

# STRATEGIC MANAGEMENT ACCOUNTING

SMA

## LECTURE 1\_1

# UNDERSTANDING (STRATEGIC) MANAGEMENT ACCOUNTING: AN INTRODUCTION

Dr. M. Contrafatto

# CLASS SCHEDULE

11:00 – 11:15

BRAINSTORMING

11:15- 12:00

CONCEPTUALIZE MA

12:00 - 12:30

MA: SO WHAT?

# BRAINSTORMING

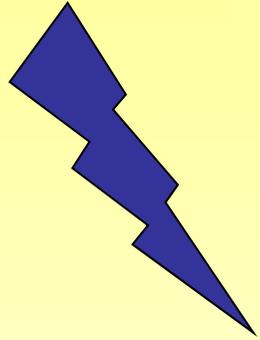
WHAT IS (MANAGEMENT) ACCOUNTING?

WHAT DOES (MAN) ACCOUNTING MEAN?

DO WE NEED (MAN) ACCOUNTING?

WHY IS (MAN) ACCOUNTING RELEVANT?

# INTRODUCTION



WHAT IS  
MANAGEMENT  
ACCOUNTING?

MANAGEMENT

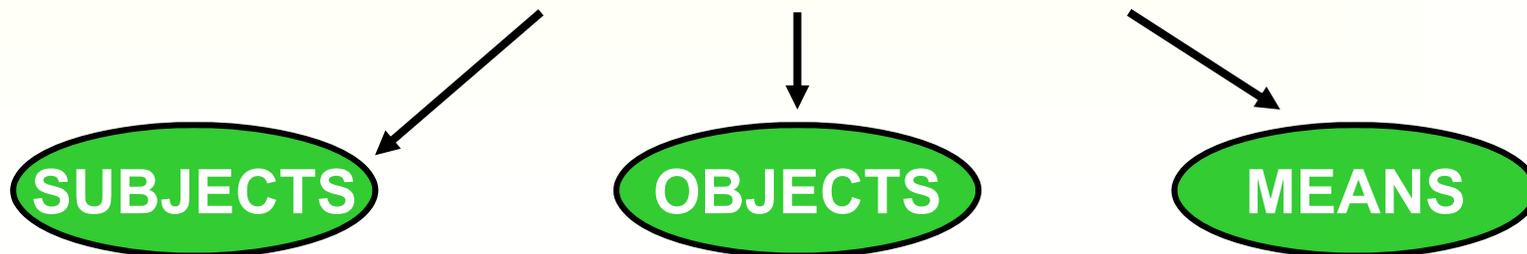
ACCOUNTING

## Accounting FOR Management

# ACCOUNTING: AN ETYMOLOGY

- *Account-ing* is the process of producing an “account”, i.e. “written or spoken description of sth that has happened”.
- Account comes from the latin word “conto”.

