The Accountant's Role in Strategic Management

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What Is Strategic Management?

One of the explanations is that: *"Strategic management accounting is the collection and analysis of financial information on a firm's product markets including competitors' cost and structures and the monitoring of the firm's and its competitors' strategies in those markets"* (Anonymous). Strategic management is also a continuous process that works to fit an organization into its changing environment. Furthermore, it is a broader concept than strategic planning. Basically, strategy can be anything. There are different points of view from different perspective, and Mintzberg's 10 schools have summarised them.

The 10 schools

Mintzberg has defined the strategy into different parts, the 10 schools. The then schools of thought are classified into three groups. The first one is Prescriptive Schools which includes Design School, Planning School and Positioning School.

Design School
Design a model of strategy to match and fit between internal capabilities and external possibilities. It suggests that the strategy formation model must be explicit, simple and informal and the strategies should be unique unlike any other.

Competitive Analysis
Porter's model of competitive analysis was taken from the approach of the design schools and applied it to the external, or industry environment. Nonetheless, it can also be argued it's more in the spirit of the planning school (H. Mintzberg et. al., 1998).
The 5 forces, bargaining power of firm's customers, threat of new entrants, intensity of rivalry among competing firms, threat of substitute products and bargaining power of suppliers are identified in the core- competencies models. They are the forces which influences the competitiveness in an organisation's environment.

Planning School
This proposes the strategic planning models and defines it into different steps and articulates each with lots of checklists and techniques.

Positioning School
The positioning school is very similar to the design school. It argues that the key to effective strategic management lies in the use of analysis to identify the right generic strategy for the organization.

Core Competence

Prahalad and Hamel's core competence is to promote the business to enhance and focus on their core competence and gain competitive advantage. The core competence has three components:

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provides potential access to a wide Varity of markets, increase perceived customer benefits of the end product and difficult for competitor to imitate (C. K. Prahalad, and G. Hamel, 1990). It suggests the companies should achieve a manufacturing leadership in core products and capture global share through brand-building programs aimed at exploiting economies of scope (C. K. Prahalad, and G. Hamel, 1990).

Descriptive Schools is the second grouping; this includes the Entrepreneurial, Cognitive, Learning, Power, Cultural and Environmental.

Entrepreneurial School
It suggests that strategy is perspective, associated with images and direction. It argues that the vision is expressed in the head of the leader, and the organization is subservient to him and follows his lead.

Cognitive School
It focuses on the complex and creative acts, which from the field of cognitive psychology, that give rise to strategy. It argue that the strategy formation as a cognitive process in the mind of the strategist. Strategy appears as different forms of perspective that outlines how people deal with the inputs from the environment.

Learning School
It is based on the idea of how people learn about the company and to deal with different situations, and the better strategy is made from the learning from experience. In other words, strategy at first appears from past pattern, and later turn into future plan.

Power School
This sees the development of strategy as a process of influences and the use of power instead from a perspective. There are two types of power. Firstly, the Micro power, its influences are within an organization, such as political games, persuasion and bargaining. The other is Macro power; its influences are towards external.

Cultural School
It argues that the social forces of culture is the root of the strategy formulation and has influences on the strategic stability. It believes that strategy is deliberate and is based on beliefs and understandings shared by the members of an organization.

Environmental School
It argues that the changes of environment are the main forces in the strategic making process as the organization must respond to these changes in order to survive. Thus, the strategy's purpose is to help the organization to adapt in the environment.

The last group, *Configuration School* is standing on its own:

It can be argued it's a combination of all the other schools. There are two sides of this schools, there are about configuration and transformation. It believes that the strategic management should be sustained stability most of the time, yet recognize the need for large transformation periodically, and manage that disruptive process without destroying the organization is also needed.

What Is Strategic Management Accounting?

Similar to strategic, there are no a definite definition for Strategic management accounting. Generally, it includes internal and external elements which expressed in short and long term. It is also to be designed to support the overall competitive strategy for the organization. The accounting literature suggests that the choice of accounting techniques is influenced by the strategic position that the company adopt. For example, Ittner suggests that company with a use of an innovation-oriented prospector strategy, it is better to use a set of non-financial measure to determine manager's bonuses increase (C. D. Ittner, and D. F. Larcker, 1997).

Accountants Role

According to Haq (1995) strategy is "A course of action, including specification of resources required, to achieve a specific objective" (T. Haq, 1996), and according to this article the accountant's role is to help formulate strategies. Traditionally accountants' roles were to "pull together the figures to see whether the projects were likely to meet the general financial norms set by head office", however now due to SMA accountants have a more incorporated job not only measuring but helping to guide strategy. The important uses of an accountant can be setting budget targets and monitoring results (D. Otley, (1997).

