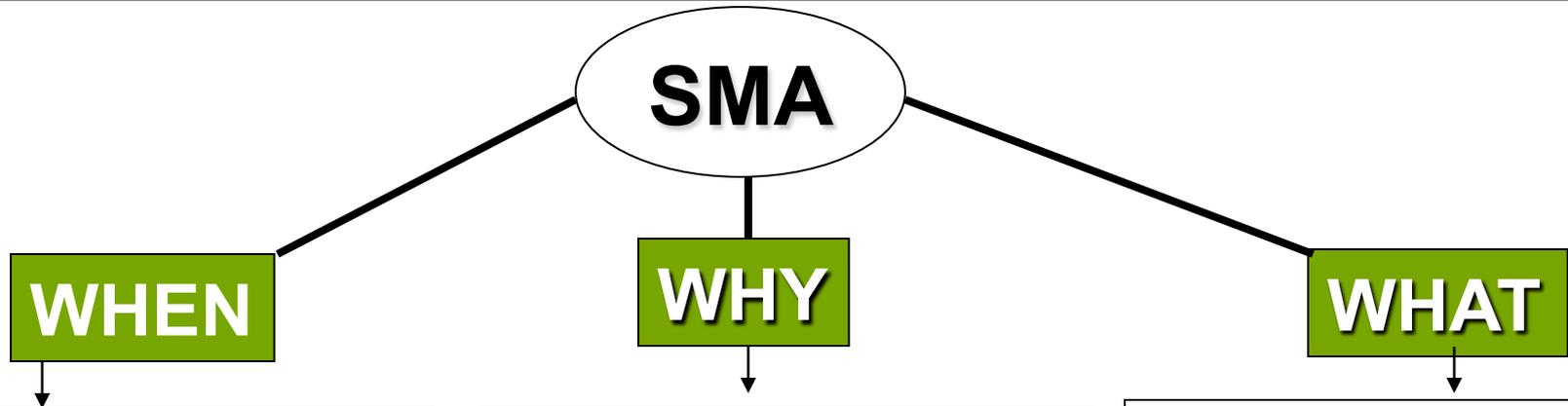


# STRATEGIC MANAGEMENT ACCOUNTING

## LECTURE 9\_3

# STRATEGIC MANAGEMENT & SM ACCOUNTING: ORIGINS AND DEVELOPMENTS

# A) INTRODUCTION: SMA (1)

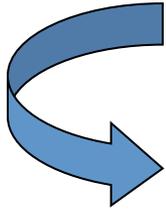


- 1980s: debate about role and future of MA.
- SMA developed within this context.
- Simmonds (1981, 1982) first coined the term.

- Traditional MA practices and theory were criticized
- New “**ways**” were advocated (J&K).
- S M A w a s considered as a “new way”.

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

# A) INTRODUCTION: SMA (2)



## SMA: WHAT IS IT?

- 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”**

# A) INTRODUCTION: SMA (3)

An omnibus definition is provided by [Hosque \(2006\)](#).

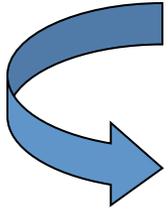
**MANAGEMENT  
ACCOUNTING**



**STRATEGY  
MANAGEMENT**

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

## B) EVOLUTION OF SM (1)



IT IS POSSIBLE TO IDENTIFY SEVERAL 'ERAs  
'IN THE EVOLUTION OF SM (N&B, 2012)

- PERIOD & CONTEXTS;
- ENVIRONMENTAL FEATURES;
- FOCUS OF RESEARCH: RELEVANT WORKS;
- TOOLS & TECHNIQUES;
- ORIENTATION

## B) EVOLUTION OF SM(2.a)



### 1) THE BIRTH: SEMINAL WORKS

- 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)
- BUT pioneering examples and experiments in business (see Sloan in GM & DP);
- Environmental conditions: a 'Gentle decade', characterized by diversification and conglomeration.

## **B) EVOLUTION OF SM(2.b)**

- **APPROACH:** deterministic and 'one-way' best approach. The purpose is to **DELIBERATE** 'THE strategy';
- **TOOLS:** SWOT analysis & Long-range planning;
- **FOCUS:** more attention to **PLANNING** rather than **IMPLEMENTATION**. Aligning organisational strategy to the conditions of 'external environment'.

