

STRATEGIC MANAGEMENT ACCOUNTING

- THE EXPANDING ROLE -

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Thursday, 25th July 2019

At Whitesands Hotel & Spa, Mombasa

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Definitions...



- ❑ *Strategic Management* involves the formulation and implementation of the major goals and initiatives taken by a company's top **Management** on behalf of owners, based on consideration of resources and an assessment of the internal and external environments in which the organization competes.

Definitions...



❑ *Management Accounting* is the process of preparing management reports and accounts that provide accurate and timely financial and statistical information to managers to make short-term and long-term decisions.

Origin of SMA



- In the 1980s management accounting was criticized for becoming too internally focused on operational issues and was providing little help to managers making strategic decisions.
- The term strategic management accounting (SMA) was introduced by Simmonds (1981, p.26) and defined by him as *'the provision and analysis of management accounting data about a business and its competitors, for use in developing and monitoring business strategy'*

Origin of SMA....



- Since then several attempts have been made to refine this definition and identify a set of techniques that can be classified under the banner of SMA.
- However there has been little agreement within the academic and professional literature on the definition of SMA and the associated techniques, nor is the term widely used by practicing accountants

Origin of SMA



Table 1: Definitions of Strategic Management Accounting

Source	Definition
Simmonds (1981, p. 26)	"the provision and analysis of management accounting data about a business and its competitors for use in developing and monitoring business strategy"
Bromwich (1990, p. 28)	"the provision and analysis of financial information on the firm's product markets and competitors' costs and costs structures and the monitoring of the enterprise's strategies and those of its competitors in these markets over a number of periods"
Roslender and Hart (2003, p. 255)	"SMA is identified as a generic approach to accounting for strategic positioning, defined by an attempt to integrate insights from management accounting and marketing management within a strategic management framework"
Agasisti <i>et al.</i> (2008, p. 2)	"the identification of a set of information to support strategic decisions"
Langfield-Smith (2008, p. 206)	"SMA entails taking a strategic orientation to generation, interpretation and analysis of management accounting information, and competitors' activities provides the key dimension for comparison"
Tillmann and Goddard (2008, p. 80)	"SMA can broadly be defined as being the use of management accounting systems in supporting strategic decision making"
Ma and Tayles (2009, p. 474)	"the body of management accounting concerned with strategically orientated information for decision making and control"

Origin of SMA



Strategic Management Accounting is defined as “a form of Management Accounting where emphasis is placed on information which relates to factors external to the entity, as well as non-financial information and internally generated information”

CIMA - Oct 22, 2016

Traditional Vs Strategic



Traditional Approach	Strategic Approach
Financial Focus	Value Focus
Absorption costing for Cost allocation	Marginal costing, target costing
Cost control orientation	Customer Value orientation
Internally Focussed	Externally orientation
Performance Measurement financial	Multi-dimensional performance measurement and benchmarking
Fragmented systems	Integrated Systems
Accounting and operational information separate	ERP and accounting systems integration
Profit motives short term	Profit motive longer term
Pricing short term cost orientated	Pricing market driven and strategic

The Place of Management Accounting



Does the Management Accountant sit in



Finance

Or

Operations



The Place of Management Accounting



Enterprise Financial Management

Tax Accounting

Financial Accounting

Source data capture (transactions)

Managerial Accounting

Non-financial data capture

Cost Measurement

Cost Accounting

External Financial Reporting, e.g., GAAP, IFRS

- Cost of goods sold
- Inventory valuation

The Domain of Costing

Performance Evaluation & Analysis

For example:

- Assessment of current strategy & plans
- Integrated cost/operational performance measures (e.g., cost variance, capacity measurement, process efficiency etc.)
- Profitability reporting
- Process analysis
- Learning & corrective actions

Planning & Decision Support

For example:

- Fully absorbed and incremental costing
- Adaptive operation and cost-based planning, budgeting and forecasting
- Product process, channel, and customer strategic adaptations
- Enterprise optimization (e.g., make vs. buy, outsource, etc.)

The Shift....



