



University of
St Andrews

FOUNDED
1413



STRATEGIC MANAGEMENT & STRATEGIC MANAGEMENT ACCOUNTING: ORIGINS AND DEVELOPMENTS

Prof. John Ferguson

INTRODUCTION

Today we will consider the “paradox” of Strategic Management Accounting (SMA)

In particular, we will consider the “decline” of SMA in relation to the “sustained growth” of strategic management (SM)

The lecture draws on:

Nixon, B., & Burns, J. (2012). The paradox of strategic management accounting. *Management Accounting Research*, 23(4), 229e244.

INTRODUCTION

SMA

```
graph TD; SMA([SMA]) --- WHEN[WHEN]; SMA --- WHY[WHY]; SMA --- WHAT[WHAT]; WHEN --> WHEN_CONTENT[...]; WHY --> WHY_CONTENT[...]; WHAT --> WHAT_CONTENT[...];
```

WHEN

- 1980s: debate about role and future of MA.
- SMA developed within this context.
- Simmonds (1981, 1982) first coined the term.

WHY

- Traditional MA practices and theory were criticized
- New approaches were advocated (Johnson & Kaplan).
- SMA considered a new approach

WHAT

- There is no comprehensive framework as to what constitutes SMA.
- Many definitions exist. Each emphasize different aspects.

Many definitions of SMA exist. Some of them have emphasized either an external focus or an internal one.

Drury (2008, p. 570) defines SMA as:

“a form of management accounting in which emphasis is placed on information which relates to factors external to the firm, as well as non-financial information and internally generated information” (CIMA, 2005, pag. 54).

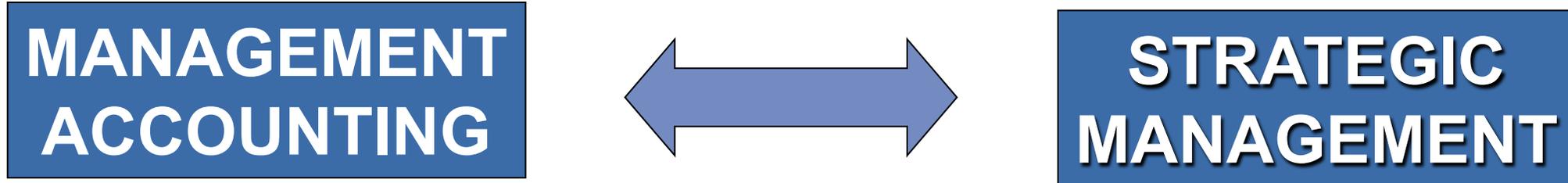
Innes (1998) defines SMA as:

the “provision of information to support the strategic decisions in organizations”

While no agreed definition, Broad consensus that key activities are:

- (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

INTRODUCTION



- HOW DID SM DEVELOP? WHAT ARE MAIN PHASES?
- HOW DID SMA DEVELOP?
- WHY THE OBSERVED DISCREPANCIES IN THEIR DEVELOPMENT?
- SO WHAT? WAY FORWARD?

EVOLUTION OF SM

IT IS POSSIBLE TO IDENTIFY SEVERAL DISCTINT PERIODS, “ERAs” AND PERSPECTIVES IN THE EVOLUTION OF SM (Nixon & Burns, 2012)

Each of these eras/perspectives emerged as a response to conditions in the **external environment**

Each perpective associated with different **tools and techniques** and **research focus**

EVOLUTION OF SM: 1960s/“CLASSICAL ERA”

- Seminal works emerged in 1960s: a) Chandler’s ‘Strategy & Structure’, (1962); b) Ansoff’s ‘Corporate Strategy’ (1965); c) Learned et al. ‘Business Policy: text and cases’ (1965)
- Pioneering examples and experiments in business (for example, General Motors & DuPont)
- Emphasis on “deliberate” strategy
- Formal, rational and linear

EVOLUTION OF SM:1960s/“CLASSICAL ERA”

ENVIRONMENT: a ‘Gentle decade’, characterized by diversification and conglomeration.

TOOLS: SWOT analysis & Long-range planning;

FOCUS: more attention to **PLANNING** rather than **IMPLEMENTATION**. Aligning organisational strategy to the conditions of ‘external environment’.

EVOLUTION OF SM: 1970s

A shift to a **resource-based view** of organisation occurred in the 1970s, which challenged the classic emphasis on planning

Focused on organizational adaptation in practice and the **processes** by which strategy evolved

According to this view, strategy was about “survival”, instinct and enterprise – and therefore less linear

Processual. The idea that ‘strategies emerge’ out of the environmental conditions and organisational situations

Minzberg and Waters (1978) argued that strategy is **emergent**, the result of different activities of different members of a firm, rather than the product of the static exercise of strategic planning.

EVOLUTION OF SM

ENVIRONMENT: Characterized by 'increasing volatility' & 'unpredictability' - inflation and stagnation.

TOOLS: Strategic Business Unit (SBU) analysis & matrices (e.g. BCG); Scenario planning.