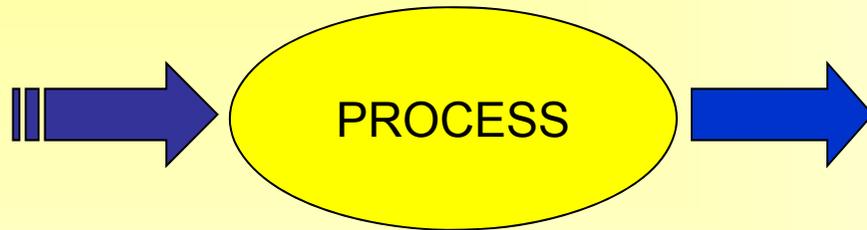
*Language for communicating*



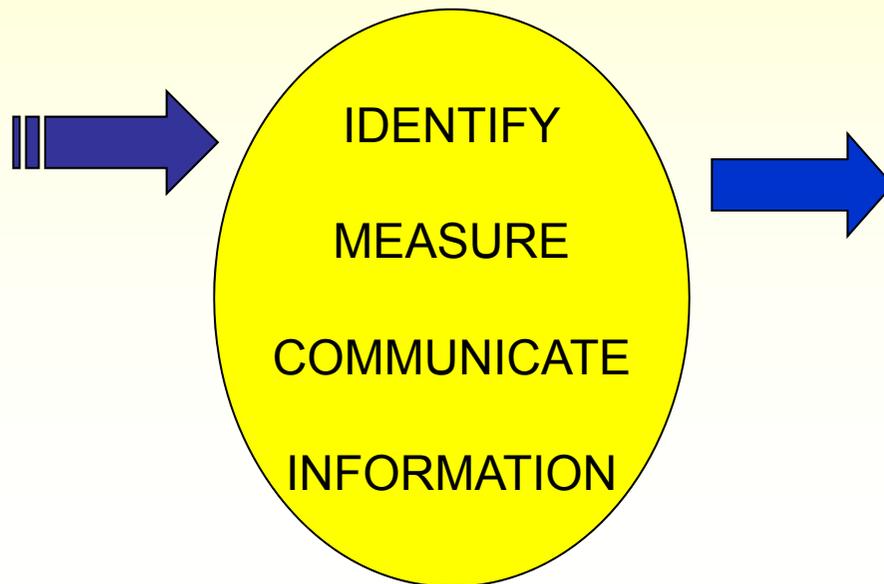
# WHAT IS ACCOUNTING?

Accounting is the **process** of **identifying**,  
**measuring** and **communicating**  
**financial & (non financial) information**  
about an **entity** to permit informed  
**judgements and decisions** by **users** of  
the information (Drury, 2008; Weetman, 1999)

# ACCOUNTING: CONCEPTUALIZATION (1)



The term comes from the latin "*procedere*", i.e. something that is not static but continuously changing.