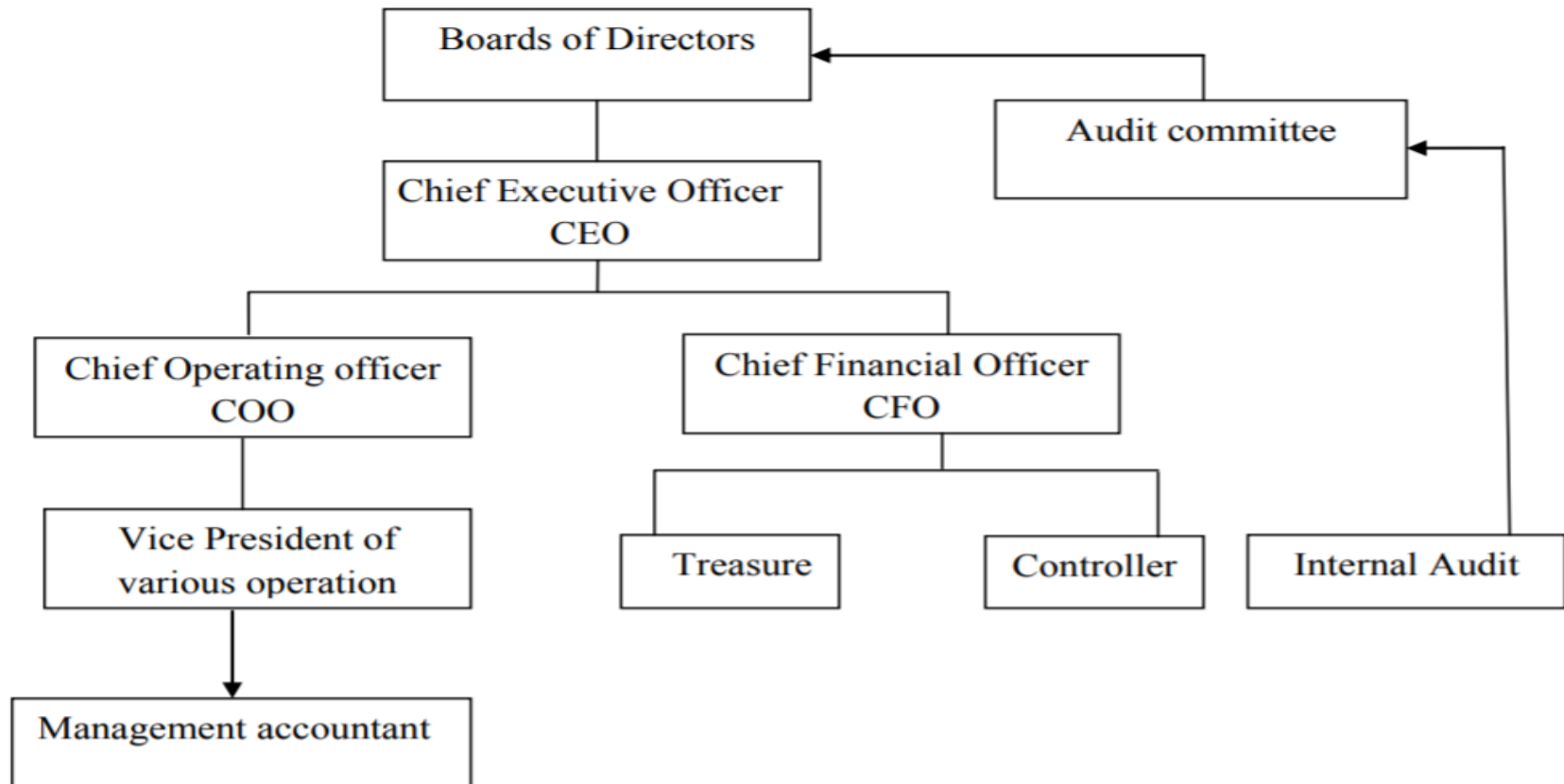
- Implementing strategic management accounting can be an arduous and expensive process for companies.
- Accountants are usually trained to simply collect financial information, input the information into the accounting software and prepare financial reports.

The Shift....



