Strategic Management Accounting for Business Decision-Making

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Changing Business Conditions and Strategic Accounting

To discuss how new strategic management accounting practices have emerged, it is important to highlight how the business scenarios and the external environment in which businesses operate have changed as compared to previous times. Customers are more aware than before. They can find the right product for themselves in the market.

Customer Expectations and Competitive Pressure

They can compare prices and the quality of various products available in the market. Customers' preferences are changing much more rapidly than before. Customers demand new and improved products. Thus, to meet the demands of customers, companies have to focus on new trends and techniques to cope with the demands of customers. Just-in-time, cost management, and other such techniques evolved to cope with the demands of customers and to survive in the changing business environment. Customers are not only aware but also empowered. They can demand better quality and prices and can demand a greater variety of products. Thus, to meet the demands of customers and earn profits, organizations have to be flexible and responsive to the changing business situation and consumer nature. Organizations are no longer competing within a particular boundary. Boundaries have diminished, and competition has extended beyond geographic boundaries. In such fierce competition, organizations have adopted new models to survive in the dynamic business environment. Technology has played a vital role in the changing business environment. Technology puts greater pressure on organizations to come up with new technology in order to stay ahead of competitors. Organizations that fail to update their products and services, unfortunately, lose their customers. Thus, technology, globalization, and customers have changed the way in which business was done before. Organizations are now much more flexible and responsive than before.

Definitions of Strategic Management Accounting

Many definitions of strategic management accounting have been researched and recommended by well-known researchers over the last thirty years. However, a single consolidated definition is still not available that defines what strategic management accounting practices and techniques are and why they are applied. Some definitions suggested by researchers are as follows:

Financial and Non-Financial Information

Strategic management accounting pays importance to internal and external, as well as financial and non-financial, information in making strategic decisions.

Integration of Accounting and Management Strategy

Strategic management accounting is an amalgamation of accounting and management practices to attain a strategic position in the market and to make strategic decisions. Strategic management accounting utilizes available information to make strategic decisions by using management accounting practices and techniques.

Conceptual Ambiguity in Strategic Accounting

Thus, there are several definitions available for strategic management accounting. However, there is still no specific definition of what strategic management accounting actually is and what techniques it covers.

Core Purposes of Management Accounting

Management accounting has three main purposes. The first purpose is the proper allocation of cost. This allows managers to report financial figures in annual reports. The second purpose of management accounting is the utilization of information to make decisions. The third purpose is to provide information for evaluation and control. There are a few points that distinguish traditional management accounting from new strategic management accounting practices. Traditional management accounting reported information for financial reporting purposes. It ignored the utilization of this information in decision-making. Traditional management accounting focuses on internal and past information. It ignored external trends and information sources. Traditional management accounting failed due to many reasons. First, it failed to make sound decisions because

decisions were based on past and internal data and available information. Traditional management accounting didn't focus on external information to predict future trends, as it solely relied on internal information. Information present in annual reports fulfilled the purpose of financial reporting only. Thus, using such information for decision-making led to failed and incompetent decisions. New strategic management accounting focuses on all types of information, both internal and external, available to make informed decisions and to aid in planning and control (Ward, 1992).

Limitations of Traditional Management Accounting

Traditional management accounting didn't focus on future decision-making. It placed emphasis on historical data and internally generated information to make decisions. However, as the business environment has changed, business decisions cannot be made primarily based on internally available data. Managers have to focus on what wasn't done, which leads to failed decision-making. Current strategic management accounting is future-oriented. It pays attention to internal as well as external information to make decisions in order to stay ahead of competitors and satisfy stakeholders' needs. Traditional management accounting only paid attention to financial figures. However, non-financial information is as important as financial information in making decisions. Non-financial information yields valuable information about changing industry trends, customer preferences, and the latest techniques. Traditional management accounting ignored non-financial information. Current strategic management accounting pays much attention to both financial and non-financial information to guide business moves and decisions in the future. Strategic management accounting focuses on broad sources of information to make decisions about the future. It utilizes financial and non-financial information, external and internal information, and both informal and formal sources of information to make strategic decisions. Traditional management accounting placed much emphasis on formal sources of information. Informal information sources like newspaper articles on competitors and other such information are as important as formal sources of information in making a decision.