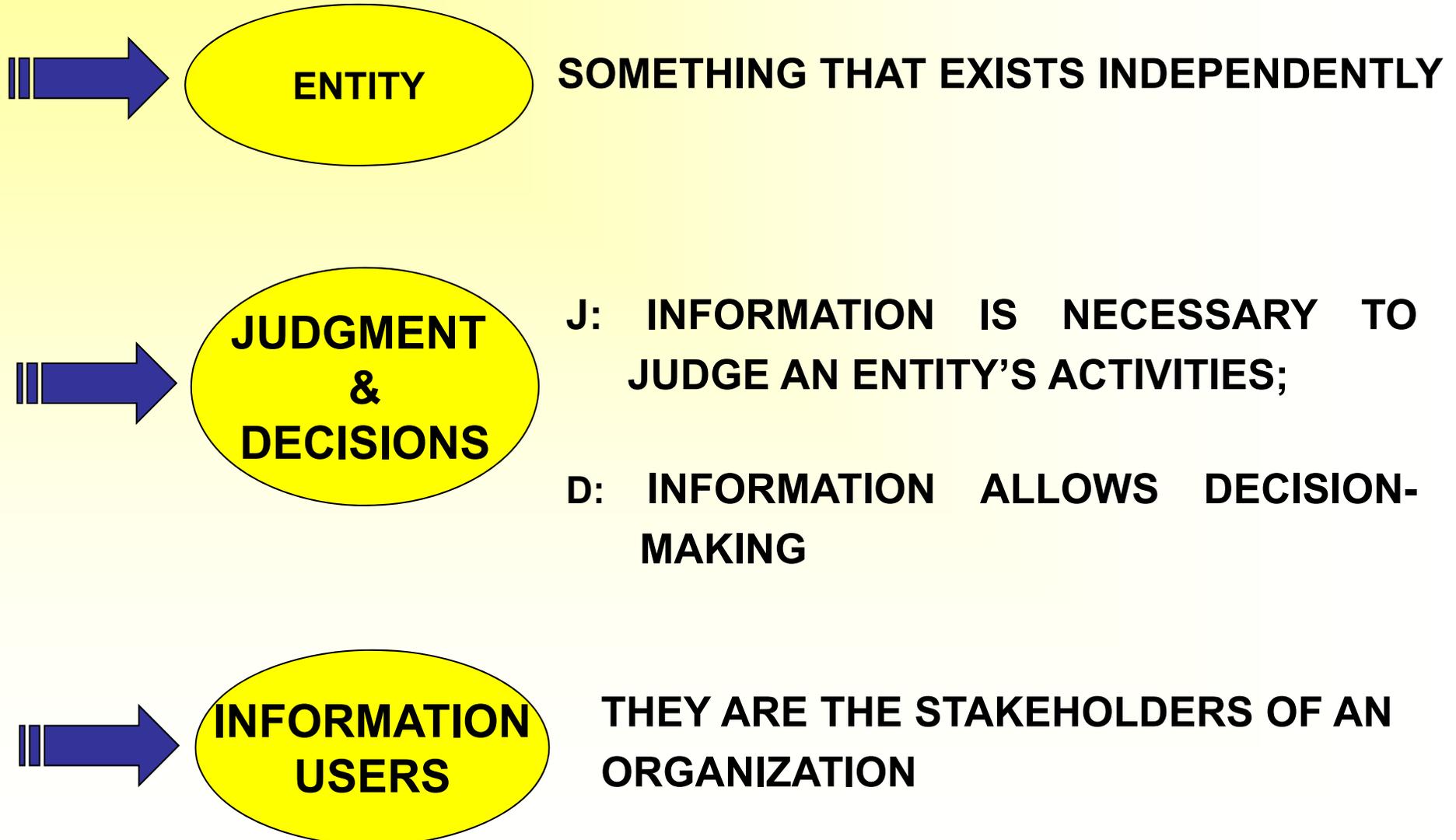
**I: FOCUSING & SELECTING**

**M: PROVIDE A VALUE**