- Strategic management accounting attempts to change this mentality by including management accountants in the strategic planning and decision-making process of the company.
- This change goes against decades of traditional accounting training, requiring companies to develop new business thought processes in their accountants.

The Shift....



Bamber et al, 2008

SMA Shifting Role



SMA Shifting Role



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SMA Shifting Role

Getting the numbers right or getting the right numbers?



SMA Shifting Role



From a Numbers Cruncher to a Business Leader

“If you want to be on the table while key strategic decisions are being made, rather than just presenting the figures and walking away: then you have to be a Strategic Management Accountant”

Skills for a Strategic Management Accountant



1. Commercial Awareness

Having general business skills, knowledge and understanding of how companies and industries work as a whole. It's taken as read you know about the finances, you need to know how the business is run and how it is affected by the external environment. What are the key business drivers at your current company?

Skills for a Strategic Management Accountant



2. Up to Speed with Technology

This doesn't just mean accounting and reporting software or MS Excel. It's about being aware of, being able to use and recommending technology to automate processes that have been traditionally done manually. Speeding up operations whilst maintaining or improving quality adds real value to any company.

Use of ERP and Excel knowledge is essential

Skills for a Strategic Management Accountant



3. Collaboration

- You must be able to demonstrate you are a good team player, both within your department and working alongside those in senior positions and other functions. Particularly if you want to be involved in high level decision making.
- You need to earn the trust and respect of colleagues across the board and take an interest in who they are and what they do. You need to think about the business as a whole, beyond the numbers.

Skills for a Strategic Management Accountant



4. Delivery of Information

- As well as being able to gather data quickly and accurately, you should understand how to deliver insightful information to the audience it is intended for. This is particularly important when presenting or delivering reports to senior management and non finance people.
- Being able to summarize the key data clearly, suggest what it means going forward, and addressing any potential questions is a fine balancing act that needs to be achieved

