Importance of Strategic Management Accounting for Bank Management

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Snežana Knežević[1], Miloš Milosavljević[1], Veljko Dmitrović[1],
[1]*Faculty of Organizational Sciences, Belgrade*

As part of significant dynamic changes in the banking sector, the aim of this paper is to identify the information portfolio for strategic management in Serbian banks. Foreign banks entering the domestic market of banking products have caused the competition in the banking sector to increase, which fostered the information to become a resource of primary importance for the formulation of the bank's strategy in various business segments.

1. Introduction

Strategic decisions refer to the conduct strategy and actually define the level to which a bank is developed, the profits distribution, the capitalization level, the decisions on reorganization, the development of the existing and the introduction of new bank products, etc. The complexity of the strategic management accounting techniques themselves in the banks goes far beyond those quoted and described in the academic studies so far [1].

As each decision can be good to the extent to which its information basis is reliable, information can be said to have become a strategic resource of management. Certain authors maintain that the information is as important as the strategic technique implemented [2].

Regardless of the fact that the earliest reports on strategic management accounting appeared only a couple of years ago, the research conducted in this work has shown that a large number of banks in the developed market world introduced some of its segments years ago. For example, a large number of banks facing a rather fierce competition characteristic of financial market conducted a host of analyses in which they compared themselves to the competition, especially in the domain of cost management, using a considerable information potential of the management accounting.

2. Strategic management accounting as support function to strategic management

The strategic management accounting is a modern academic response to the impulses created by a dynamic business environment. An increasing need of the bank management for the methods and models relevant in decision making in the conditions when the incremental changes in the environment are replaced by radical and content changes, demanded that the academics and practitioners should focus upon external, rather than internal elements in the analysis of the banking operations. The strategic decisions characterised by a mobilization of all the bank resources become crucial in business operations, therefore the introduction of new management accounting techniques has become a logical answer to new requirements. Our aim in this work is to present essential potentials and a real reach of modern strategic management accounting techniques, as well as their apprprietness for business decision making in the banks.

The top managers in the bank concentrate on long-term strategic decisions. Hence they need information that can help them make decisions on integration and acquisition, as well as on planning new bank products. The empiric studies so far have expressly stated that the role of the strategic managemnt accounting in creating an adequate information portfolio is significant, however, the conclusions are somewhat ambiguous as regards the strategy itself on the basis of the information generated by the strategic management accounting [3] [4].

The middle level bank managers tend to focus upon the medium-term decisions, such as the events that may affect the banking institution's operations in the following year. Hence they need information necessary for the budget analysis, for a short-term forecasting, and for the analysis of deviations from the planned performances.

Strategic management accounting can be defined as a form of management accounting that uses a set of information concerned with external business and non-financial factors alonside the traditional, internally generated accounting information, as the information input. The basic importance of such an analysis is reflected in a better communication of the business decision making and strategy. The logic of such a categorization and the scope of this definition have, however, resulted into a divergent interpretation of the strategic management accounting elements.

Different definitions of the components of strategic management accounting can be seen from the survey of the literature so far published in this field. Thus, for example, one of the pioneering works in this field developed a conceptual framework that supports the importance of competitive information on the market share, the scope of production, costs, prices, money flows and other elements required to conduct a corporate strategy developmet analysis [5].

Other authors have additionally contributed to the development of strategic management accounting based on this so-called "competitive" strategic analysis [6]. They highlight the importance of the strategy analysis of costs and a consequent requirement that costs should become an integral part of strategy. On the other hand, an analysis is developed focused upon market indicators, primarily related to meeting the consumers' needs with continuously taking attributive costs into account. It is important to stress the accountants' willingness in management accounting to valuate the brand, contrary to the rigid standards of financial reporting [7].

The third aspect of strategic management accounting refers to the analysis of value creation in the relations with suppliers and customers. All the activities classed as primary activities and logistic acitivities are included in designing the product or the service for the customer, and hence in the resulting value creation for the customer [8].

Specific aspects of the analysis refer to the theoretical approach that explicitly links the supply chain re-configuration with the change in profits resulting from the strategic decisions implemented [9]. Numerous specific techniques developed within the mentioned global categories, the derivates of theoretical study, do not, however, show a high level of correlation with the level of practical usability of these same techniques.

