

STRATEGIC MANAGEMENT ACCOUNTING IN SMEs AND RECOMMENDATIONS FOR VIETNAM

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Abstract: *Strategic management accounting (SMA) is essential in modern business management. SMA is a form of management accounting that focuses on providing information to support strategic decision-making and performance monitoring, particularly in relation to external factors and competitors. It's essentially management accounting with a broader, more strategic perspective, moving beyond purely internal financial data. This paper discusses an overview of SMA; the challenges and obstacles that small and medium enterprises (SMEs) in the world and in Vietnam have to face. From there, the author proposes a number of solutions to apply SMA in SMEs in Vietnam.*

• Keywords: *strategic management accounting, nonfinancial information.*

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1. Introduction

Strategic management accounting (SMA) was first discussed in the literature of the late 1980s as a response to concerns about management accounting losing its relevance for business practice (Roslender and Hart, 2003). SMA is still not clearly defined, so writers emphasise different perspectives and techniques or avoid defining it altogether.

SMA related to the increasing role of the accounting function within the company and the use of increasingly sophisticated management accounting tools as well as the reliability of business information are vital factors that must be considered by every business manager. SMA integrates financial and nonfinancial information to assist organizations in shaping their corporate strategies and making informed decisions. Unlike traditional management accounting, which primarily focuses on internal data, SMA emphasizes external factors such as market share, costs, and competitive positioning. This approach allows businesses to analyze their standing relative to competitors and assess the broader industry trends that impact their performance.

SMA plays a particularly important role in collecting, processing, analyzing and providing information to meet the requirements to help managers comprehensively perform management functions. Information provided by SMA includes detailed information related to production and business costs, serving the cost strategy planning of managers, including medium-term and long-term decisions, affecting the business's operating strategy.

After more than 40 years since the term was introduced, it is necessary to organize the literature and provide some insights on SMA practices among business organizations (Rashid et al., 2020). Furthermore, the Fourth Industrial Revolution (IR 4.0) technologies such as artificial intelligence (AI), and big data analytics that has been underway over the past half-century may influence the SMA practices in businesses.

2. Overview of Strategic management accounting

2.1. Definitions of Strategic management accounting

Simmonds (1981) defines the concept of SMA as the provision and analysis of management accounting data for use in developing and monitoring business strategy. Consistent with the notion of achieving competitive advantage, he advocates that attention be paid to competitors' relative levels and trends in such factors as costs, prices, market share, cash flow and financial structure.

SMA is usually described in ways which place emphasis on factors external to an organization (Bromwich and Bhimani, 1994). SMA is identified as a generic approach to accounting for strategic positioning, defined by an attempt to integrate insights from management accounting and marketing management within a strategic management framework (Roslender and Hart, 2003). SMA is the process of identifying, gathering, choosing and analysing accounting data for helping the management team to make strategic decisions and to assess organisational effectiveness (Hoque, 2003).

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SMA is the form of management accounting in which emphasis is placed on information that relates to factors external to the entity, as well as non-financial information and internally generated information CIMA (2005). SMA is a form of management accounting in which emphasis is placed on information which relates to factors external to the entity, as well as on non-financial information and internally generated information (Hadid and Al-Sayed, 2021).

2.2. The role of Strategic management accounting

SMA is essential for many companies because SMA directs management to not only see the financial aspect as the focus of control and to pay attention to the non-financial side (Setiawan et al., 2020). Previously, (Setiawan et al., 2019a) explained that SMA is a concept regarding the provision and analysis of management accounting data relating to businesses and their competitors, which play a role in developing and monitoring business strategy. Therefore, management accounting has shifted from traditional management accounting, which only focuses on cost, to SMA, which looks at the financial, customer, and even competitors in an integrated manner.

SMA plays an important role in guiding and promoting the sustainable development of businesses by providing strategic information and supporting decision-making for company leadership. Below are some of the key roles of SMA.

- *Providing information for strategic decisions:* By collecting, processing, and analyzing accounting information, it helps supply data for strategic decision-making. Additionally, to help businesses enhance their competitive capabilities, SMA needs to thoroughly understand external economic information to support planning for changes beyond control, such as new competitors entering the market or threats from substitute services and goods competing for the company's market share.

- *Supporting strategic decision-making:* SMA analyzes financial data, the company's financial situation, and operational performance to provide useful information for strategic decision-making. This includes evaluating the effectiveness of current strategies, proposing optimal options, and promoting adaptation to changing market and business environments.

- *Forecasting and planning:* Strategic management accountants often participate in the process of financial forecasting and business planning. They use financial data as well as strategic and market information to identify financial goals and develop appropriate scenarios.

- *Evaluating Performance and measuring achievement:* SMA helps measure the performance and achievements of implemented plans and strategies. This ensures that the company can track progress and assess the effectiveness of strategic activities over time.