Corporate Objectives

The corporate objectives "is that objective that is corporate to the business as a whole organisation, which should be clearly stated, capable of being measured and attainable with effort" (G. Pogue, 1990). Peter Drucker says that the primary objective of a firm is to maximise shareholder value. Although this is the traditional view and also known as the narrow view it is still widely accepted. However, the more contemporary view is that a company's objective is to maximise at best the interest all stakeholders. One thing is quite certain that is that Peter Drucker says that objectives must be quantifiable and achievable. As it is argued you cannot achieve something that cannot be quantified

The main objective in terms of shareholder value can be achieved by profits or growth. Profits are a form of quantifiable gains made in the course of business. As the main objective is quantifiable any strategy or decision made in business must be measured as to show the effect on the main objective, profit. This allows managers to decide whether the strategy is going to increase profits, whether it be in the short run or long run.

With every stage there is significant accounting measures used to quantify and measure the effect of those stages. As much as the result may be positive or negative, it is important to know for managers by how much are those figures positive or negative. These quantifications are able to allow them to see how much of an effect the decision has. These figures will be compared relatively to budgets set by objectives or either competition in the industry or figures relative to one's own business.

Anthony and young argue there are two measurements of performance, effectiveness and efficiency. They also argue that there are comparative and not absolute, an example meaning that a company is normally 70% more efficient than its major competitor (N. Hyndman and R. Anderson, 1991). Those two measures can be quantified by measuring the inputs and outputs of a firm.

The importance of performance measures is also a critical point. Outputs and inputs need to be measured so as to help efficiency resource allocations without quantifiable performance measures managers will not know the extent to which operations are affecting efficiency and effectiveness (N. Hyndman and R. Anderson. 1991).

These objectives need to be measured as to validate their strategic use. There needs to be measures as to how those objectives are to be successful. Such measures used are Return on Equity, Return on Assets, cost volume profit analysis, Ansoff BCG, earnings per share. These equations allow the management to see in relation to other figures how well they are doing. There are normally industry averages or budgets that they are able to be compared against to give management a clear vision of where they are positioned in terms of their competition.

Like many things performance measures and accounting has its faults. Much of measurement can be subjective and opinionated. With measurements much is based on many variables and is not absolute.

Analysis of Alternatives

Another stage in the control framework is the analysis of alternatives. In this stage in order to achieve their objectives there are many solutions that could be undertaken. Each solution must be carefully examined and those that cannot be used must be rejected. There are two ways to analyse which solution is best, by comparing its qualitative characteristics and quantitative characteristics. Quantitative characteristics are important because managers want to implement the cheapest solution when considering expenses, excluding the qualitative cost. A problem here is that in quantitative terms that not all the cheap solutions are good. They must be weighed against their qualitative characteristics. Another problem that lies is how a choice between two qualitative characteristics is made as they are hard to measure.

Accounting is important here because it allows management to quantify possible solutions, by using accounting methods like cost-benefits comparison. This needs to be taken into account and the management judgement to weight them against those factors that can not be measured.

Choice

Once all alternatives have been analysed it is time to make a choice. Although this seems as simple as to “picking one” there is much more detail involved. What is needed is a strategic plan as to how the solution is planned to be implemented.

With choice a large part of the decision can lie on the quantifiable aspects of a decision. As most choices are made to improve profits the effect of the strategy has to be quantified to give management a guide as to how much. Budgets tend to also be produced to help with the cost of implementation. Devising a financial plan so as to know how much cost is involved in implementation

Implementation

As other business function will perform throughout the implementation process, accountants play an important role, along with the Business Planning function, in continuously monitoring the progress. By relating qualitative characteristics to their underlying cost (Pearson, 1996), the management can make sure that the task is performed within the schedule by using the budgeted amount of money.

Feedback Monitoring

Monitoring the feedback is done after all the processes in implementation are finished. Supported by the continuous monitor done throughout the implementation, accountants’ work during feedback monitoring is lesser. Accountants have the position to measure the cost advantages that the business have after the implementation, to be compared with its position before the implementation was done. These cost advantage can result in sustainable high returns to the business if managed to be maintained (Pearson, 1996).

Conclusion

Strategic management has developed through ten different schools of thoughts. As it is guidance for the business to be competitive in the market, accountant's participation in the strategic management is important should be count.

Traditionally, accountant's role was only as a measuring tool in the company. However, nowadays, the role has broadened and more incorporated including helping to guide strategy. The important uses of an accountant can be setting budget targets and monitoring results

In conclusion, the perspective on accountant's role should be changed. Accountants do not only provide quantitative information, but also qualitative ideas. Accountants' role is as important as other functions' as all parties involved in the business have their own part in bringing the company to be competitive in the market.

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