A STRATEGIC APPROACH OF MANAGEMENT ACCOUNTING

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For a long time, management accounting has been used based on a predominantly technical approach which strictly aimed at computing the costs. Gradually, to the management accounting it has been added a decisional approach aimed at influencing the behaviour of those responsible for resource management. But modern management requires new objectives of management accounting to help managers in the strategic analysis of the firm; therefore we consider that it is necessary the reconsideration of the objectives and tools of management accounting, using a strategic approach (external and prospective view) that facilitates long-term decisions and to ensures a sustainable competitive advantage.

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1. Introduction

In the first place, accounting is a communication tool that favours communication and dialogue between the internal and external "actors", which imposes a permanent education and training. This proves to be the more necessary in nowadays, when economic and social environment is in full transformation process and a rational and efficient management of the organization involves more and more controlling the information.

Some of the information provided by the accounting concerns particularly the relations with third parties, being "transparent", published. The other part regards the company's management, the results generated by the different sectors or products, the strategy and tactics adopted by the company, being confidential. This separation of the information generates the distinction between the two accounting circuits, namely financial accounting and management accounting.

To ensure the usefulness of the management accounting in the managerial process of the organization, a closeness of its objectives and tools with the entity's objectives and long-term strategy must be achieved. Traditionally, the strategy is oriented towards the future, making long term decisions and involves an overview of the entity, while accounting is past oriented, for achieving short term objectives and aims at presenting the situation of the organization "cut up" in some controllable components.

2. Management accounting – concept and objectives

Regarding the definition of management accounting, most specialized papers refer to the Institute of Management Accountants definition when approaching the concept of management accounting. This refers to management accounting as "the process of identification, measurement, accumulation, analysis, preparation, interpretation, and communication of financial information used by management to plan, evaluate, and control within an organization and to assure appropriate use of and accountability for its resources" (Statement on Objectives of Management Accounting A no.1, 1981).

But the latest definitions emphasize the necessity of extending the analysis to the strategic elements. In this context, Jan Bell et al (2004) defined management accounting as "a system of measuring and providing operational and financial information that guides managerial action, motivates behaviours, and supports and creates the cultural values necessary to achieve an

organization's strategic objectives". This definition reflects the authors' concerns regarding the correlation of management accounting practices and tools with the entity's strategy. Without contradicting the definition of the Institute of Management Accounting (generally accepted), Bell's definition emphasizes not only the management accountants actions, but also their purpose - achieving strategic objectives.

Lately, the management accounting system focuses increasingly more to activities to be undertaken at all organizational levels. Assessment, management and continuous improvement of these activities are critical to the success of a company. Management accounting is able to "add value" to a business, through the following five major goals (Hilton, 2005: p.6):

-providing information for decision making and planning, and proactively participating as part of the management team in the decision-making and planning processes;

-assisting managers in directing and controlling operational activities;

-motivating managers and other employees toward the organization's goal;

-measuring the performance of activities, subunits, managers, and other employees within the organization;

-assessing the organization's competitive position, and working with other managers to ensure the organization's long-run competitiveness in its industry.

It can be noticed from this panel of the management accounting objectives a clear orientation towards the management activity and to ongoing collaboration with it, in order to achieve the company's strategic objectives, coordinating and controlling permanently the current (daily) activities.

Along with the increasing of products variety, reduction of lifecycle, the emergence of new production technologies and economic globalization, we are witnessing to the growing number of competitors in all markets, which makes that "any economic advantage to be ephemeral and any bet on future extremely risky"(Tabără & Mihail, 2004).

Far from playing a passive role in providing information, management accounting is involved both in strategic decisions, and current decisions faced by an entity. In fact, the role of management accounting is to make the link between strategy of the organization and current actions taken to achieve its objectives.

Management accounting is the one that provides financial and operational information needed by managers in order to achieve the strategic objectives of the organization (Bell et al., 2004)

-by *nature* management accounting is a measurement process;

-the *scope* of management accounting includes financial information, such as cost, and operational information, such as percentage of defective units produced;

-the *purpose* of management accounting is to help an organization reach its key strategic objectives. It is not meant for mandated financial and tax reporting purposes.

