



## The paradox of strategic management accounting

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### ABSTRACT

The evidence that strategic management accounting (SMA) techniques have not been adopted widely and that developments in the SMA literature seem to have languished may be consistent with the relatively short lifecycle of most strategic management (SM) tools and many concepts. Nevertheless, there is an inherent contradiction between the apparent decline of SMA and the sustained growth in the number of concepts, models, tools, theoretical perspectives, disciplines, academic and professional journals and consultancy practices that populate the SM domain.

This paradox of SMA is explored in the context of the evolution of the SM literature, SMA practice, as exemplified by two recent case studies, and the cognate literatures of management control, performance measurement and knowledge management. It transpires that the SMA literature is based in large part on a narrow, first-era, view of the SM literature that reached maturity with Michael Porter's industry analysis model and generic competitive strategies.

The second era of SM that began in 1977 with a move to a more internal, resource-based view of the firm and competitive advantage has been mostly neglected by the extant SMA literature. However, to judge from the small number of published case studies, SMA practices are developing in line with their strategy formulation and organisational processes. The links among the bundle of techniques that are usually included in SMA and between SMA and cognate literatures need to be integrated into a coherent, cohesive framework to complement SM.

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### 1. The test of time

We all know that change has become the most predictable characteristic of the business and economic environments. What is more significant is that the rate of change is accelerating (Nadler and Tushman, 1999; Williamson, 1999; Jacobides, 2010; Grant and Jordan, 2012); this is the experience of the last 50 years (see

Table 1). In every decade since the financial planning era of the 1950s new external environmental challenges have shaped the formulation, implementation and control of strategy in organisations and the related research and literature (Bowman et al., 2002).

There are many definitions of the strategic management (SM) process but there is a broad consensus that key activities are (1) development of a grand strategy, purpose or sense of direction, (2) formulation of strategic goals and plans to achieve them, (3) implementation of plans, and (4) monitoring, evaluation and corrective action (Ward, 1992; Bartlett and Ghoshal, 1994; Kreitner, 2004; Grant and Jordan, 2012). The relative emphasis on each activity varies over time and among organisations. Of course, endogenous factors, such as corporate culture and

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**Table 1**  
The evolution of strategic management.

Period	Salient features of environment	Focus of research	Some tools of strategic analysis	Some leading authors
1960s	A gentle decade; many companies diversified and became conglomerates.	Growth, acquisitions, diversification and corporate control of conglomerates. 'Institutionalists' undertook detailed case studies of strategy-related issues; mostly a top management perspective.	SWOT framework; long-range planning with a functional orientation replaced the financial planning/budgeting of the 1950s.	March & Simon, 1958; Lindblom, 1959; Simon, 1960; Burns & Stalker, 1961; Chandler, 1962; Cyert & March, 1963; Ansoff, 1965; Learned et al., 1965; Lawrence & Lorsch, 1967
1970s	Stagnation and inflation; business managers became more conservative (fewer 'Prospectors', more 'Analyzers' and 'Defenders' – Miles & Snow, 1978) and placed greater emphasis on financial control systems. Firms sought to improve market share in core business areas. Oil-price shock and consequences for several industries and energy costs.	'Processual' approach to strategy emerged; a development of the 'Institutionalist' approach. 'Strategy-implementation gap'.	SBU's and Portfolio Matrices, e.g. BCG Growth-Share Matrix, GE Matrix (Market Attractiveness- Business Strength), PIMS Analysis, Scenario Analysis. Strategic Planning, or Forecast-Based Planning began focusing on external and internal factors.	Ackoff, 1970; Bower, 1970; Andrews, 1971; Child, 1972; Pettigrew, 1973; Rumelt, 1974; Bowman and Haire, 1975; Meyer & Rowan, 1977; Miles & Snow, 1978; Mintzberg, 1978; Pfeffer and Salancik, 1978; Ansoff, 1979
1980s	Increased foreign competition that led to 'globalization' of industries & companies. An increase in emphasis on financially-driven strategies; many companies were under real or perceived pressure from corporate raiders who exploited low stock market prices to acquire and 'restructure' companies. 'Downsizing' phenomenon.	Restructuring, leveraged buyouts, downsizing, Economists, notably Porter, drew on industrial organisation economics to analyze the problems of the firm and sources of competitive advantage.	Seven – S Framework, Industry Analysis – Porter's Five Forces model and generic competitive strategies. Value Chain Analysis. Strategic management emphasized implementation and control in addition to planning.	Porter, 1980, 1985; Quinn, 1980; Ansoff, 1982; Miles & Cameron, 1982; Freeman, 1984; Wernerfelt, 1984; Argyris, 1985; Granovetter, 1985; Hamel & Prahalad, 1985, 1989; Mintzberg & Waters, 1985; Williamson, 1985; Ghoshal, 1986; Rumelt, 1986; Tversky & Kahneman, 1986; Pettigrew, 1987
1990s	Rapid and discontinuous economic and political change in the international environment: Cold War ended; Eastern Europe opened up; Japan began to have problems; and European Union grew in relative economic and political importance. Corporate networks and alliances began to form in an attempt to cope with rate of change in business environment. Era of 'cloud computing', 'big data' and 'smart machines'.	Multinational alliances, corporate ventures, technology change and continuing restructuring. A Resource-based view of strategy. Behavioural scientists built on earlier research by March & Simon, 1958; Argyris, 1985; Pettigrew, 1987. Focus was not on optimization and equilibrium of economists but on the functioning and survival of the organisation and the behaviour of its people and the intra- and inter-organisational networks they adopt. Cooperative networks as distinct from competitive markets start to inform analysis (into how some organisations survive and others fail).	EVA™; Resources and Capabilities Analysis; Strategic Option Analysis; Balanced Scorecard; Customer Relationship Management; Levers of Control; Core Competencies.	Mintzberg, 1990; Prahalad & Hamel, 1990; Porter, 1990; Barney, 1991; Grant, 1991, 1996; Nonaka, 1991; Pettigrew, 1992; Freeman, 1994; Milgrom & Roberts, 1995; Harrison and St John, 1996; Litz, 1996; Teece et al., 1997; Dyer & Singh, 1998
>2000	Further evolution towards networks, the rise of the knowledge worker and the knowledge-based organisation, and the creation of flatter organisations. It is also the era of E-Commerce and of the internet-based corporation with small staff numbers. Global financial crisis that erupted in 2008 heightens economic uncertainty and calls into question the priorities shaping capitalism.	Induction and deduction continue to matter in studying strategy; content and process are both important to understanding strategic management; strategy-as-practice to better understand process. Research agenda is contextual, dynamic, holistic and applied. Knowledge-based view of firm builds on Resource- based view. Cross-cultural communication, information networks. Learning, Knowledge and Innovation. Strategy as Options. Organizing for Adaptability.	Strategy Maps; Supply Chain Management; Complex Adaptive Systems; Strategic Entrepreneurship; Intellectual Capital and Knowledge Management; Corporate Governance. IT Systems, 'Big Data', 'Cloud' Computing, 'Smarter' Machines.	Pfeffer & Sutton, 2000; Whittington, 2001; Barney, 2002; Ghoshal, 2005; Rumelt, 2009; Porter & Kramer, 2011; Brynjolfsson & McAfee, 2012; Grant & Jordan, 2012; Meyer & Kirby, 2012

Sources: A synthesis of multiple publications, especially Bowman et al. (2002); Herrmann (2005); Mele and Guillen Parra (2006); Nixon (2006); Furrer et al. (2008).

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