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Exploring the Theory and Practice of Strategic Management Accounting: A Literature Review

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Abstract: ***Strategic Management Accounting (SMA), an important branch of management accounting, has gained widespread attention in academia and practice in recent years. SMA not only focuses on traditional financial data, but also emphasises the impact of non-financial information and external environmental factors on the strategic decision-making of enterprises. Existing literature mainly focuses on the connotation of strategic management accounting, the method of strategic management accounting and the discussion of the application of strategic management accounting. Therefore, the purpose of this paper is to provide an overview of the relevant literature on strategic management accounting, exploring its definition and development history, core concepts, major theoretical frameworks and its application in practice.***

Keywords: Strategic management accounting; Management accounting; Business strategy.

1. DEFINITION AND HISTORY OF STRATEGIC MANAGEMENT ACCOUNTING

1.1 Current Status of Research at Home and Abroad

The concept of "strategic management accounting" was first introduced by Simons (1981) in his paper "Strategic Management Accounting", which he defines as "the provision and analysis of managerial accounting data about a firm and its competitors, with the aim of contributing to the development and control of the firm's strategy". " [1]. In particular, Simons emphasized the importance of close integration between management accounting and business strategy, focusing on the firm's position in relation to its competitors in terms of cost competition. Subsequently, Bromwich (1994) states that product uniqueness and cost structure are key factors that cannot be ignored when analyzing competitive advantage. According to him, "paying close attention to changes in product characteristics and costs between the firm and its competitors is precisely the core responsibility that management accounting assumes in maintaining competitive advantage." Strategic management accounting is therefore seen as a deepening development of management accounting rather than a simple offshoot [2]. The definition of Strategic Management Accounting (SMA) by the Chartered Institute of Management Accountants (CIMA) further clarifies its connotation: as a model of management accounting, SMA emphasizes the need for companies to focus on integrating and analyzing information about the external environment while focusing on non-financial and internal information. This viewpoint points out that in a complex and changing business environment, enterprises should consider internal and external information in an integrated manner to make effective strategic decisions and thus enhance market competitiveness.

Chinese scholars have made remarkable progress in this field. Professor Yu Xuying (1997), a famous management accounting expert, mentioned that the emergence of strategic management accounting compensates for the shortcomings of traditional management accounting, which focuses too much on internal management and ignores the external environment [3]. Wang Huacheng (1997) regards "strategic management accounting" as a branch of management accounting aimed at maximising corporate value, which collects and analyses information closely related to corporate strategy through a variety of flexible means to assist management in defining strategic objectives, formulating strategic plans, and evaluating the effectiveness of strategy implementation [4]. Li Haiyan (2018) pointed out that strategic management accounting (SMA) aims to assist corporate executives in formulating scientific and competitive economic strategic plans to promote sustainable development. In the context of economic globalization, the SMA expands the strategic vision of managers, enabling them to take a holistic view, weigh pros and cons comprehensively, and analyze market trends in depth, thus supporting decision-making and ensuring that they have an advantage in fierce competition. In addition, strategic management accounting provides an important channel for enterprises to collect external information about their competitors and becomes an indispensable part of the management system [5].

2. CORE CONCEPTS OF STRATEGIC MANAGEMENT ACCOUNTING

2.1 Core Concepts

2.1.1 Information integration

SMA emphasizes the importance of information integration in a rapidly changing market environment. Internal information includes financial statements, budgets and cost analyses, whereas external information relates to market trends, industry dynamics and competitor behavior. By integrating these two types of information, firms are able to gain a more comprehensive understanding of their position in the marketplace and develop more targeted strategies. Bromwich (1994) points out that SMA not only focuses on the internal data of the firm, but also pays attention to the impact of the external environment on the firm's strategy, a characteristic that makes SMA more adaptable in a dynamic marketplace [2].

2.1.2 Importance of non-financial indicators

Under the Strategic Management Accounting (SMA) framework, non-financial metrics play a key role as an important complement to business performance. These indicators included customer satisfaction, employee performance and brand value. The balanced scorecard model skillfully combines financial and non-financial indicators to form a comprehensive performance assessment system. Taking XY Company as a case study, He Linghui (2019) analyzed the application of strategic management accounting methods in depth, considered the internal and external environment and financial and non-financial information of the company, constructed a performance evaluation index system, and identified key factors affecting the performance of the company to lay a foundation for sustainable development [6]. Similarly, Gao Wen (2020) used a strategic management accounting method, combined financial and non-financial data and enterprise environment, took HX Electric as a case study, analyzed the company's financial status and environmental characteristics in detail, and constructed a new performance evaluation system [7].

