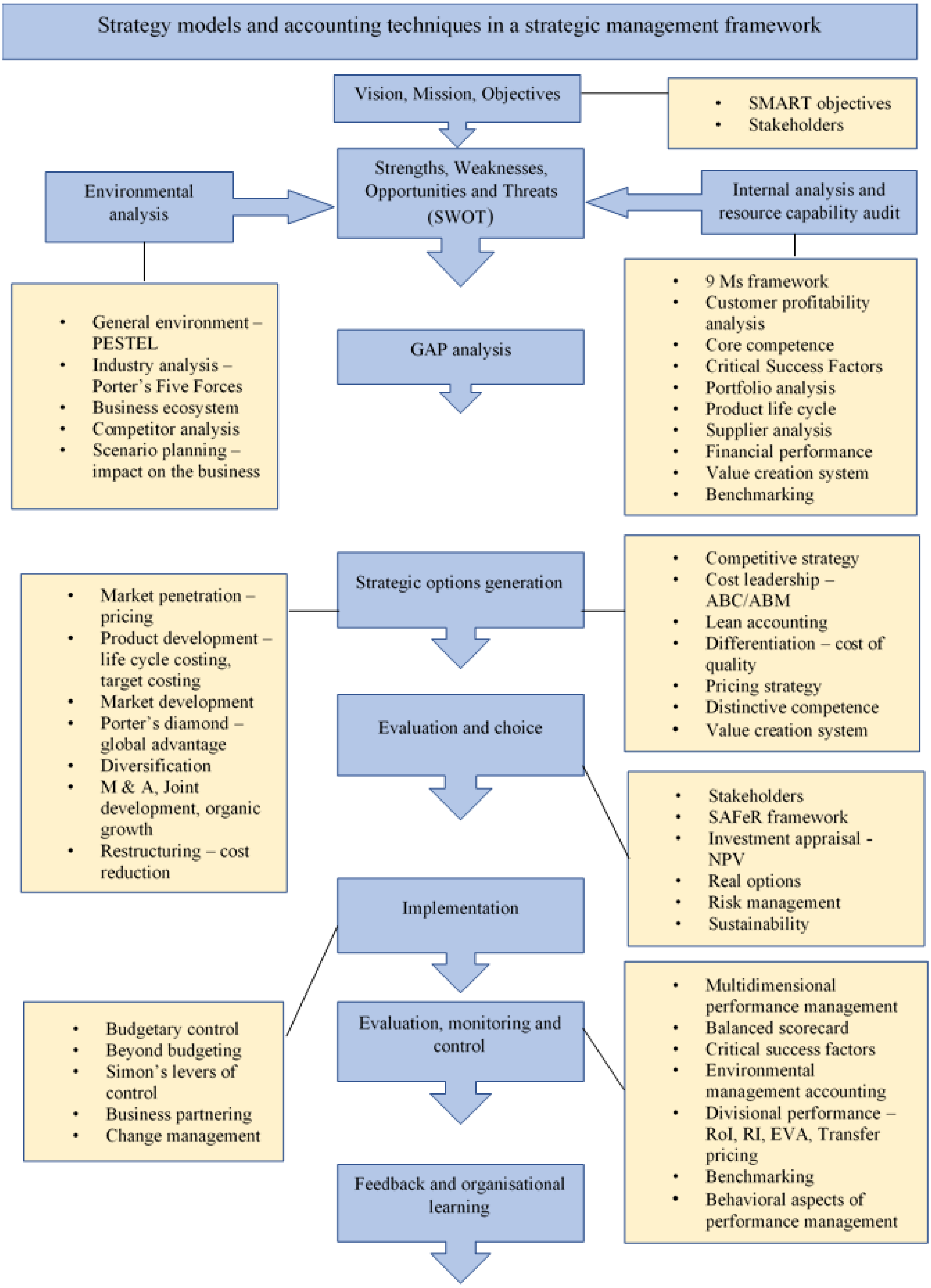

Figure 1.6 Strategy models and accounting techniques in the strategic management framework

To provide support to the strategic management process, the accountant needs to understand how the process works and the various dynamics that impact on the implementation and effectiveness of a chosen strategy. Likewise, managers need to be able to understand the potential impact that the different strategic options available could have on the financial performance of the organization. Part of proper strategic management, however, is spotting potential issues before they become big problems. Many organizations have gone out of business because they ignored the warning signs emanating from the monitoring of their current performance relative to competitors, as well as not identifying, or worse, ignoring the changes in the business environment.

