

Strategic accounting: The need and prerequisites

Wasilij Rudnicki

Małopolska School of
Economics in Tarnów
Faculty of Management and
Tourism

Oksana Kundrya-Vysotska

Lviv Educational Institute of the
Higher Educational Institution
'Banking University'

Abstract: The article describes the necessity and methodological peculiarities of strategic accounting. It is proved that the need for strategic accounting is due to the new information requests of large business for the effective implementation of business strategies. It shows the main characteristics and objects of strategic accounting, the main characteristics of the strategic accounting paradigm, which confirm the integrity and the need to develop a new accounting methodology. It proposes the conceptual approach to the construction of the strategic accounting system by creating accounting information streams aimed at information provision of strategic management. It is proved that considering the instability and inconsistency of the external macroeconomy in which the enterprises operate, the concept of external factors, risks, uncertainties, the concept of space and time fractals, decision making and forecasting is the basis of the conceptual structure of strategic accounting.

Key words: strategic accounting, strategic accounting paradigm, information flows, information support

1. Introduction

An enterprise is an open economic system that operates in an environment that is characterized by uncertainty. In order to bring world-class management and corporate culture closer to domestic enterprises, it is necessary to pay attention to the efficiency of the information system and its development. To optimize the formation of accounting information, increase its informativeness and usefulness for managers, a conceptual review of the theory, methodology and accounting practices is required.

The processes of globalization lead to the intersection of traditional accounting with elements of planning, forecasting, analysis and pricing. The combination of various sectors of the economy has led to the formation of the multifunctional object, based on the use of different knowledge of various branches of science, which organizationally and methodologically unite all areas of accounting in a single system that ef-

Correspondence to:
Oksana Kundrya-Vysotska
Lviv Educational Institute of the
Higher
Educational Institution 'Banking
University'
Faculty of Finance and Management
Department of Accounting and
Taxation
Chornovola Avenue 61, 79020, Lviv,
Ukraine
Tel.: +38 032 297 72 22
E-mail: kundrya-vysotska@ukr.net

fectively 'works for the future' of the entity. That is why there is a problem with certainty in the quality characteristics of the strategic accounting.

Today the scientific controversy in relation to the strategic accounting formation has not reached a quality completion. That is why it is necessary to study the main characteristics of the new strategic accounting paradigm.

To the problems of strategic accounting a significant amount of scientific works of foreign and domestic scientists has been devoted, including: F. F. Butynets, S. F. Holov, Glen A. Welsh, B. Rayan, S. Hoshal, D. R. Hensen, M. M. Mouven, D. U. Senkov, L. P. Radetska, L. V. Ovod. Other scientists offer definitions in which special attention is paid to external orientation of strategic management accounting: Simmonds, Bromwich, Lord, Drury, Inns, Cooper, Kaplan.

Apart from important scientific results there are still unresolved problems regarding its content characteristics and as result practical use, and that is why the main characteristics of the strategic accounting require special attention and detailed consideration.

The processes of globalization caused the development of accounting which led to combination of traditional accounting with the elements of planning, forecasting, analysis and pricing. The unification of different sectors of the economy has led to necessity of forming a multi-functional chain, based on the knowledge in different scientific branches and consolidation of all modern accounting and analytical tendencies in a single system which can 'work effectively' for the entity.

Consequently, the methodology of strategic accounting today is the subject of extensive analytical research in the context of logical dichotomy of the accounting system under the influence of objective globalization processes.

2. Preconditions of the strategic accounting formation

Modern management accounting is associated with the forecasting of the entity's business, but the period of this forecasting is from month to year. In the twentieth century business practices have evolved and become more complex, gradually causing the instability of the economic environment and the evolution of management accounting as a result. So, in the USA and other developed European countries in the 1960's and 1970's the process of integration financial and management accounting, analysis, pricing, planning and control into a unified data processing system, aimed at making strategic decisions, has been started. This accounting system gained the characteristics of strategic accounting and ensured the implementation of not only current tasks, but also the global strategic objectives of the enterprise. Over time, this system continued the further improvement based on the understanding of the role and significance of information resources in forecasting business.

On this basis, we need to find out the essential difference between the traditional approach to cost management and cost concept as a part of strategic accounting. The difference lies in a completely different paradigm of cost management. Let's pay attention to the main differences of traditional approach to management expenses and strategic management expenses:

The difference in the definition of the goal. The purpose of the traditional approach is to reduce costs in any way as the main way of preserving and gaining competitive

advantage. This goal is also present in the cost planning of strategic accounting, but it closely depends on the company's core strategy. It means that an increase in costs in a particular area is permissible if it leads to an adequate reduction in costs in other areas or gives the firm another competitive advantage.