## B) EVOLUTION OF SM(3.a)



### 2) SHIFT TO A RESOURCE-BASED VIEW

- A shift to resource-based view of organizations and SM occurred in the 1970s. This challenged the previous approach based on the idea of 'one-best' strategy.
- A more contingent perspective was adopted: metaphor of «fitting» given the opportunities & threats.
- Ackoff; 1970s; Pettingrew; 1973; Miles & Snow, 1978; Mintzberg, 1978

## B) EVOLUTION OF SM(3.b)

- ENVIRONMENTAL CONDITIONS: environ. characterized by 'increasing volatility' & 'unpredictability'. Main features: inflation and stagnation in the demand. Business response was 'conservative' (more defenders than prospectors).
- APPROACH: Processual. The idea that 'strategies emerge' out of the environmental conditions & org. situations.
- TOOLS: SBU's analysis & matrices (e.g. BCG: Mrk attractiveness-Business Strength); Strategic planning.'
- FOCUS: formulation & implementation. From 'business policy' to 'strategy management': SMJ founded in 1979

## B) EVOLUTION OF SM(4.a)



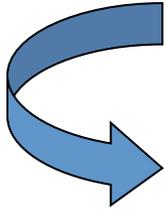
### 3) DIFFUSION OF THE RESOURCE-BASED VIEW

- The 1980s characterized by the diffusion of a 'resource based view' of SM.
- Porter (1980; 1985); Williamson (1985); Freeman (1984):
- ENVIRON. CONDITIONS: complexity and dynamism. Increasing foreign competitions that led to 'globalization' of industries. An increasing emphasis on financially-driven strategies.

## B) EVOLUTION OF SM(3.b)

- APPROACH: Systematic analysis of the organizations and industry effectiveness. The focus (see e.g. Porter) is on the economic environment while other envr. are excluded (e.g. technological, political, social, legal, etc).
- FOCUS: formulation & implementation. The internal focus of resource-based view that began in the 1970s increased along with an interest in corporate-level strategy. Decreased the interest on the idea of strategy as 'fitting'.
- TOOLS: [Porter's 5 forces model](#), VCA, etc.

## B) EVOLUTION OF SM(5.a)



### 4) CONSOLIDATION OF THE RESOURCE-BASED VIEW

- The 1990s characterized by the consolidation of a 'resource based view' of SM.
- Porter (1990); Mintzberg (1990); Grant, (1991).
- ENVIRON. CONDITIONS: 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.

## B) EVOLUTION OF SM(3.b)

- ERA of 'cloud computing', 'big data' and 'smart machines'.  
Corporate networks and alliances btw business.
- APPROACH: A resource-based systematic analysis of the strategic opportunities of organisations in the competitive environment.
- 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.
- TOOLS: EVA, Resources & Capabilities Analysis; BSC, CRM

## B) EVOLUTION OF SM(5.a)



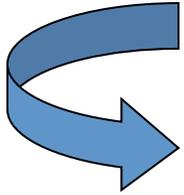
### 5) STRATEGY AS PRACTICE

- The 2000s characterized by the further evolution towards networks, the rise of the knowledge-based organization. This is the E-commerce era. Also time of Global financial crisis which created enormous economic uncertainty.
- Pfeffer & Sutton (1990); Whittington (2001); Porter & Kramer (2011).
- ENVIR. CONDITIONS: characterized by uncertainty & unpredictability

## B) EVOLUTION OF SM(3.b)

- 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.
- FOCUS: strategy and strategy making as *Options*. Organizing & management for adaptability.
- TOOLS: Strategy Maps; Supply Chain Management; Complex Adaptative Systems; Knowledge management; Corporate Governance; IT systems; Big data.

## **B) EVOLUTION OF SM: SUMMARY (1)**

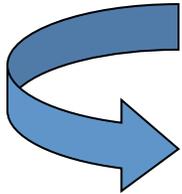


**Furrer et al (2008): content analysis of 2125 published articles. 6 main ISSUES**

- CORPORATE STRATEGY & FINANCIAL MODELS;
- RESOURCES BASED VIEW OF FIRM AND SM;
- INDUSTRY AND COMPETITION;
- GROWTH AND MARKET ENTRY;
- STRATEGY PROCESS AND TOP MANAGEMENT;
- STRATEGY AND ITS ENVIRONMENT.