FOCUS: need for tighter links between strategy formulation and organisational design and a better understanding of organisations resources and processes

EVOLUTION OF SM: 1980s

The 1980s continued with the diffusion and acceptance of the 'resource based view'

In addition, the first-era notion of competitive advantage reached maturity - Porter's Five Forces and generic competitive strategies

Porter provided an "outside-in" view of strategy formulation along classical-modernist management lines. External analysis was deemed essential in determining effective strategic positioning.

Focus is on the economic environment while other environments are excluded (e.g. technological, political, social, legal, etc).

EVOLUTION OF SM: 1980s

ENVIRONMENT: increased foreign competition, 'globalization' of industries. Increasing emphasis on financially-driven strategies.

TOOLS: Porter's five forces and generic competitive strategies.

FOCUS: The internal focus of resource-based view that began in the 1970s increased - along side a resurgence in classic strategy (Porter)

EVOLUTION OF SM: 1990s

A resource-based systematic analysis of the strategic opportunities of organisations in the competitive environment.

Industry codification (*a la* Porter) difficult in the context of globalisation, intensification of communication technologies, etc

Strategic alliances, focus on networks (as distinct from competitive markets)

Porter (1990); Minztberg (1990); Grant, (1991).

EVOLUTION OF SM: 1990s

ENVIRONMENT: increasing complexity and discontinuity. Rapid changes in the economic and political contexts: Cold War ended; Open of Eastern Europe, EU; Japan started to experience problem.

TOOLS: Resources and Capabilities Analysis; BSC, Customer Relationship Management

FOCUS: is not on optimization and equilibrium of economists but on the functioning and survival of the organisation and the behaviour of its people and the intra (inter) organisational networks

EVOLUTION OF SM: SUMMARY

PERSPECTIVES ON SM

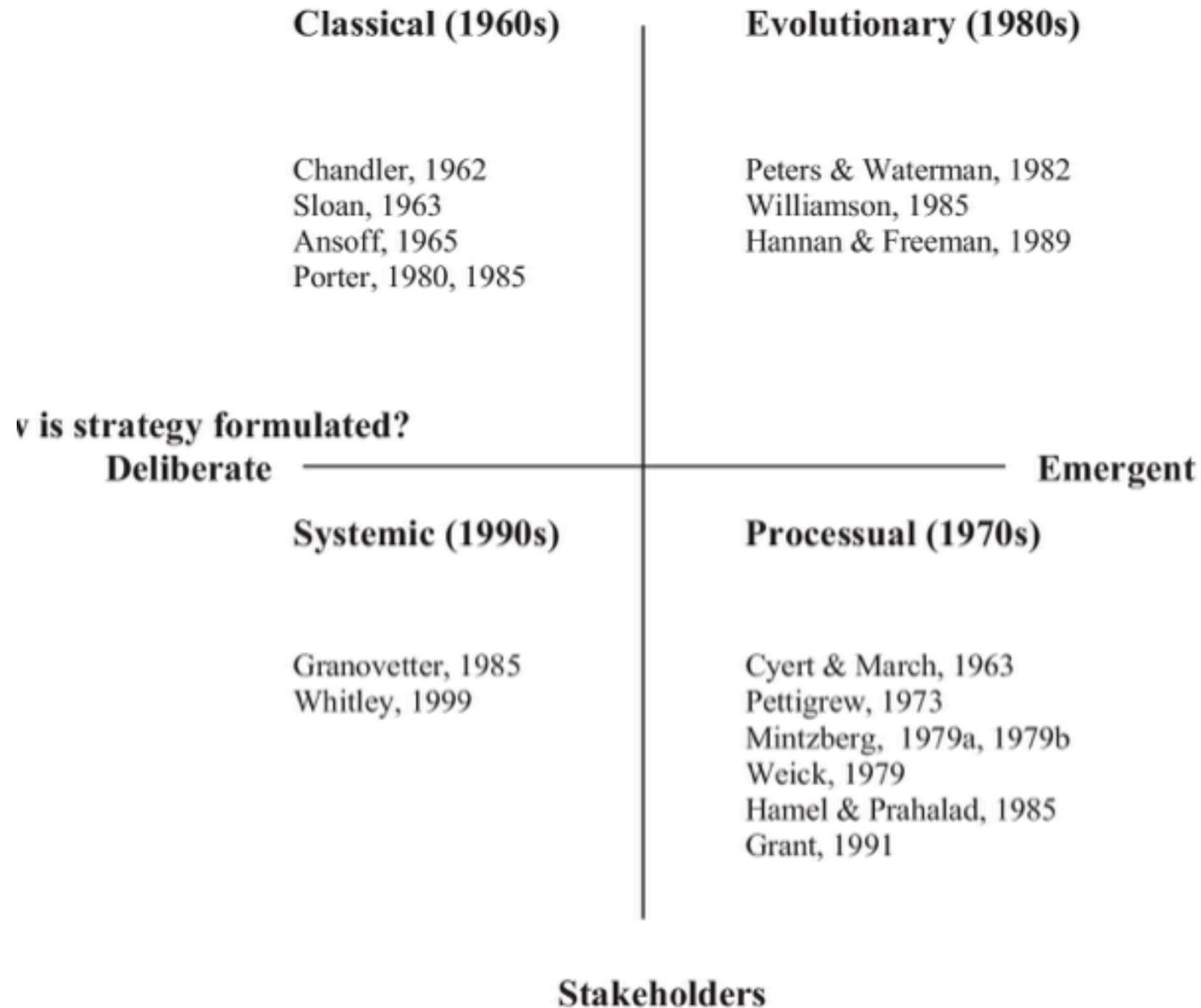
```
graph TD; A[PERSPECTIVES ON SM] --> B[HOW STRATEGY IS FORMULATED?]; A --> C[WHO IS STRATEGY FOR?];
```

HOW STRATEGY IS
FORMULATED?