In the conditions when the real sector is consolidated, on one hand, and when the business banks are active in their credit support to the economy, on the other, the importance of the implementation of strategically oriented management accounting by the bank management will be greater. In case of long-term credit sources in general, and especially in case of the financial support to the economy, it is necessary that the bank should have long-term and high-quality capital sources. The implementation of the strategic management accounting model in banking enable the banks to profit from their comparative advantages, especially in the further process of developing financial market, and on the basis of the information obtained on the environment.

The strategically oriented management accounting is expected to provide a strong information support that will allow for the execution of preventive measures for the purpose of eliminating ineffective business results of the bank. It is dynamically dimensioned as it ensures business information in a changing environment. Strategic decisions require that the management provide information for the future action. Certain studies point to the fact that the majority of strategic management accounting features has long become inherent to banks and other business organizations [10].

Strategically oriented management accounting is a source of information oriented towards management, concerned with the future rather than with the past, especially oriented towards strategic business units and to the most important resources of banking business operations – their own capital as a guarantee, the human resources and the investments. The awareness of the competitive conditions itself makes the key difference between the strategic and the traditional management accounting [11].

The information potentials of the strategically dimensioned management accounting for the needs of the bank management evolve along with the changes in the information technology. The studies in the field of information support of management accounting to business organizations conducted so far have predominantly focused upon the identification of dimensions and upon performance measures [12] [13], however, there is a lack of studies focused upon a specific impact of the strategic management accounting information on the bank performance. There is no universal concept nor model of information of strategic character that can be applied in efficient bank management in a longer term and for the purpose of finding adequate solutions to all management problems.

The domestic banks prefer to use the information products of financial and accounting type within a global accounting system, rather that management accounting type [14]. A reliable accounting information system should ensure the following:

1. information gathering, classifying and processing at lowest costs;
2. prompt provision of various surveys, financial reports and tax returns;
3. generating of valid accounting information of sufficient scope;
4. prevention of thefts and any other financial misuse, i.e. reducing these to the least possible amount;
5. comparison of current and previous financial reports or those accomplished with targeted values.

In this sense it is necessary that the management accounting be first incorporated into the bank's accounting system, and then assigned a strategic role. This will be inevitable in the conditions of an increasing competition among banks, as well as in relation to non-banking financial institutions (especially in unfavourable current events on the banking market, where it is necessary that strategic information potentials and efforts be focused), how to "grab a client or a bank customer before the others?". Besides, the introduction of a long-term crediting of a company as a bank client will contribute to the importance of strategically oriented management accounting for the bank management team decision making as to the method and conditions of the long-term placement of the bank's assets.

In the prospective balance analysis segment where a dynamic aspect or forecast information is relevant in making good business and financial decisions, strategically oriented management accounting can be highly beneficial. The very strategic orientation of management accounting must not have any implications upon the practical usability of the techniques and the analysis procedures themselves, and this has been the issue of a lively debate in the past decade [15] [16]. Both the traditional and the strategic management accounting must have a pragmatic dimension [17] [18].

3. Actualization of importance of information for banks

With the market globalization and an increasingly fierce competition in both the national and international fields the importance of an adequate bank's risk management is especially actualized. In such circumstances the bank's strategic management needs the reports on the risk profiles as well as on the bank's need for capital for the purpose of capital budgeting and an adequate management of risks immanent to banking operations, all in order that a long-term financial stability of the banking institution be established.

The bank capital can be observed from various points of view, namely: (1) organizational capital as a method of bank's business doing; (2) intellectual capital which primarily includes human resources; and (3) capital in the form of clients and customers of the bank.

As a logistic support to strategic management the banking controlling fosters the development of a long-term oriented management accounting, in the implementation of an optimum strategy to achieve the set goals of the bank, especially the optimum cost strategies [19], as well as an adequate management of the bank productivity. Reducing the price of the bank products to a lower level ensures the bank a more favourable position in comparison with its competitors.

A strategically oriented management accountant can be called the information-for-the- future manager and is expected to supply the bank's top management with valid information to be used in defining the alternate directions of strategic activities, primarily for a strategic positioning of the bank. A strategically dimensioned management accounting is also highly important in the strategic control process, i.e., in the comparison of achievements with the budgeted values in order to identify discrepancies and define appropriate corrective steps to be taken.

