The objective of this paper is to generate debate about the current status of the practice and teaching of management accounting. In order to focus that debate about moving management accounting forward, the concepts of strategy-based accounting (SBA) and a strategy-based value chain (SBVC) are introduced within the context of an organisational risk management setting (AS/NZS4360: 2004). However, for these concepts to be workable and a risk management framework to be embedded in an organisations management control and performance management system, some shackles of the past need to be, if not discarded, at least relaxed. These shackles include those imposed on organisations by the historically dominating needs and requirements of financial accounting and external reporting regulatory compliance.

It has been questioned whether or not contemporary management accounting advances in the form of activity-based costing (ABC), strategic management accounting (SMA) and strategic cost management (SCM) have operational acceptance (Langfield-Smith, 2008). However, the new public management (Hood, 1991 & 1995) push for managing by outcomes and the recent legislative pushes for the reporting of risk management outcomes (Liebesman, 2008) arguably suggest a management accounting lag in meeting public and private sector decision information and reporting needs. It is argued in this paper that a fundamental inhibitor to the development of decision useful information about an organisation’s strategy outcomes performance is primarily due to the construct of the higher level operating processes that form the basis of an organisations management control systems (MCS). Currently, the higher level operating processes of planning and budgeting are constructed on the basis of the processes and activities required to implement an organisation’s strategies that have been identified to achieve it objectives and goals. That information is then transformed to a financial accounting and reporting based format that focuses on organisational structure in terms of management hierarchies. In doing so, the nexus between outcomes, outputs and inputs is blurred, if not lost.

When it is considered that in data volume terms, and the significance of external reporting aside, the data required for external financial reporting in financial accounting terms would tend to be immaterial when compared to the amount of data required for management
decision making purposes, then the question must be asked as to why the latter’s needs should not drive the format of these higher level functions. Instead, it would appear that minority reporting needs, in terms of data volume, succeeds over the majority need for internal management decision-making information. Management decision-making information is required to be disaggregated from the minority structural hierarchy-focused form to be reorganised into a process value-adding form. Unfortunately, this financial accounting driven basis of information capture, management and dissemination is reinforced by contemporary management accounting teaching (Bowhill, 2008).

The ABC capture of data is taught on the basis of an ex post disaggregation of data when it may be less costly, in terms of resources and data quality, to aggregate the data required for external financial reporting purposes. Arguably, given the sophistication of enterprise resource planning systems and the likes of XBRL data tagging options the systems infrastructure support potentially exists. The current approach would appear to be counter to the purpose of the value chain and identification of value and non-value adding activities. Further, value chain analysis when focusing on product(s) limits outcome analysis to strategies that specifically focus on the organisations contingent relationships with customers and suppliers. This excludes examination of an organisations wider suite of strategies and any strategic interactions between those strategies. The emerging issue of risk management (Calandro & Lane, 2006) is not addressed at any significant level in the current teaching of management accounting.

Risk management, risk determination and risk assessment have historically explicitly been dealt with in accounting, and accounting related fields of study in the areas of financial accounting, finance, and audit. However, in management accounting, risk management has been predominantly an implicit high-level and an explicit low-level function within the organisation (Bowhill, 2008) and left to financial accountants to make assessment and decide what risks and how much risk information should be used in decision-making and external reporting (Elliott & Elliott, 2006; Henderson, Pierson & Herbohn, 2006). Financial accounting risk considerations have included the management of financial risk (e.g., currency, interest rate and credit risks), and risk disclosure (e.g., market risk, liquidity risk, cash flow risk, and risk management policies). A crossover from financial accounting to finance occurs when considering the impact of risk on the weighted average cost of capital and capital asset pricing model considerations, or the work of business analysts and credit assessment agencies such as Standard & Poor or Moody’s Investor Services (Elliott & Elliott, 2006).
External auditors are regular and routine users of risk for decision making, particularly in assessing whether or not to accept an audit and in planning an audit. Auditors make potential and existing client assessments based on the audit risk they are prepared to accept in conducting an audit based on a determination of the target organisations inherent risk, control risk, and detection risk – the audit risk model (Leung, Coram, Cooper, Cosserat and Gill, 2004, Gay and Simnet, 2005). Management accountants do undertake risk assessments but typically it is only explicitly demonstrated in terms of strategy and project evaluations (Bowhill, 2008). In this paper, the notion of strategic risk management is examined in terms of how may be integrated into strategy-based accounting through drawing on the management accounting initiatives of SMA (Bromwich, 1990 & 2000), SCM (Shank & Govindarajan, 1988 & 1992; Cooper & Slagmulder, 1998), and ABC (Cooper, 1990a & 1990b).

This paper adopts a conceptual/analytical approach to extending the SMA, SCM, value chain and ABC initiatives to the SBA and SBVC levels. In doing so, a top-down approach to performance and risk management systems design and function is employed. The simplistic assumption underlying this approach is that organisational outcomes determine organisational outputs and inputs. The findings of this paper are of interest to, not only management accounting academics and teachers, but also practitioners and their debate will contribute to the advancement of the practice, teaching and research of management accounting.

References