Strategic Information and Competitive Positioning

Strategic management accounting plays an integral role in utilizing information from various sources to formulate specific strategies such as cost leadership or other such strategies. Effective utilization of information helps the organization to increase its market share and to improve its position in the market. Effective utilization of strategic management accounting practices plays an integral role in staying ahead of competitors and earning huge profits. Huge profits mean that the organization is able to discover more opportunities and tap into a new market. Strategic management accounting also guides critical decision-making where managers have to evaluate different options or decide which alternative to choose. For strategic management, accounting can guide whether organizations need to open or shut a specific business unit to maximize profits and cut down expenses.

Comparison of Traditional and Strategic Accounting

In summary, the differences between traditional management accounting and strategic management accounting are given below:

Traditional management accounting	Strategic management accounting
Based on historical data	Based on data gathered from all sources
Historical in approach	Future-oriented
Concerned with manufacturing	Concerned with the competitive business environment
Focused on existing activities	Focused on future alternatives and options
Reactive	Proactive

The strategic management approach is much more expensive to implement than traditional management accounting. Usually, accountants and accounting managers are trained and educated to deal with financial figures and to fulfill the requirements of financial reporting. However, strategic management accounting presents different demands for accounting managers. It requires accounting managers to use internal as well as external data to make strategic decisions. Implementation of strategic management accounting techniques and practices, as well as tools that analyze information from various sources, requires a greater cost in terms of implementation and training than incorporating traditional management practices. Implementation of a strategic management accounting approach requires proper change management. Managers need to be trained and well-equipped to take a strategic management accounting approach (Zainuddin & Sulaiman, 2016).

Accounting Information in a Changing Economy

Accounting is the language of any organization to reveal vital and critical information about the business. It conveys important information about the health of the business. The business environment has changed and has been constantly changing in the past few years. Businesses are more flexible and need to respond to rapid changes in the business environment to earn profits, retain customers, and survive. Accounting is the language of a business that has adapted itself to the new changes. New techniques and tools have evolved to cater to the new needs of the constantly

changing business environment. Thus, strategic management accounting practices have emerged to cater to the new needs of emerging business models. Globalization has presented new challenges and benefits to organizations. Technology and globalization have changed the way business is done. Organizations now have to respond to the needs of global customers. Many new terminologies, such as global market, global competition, and other such terminologies, have emerged to meet the needs of globalization trends (Efkirin, 2014). Organizations can now enter a market anywhere in the world. Global competition has flared up. Strategic management accounting has changed as a result of this new trend, too. Accounting managers can no longer rely on historical financial information to make decisions. They have to gather information from various sources in order to forecast and predict. Various software and tools have emerged that allow data processing and management by extracting data from multiple sources. Strategic management accountants have different policies for each region they target in accordance with the needs of those regions (Baylis, 1997).

Deregulation and Organizational Responsiveness

Deregulation has also changed the way businesses are run. Public and government-owned organizations are centralized and have many bureaucratic lines. Publicly owned organizations are generally incapable and inflexible in responding to current and rapid changes in the business environment. Most publicly owned organizations are now being privatized. Privatization has opened a new pool of opportunities for organizations to capture. With deregulation, strategic management accountants have to shift their practices from traditional management accounting to new methods of management accounting in order to be more flexible, responsive, and efficient in making the right decisions at the right time. Internal information can reveal information about future market trends. Effective data management is needed before reaching any final decisions. Management accountants have to analyze information from multiple sources to determine their strategic position and to guide their strategic moves (Dent, 1996).

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