The difference in the choice of methods of cost analysis. The traditional approach is based on the assessment of the final cost of product. Instead, the system of strategic cost management studies the process of cost formation at each link in the production chain.

The difference in cost definition. Cost management within the traditional system is mainly considered in terms of sales volume. Expenses are divided into variables, constant and mixed. The volume of sales is considered as a decisive factor in the cost formation. Cost management in strategic accounting primarily depends on the company's strategy. It is considered in terms of wider structural and functional factors.

A brief description of the differences in cost management between the traditional system and the strategic accounting system gives an understanding that strategic accounting provides a wider and more efficient toolkit for making managerial decisions. At present accounting system must meet the business strategy, its effectiveness must be evaluated based on their impact on the objectives of the enterprise. The modern accounting system should be oriented not only to the satisfaction of external users' information needs, but to the provision with internal needs of the enterprise management as well.

That is why the requirements for a high level of management accounting are increasing. They should be: focused, systematic, integrated, comprehensive, efficient and optimal. It should be noted that such a system of accounting has already been developed in world corporations.

3. General description of strategic accounting

Strategic accounting has emerged as a supplement to management accounting in terms of forecasting for many years. In the late 1980s the British Institute of Accountants has allocated financial resources for research in this area. The results of this work were published as *Management accounting: Pathways to progress* by M. Bromwich and A. Bhimani (Bromwich and Bhimani, 1994). In this work the authors drew attention to strategic accounting from the standpoint of future development. It should be noted that in spite of great attention to strategic accounting, it hasn't got the comprehensive conceptual basis.

John Innes defines strategic accounting as a system for providing information for strategic decision making at an enterprise (Innes, 1998). As a rule, strategic decisions have a long-term character and have a comprehensive impact on the company's activities. This opinion is shared by Cooper and Kaplan, who argue that strategic accounting practices are designed primarily to support enterprise's overall competition through the use of information technology to detail cost accounting (Cooper and Kaplan, 1988).

However, other scientists offer definitions in which special attention is paid to external orientation of strategic accounting. For example, Simmonds, who first proposed the term *strategic accounting*, considers it as a method of analyzing competitor's business as well as

own business (Simmonds, 1981). Later Bromwich, an active supporter of strategic accounting, gave the following definition: it is a method of analyzing financial information about the markets of the enterprise's activity, the structure of costs and tracking the strategy of the enterprise, as well as the strategy of competitors in these markets (Bromwich and Bhimani, 1994). Since there was no common understanding of the concept of 'strategic accounting' in 1996, Lord gave an overview of literature and learned some basic principles of strategic accounting (Lord, 1996):

- 1) going beyond the internal orientation of traditional management accounting and obtaining information from competitors;
- 2) determining the relationship between enterprise strategy and application of management accounting;
- 3) obtaining competitive advantages through the use of methods of reducing costs or increasing the level of differentiation of the enterprise production.

A comprehensive study of the essence of strategic accounting, conducted by Colin Drury in his work *Accounting and cost management*, confirms the controversy of scientists as to whether strategic accounting should have a mainly external orientation or not (Drury, 2005).

Proceeding from this, the purpose of strategic accounting is to provide management with all the necessary information to manage the business in favour of its owners and other interested partner groups. The latest are creditors, clients, providers, society.

The tasks of strategic accounting are:

- to provide the information for analysis of potential markets for the enterprise;
- to provide the strategic analysis of own potential and identify key success factors of enterprise;
- to outline activities;
- to determine indicators of the evaluation of the key factors of the company's success;
- to provide the information for implementation of the enterprise's strategy;
- to ensure feedback between the achieved results and their compliance with strategic goals;
- to give information on the long-term results of different activities.

The subject of strategic accounting is the enterprise's activity in the previous, current and future periods.

The objects of strategic accounting are certain types of the enterprise activities, centres of responsibility, budgets and long-term plans.

The users of strategic accounting information are senior management (board of directors, president, vice presidents, etc.), as well as lower levels of management. For senior executives, this information is required for strategic decisions and their monitoring, for managers of lower levels—for implementation of enterprise strategy.

So, strategic accounting can be considered as a method of displaying financial and accounting problems of the enterprise. Strategic accounting is a combination of management accounting and financial reporting system focused on strategic decision making.

4. Conceptual approaches to strategic accounting

The demand for strategic accounting depends on the needs and goals of the enterprise, and its structure is influenced by a number of important factors (Figure 1).



Figure 1. Factors influencing strategic accounting

Source: Authors' own elaboration.