In the current – turbulent conditions of operations on the financial market, the critical competency of the bank's strategic management achievement becomes a competence to generate the value for both the bank owners and the consumers of the bank product. The bank top management is particularly interested in the market and competitive environment changes, hence the management accountants are expected to provide not only internal information (flows within the bank) but rather external one – information about financial market as well as about competition, namely, the information on the environment.

The strategic performance of the bank is oriented towards the segments of profitability, efficiency, effectiveness, competitiveness and flexibility. Of paramount importance in this sense is a high quality the management-accounting information for an qdequate management of bank information, as well as for measuring the performance of the bank management. In assessing the business efficiency, banks prioritize the methods of cost control, as well as the productivity of the bank personnel in managing its assets.

For the banking operations to be efficient the bank requires an adequate portfolio of financial resources. The bank's financial health depends primarily on the bank management. An adequate management of financial resources requires valid and timely information. Particularly important are the reports on the client and customer receivables management as regards their negotiability, maturity and a policy to correct them.

The current changes in international banking have made the bank management process more complex. The primary responsibility of the management is to ensure that the bank has efficient risk control and risk management systems. Risk management should be a daily activity of the managers of respective business fields of the bank. The bank management should also introduce an adequate internal control which will include internal auditing too.

Significant innovation on the financial market that emerged in the last few years and the internationalization of financial flows have radically changed the nature of banking. On the global level, banks are becoming increasingly engaged in the development of new instruments, products, services, and techniques. Not so strict legal regulations and technological process in this field allowed for a fiercer competition to take place between banks and non-banking institutions. In such circumstances, the resource of crucial importance for change management is (sufficient in scope and satisfactory in quality) business information. In order to survive on the dynamic market today, the bank has to change faster than its competition.

A strategically focused management accounting is an efficient instrument developed for the purpose of strategic management of the bank. It disposes of information required for tracking, analysis and cost control and the bank product price calculation, as well as for the assessment of market potentials and the client and customer profitability, capital management and financial performance, the dynamics of business assets for the information needs of trading on the financial market, etc. The role of an adequately designed strategic management accounting is crucial in a long-term management of the human resource and moneraty activities of the bank. The implementation of the strategically oriented management accounting always means the implementation of new techniques in the analysis, such as the activity based cost calculation, the balanced scorecard and various techniques of strategic capital budgeting such as strategic cost management in the value chain, the technological path tracing, the application of fuzzy sets in quantitative analysis, the real option valuation etc.

The information potential of a strategically oriented management accounting has to be continually reshaped to be able to accomplish the tasks of the information recipient –strategic management primarily, but also other management levels, which means that the quantitative selection of information is continually under way so as to avoid the situation of excess information. Besides, the information potential of the bank strategic management accounting is expected to produce highly actualized information, full, timely and as accurate as possible.

Given the dynamic changes on the financial market, this type of accounting should be in a process of continuous evolution. Besides a more intensive competition between different types of banks, the threat that non-financial institutions will expand into the banking product sector is an additional incentive to banks to implement the strategic management accounting concept [20] which is market-oriented.

The strategic management accounting concept requires to be further developed in order that it should prove its full role and advantages in defining concrete situations. It is necessary that the usability of the strategic management accounting be researched into, especially in the field of the competition analysis in the conditions when the competition operates in a different economic, political and cultural environment.

In order that domestic banks should estimate the losses in accordance with the relevant standards, it is necessary that they anticipate events related to credits, and this is where the macroeconomic statistics information is of special importance, though it is not transparent and satisfactory in scope yet. Such information would help make use of information advantages of strategic management accounting in the process of making high-quality decisions for the needs of an efficient placement of the bank's assets.

The rise in the bank capital means a better chance for the bank to acquire big and significant clients. There is an intention that banks that already achieved a stable financial position redirect a portion of their placements from retail business to economy, that is, to grant more loans to economy which would in turn increase the importance of the strategic management accounting. In addition, due to a substantial growth of capital of the banks in this country, i.e., due to intensive recapitalization, the role of an adequate long-term bank capital management becomes increasingly important. For example, many banks did not earn adequate return rates on the capital invested.

It is necessary that domestic banks implement the instruments of the strategically oriented management accounting to a larger extent in order that they should maximize the value.