-good management accounting information has three *attributes:*

-technical - it enhances the understanding of the phenomena measured and provides relevant information for strategic decisions;

-behavioural - it encourages actions that are consistent with an organization's strategic objectives;

-cultural - it supports and/or creates a set of shared cultural values, beliefs, and mindsets in an organization and society.

Although the costs computation remains an important objective of management accounting, it must be emphasized the importance of designing and developing a management accounting system oriented to achieving the strategic objectives of the organization. If until recent, the managers' decisions aimed at achieving increased short term results, by maximizing profits, in detriment of the actions that generate long-term effects, in our opinion is essential to reconsider

the objectives of management accounting, so that information generated by it to be useful for an organization in its efforts of creating value and ensuring long-term success.

3. Management accounting orientation toward the achieving strategic objectives

The decisions that have to be made in order to ensure effective resources allocation requires a variety of information that only management accounting can make available to managers. The role of management accounting changed over time, depending on the economic context. Of course, in a complex, turbulent and uncertain environment, the managers information needs are diversifying and growing, and management accounting - as a privileged source of information for the management system - can meet these requirements, provided that permanently adapt its tools and practices to the requests of decision-makers.

A costing system is used, on the one hand, for financial reporting needs (to the evaluation of balance sheet items) and, on the other hand, for the internal information needs regarding the processes improvement, in order to facilitate strategic decisions-making, and operational too.

Currently, the business environment became more “applicant” for entities, which are forced to compete in a much more aggressive in terms regarding prices, quality and services. Information that managers need regards issues such as quality, delivery time, effectiveness of running activities as well as products / services and customers profitability.

Strategic cost management is a consequence of changes that currently take place and requires a permanent adaptation of the tools and techniques so as to improve the strategic position of the organizations. For information provided by management accounting to be useful to managers, in order to achieve the strategic objectives of the organization, the management accounting should be designed and used so as to follow the mission and the competitive strategies of the organizations, by conducting an analysis correlated with the economic environment, costs associated with customers, competitors, etc.

In the 80’s the concept of **strategic management accounting** had generated debate in the specialized literature. Generally, strategic management accounting is identified with a generic approach of accounting for strategic positioning. The strategic nature of management accounting aims at its external and prospective orientation.

Strategic management accounting can be defined as "a process of identifying, gathering, choosing and analyzing accounting data for helping the management team to make strategic decisions and to assess organizational effectiveness" (Hoque, 2001: p.2).

Normally, the development and use of strategic management accounting techniques is related to strategic issues regarding the external information needs in order to face the uncertainties of economic environment and to support strategic decisions. This external orientation may relate to competition (information regarding the competition plays a key role in achieving competitive advantage), business partners (from the value chain perspective, the external information usefulness exploits the link with the suppliers and customers) and / or market (assumes the orientation toward offer of services in order to meet customer needs) (Cinquini & Tenucci, 2007).

Cravens and Guilding (2001) identified 14 techniques of strategic management accounting:

-*activity based costing/management (ABC/M)* - the strategic focus of this technique consists in the management of the activities through which it is possible to define actions aiming at achieving a competitive advantage;

-*attribute Costing* - consider products / services as a bundle of features that differentiate the products which costs are determined, this technique can be interpreted as an externally oriented because the attributes of services are determined according to customer requirements;

-*benchmarking* - involves identifying the best practices and comparing the organization's performance to those practices with the goal of improvement; this technique underline the external strategic orientation toward competitors;

-*competitive position monitoring* - aims at gathering the information on competitors regarding sales, market share, volume and unit costs; Basing on the information provided, the company is able to assess its own position relative to main competitors and, consequently, control or formulate its strategy;

-*competitor cost assessment* - in contrast to the previous technique, competitor cost assessment concentrates uniquely on cost structures of competitors; the main criticism of this technique regards the information sources;

-*competitor performance appraisal based on public financial statements* - a relevant source of competitors' evaluation is constituted by public financial statements; today's international accounting harmonization permits a simpler comparison between companies of different countries;

-*customer accounting* - this technique considers customers or group of customers as unit of accounting analysis and aims at appraising profit, sales or costs deriving from customers or customer segments;

-*integrated performance measurement* - implies a definition of an integrated performance measurement system, which contains both financial and non-financial measures (balanced scorecard);