1.12 The role of accounting data and information within strategy

Active reading. Accountants are often referred to as bean counters, that is, just dealing with the numbers. Note, however, how this can be used positively within the strategic management process.

While there is debate regarding the management level at which the organization's strategy is formulated (Balogun and Johnson, 2007; Hendry et al., 2010), there is evidence that middle managers and accountants become involved in the work of strategy formulation, implementation and evaluation (Dutton et al., 2001; Chenhall, 2003; Ahrens and Chapman, 2007). Not least, accounting information is inherent in the strategic management process. Boland (1993) suggests that accountants write reports based on an interpretative reading of an organizational situation, inevitably based on the accounting data, which are read by managers and others. In this way - via analysis, manipulation, and interpretation - accounting data could be used to inform, persuade, and impress others (Langley, 2007). Indeed Robson (1992) argues that it is the properties of numbers that make them influential in that they have mobility, stability, and combinability.

The skills of accountants enable them to use these properties to support strategic decision making (Oliver, 1991; Coad, 1996). Formal analysis has also been shown to enhance legitimacy with numbers taking on the roles of controlling, legitimatizing, and sense-making (Denis et al., 2006; Whittle and Mueller, 2010). Accounting data or numbers have been used to rationalize decisions after the event (Burchell et al., 1980), but conversely, as suggested by Simons (1992), can be seen to trigger organizational learning by stimulating new, and often unanticipated, strategies to emerge. There is little doubt that accounting data is used in the strategic management process. Management accountants can use this information in collaboration with others to make sense of organizational situations (Tillmann and Goddard, 2008).

Management accounting, however, is more than just numbers. If accountants do not understand and participate in the strategic management process, how can they provide appropriate information to managers? The Chartered Institute of Management Accountants (2009) highlighted the augmented skill set of the T-shaped accountant (Figure 1.7), which suggested that accountants need more than just the finance and accounting skills. They should also have a combination of skills which, on the one side, are about business understanding and strategic awareness and on the other, being able to influence people and even provide leadership.

It is applying their technical knowledge and strategic awareness, together with the development of strong interpersonal skills that enable accountants to make a significant contribution to the strategic management process and hence to an organization's success.

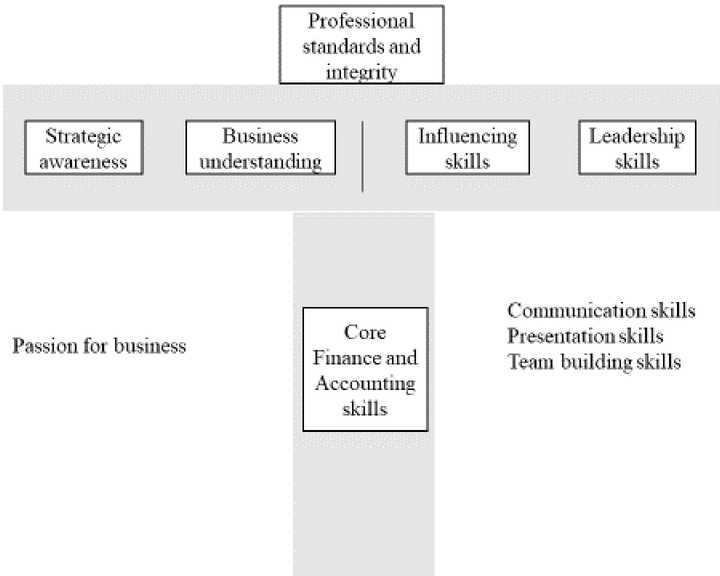

Figure 1.7 The T-shaped accountant (source: CIMA, 2009)

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 numbercrunching 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."