Studies have shown that modern strategic accounting is developing in two directions:

- 1) development of indicators for assessing the state of the enterprise on the basis of financial and management accounting;
- 2) development of the independent strategic accounting on the basis of management information.

Today, strategic accounting is based on the concept, where particular attention is paid to cost accounting and development of strategies aimed at the formation and implementation of a stable competitive advantage of the enterprise. According to it, accounting information can meet the needs of strategic accounting in various ways, namely: use of credentials for market analysis, provision of key information related to selected strategies, provision of feedback on achieved results and their compliance with strategic goals. So strategic accounting should focus more on external factors such as profitability of competitors, market share, etc. The choice of a general strategy of the enterprise directly affects the system of strategic accounting. The conceptual basis of strategic accounting is formed by the difference in strategic accounting paradigm from the traditional accounting paradigm.

From this we can conclude that the strategic accounting paradigm defines the conceptual structure of strategic accounting and is characterized by such main components (Figure 2).

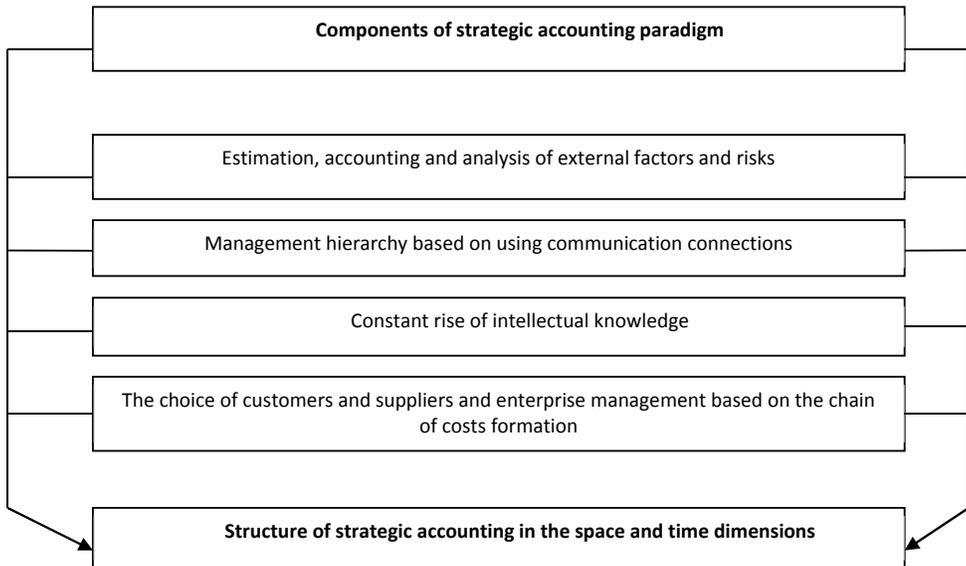


Figure 2. Characteristics of strategic accounting paradigm

Source: Authors' own elaboration.

This approach involves taking into account different situations affecting property, solvency, enterprise reserve system, determination and analysis of aggregate net assets and net liabilities.

Taking into account the instability and inconsistency of the external macroeconomy in which enterprises operate, the concept of external factors, risks, uncertainty, the concept of space and time fractals, decision making and forecasting is the basis of the conceptual structure of strategic accounting.

The concept of external factors determines the company's strategy by 80%. The study, assessment and registration of a system of factors and analysis of their impact on the property of the enterprise, and its solvency is based on the use of the instrument of accounting engineering—the derivative balance. Determining the influence of the system of factors is one of the main principles of accounting engineering.

The concept of risk determines the need for risk as a compulsory element of doing business and choosing a strategy for protecting against risks.

The uncertainty concept is associated with a low level of prediction, the reliability of information about the external environment and the processes occurring in it. If there is a risk, you can estimate the likelihood of adverse effects that may arise in one or another situation. The greater the external influence and the dependence on the external environment, the higher the level of uncertainty.

Hypothesis of uncertainty necessitates the use of fractals of space and time, because in reality the market loses stability as soon as it is deprived of its fractal structure. The concept of space and time dimensions lies at the basis of the formation of the derivative balance.

The concept of fractal theory is due to the emergence of the theory of fractal market, the rapid development of digital information systems and technologies. This allows you to manage fractals of space (internal and external segments of activity, segments of the formation value of products) and fractals of time (investments, innovations).