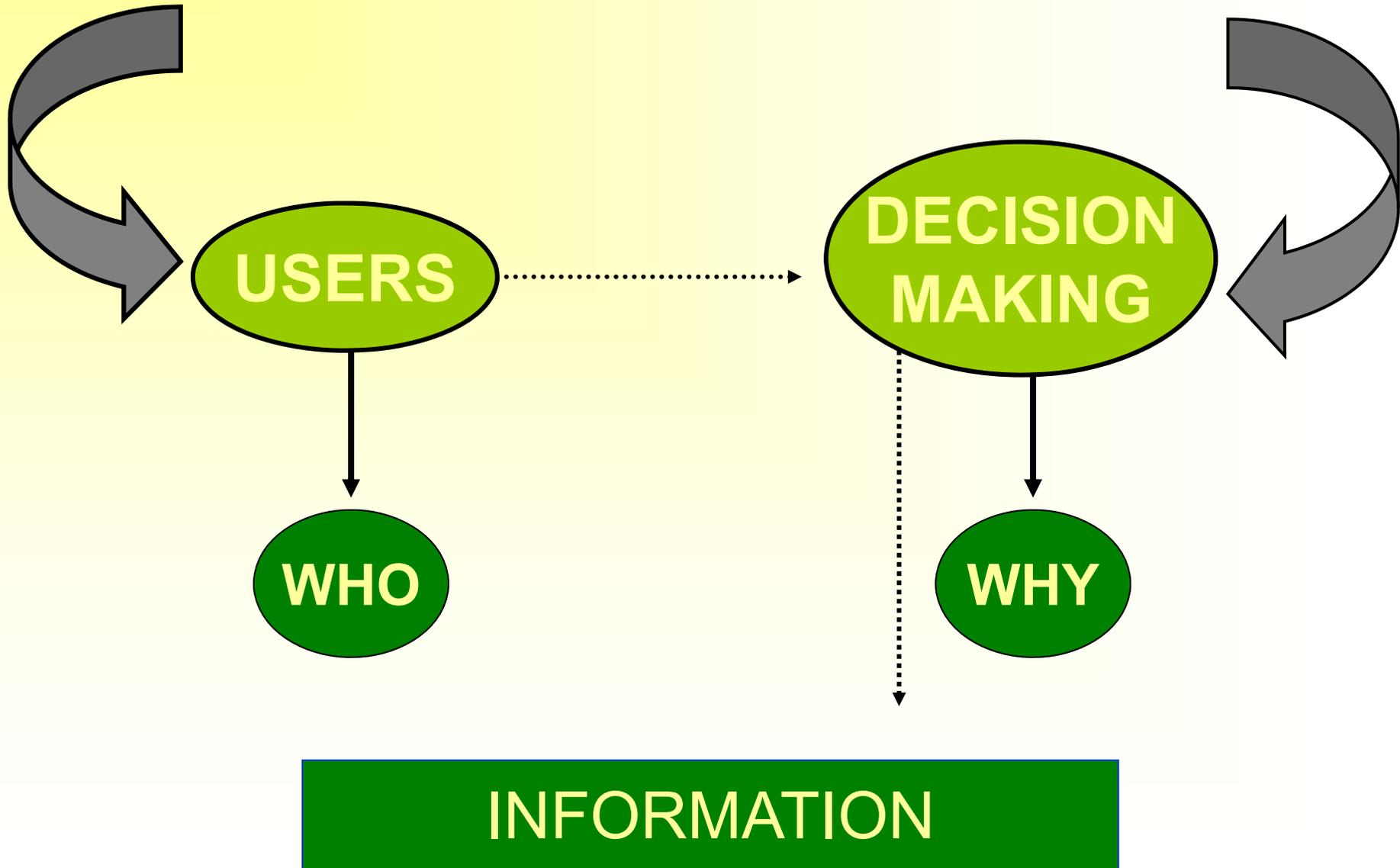
**C: TRANSFER INFO FROM ONE TO ANOTHER (LANGUAGE)**