1.15 Summary

Definition of management accounting

Management accounting is about providing information to enable managers to manage. As managers make decisions at all levels in the organization, that is, operational, tactical, and strategic management accounting should support all levels. The term strategic management accounting was introduced to encapsulate techniques that were useful for supporting strategic decisions. Still, as yet, that is no agreed definition of strategic management accounting, nor has the term become part of the terminology of practicing accountants. There is, however, an agreement that management accounting should support the strategic management process and that there should be a more external and future orientation to the information provided.

Strategic management

The term strategic management recognizes the complex and dynamic nature of the business environment. Strategy is not just the setting of a long-term plan but the continuous process of managing the organization through turbulent and uncertain events. Strategic management is an iterative and social process that involves all levels of management. Organizations can develop a strategy by reference to external factors such as positioning the organization in the market to meet particular customer demands, or by exploiting a distinctive competence from within the organization, or indeed both.

A key aspect is the recognition and crafting of emergent strategies. Not all emergent strategies, however, are right, and part of the success of organizations is understanding the business and the environment in which it operates to ascertain which strategies are worth pursuing and which need to stop. Understanding the market is also crucial to being able to assess which changes in the environment represent potential opportunities or threats and formulating and implementing an appropriate strategic response.

The strategic management process and management accounting

The strategic management process consists of key phases of analysis, generation, and evaluation of options, implementation and review, evaluation, and control. Management accounting can support each stage via a range of techniques. The umbrella term of strategic management accounting covers many of the techniques discussed in this learning resource, but this does not mean that the everyday activities of traditional accounting do not support strategy. Many strategic decisions, such as new product development, or entering new markets, rely on sustaining a sufficient margin, or an acceptable breakeven point, on ensuring that the venture is viable. Neither the calculation of profit margin nor breakeven point would be considered a strategic management accounting technique.

Strategy as practice

Strategy as practice is concerned with the day to day enactment of strategy. It is what managers *do*, rather than what they *plan to do*. The term strategizing encompasses the activities of doing strategy. The three Ps of praxis, practices, and practitioners used by promoters of the strategy as practice perspective can be used to describe the day to day support provided by the skill set of practicing qualified professional accountants. The skill set is kept up to date via continual professional development and learning on the job through the interaction with other functional specialists. Management accounting can and should support all levels of management throughout the entire strategic management process.

1.16 Review questions

(1) What is the purpose of management accounting?
(2) What do you understand by the term strategic management?
(3) Outline a rational approach to the strategic management process.
(4) What do you understand by the term strategic management accounting?
(5) Why has the concept of SMA been developed?
(6) What are the main criticisms of traditional management accounting practices?
(7) Briefly outline the inside-out and outside-in views of strategy development.
(8) What do you understand by the concept of emergent strategies?
(9) Critically evaluate the contribution that management accountants can make to the strategic management process from a strategy as practice perspective.
(10) Briefly discuss the skill set required by management accountants in today's business environment that would enable them to contribute to the strategic management process.

1.17 Case study activity 1 – HW Inc. Approach to Strategy

This activity refers to the case of HW Inc., described in Appendix A of this learning resource.

Read sections A1 to A8 to familiarize yourself with the case. Then focusing more on sections A5 – A8, determine whether you think that HW Inc. has adopted a rational approach to strategic management? Do you believe that HW Inc. is taking an outside-in or an inside-out approach? Is there any evidence of emergent strategies? Give reasons for your assessment citing evidence from the case study information.

[Note: There is no one right answer to these questions as there is often a degree of subjectivity in how the information is interpreted. It is important, therefore, that you adopt the practice of justifying your views with supporting evidence.]

1.18 References

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