- *Managing Risks:* SMA plays a role in identifying, measuring and managing risks in business operations. This helps the company minimize uncertainties and ensure long-term sustainability.

- *Developing policies and procedures:* SMA can participate in the creation and development of accounting policies, procedures, and standards that align with the company's strategic objectives.

- *Supporting communication:* Strategic management accountants can share financial and strategic information clearly and reliably with internal and external stakeholders of the company. This helps stakeholders better understand the financial situation and strategic plans of the business.

2.3. The purpose of Strategic management accounting

Robin Roslender, Susan Hart (2003) identified three distinct conceptions of SMA:

- Taking generic strategy tools and looking at how management accounting information can be used to better support strategy.

- Aligning management accounting with marketing for better strategic positioning. Essentially this means using management accounting within the company's marketing tools.

- A catch-all term for a number of modern management accounting techniques, which have a strategic element to them. This generally includes any element of management accounting that involves external and market-oriented information.

3. Challenges in applying Strategic management accounting in the world an in Vietnam

Babajide Oyewo, Syed Tanvir Hussain, Chipo Simbi (2022) show detailed challenges Applying SMA faces challenges related to human barriers, entrenched strategy practices, technological limitations, high implementation costs, and the need for government action and regulation. These challenges include issues like lack of skills, management inertia, resistance to change, and difficulties in integrating information between different departments. Additionally, SMA implementation can be hampered by a perception that it is unnecessary, high costs, and the need to address regulatory complexities. Many researches have showed challenges in applying SMA detailed in Table 1.

In Vietnam, the fact and the simple survey of the author show that, there are similar challenges in

applying SMA in the world. Vietnamese enterprises also face challenges such as: Human barriers; Entrenchment of strategy issues in corporate practice; Technological limitations; High implementation costs; Government action and regulation.

Table 1: Challenges in applying Strategic management accounting

Challenges	Problems	Meanings
Human Barriers	Lack of Relevant Skills and Experience	Many organizations lack the necessary expertise to implement and use SMA techniques effectively.
	Management Inertia	Resistance from management to adopting new systems and practices can hinder implementation.
	Resistance to Change	Individuals may be hesitant to embrace new ways of working, leading to delays in implementation.
	Poor Communication	Lack of clear communication between accounting and other departments can create information flow problems.
	Fear of Failure	Some individuals may be apprehensive about the potential consequences of implementing a new system.
Entrenchment of Strategy Issues in Corporate Practice	Perception of Unnecessary Implementation	Some organizations believe that SMA implementation is not needed as strategy issues are already integrated into their existing practices.
	Lack of Top Management Support	Without strong support from the top, SMA implementation may face resistance and delays.
	Low Awareness and Lack of Knowledge	Insufficient understanding of SMA concepts and techniques can lead to ineffective implementation.
Technological Limitations	Lack of Adequate Technological Equipment	Organizations may lack the necessary technology and infrastructure to support SMA implementation.
	Complexity of Compliance	Increasingly complex regulations and compliance requirements can add to the workload and difficulty for management accountants.
	Cost of Upgrading Technology	Upgrading technological infrastructure can be costly and time-consuming, limiting the use of technology in management accounting.
High Implementation Costs	Cost of Software and Hardware	Implementing SMA systems can involve significant costs for software, hardware, and related infrastructure.
	Cost of Training and Consulting	Training employees on SMA techniques and hiring consultants can add to the overall implementation costs.
Government Action and Regulation	Compliance with Regulations	Meeting regulatory requirements related to SMA can be challenging and time-consuming.
	Globalization and Changing Regulations	The complexities of global operations and changing regulations can further complicate SMA implementation.

Source: Synthesized by the author

Beside that, according to data from the Ministry of Planning and Investment, by December 31, 2024, Vietnam had approximately 940,078 operating enterprises (an increase of 2% over the same period in 2023). In Vietnam, SMEs account for nearly 98% of the total number of enterprises operating in the economy. In 2024 alone, the number of enterprises entering and re-entering the market was 233,419 enterprises. Of which, the majority are small-scale (from 0 - 10 billion VND) with 125,818 enterprises (accounting for 92.5%, up 4.3% over the same period in 2023), mainly in the service industry with 103,127 enterprises, accounting for 75.8% of the total number of newly established enterprises, up 2.73% over the same period in 2023. Although accounting for nearly 98% of the total number of enterprises, the SME sector has a total capital of only

VND 16.6 million billion, accounting for less than 30% of the total capital for production and business activities of the entire enterprise sector. Outstanding credit for SMEs in 2024 will only reach nearly 17.6%. The size and the financial health of firms affect application of SMA because business managers only focus on finding benefits rather than making longterm strategies for sustainable development. Preliminary surveys by many researchers indicate that in Vietnam, the application of SMA in enterprises remains very low. Businesses are mostly interested in applying SMA for decision - making.