2.1.3 Maintenance of competitive advantage

The core task of strategic management accounting (SMA) is to help enterprises consolidate and enhance their competitiveness. Through an in-depth study of market dynamics and competitors, firms can quickly adjust their strategic directions to cope with rapidly changing market environments. Porter's (1985) theory of competitive strategy emphasizes three key elements: cost leadership, differentiation, and concentration. SMA provides important information support for the implementation of these strategies, ensuring that firms can make more precise and efficient decisions in the execution process. From the perspective of strategic management accounting, Xinyue Ma (2023) provides an in-depth comparison between Company A and Company B, which adopted a new retail model, revealing the specific means of how Company A quickly recovered and outperformed Company B after experiencing financial scandals. The study highlights Company A's strategies to sustain its competitive advantage in a market environment full of opportunities and challenges, including superior competitiveness and strong market development capabilities, foreshadowing its great potential in the future competition for market share [8].

3. THEORETICAL FRAMEWORK FOR STRATEGIC MANAGEMENT ACCOUNTING

3.1 Main Theoretical Framework

3.1.1 Resource-Based View (RBV)

The Resource-Based View (RBV), articulated by Wernerfelt in 1984, posits that a firm's competitive advantage is derived from its unique resources and capabilities. These encompass both tangible assets, such as financial reserves and advanced technology, and intangible elements, including brand reputation, intellectual property, and organizational culture. The RBV asserts that firms should identify, cultivate, and leverage their distinctive resources to establish and sustain a competitive advantage.

Globally, there is a growing body of research examining the integration of RBV with strategic management accounting (SMA). Scholars are exploring the application of RBV concepts in areas such as performance evaluation, strategic decision-making, and innovation management. For instance, Miller and Shamsie (1996) analyze RBV practices in the film industry, highlighting that companies that effectively integrate their unique

creative and talent resources tend to excel in competitive markets [9]. Similarly, Barth and Kasznik (2001) demonstrate that R&D and advertising expenses are critical indicators of future intangible assets, suggesting that firms with substantial intangible resources are more likely to attract attention from securities analysts due to their growth potential [10].

In China, although research on the intersection of RBV and SMA began later, it has gained significant traction in recent years. Scholars are actively applying RBV frameworks to the strategic management practices of Chinese enterprises. For example, Zhang Wenjia (2020) utilizes RBV theory and the VRIO model to analyze the competitive advantages of Weihai City X Kindergarten, evaluating its internal resources based on value, rarity, inimitability, and organizational implementation capacity, thereby providing strategic guidance for its development [11].

3.1.2 Dynamic Capabilities Theory (DCT)

Dynamic Capabilities Theory (DCT) is a pivotal concept in strategic management that elucidates how firms can consolidate, reconfigure, and redeploy resources to secure and enhance competitive advantage in dynamic market environments. Given the complexities and fluctuations of contemporary markets, the traditional RBV is insufficient in explaining how firms can capture and maintain competitive advantage. DCT emerged to address these limitations, gradually influencing the study of strategic management accounting.

Initially proposed by Teece et al. (1997) [12], DCT advocates for the development and refinement of dynamic capabilities to facilitate efficient resource allocation in rapidly changing contexts. Du Xiaomin et al. (2015) [13] further emphasize that dynamic capabilities are essential for continuously enhancing competitiveness, advocating for a unique and hard-to-replicate resource structure within organizations as a foundation for enduring competitive advantage.

Chinese scholars, such as Tang Jianxiong (2008) [14], have identified multiple dimensions of dynamic capabilities, including market perception, resource deployment wisdom, resource management skills, and innovation capabilities. These dimensions collectively represent an enterprise's comprehensive strength and are crucial for maintaining a competitive position in the market. Notably, during strategic transformations, dynamic capabilities integrate past achievements while emphasizing essential capabilities for future challenges.

3.1.3 Balanced Scorecard (BSC)

The Balanced Scorecard (BSC), developed by Kaplan and Norton in 1992, is a strategic management tool designed to translate a company’s strategic vision into measurable performance indicators. In light of rapid changes in the business environment, traditional financial metrics are insufficient for comprehensive performance assessment, thereby giving rise to the BSC, which has become a significant framework in strategic management accounting [15].

Research indicates that the effectiveness of the BSC is influenced by industry characteristics and specific management practices. For instance, Eneko Garmendia and Gonzalo Gamboa (2012) [16] analyze the BSC's impact on performance evaluation, underscoring the need for a tailored performance management system that aligns with organizational realities and fosters a strong corporate culture. Thomas H. Thompson (2018) [17] notes the high refinement and application value of BSC indicators across financial, customer, and internal processes, while advocating for enhanced quantification of learning and growth indicators to address existing challenges.

Since its introduction to China in the 1990s, the development of BSC theory initially progressed slowly due to reliance on foreign models. However, from 2001 onwards, its application has proliferated across various industries, signaling a new era in corporate performance management. Qiu Yang et al. (2008) [18] highlight the importance of strategic management in enhancing performance management, while Bai Sheng (2012) [19] explains how the BSC can unify organizational objectives through detailed strategic goal decomposition. Zhou Wencheng and Lv Lei (2020) [20] further assert that the BSC serves as an effective performance management tool, aiding managers in optimizing operations and improving economic efficiency within modern enterprises.