**The field of SM is characterized by a history of theoretical pluralism (ideas borrowed by other disciplines)**

## B) EVOLUTION OF SM: SUMMARY (2)

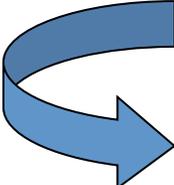


### SCHOOLS OF STRATEGY AND SM

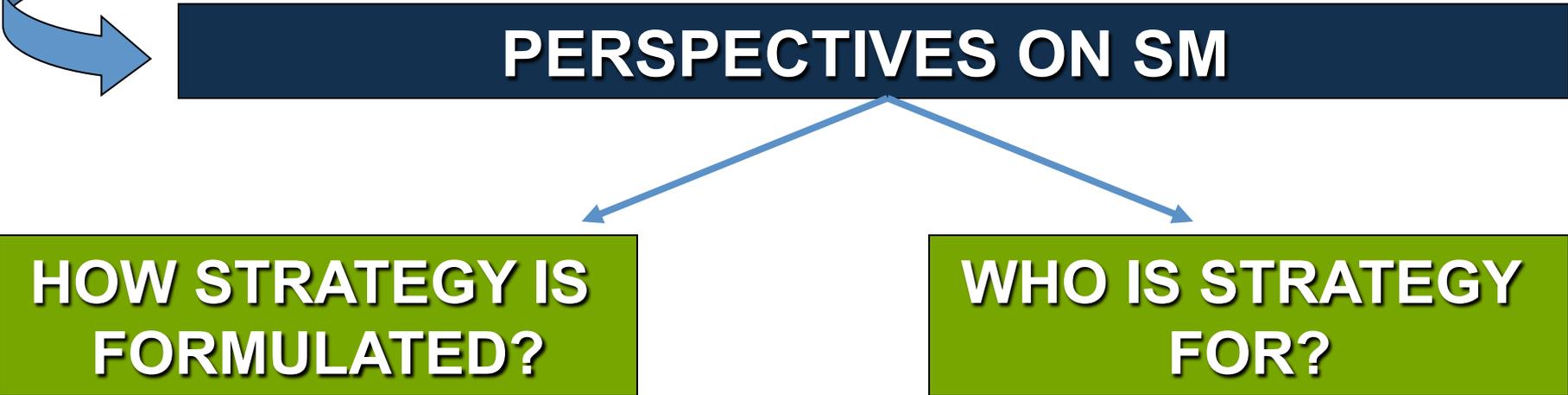
- COGNITIVE (PSYCHOLOGY);
- LEARNING (PSYCHOLOGY AND CHAOS THEORY)
- POWER (POLITICAL SCIENCE);
- CULTURE ( ANTHROPOLOGY);
- PLANNING (SYSTEM THEORY AND CYBERNETICS)

**Cummings & Daellenbach (2009)'s 'Centred eclectism': the diversity of approaches still prevail but focus also on core topics such as organisation, processes and change**

## B) EVOLUTION OF SM: SUMMARY (3)



### PERSPECTIVES ON SM



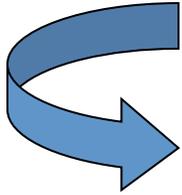
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graph TD; A[PERSPECTIVES ON SM] --> B[HOW STRATEGY IS FORMULATED?]; A --> C[WHO IS STRATEGY FOR?];
```

**HOW STRATEGY IS  
FORMULATED?**

**WHO IS STRATEGY  
FOR?**

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

## B) EVOLUTION OF SM: SUMMARY (4)

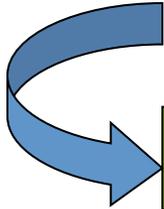


### SM NOWDAYS?

*«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 (delib more as broad purpose).
- The waves of changes in the 21st C suggest that strategy formulation may be moving along the deliberate-emergent continuum in the direction of the emergence-end point.

## B) EVOLUTION OF SMA (1)



### HOW DID SMA EVOLVE IN RELATION TO SM?

- Several reviews of SMA literature have been undertaken in the last few years;
- In the following we discuss how did SMA evolve 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.

## B) EVOLUTION OF SMA (2)

- Simmonds (1981) coined the term of SMA, based on the 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 Simmond's definition focused more on the cost management that was needed to support low price competitive strategies rather than on initiative for differentiation strategy.

## **B) EVOLUTION OF SMA (3)**

- Little is known about **‘what SMA tech.’**, **‘how are they used’**, **‘by whom are they used’** and **‘for whom’**.
- The topical 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 the profit-maximization goal).
- Little account has taken of other different perspectives.

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

## B) EVOLUTION OF SMA (4)

- A recent case study (Tillman and Goddard, 2008) of SMA techniques adopted shows that SMAL may not reflect the practice actually adopted.
- The case study shows that SMA techniques played a crucial role in the process of sense-making.
- This is consistent with the idea of Cummings & Daellenbach (2009), according to which the trend is for *«less focus on command and control, more on influencing, steering, nudging, connecting interests and internal marketing»*.

# C) EVOLUTION OF SMA: LIMITATIONS

## DEFINITIONS

- Most of the definitions have a common focus on competitive market 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 puts «little light on how SMA practices are implemented and used in practice and provide no theoretical explanation»
- So, a narrow, & technical focus of SMA is adopted
- Little attention is given to the interaction among strategic actions/processes and accounting practices in the SM

## D) SM & SMA EVOLUTION: A PARADOX (1)

*«In contrast to SM, SMA has remained a collection of academic etxts and has had a negligible impact on managerial discourse and practice» (Seal, 2010, p. 95).*

- This shows a clear paradox: SM & SMA have not eveolved, as expected, in similar paths? Why?
- Nixon & Burns (2012):
  - lack of consensus on what SMA is;
  - the diffusion of MA techn within orgs and the low recognition of the SMA brand name.
  - the lack of integration of SMA and related cognate literatures may explain the low adoption of SMA techn.

## E) 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 SMAL and practices adopted
- Links btw SMAL and related literatures (strategic control, knowledge management, per. measurement)
- Toward an integrated framework between SM, SMA, MA and cognate areas