Strategic Management Accounting Techniques

There is always some doubt as to what constitutes a strategic management accounting technique. In some cases, it depends on how the technique is used as to whether it could be 'strategic'. For example, activity-based costing is seen by many authors as being a basic technique for ascertaining product costs, but if it is being used to make significant improvements to processes or activities in order to support a strategy of cost-leadership it might be viewed as being strategic. The contention of this web site is that there are no specific 'strategic management accounting' techniques, but that management accounting in general should be used to support strategy. The table below, however, provides a brief description of some of the techniques that various authors have defined as being 'strategic management accounting' techniques. For reference the academic paper that referred to a technique as being strategic in nature is indicated in the columns. As previously mentioned, you will notice that there is some disagreement as to what constitutes a strategic management accounting technique.

Contents

Academic papers from which the list has been developed.

1. Guilding, C., K. Cravens, and M. Tayles. 2000. "An International Comparison of Strategic Management Accounting Practices." *Management Accounting Research* 11, no. 1, pp. 113–35.
2. Cadez, S. 2006. "A Cross-Industry Comparative Analysis of Strategic Management Accounting Practices: An Exploratory Study." *Economic and Business Review for Central and South Eastern Europe* 8, no. 3, pp. 279–98.
3. Cinquini, L., and A. Tenucci. 2007. "Is the Adoption of Strategic Management Accounting Techniques Really 'Strategy-Driven'? Evidence From a Survey." *Conference paper, Cost and Performance in Services and Operations*, Trento.
4. Cadez, S., and C. Guilding. 2008. "An Exploratory Investigation of an Integrated Contingency Model of Strategic Management Accounting." *Accounting, Organizations and Society* 33, nos. 7–8, pp. 386–863.

Strategic management accounting (SMA) technique	**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 utilize cost drivers to attach activity costs to outputs.			✓	
Attribute costing	An extension of activity-based costing using cost–benefit analysis (based on increased customer utility) to choose the product attribute enhancements that the company wants to integrate into a product.	✓	✓	✓	✓
Benchmarking	The establishment, through data gathering, of target and comparators, that permits relative levels of performance (and particularly areas of underperformance) to be identified. Adoption of identified best practices should improve performance.		✓	✓	✓
Brand value budgeting and monitoring	Brand valuation assigns financial value to the equity created by the name or image of a brand. It can be represented as the net present value of the estimated future cash flows attributable to the brand.	✓	✓		✓
Capital budgeting	The process of selecting long-term capital investments.		✓		

Competitor cost assessment	A technique in which the competitor cost per unit is attempted to be ascertained from available information. It is often at best an estimate.	✓	✓	✓	✓
Competitive position monitoring	Monitoring the market position and competitive strategy (market positioning) of the key competitors.	✓	✓	✓	✓
Competitor financial appraisal	Looking for strengths and weaknesses in the competitors' financial position.	✓	✓	✓	✓
Customer profitability analysis	CPA is the analysis of the revenue streams and service costs associated with specific customers or customer groups.		✓	✓	✓
Integrated performance measurement	The use of a range of performance measurement 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.		✓	✓	✓
Lifecycle costing	Lifecycle costing is the profiling of costs over the life of a product, including the preproduction stage.	✓	✓	✓	✓
Lifetime customer profitability analysis	Estimating the profitability of a customer over its lifetime considering future revenues and costs including 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.	✓	✓	✓	✓
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. Once the value chain is defined, a cost analysis can be performed by assigning costs to the value chain activities.	✓	✓	✓	✓
Valuation of customers as assets	A technique similar to lifetime customer profitability that attempts to ascertain the net present value of a customer.	✓	✓	✓	✓