**INFO: FINANCIAL & NON FINANCIAL**

# ACCOUNTING: CONCEPTUALIZATION (2)



# ACCOUNTING: CONCEPTUALIZATION (3)



# INTRODUCTION (1)

**A) USERS OF ACCOUNTING INFORMATION: *WHO?***

**B) THE DECISION-MAKING PROCESS: *WHY?***

**C) CHANGE OF INSTITUTIONAL ENVIRONMENT:**

***CHANGES***

**D) ROLE OF MANAGEMENT ACCOUNTING: *WHAT?***

## **A) USERS OF ACCOUNTING INFORMATION (1)**

- **Accounting is a language through which economic (and not) information is communicated to subjects who have an interest (stake) in the activity of an entity (e.g. organiz).**
- **Several subjects are interested in receiving this information: managers, shareholders, employees, customers, community, etc.**
- **There are many users of acc. information: each of them will have different needs.**

## A) USERS OF ACCOUNTING INFORMATION (2)

It is possible to distinguish between two categories of users of accounting information:

**A) Internal parties within organization: managers;**

**B) External parties: shareholders, creditors, ect.**

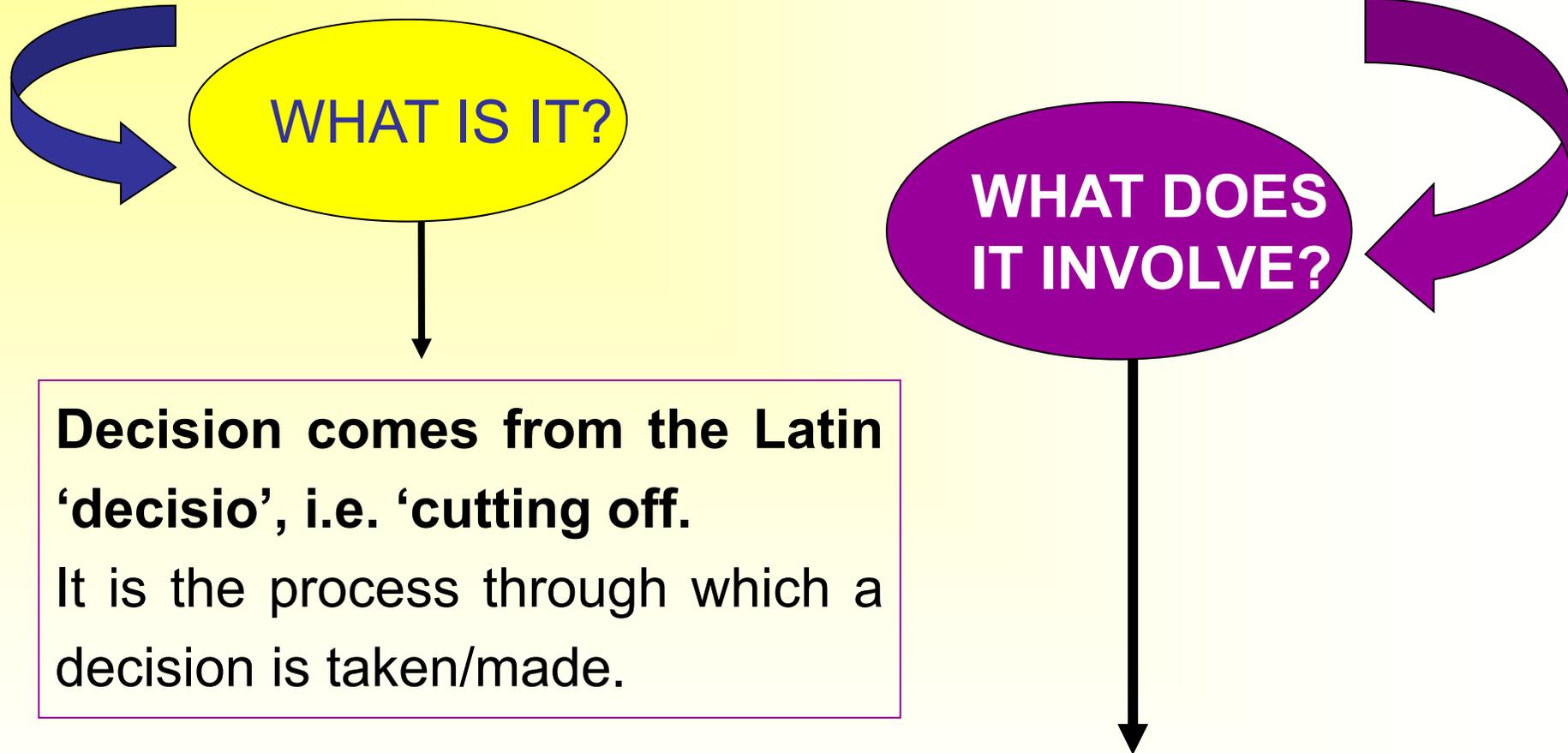
**MANAGEMENT  
ACCOUNTING**

**FINANCIAL  
ACCOUNTING**

Concerned with the provision of information to “internal users” to: a) make better decisions, b) improve efficiency and effectiveness.

Concerned with the provision of information to external parties (outside) the organization

## B) DECISION-MAKING PROCESS (1)



**The decision-making process encompasses planning and control activities**

## **B) MA & DECISION-MAKING PROCESS (2)**

**Drury (2008) has identified seven stages:**

**1) IDENTITY OBJECTIVES: the goals of the organization/entity;**

**2) SEARCH FOR ALTERNATIVE COURSE OF ACTION: different strategies are evaluated in order to meet objectives;**

## **MA & DECISION-MAKING PROCESS (3)**

### **3) GATHER DATA ABOUT ALTERNATIVES:**

**information should be collected regarding decisions to be taken in the future. In relation to the length of time we have: long-run or strategic decision or short-term or operating decisions;**

### **4) SELECT APPROPRIATE COURSE OF ACTION:**

**the alternative that best satisfies the objectives of the organization is selected/chosen.**

## MA & DECISION-MAKING PROCESS (4)

5) IMPLEMENTATION OF THE DECISIONS: the alternative course of action should be implemented as part of the budgeting process.

