

**CRITICALLY EVALUATE THE VIEW OF LORD THAT
STRATEGIC MANAGEMENT ACCOUNTING IS NOTHING
MORE THAT 'THE EMPEROR'S NEW CLOTHES'**

BY

SIOW WEI LOONG (03063277)

ASSIGNMENT SUBMITTED TO:
MR. MALCOLM WELLSTEAD

THE UNIVERSITY OF HERTFORDSHIRE

12 DECEMBER 2003

Introduction

Simmonds (1981, 1982) coined the phrase strategic management accounting for the accounting information that would assist strategic decision-makers. Further with Keith Ward (1992) defined strategic management accounting as ‘management accounting in the context of the business strategies being planned and implemented by an organisation’. However, the term ‘strategic management accounting’ has been in the management accounting literature for more than a decade, but there only seems to be a paucity of examples of strategic management accounting actually being used in reality. Thus, the existence of strategic management accounting was doubtful. We might curious of what is strategic management accounting? Is it a prerequisite for survival in a global economy (another job to pad out the diminishing role of the accountants), or only the emperor’s new clothes?

This paper will concentrate on the discussion of whether the strategic management accounting was applicable in reality. A discussion of comparison between the theoretical and empirical study will be given in order to support the argument. The current status of strategic management accounting can be clearly defined by going through the discussion of empirical study.

Collection of Competitor Information

Simmonds’ (1981, 1982) definition and description of strategic management accounting focused on comparison of the firm with its competitors. While in literature of Lord, she’s view of collection of competitor information has some weaknesses. Given the wide range of error inherent in figures based in many cases on informal guesses, one could question any comparability between the firm’s figures and those for the competitors. Moreover, even with the ease of data manipulation and display available with computers, the costs of collecting and collating detailed competitor information may exceed any benefits. Therefore, Lord feels that the firm should not adopt the element of collection of competitor information.

The author agreed with the view of Lord by pointed out that the element of collection of competitor information inherently consist some weaknesses. But the author also feels that even the element of collection of competitor information consist of some weaknesses, but it should not be abandoned. Company can try to modify it in order to become usable in decision making. In reality, the firm did used the view of collection of competitor information, even though it was a great different between the used of that information with theoretical. Practically, the firm did not fully rely on the competitor information as mentioned in the theoretical because most of the useful information is hard to obtain. This was supported by Ghoshal and Westney's (1991) empirical work on competitor analysis systems that found 'a significant gap between what was needed by the organization and what was currently being delivered by the company's competitor analysis system'. The conclusion can not simply given by saying that the view of collection of competitor information is hard or even impossible to apply in reality. Based on the view of Rob Dixon (1998), the company was capable of reducing the gap through its strong internal information system. It means that the company can use the strong internal information system to overcome the weaknesses of the element of collection competitor information as mentioned by Lord. The argument was matched with the view of Bromwich (1988), the company not only comparing the firm with its competitors, but also evaluating 'the benefits of the enterprise's products both from the customer's point of view and the firm's perspective'. By the way, the author just want to point out that the view of collection of competitor information was not distorted in reality, and it did arise in daily operation in the business, but it just running in different way by mixing with the internal information.

Furthermore, in the case of *Cyclemakers*, the management accountants did not involved in the process of collecting and analysing the competitors' information. This is conflict with the view of Simmonds, 'management accountants are the ideal people to collect and analyse external data'. Rob Dixon (1998) argued that the management accountant is only one users of the information, and each user can user the

management information system at his or her discretion. The strategic management accounting was changing since Simmonds first used the term. Going through the case of *Cyclemakers* again, the competitor information was collected by the sales representatives, which means that the operational level involved in the process of collecting competitor information. This kind of circumstances occurred might due to the reason of changing in environmental factor. The view of collection of competitor information in strategic management accounting evolved in order to fit the environment meet.

Competitive Advantages

Porter (1980, 1985) sees competitive strategy as concerned with 'creating and maintaining a competitive advantage in each and every area of businesses. Others highlighting the competitive context include Ohmae (1982) and Henderson (1989); comment that business strategy is all about competitive advantage. Without competitors there would be no need for strategy, for the sole purpose of strategic management is to enable the company to gain, as effectively as possible, a sustainable edge over its competitors.