WHO IS STRATEGY FOR?

- CLASSICAL PERSPECTIVE
- EVOLUTIONARY PERSPECTIVE
- PROCESSUALIST PERSPECTIVE
- SYSTEMIC PERSPECTIVE

**Who is strategy for?
Shareholders**



EVOLUTION OF SM: 2000s

STRATEGY AS PRACTICE

The 2000s characterized by the further evolution towards networks, the rise of the knowledge-based organization. Also time of Global financial crisis which created enormous economic uncertainty.

Focus on strategising rather than strategy

Concerned with questions such as: how is strategising done, who does it, what are the skills required, what are the common tools etc.

EVOLUTION OF SM: 2000s

ENVIRONMENT: characterized by uncertainty & unpredictability

TOOLS: Strategy Maps; Supply Chain Management; Complex Adaptive Systems; Knowledge management; Corporate Governance; IT systems; Big data.

APPROACH: Strategy as practice to better understand the SM processes. Importance of both content and process of SM. Knowledge based view of orgs that builds on the resource-based view of orgs and SM.

EVOLUTION OF SM: SUMMARY

“You have to give up the pretence that you can predict the future. This is about managing more dynamically..if old style (deliberate) strategy formulation is not exactly dead, then it is hardly in the best health” (Stern, 2009, p. 14).

- Nevertheless there is still need for both deliberate & emergent strategies (with deliberative more as broad purpose).
- The wave of changes in the 21st Century suggest that strategy formulation may be moving along the deliberate-emergent continuum in the direction of the emergence-end point.

EVOLUTION OF SMA

HOW DID SMA EVOLVE IN RELATION TO SM?

Several reviews of SMA literature have been undertaken in recent years

In the following we discuss how SMA evolved in the context of the evolution of SM.

The purpose of this analysis is to identify issues, trends and perspectives of SM that are not currently being addressed by SMA literature.

EVOLUTION OF SMA

- Simmonds (1981) coined the term of SMA, based on Porter's framework: "the provision and analysis of management accounting data about a business and its competitors for use in developing and monitoring business strategy".
- The streams of research that developed from Simmonds' definition focused more on the cost management that was needed to support low price competitive strategies rather than on initiative for differentiation strategy.

EVOLUTION OF SMA

SMA literature is based on a narrow, first-era view of SM

- Little is known about **‘SMA techniques.’**, **‘how they are used’**, **‘by whom are they used’** and **‘for whom’**.
- SMA has failed to consider the constant themes of SM over the last 3 decades – namely:
 - Change
 - Organisation Resources
 - Innovation
 - Corporate Whole

EVOLUTION OF SMA

SMA literature is based on a narrow, first-era view of SM

- The shareholder-stakeholder issue has been largely neglected in the SMA literature.
-
- The SMA lit. is characterized by a formal, structured, linear approach that is based on the assumption of the classical perspective in SM (i.e. environment is relatively stable and predictable and that profit-maximization is key objective).
- Little account has taken of other different perspectives.

EVOLUTION OF SMA: LIMITATIONS

```
graph TD; A[EVOLUTION OF SMA: LIMITATIONS] --> B[DEFINITIONS]; A --> C[NATURE OF RELATED EMPIRICAL EVIDENCE];
```

DEFINITIONS

- Most of the definitions have a common focus on competitive marketing strategies and the MA techniques to support these.
- These definition and orientation may be inadequate to take into account the changes that have occurred in the competitive environment and the need for different emphasis and approaches

NATURE OF RELATED EMPIRICAL EVIDENCE

- Most of the SMA research provides little insight on how SMA practices are implemented and used in practice
- So, a narrow, & technical focus of SMA is adopted
- Little attention is given to the interaction among strategic actions/porcesses and accounting practices in the SM

SM & SMA EVOLUTION: A PARADOX

“In contrast to SM, SMA has remained a collection of academic texts and has had a negligible impact on managerial discourse and practice” (Seal, 2010, p. 95).

Why?

- lack of consensus on what SMA is;
- the diffusion of MA techniques within organisations
- low recognition of the SMA “brand name”.
- the lack of integration of SMA and related cognate literatures

SM & SMA: FUTURE RESEARCH

Focus on the links between SMA and SM: attention to the MA techniques and concepts that are relevant to the issues and perspectives of SM

Focus on the links between SMA literature and practices adopted

Links between SMA and related literatures (strategic control, knowledge management, per. measurement)

Toward an integrated framework between SM, SMA, MA and cognate areas