## **MA & DECISION-MAKING PROCESS (5)**

### **6-7) COMPARING ACTUAL AND PLANNED OUTCOMES AND RESPOND TO DIVERGENCES:**

**Management has the role of controlling (measuring, reporting and correcting) actual performance. It is done through the use of performance reports where the actual outcomes (costs and revenues) are compared with planned outcomes (budgeted costs and revenues). The objective is to take corrective action or to modify the plans.**

## **C) CHANGE OF THE BUSINESS ENVIRONMENT**

- **MA has the role of providing information to support the decision making process.**
- **This information is ORIENTED (FUNCTIONALIST VIEW)**
- **MA supports organizations to face changes in the business environment, e.g. due to:**
  - A) Change in product life cycles;**
  - B) focus on customer satisfaction (CS);**
  - C) Changes in the information technology;**
  - D) Legislation;**
  - E) Corporate Social Responsibility demands.**

## C) CHANGE OF THE BUSINESS ENVIRONMENT

### **A) Changing product life cycles**

A product's life cycle is the period of time from the initial expenditure on R&D to the time at which customer support is withdrawn. Competitive environment and technological innovation have caused a high decline of the life cycle (e.g. mobile phones, PC, etc). MA is required to provide information accurately and on time to support management's actions.

### **B) Focus on CS and new management approaches**

In order to provide CS organization must concentrate on those key factors that affect it: cost efficiency, quality, time, innovation, stewardship products, etc.

M. Contrafatto

## C) CHANGE OF THE BUSINESS ENVIRONMENT

### C) Impact of information technology

The development of new technologies applied to business practices have been relevant (e.g. e-commerce, e-business).

The organizations that are able to use these technologies more efficiently gain a competitive advantage.

A well-known technology applied to business has been the enterprise resource planning systems (ERPS), i.e. an integrated software application module that aims to manage/control all information flow within a company. Information about all aspects of business are stored in a common database to which users can have access.

## C) CHANGE OF THE BUSINESS ENVIRONMENT

**D) Changes in legislation:** impact on organizational activities, products and service, ect (e.g. stewardship of product; environmental legislation, ect). MA & MAS play a key role.

### **E) Demands for Corporate Social Responsibility**

CSR & the environmental implications of business undertakings pose questions, challenges and opportunities. The management of such issues is key for organizations, business and society.

Management accounting plays an important role in: i) strategizing of environmental issues; ii) risk management; iii) environmental performance measurement systems; iv) incorporation of environmental considerations into BDG.

## D) MANAGEMENT ACCOUNTING: ROLE (1)

Management accounting systems provide information that assists several different organizational functions

<b>Operational Control</b>	Provide feedback information about the efficiency and quality of tasks performed
<b>Product and Customer Costing</b>	Measure the costs of resources used to produce a product- service; and market, deliver the product/service to customers
<b>Management Control</b>	Provide information about the performance of managers and operating units
<b>Strategic Control</b>	Provide information about the enterprise's financial and long-run competitive performance, market conditions, customer preferences and technological innovations.

## MANAGEMENT ACCOUNTING: ROLE (2)

Management accounting systems provide different types of information for different users (at each level of the organization).

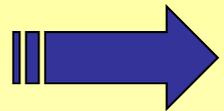
- At the operator (front-line) level (where services are performed for customers): information is primarily provided for controlling and improving operations. Information is disaggregate and frequent, more physical and operational than financial and economic.
- Middle managers: information will be less frequent. Information will be more aggregate and financial based. There is a diagnostical intention.
- Executives: they receive information that summarizes transactions and events at the individual operator, customer and department levels. Information is used to support decisions that have long-term consequences. Strategic decisions.