It should be noted that the conceptual structure of strategic accounting is based on the principles of accounting modelling. The processes of forming models are present in all sciences. Accounting is not an exception. Accounting modelling involves the development and testing of models of strategic accounting of situational and organizational nature. For strategic accounting, the basic model is the 'Model of financial strategy', which provides an opportunity to carry out a comprehensive forecasting of the future financial condition of the company based on the study of its financial results. It enables to form a strategic direction of economic and financial activity of the enterprise. The model can be formed according to individual projected indicators and a group of related indexes. This model can be developed in dynamics for several years for each calculated index. After calculating a particular model, a general assessment of the financial and economic state of the enterprise is carried out to identify possible prospects for its development, as defined in the general model. Different indices that characterize various aspects of financial and economic activity of the enterprise may be included in the structure of accounting indicators.

The main characteristics and aspects of strategic accounting are: influencing the structure of strategic management, strategic diagnostics of the external environment, strategic thinking and behaviour in the conditions of globalization, strategic planning information policy, strategic decisions, evaluation of the implementation of the strategy, mechanism and procedures of accounting.

So, the conceptual structure of strategic accounting involves the application of the paradigm of global strategic management, information systems and technologies, the concepts of external factors, risks, uncertainty, fractal aspect, change management theory, decision making, forecasting and reengineering, accounting modelling, which form the basis of strategic accounting.

5. Conclusions

Based on the above mentioned conceptual approach to the formation of a strategic accounting, appropriate technical means were offered, which are based on accounting information flows focused on providing strategic management, including information in the dimensions of space and time which is formed by financial engineering instruments.

This conceptual approach takes into account both new information technologies and new strategic management needs associated with obtaining and using accounting and analytical information in space and time dimensions.

Formation of the strategic accounting system at the enterprise should be accompanied by the union of planning and accounting units to facilitate the coordination of all functions of the management system. To ensure comparisons of strategic management information and financial reporting, the accounting process should be organized on the basis of data integration. Traditional accounting as a quantitative assessment and presentation of the facts of economic

activity should be strengthened by analyzing its state and results for the development of the forecast of enterprise development in a changing competitive environment.

The use of a strategic accounting system should take place with the participation of professional accountants and analysts, and be provided with resources and active participation of management. Further research may consist in the development of information support for competition strategy based on accounting and analytical data.

References

- Bromwich, M., Bhimani, A. (1994). *Management accounting: Pathways to progress*. London: Chartered Institute of Management Accountants. ISBN 1874784272.
- Cooper, R., Kaplan, R. S. (1988). Measure costs right: Make the right decisions. *Harvard Business Review*, September–October, 96–103.
- Innes, J. (1998). Strategic management accounting in tones. In: J. Innes (ed.). *Handbook of Management Accounting* (pp. 928–929). London: Gee. ISBN 1860890865.
- Lord, B. R. (1996). Strategic management accounting: The emperor's new clothes? *Management Accounting Research*, 7 (3), 347–366.
- Simmonds, K. (1981). Strategic management accounting. *Management Accounting*, 59 (4), 26–29.
- Друри, К. [Drury, C.]. (2005). *Управленческий и производственный учет*. Пер. с англ. Москва: Юнити-Дана. ISBN 5238008996.
- Райан, Б. (1998). *Стратегический учет для руководителей*. Пер. с англ. под ред. В. А. Микрюкова. Москва: Аудит, Юнити. ISBN 5851770449.
- Семанюк, В. З. (2010). Формування підсистеми стратегічного обліку в умовах ринкових відносин. *Формування ринкових відносин в Україні: збірник наукових праць*, 114 (11), 59–64.

Strategiczna rachunkowość zarządcza – koncepcje i potrzeby

Abstrakt: W artykule podjęto temat funkcji strategicznej rachunkowości zarządczej w przedsiębiorstwie oraz roli informacyjnej, jaką odgrywa ona w skutecznej realizacji strategii biznesowych. Pokazano główne cechy i podmioty strategicznej rachunkowości zarządczej, a także paradygmaty tej rachunkowości, potwierdzające jej integralność i wskazujące na potrzebę opracowania nowej metodologii rachunkowości. Zaproponowano koncepcyjne podejście do budowy strategicznego

systemu rachunkowości w przedsiębiorstwie poprzez tworzenie przepływu informacji w celu wsparcia informacyjnego zarządzania strategicznego. Wskazano, że ze względu na niestabilność i brak spójności otoczenia makroekonomicznego przedsiębiorstwa koncepcja czynników zewnętrznych, ryzyka, niepewności, koncepcja fraktali przestrzennych i czasowych, podejmowania decyzji i prognozowania jest podstawą organizacji systemu strategicznej rachunkowości zarządczej.

Słowa kluczowe: strategiczna rachunkowość zarządcza, paradygmaty rachunkowości zarządczej, przepływ informacji, informacja w zarządzaniu