As we can see the view of competitive advantages that given by Porter, Ohmae and Henderson, the company must establish a sustainable advantages in competitive environment. While the concept of sustainable competitive advantage has been challenged by more recent research which has argued that sustainable competitive advantage is not possible in a market place where lean enterprises operate. Based on a wide set of case studies of Japanese companies, Cooper asserts that lean enterprises can only establish temporary advantages, which do not allow them to differentiate themselves either on a cost or product basis and consequently they must actively adopt a "generic strategy of confrontation". Dent argues that in such an environment of global competition it is crucial that companies have a clear strategic intent.

After the discussion of the concept of competitive advantages given by Porter, further with the literature of Cooper and argument of Dent, the author feel that the company should continue to establish competitive advantages, but it's not necessary to follow completely with the view of Porter. This is because the environment is changing and the concept of Porter might not fit the current environment. Thus, the author agreed with the view of Cooper; the company can even adopt a "generic strategy of confrontation" once it feel that it is hard to remain sustainable competitive advantages in the fierce competitive environment.

Information may not be Quantified in Accounting Figures

In the view of Simmonds, all the information collected must be converted into accounting figures and presented in the form of 'hard' figures. The author was doubt for the view of Simmonds. First, the author notices that only part of the information can be converted into accounting figure but not all. There were some issues in current competitive environment which affect the company's strategy was impossible to convert into accounting figures.

Second, the author being doubtful of the view of Simmonds; printing the information in 'hard' figures will show the true figures, rather than estimates and speculations. But it must be note that this was only a feint, and give the impression that these were 'true' figures by converted it into hard figures. If the company use those 'hard' figures as true figures, then quality of the information might consist too much of doubt.

Conclusion

After the discussion of elements in the strategic management accounting, the author can thus make the conclusion here; the strategic management accounting is not the emperor's new clothes as mentioned by Lord. It has been adopted by many firms

in reality and it did support the company strategy, but it just representing itself in different way. This was supported by literature of Paul Collier and Alan Gregory (1995), revealed that strategic management accounting is being increasingly used in reality, both in planning and evaluating market conditions and in competitor analysis.

And the author against the view of Simmonds (1981, 1982) coined the phrase strategic management accounting for the accounting information that would assist strategic decision-makers. This is because the view of Simmonds about strategic management accounting was too strict, and Simmonds' view of strategic management accounting was conceptual application but not in reality.

The author's view of strategic management accounting is just act as a guard line for the company to develop strategy, but it is not necessary to follow completely the concept of strategic management accounting during implementing. The company can develop its own strategic management accounting based on its need. This is supported by Rob Dixon that strategic management accounting as a concept is acceptable but has practical limitations. Therefore, the strategic management accounting should alter its concept in order to fit in current environment. Moreover, the author' view of strategic management accounting was supported by Dimnik and Kudar (1989), strategic management accounting with accounting numbers should be used to guide decisions.

Last but not least, the author would recommend that the company can adopt the strategic management accounting to guide the decision. And the company can come out with good strategy by using strategic management accounting with the cooperation of marketing managers and management accountants (Rickwood et al, 1990).

Bibliography

Alan C., *Smart work and hard work: explicating a learning orientation in strategic management accounting*, *Management Accounting Research*, p387 – 408, (1996).

Beverley R. L., *Strategic Management Accounting: The Emperor's New Clothes*, *Management Accounting Research*, p347-366, (1996).

Chris G. Karen S. C. and Mike T., *An International Comparison of Strategic Management accounting practices*, *Management Accounting Research*, p113-135, (2000).

Cyril T. and Chris C., *Reflections on the papers in this issue and a commentary on the state of Strategic Management Accounting*, *Management Accounting Research*, p271-280, (1996).

Keith W. and Tony G., *The Strategic Management of Corporate Value*, *European Management Journal*, p321-330, (1996).

Paul C. and Alan G., *Strategic management accounting: a UK hotel sector case study*, *International Journal of Contemporary Hospitality Management*, p16-21, (1995).

Rob Dixon, *Accounting for Strategic Management: A Practical Application*, *ABACUS*, p272-279, (1998).

Robin R. and Susan J. H., *In search of strategic management accounting: theoretical and field study perspectives*, *Management Accounting Research*, p255-279, (2003).

Ward, K. (1992) *Strategic Management Accounting*, Butterworth-Heinemann.

Willie S., *Management accounting and the challenge of strategic focus*, *Management Accounting Research*, p487–506, (2001).