4. STRATEGIC MANAGEMENT ACCOUNTING IN PRACTICE

4.1 Main areas of application

4.1.1 Performance Evaluation

Miller and Liberatore (1998) [21] conducted a comprehensive study on the integrated application of job costing and the balanced scorecard. They emphasized that the implementation of job costing allows companies to obtain more accurate cost information, thereby optimizing the costing process and significantly enhancing the effectiveness of the balanced scorecard in performance assessment. Furthermore, they analyzed the critical role of the balanced scorecard in corporate performance evaluation from four distinct dimensions. In contrast, Raisya Zenita (2015) [22] employed multiple regression analysis to examine the impact of strategic management accounting information on information literacy and performance management, investigating how self-efficacy moderates the relationship between strategic management accounting and performance management. Based on enterprise case studies, Wang Yanqi (2014) [24] developed a performance evaluation system that integrates economic value added with stakeholder theory. The study posits that the design of performance indicators should not only aim to maximize shareholder value but also incorporate non-financial dimensions, such as environmental responsibility, thus achieving a dynamic balance between short-term interests and long-term sustainable development through an evaluation model that includes indicators related to environmental performance and social contribution. Additionally, Zhai Lulu (2017) [25] examined the effectiveness of corporate performance evaluation from the perspective of organizational behavior, finding a significant positive correlation between management maturity and performance evaluation effectiveness.

4.1.2 Strategic Decision Support

Gregory C. Wegmann and Evelyne Poincelot (2006) [23] explored the pivotal role of non-financial indicators in achieving corporate strategic objectives, revealing the relationship between corporate excellence and these indicators. They also analyzed the impact of strategic management concepts on the development of management accounting tools and information systems, highlighting the importance of these tools in facilitating strategic planning and decision-making processes. Huang Lu and Zhang Lu (2021) [26] focused on the deficiencies in ZJ Group's strategic management system in the context of the COVID-19 pandemic, proposing a series of optimization strategies aimed at enhancing the effectiveness of management decision-making while leveraging the unique advantages of a financial holding group in areas such as strategic planning, capital allocation, and information sharing. Liu Kun and Zhang Gege (2020) [27] examined the potential of blockchain technology in the realm of strategic management, asserting that it can significantly improve the efficiency of strategic information collection and processing, thereby enhancing the scientific rigor and timeliness of decision-making. However, they also noted the considerable challenges related to information security, cost, and confidentiality that must be addressed through collaborative efforts across various sectors.

4.1.3 Risk Management

Williamson (2004) highlighted the crucial role of management accounting tools in enterprise risk management, noting their significant contribution to the realization of comprehensive risk management (ERM). Li Wei'an and Dai Wentao (2013) [28] delved into the essential connections and interactions among corporate governance, internal control, and risk management, constructing a framework that elucidates the relationships among these three elements. This framework, grounded in strategic management theory, provides robust theoretical support for strategic management practice.

5. LITERATURE REVIEW

Strategic Management Accounting (SMA) represents a dynamically evolving frontier in the field of management, undergoing a systematic reconfiguration of its theoretical and practical frameworks. Since its introduction in 1981, the discipline has transformed from a singular management tool into an integrated framework that encompasses strategic planning, resource allocation, and value creation. Early research primarily focused on the intersection of internal financial data and strategic management. In contrast, contemporary SMA emphasizes external environmental monitoring and dynamic competitive analysis, thereby establishing a "both internal and external" decision support system.

The theoretical foundation of SMA is anchored in three dimensions: first, information integration necessitates transcending traditional accounting boundaries by incorporating industry data, competitor intelligence, and macroeconomic variables; second, the development of non-financial indicator systems (e.g., customer loyalty,

innovation capacity) facilitates the construction of a multidimensional performance evaluation model; and third, the theory of sustainable competitive advantage fosters value creation through mechanisms of dynamic strategic adjustment.

In practice, SMA has made significant inroads into various domains, including performance evaluation (by combining balanced scorecard methodologies with job costing), strategic decision-making (utilizing big data-driven scenario simulations), and risk management (leveraging blockchain technology to enhance information transparency). These advancements have substantially bolstered enterprises' capabilities to navigate uncertainty.

Despite notable progress, SMA continues to encounter challenges, such as effectively balancing financial and non-financial indicators, improving enterprises' information literacy, and adapting to the implications of emerging technologies (e.g., blockchain) on decision-making processes. Future research should focus on a comprehensive exploration of SMA's effectiveness across different industries, tailoring relevant theories and methodologies to align with specific industry characteristics to promote further development. Through ongoing theoretical innovation and practical exploration, SMA can offer enterprises more effective management tools and enhance their competitiveness in dynamic market environments.

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