In addition, one of the biggest obstacles and challenges is the investment cost for the SMA personnels and the technology to operate the this team of strategic management accounts. Because most businesses are SMEs, their financial potential is weak. Basic financial resources cover the essential needs of business operations. Moreover, for the accounting staff, they are not familiar with the concept of SMA. They themselves have not taken the initiative to become professional SMAs to help business managers make timely decisions. Most accounting staff are too focused on professional tasks and have not paid attention to the task of advising and providing strategic advice to administrators through financial and non-financial data.

4. Recommendations of Vietnamese SMEs

The application of SMA in the operations of Vietnamese enterprises is very high because it is linked to the issues that business managers are currently trying to resolve. In the upcoming period, to accelerate the implementation of SMA in business activities, attention needs to be focused on the following matters:

Firstly, business managers need to change their mindset and actively promote the application of SMA in business operations. It is essential to recognize that the emergence of SMA is considered inevitable, as it supplements and improves upon the limitations of traditional management accounting. Currently, traditional management accounting clearly reveals shortcomings in supporting managers because the information it provides is mainly internal, limited in scope, focused on short-term forecasting, emphasizes financial data, and is historical in nature.

Secondly, master SMA techniques. Guilding and his colleagues compiled a list of SMA techniques between 2000 and 2002 that amounted to 20 (Guilding et al, 2000; Čadež et al, 2005; Guilding & McManus, 2002), but in reality, there is still no universally accepted list of SMA techniques (due to the lack of a unified definition of SMA). The determination of SMA techniques remains subjective and depends on the characteristics, capabilities, and strategies of each individual.

There are various SMA techniques that have been developed over the past few decades, and many researchers have categorized these techniques as those with internal focus and those with external focus. The following are 16 SMA techniques that Cadez and Guilding (Citation2008) listed based on past literature from Guilding et al. (Citation2000), which highlighted 12 SMA techniques from past literature. According to AAT (2022), there are typical SMA techniques as follow:

- *Activity-based costing*: Costing and monitoring of activities by tracing resources consumption and costing the final outputs. Resources are assigned to activities and activities to cost objects based on consumption estimates.

- *Benchmarking*: By using data gathering, targets, and comparators, the strategic management accountant identifies relative levels of performance and underperformance. It helps to determine best practices to improve performance.

- *Costing*: More specifically, strategic management accountants will complete costing based on activity, product attributes, life-cycles, quality, targets, and value chains. All of which work to determine whether an investment in a new or improved product or service is worth it.

- *Budgeting*: Strategic management accountants look at brand value budgeting, and monitoring and capital budgeting. The former involves assigning a financial value to the equity created by the name or image of the brand - it can be represented as the net present value of future cash flow estimates associated with the brand. The latter is all about selecting long-term capital investments.

- *Competitive position monitoring*: Pretty much what it says on the tin - reviewing the company's performance in the context of its market position, and the market position of key competitors. A strategic management accountant will also estimate competitor costs per unit based on available data and will look at competitor financial statements to determine their strengths and weaknesses.

- *Customer profitability analysis*: The strategic management accountant looks at the revenue streams and service costs involved with different customer groups.

Thirdly, there needs to be a unified framework, methodology, and clear content about SMA. The application of SMA in practice can be viewed from two perspectives: (i) SMA can be seen as a set of strategically oriented management accounting techniques; (ii) SMA can be seen as the participation of accountants in the strategic decision-making processes of the

company (Cadez & Guilding, 2008). Applying SMA is essentially applying groups of strategically oriented SMA techniques. Although there are many significant differences in the definitions and descriptions of SMA, when applied in real enterprises, SMA always shows at least one of the following characteristics: Market orientation; Competitor focus; Long-term orientation (Guilding et al, 2000).

Forthly, prioritizing resources for management accounting in general and SMA in particular. Currently, most very large-scale enterprises only pay attention to management accounting in general and SMA in particular. However, with increasingly intense competition, managers need to utilize a variety of tools in their operational activities.

Fifthly, accountants need to be proactive in becoming professional SMAs to help business managers make timely decisions. If they don't change their mind, with the development of digital technology and artificial intelligence, the opportunity to keep their jobs will become less and less..

5. Conclusion

SMA is considered an effective tool to support managers, helping them understand the operations of their own business and clearly understand its strengths and weaknesses, in order to make short-term and long-term management decisions. Therefore, businesses need to invest financial and human resources to help the accounting system operate effectively. In Vietnam, applying SMA in SMEs is very feasible. It is possible that the resources to pay for human resources and invest in this accounting department will be costly, but the long-term benefits are very clear. In addition, with the development of the Fourth Industrial Revolution and artificial intelligence, it will greatly support businesses. Therefore, promoting the application of SMA for businesses is an irreversible trend.

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