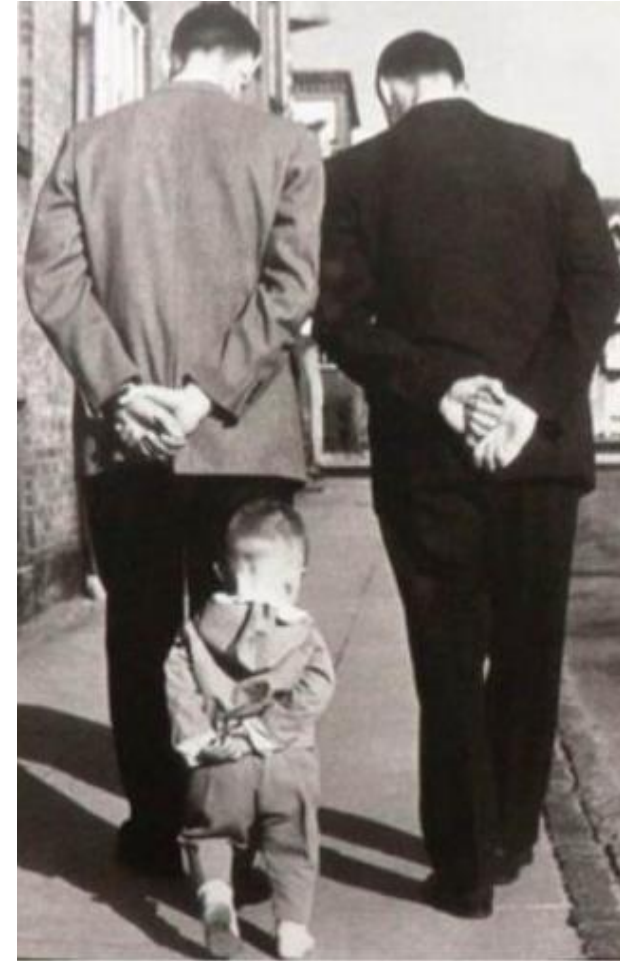


Skills for a Strategic Management Accountant



5. Setting an Example

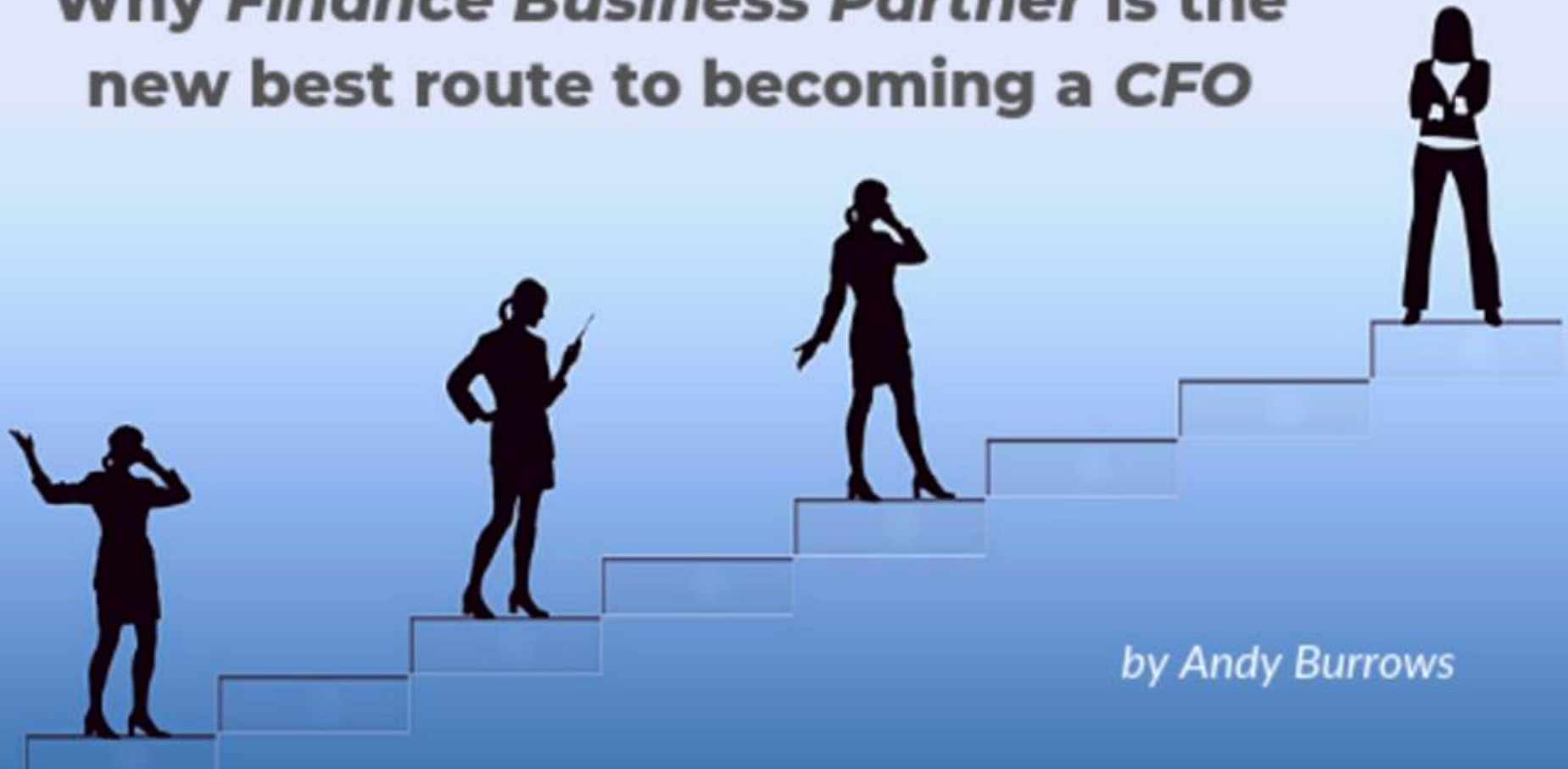
What you learn about ethics and transparency within your studies is a good foundation but you must demonstrate this in practice. This should mean encouraging others and teaching them about the importance of financial controls and procedures.



Interactive Session



***Why Finance Business Partner is the
new best route to becoming a CFO***



by Andy Burrows