Management accounting is a relevant information instrument in the strategic management process. The collaboration of accounting and strategy is thoroughly analysed in numerous academic and empirical studies [21] [22] [2].

Finally, it is important to point out that there is no universal accounting model developed for the needs of strategic management; it is necessary that every bank should create a model that will be compatible with possible changes on the financial market (to the extent to which it is possible to predict) as well as with adjusted characteristics of a particular bank.

The strategic management of the bank performance can be described as an activity of management a bank financial standing for the purpose of defining the optimum relationships on two levels: returns maximization and satisfying the requirements of regulatory institutions [23].

The strategy consists of a series of concrete activities that the banking institution undertakes in order to accomplish its mission. Each concrete activity is autonomous. The activity has to support the bank's mission, however, it also has to observe the principles of successful business doing. Hence it is necessary that the bank has a developed management accounting to implement project strategies in the segments of budgeting, tracking and reporting on costs, profitability, and other important bank performance.

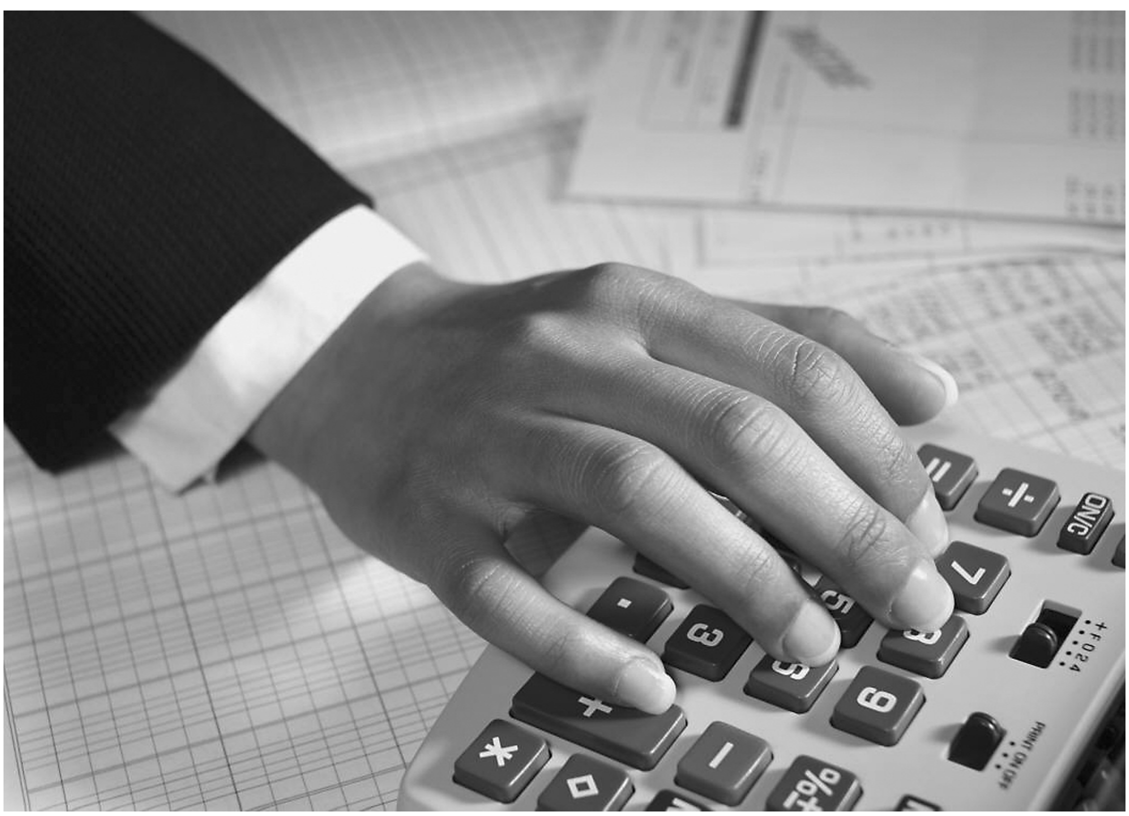
4. Factors that impact the sma implementation into the bank information system

The strategic management accounting is based upon the research into information in accordance with the needs to make certain business decisions, rather than with the current trend or information availability. The strategic orientation of management accounting requires that the necassary information meant to be the basic input in the analysis be externally oriented. Consequently, the need for defining the bank environment and the basic ways of communication between the bank and the relevant environment arises.