## MANAGEMENT ACCOUNTING: “A” *TRADITIONAL* DEFINITION

**What gets measured gets managed. If I can't measure it, I can't manage it**

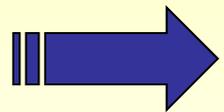
A value adding continuous improvement **process** of **planning, designing, measuring and operating** non financial and financial information **systems** that **guides** management action, **motivates** behavior and **supports** and **creates** the **cultural values** necessary to achieve an organization's **strategic, tactical and operating objectives\***

# MANAGEMENT ACCOUNTING: INTERPRETING THE DEFINITION (1)



**Process**

The term comes from the latin "*procedere*", i.e. something that is not static but in a continuous change



Planning  
Designing  
Measuring  
Operating

**P:** before you start to do something (EX-ANTE)  
**D:** deciding the parts of something (EX-ANTE)  
**M:** gauging aspects of phenomena (EX-POST)  
**O:** related to something that is working

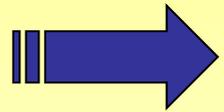


**Information  
Systems**

**Financial and non-financial information systems**

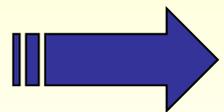
M. Contrafatto

## MANAGEMENT ACCOUNTING: INTERPRETING THE DEFINITION (2)



Guides  
Motivates  
Supports  
Creates

**G:** management actions  
**M:** employees' behavior  
**S-C:** cultural values



Organization's  
objectives

✓ strategic;  
✓ tactical;  
✓ operating

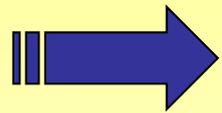
Management accounting systems can create value to today's organizations by providing **timely** and accurate information about the activities undertaken.

## **MANAGEMENT ACCOUNTING: AN 'ALTERNATIVE' DEFINITION**

**Management Accounting is a set of social practices that delineate the space within which the activity of the workforce might be made visible and susceptible to rational calculation\***

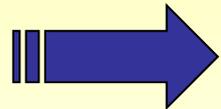
- Each of these definitions differs from the other, none being self-evidently the 'right' definition.**
- Each definition (as many others) can be understood in the context of the set of beliefs, values and presuppositions that constitute the theoretical perspective from which a scholar conceptualises them.**

# MANAGEMENT ACCOUNTING: SO WHAT? (1)



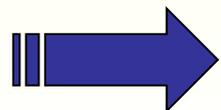
FRAMEWORK

- Each conceptualization is influenced by a specific theoretical perspective



Accounting  
**FOR**  
Management

- MA provides 'Accounting-based INFO'
- FOR has a double meaning: 'about' & 'pro' (i.e. 'at service').



**CHANGING  
NATURE  
OF M.A.  
PRACTICES**

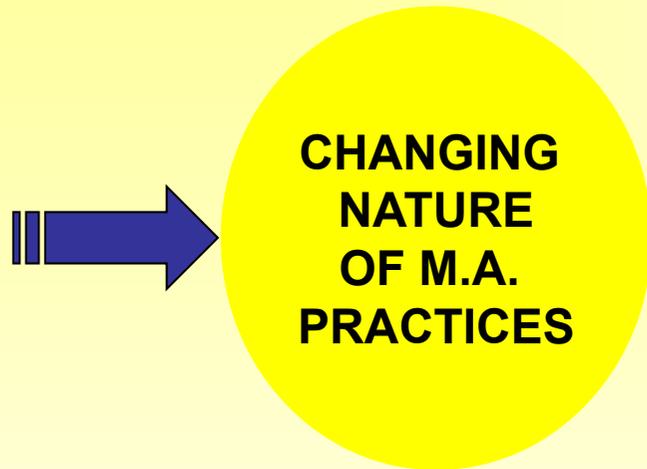
- MA CHANGE DRIVERS
  - i. Economic/competitive factors
  - ii. Changes in technology
  - iii. Legislation & Regulation
  - iv. Changes in organizational forms
  - v. Changes in stks' expectations