-*life cycle costing* - aims at calculating the total cost of a product throughout its life cycle, from the design to the decline, through introduction, growth and maturity; it is a clear long term accounting perspective and market orientation;

-*quality costing* - product quality has become a precondition to its market success; this technique classifies and monitors costs as deriving from quality prevention, appraisal, internal and external failures;

-*strategic costing* - costing systems are progressively getting into the strategic management process, which means that costing systems must explicitly consider strategy and the pursuit of long - term competitive advantage;

-*strategic pricing* - focuses on the use of competitor information, like competitors' reactions to price changes, price elasticity, economies of scale and experience, in the pricing process;

-*target costing* – within this technique many external factors intervene;

-*value chain costing* - propose an approach to accounting that considers all the activities performed from the design to the distribution of the product; the strategic implications regard the exploiting of the economies and efficiencies deriving from the external linkages between the company and both suppliers and customers.

This panel of the strategic management accounting techniques reveals, on the one hand, that *an approach based on analysis and monitoring processes represents a solid base for achieving strategic objectives* and on the other hand, the fact that non-financial measures are equally important, as financial indicators, for measuring performance.

Strategic management accounting provides useful information for making strategic decisions and provides necessary information for the organizational performance measurement. Activity-based approach treats the goods or services as a result of activities, each of them consuming resources and thus generating costs. This methodology, based on cost drivers, allocates costs to undertaken activities and establishes much more clearly a causal relationship between activities, costs and results of activities (products / services).

Johnson (1992: p.131) said that "the belief that activity-based cost management tools will improve business competitiveness is a dangerous delusion" adding that "as a tool to improve cost accounting information it is impeccable" but is not a tool for improving business competitiveness. The reason why the author makes this affirmation is that competitive excellence

is achieved only through an impeccable management of the relations of the organization with its clients.
Activity-based management, through a process-oriented thinking, facilitates long term decision making. Initially, this tool was seen as appropriate for cost strategies, alongside with improving internal processes and innovation, but its usefulness was demonstrated in the case of firms following a differentiation strategy (Chenhall & Langerfield-Smith, 1998). Activity-based management allows, on the one hand, a better cost control and on the other hand, a better behaviour by facilitating internal communication within the organization. Moreover, in order to be of real use for supporting decision-making process, the activity-based management must be accompanied by an organizational culture oriented toward client, communication and dialogue.

4. Conclusions

From the presented issues, results the necessity of linking the information provided by management accounting with entity's goals, only this way management accounting being a useful tool in decision making. In this respect, it is necessary that both management accounting and management of an organization to develop a real "business partnership".
Given the new requirements related to restructuring the entire enterprise's activity, its managers raise the question of whether the information provided by the traditional accounting system can successfully meet these requirements. For management accounting is born a new challenge, to optimize the entity's offer, adapting products or services costs to the value it represent for the client. Information provided to managers should assist them in determining the optimal products / services mix that will be manufactured and sold as well as the profit generated by each product or service.
Diversity of products or services, but also of customers, generates the increase of the complexity of the undertaking activities. In this context, it is necessary the "rethinking" of whole production process and the abandon of traditional processes. It must renounce to the vertical "guiding" and move to a transversal approach, through value chain.
Each firm must be seen in the context of a general chain of value creation. Value chain analysis is essential in determining exactly what factors can lead to the improvement of value and / or to reduce costs. For this reason, one must be understood the entire chain, not only that part at which the company takes part.
As illustrated by the assertion of strategic management accounting techniques, the adoption of an activity-based costing system can be at hand and solid approach, while supporting the strategic decision-making process of an entity. ABC system, besides the fact that provides a more accurate cost, also provides useful information to managers not only regarding the cost of products / services or the profit generated, but also for decisions making regarding the issues that the enterprise face outside its boundaries, a particularly important fact in a competitive economy. Effective implementation of activity-based costing often depends on behavioural factors rather than technical ones, because the involvement of the entire staff is essential for the success of this process.
Loosing the relevance of the information provided by management accounting was not necessarily caused by improper use of the information in managing the business, as especially by inappropriate use in operational control. The activity-based costing eliminated many problems that have made that cost information irrelevant for planning and decision making.

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