The environment itself can be viewed via a value chain and the relationship of the bank with the clients, with the investors, and with the creditors. A far greater adequacy and importance, however, should be assigned to the competitive environment of the bank. The bank competitive position itself is viewed from the point of view of the current, as well as an anticipated competitive environment.

The competitive position is monitored by the implementation of the competition cost assessment technique, by defining costs per unit of service, by the analysis of competition technology, by defining the economy of scope, by the calculation of market share per different market niches of the banking sector, as well as by defining the scope of services delivered and the returns on services. The analysis itself is strategically conceived and planned to be of a long-term character. Hence it is not the current values that should be analysed, but rather the future ones. The orientation towards long-term elements in the analysis means the implementation of a target oriented cost allocation and the cost analysis throughout the life cycle of particular financial services, but also of the life cycle of the bank as an entity of analysis.

To be specific, a bank in a domestic economic environment has to conduct a comparative analysis of its market position and the earning capacities of all exist-



ing banks, as well as of other financial instuturions that to a larger or to a smaller extent form a competition to a current or planned mix of the given bank's services. In addition, the aspirations of foreign banking institutions to penetrate the domestic banking market also have to be taken into account. Consequently, a relevant competitive environment does not mean only the present, but also the anticipated competitors, as the analysis is of a long-term character.

The environment defined, it is necassary that an analysis be conducted of the information that the bank has to generate for the purpose of an appropriate strategic management-accounting analysis. The strategic management accounting and the techniques based on it use the existing set of information, however, reveal entirely new information requirements. For example, an increasing leaning on the marketing concepts preconditions the change in cost allocations in accordance to the customers' tastes, as well as measuring the quality costs and valuating the brand of the service itself and of the bank as an entity.

The bank that insists on the strategy of differentiation of its products will not focus upon the unit price of the service, but rather upon the development of new services and upon marketing costs. The interdependance and interrelation of required information and the bank development strategy is by far more complex than the previous illustration, however, this elaboration is beyond the domain of this work. Here the attention is focused upon the creation of the model that will support the required information portfolio of strategically oriented management accounting for banks.

The empirical research corroborates the relative arrangement, formality, and structure of the relationship between the strategy and the other functions in the business organizations [24].

The information system that will support the strategic orientation of management accounting includes elementary subsystems for:

- planning and analysis of bank costs;
- planning and analysis of bank income, expenditure and profits;
- planning and analysis of bank capital;
- identifying risk profile and the bank's need for capital;
- monitoring the competition among banks, in relation to non-banking institutions;
- provision of specific profitability analyses;
- planning and analysis of cash flows;
- monitoring and conducting executive actions;
- coordination with the accounting and marketing information systems for the purpose of the analysis of the current clients and customers, as well as an insight into prospective bank's clients;
- ecological and other issues of socially responsible business.

The classification itself is not ultimate in character; in accordance with the needs of a particular bank it is possible to define others, leave out some of the above quoted or redesign the existing sub-systems of the strategic management accounting.

5. Conclusion

The objective of financial management, as well as of the bank capital management is to maximize the bank's value within the profitability and the risk exposure levels. Since risk is immanent to banks, the task of the financial management is to manage various types of risks in such a manner that will allow for the achievement of the desired profitability, reasonable risks included. This requires that three types of activities should be performed:

- risk identification;
- quantitative statement of risks (if this risk is immanent to the particular type of risk);
- risk exposure controlling.

In order that the abovementioned tasks should be efficiently accomplished, it is necessary that the bank develop adequate business, and especially financial policies, as well as implement information logistics. Besides, the bank management should be informed on the risk profiles and the bank capital needs, in order that they should timely undertake appropriate steps on the strategic plan, which is the domain of the strategically oriented management accounting.

The latest trends on the financial market, conditioned by the competition growth and the increase in the direct capital transfer highlight the necessity of implementation the strategically oriented management accounting for the banking purposes. This accounting is in turn one type of "early identification" information system that signals possible opportunities and threats. Namely, however important the " what happened" may be, the "what will happen" is more important.

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