# MANAGEMENT ACCOUNTING: SO WHAT? (2)



- **CHANGING USE OF TRADITIONAL MA TOOLS**
  - i. De-centering of accounting knowledge (e.g. decentralisation of responsibilities to bottom line impacts; real time access to accounting information systems);
  - ii. Feed-forward, long-term and strategic orientation (e.g. forecasts adopted alongside budgets; strategy control);
  - iii. Extension of the focus beyond financial aspects

# MANAGEMENT ACCOUNTING: SO WHAT? (3)



- ADVANCED MA TOOLS

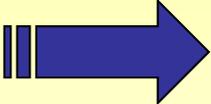
- i. Since Relevance Lost of J&K (1987) 'new' tools & techniques: e.g. BSC, VCA, Benchmarking, ABC, Rolling Budget, Environmental Management Systems, Beyond Budgeting, etc)
- ii. Adoption in 'new' field: e.g. public sector; no-profit organizations; SMEs; emergent and developing countries;
- iii. Consultants' & practioners influence.

# MANAGEMENT ACCOUNTING: SO WHAT? (4)



- Real-time (global, local) info for real-time decisions
- Information for strategic decisions (e.g., acquisitions, investments)
- Helping to incorporate sustainability values into organization & manage environmental risk
- Helping to instil commercial awareness amongst business managers
- Accounting for new and emerging organisational forms

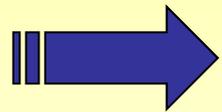
# MANAGEMENT ACCOUNTING: SO WHAT? (5)



**NEW ROLES  
FOR MA  
&  
ACCOUNTANTS?**

- **FROM TRADITIONAL TO  
*EXTREME* ROLE** (Baldvinsdottir et al, 2009)
  - i. From score-keeper to business specialist & internal consultant
  - ii. Minimal time spent on routine & clerical tasks
    - working ‘out in the field’
    - adding value
    - strategic focus
  - iii. Instilling & facilitating financial acumen and commercial awareness amongst managers
  - iv. Strategy-oriented
  - v. Technology-driven & linked

# MANAGEMENT ACCOUNTING: SO WHAT? (6)



## WHAT REQUIREMENTS FOR MANAGEMENT ACCOUNTANTS?

- Financial acumen (the “technical”) is important, but is taken for granted
- But also need:
  - i. Broader/holistic business knowledge and (integrating different) understanding
  - ii. Analytical and (broad performance) interpretive skills
  - iii. Team-based skills (willingness and ability)
  - iv. Communication (high and low-level) skills: presentations, writing, discussion.
  - v. Pro-activeness in strategic /change matters

# MANAGEMENT ACCOUNTING: AVENUES FOR FUTURE RESEARCH

- Change in MA, including its theorisation
- MA & Sustainable Development
- Engaging MA theory with MA practice
- MA for new organisational forms & sectors
- MA and organizational changes
- Changing roles of management accountants
- MA in developing and emerging countries

# MANAGEMENT ACCOUNTING AN INTRODUCTION: Further suggested readings

- **A. Ashton, T. Hopper, R. Scapens, “*Issues in Management Accounting*”, Second Edition, Prentice Hall, 1995, Chapter 1, 2;**
- **A. Atkinson, R. Banker, R. Kaplan, M. Young, “*Management Accounting*”, Third Edition, Prentice Hall, 2001, Chapter 1;**
- **G. Baldvinsdottir, J. Burns, H. Norreklit, R. Scapens, ‘The image of accountants: from bean counters to extreme accountants’, AAAJ, 22 (6), 2009.**
- **H.T, Johnson, R. Kaplan, “*Relevance Lost: the Rise and Fall of Management Accounting*”, Harvard Business School Press, 1987, First part.**

M. Contrafatto