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Introducing strategic financial management

About this chapter

This chapter will consider the tools available to the manager to assist in the strategic management process and will examine the role of management accounting systems in supporting this process. The stages within the strategic management process have been described as forming part of a continual process of analysis based on planning and control. Successful strategic decision making requires the support of an efficient management information system which should be designed to meet the needs of the individual organisation and will be required to adapt as the strategy develops. This chapter will consider in particular:

- The purpose of management accounting
- Examples of tools for strategic analysis
- Traditional management accounting versus strategic management accounting
- Strategic management accounting trends for the hospitality industry.

Learning objectives

On completion of this chapter, you should be able to:

- Distinguish between the use of management accounting and financial accounting
 - Apply a range of tools and models for business analysis
 - Understand how to apply a range of strategic models to determine the strategic positioning of the business
 - Understand the concept of strategic management accounting.
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Introduction

All business enterprises are required to monitor their financial activities and, depending on the size of the organisation, produce accurate audited accounts for external inspection. The disclosure requirements for small unlimited businesses are fairly basic, with often just the balance sheet to be submitted to the regulatory authorities based on the profit and loss and cash flow. At the other end of the spectrum, the published annual accounts of the larger listed companies are required to be somewhat more detailed. It is this information, in the form of the financial statements and the accompanying notes, which provides the potential investor and other external users with some insight into the strengths and weaknesses of the business and will affect the decision whether to engage with the business or not. Investors will be looking to understand the viability and performance of the business in terms of annual returns and investment opportunities. This activity is called financial accounting and is regulated by international and local statutory requirements such as the International Financial Reporting Standards (IFRS). The level of information required depends on the size and structure of the business as Table 2.1 illustrates.

Criteria	Reporting requirements
Micro entities	
Very small companies with any 2 of the following: ~ a turnover of £632,000 or less ~ £316,000 or less on its balance sheet ~ 10 employees or less	~ prepare simpler accounts that meet statutory minimum requirements ~ send only your balance sheet with less information to Companies House ~ benefit from the same exemptions available to small companies
Small companies	
~ a turnover of £10.2 million or less ~ £5.1 million or less on its balance sheet ~ 50 employees or less	~ use the exemption so company's accounts do not need to be audited ~ choose whether or not to send the directors' report and profit and loss account to Companies House ~ send abridged accounts to Companies House
Medium sized companies	
To be a medium-sized company, you must meet at least 2 of the following conditions: ~ the annual turnover must be no more than £36 million ~ the balance sheet total must be no more than £18 million ~ the average number of employees must be no more than 250	Medium-sized accounts must include: ~ a profit and loss account ~ a balance sheet, showing the printed name and signature of a director ~ notes to the accounts ~ group accounts (if appropriate) The accounts should be accompanied by: ~ a directors' report including a business review (or strategic report) showing the printed name of the approving secretary or director ~ an auditor's report that includes the name of the registered auditor (unless the company is exempt)

Table 2.1: Statutory requirements for reporting (sourced from www.gov.uk)

Statutory financial accounts, however, are insufficiently detailed to support the managers working within the business. Key operating information such as material and wage costs, overhead expenditure and the related percentages are not clearly visible, and individual departments within the business are hidden through the process of consolidation. The senior management team needs regular data and information, some of which will arrive on a daily basis either electronically or via team briefings, with a full detailed report available on a monthly basis. These regular internal reports are generated via the process called management accounting, where detailed reports and statistics are produced containing information tailored to meet the needs of that sector of the business.

In today’s world the finance function has a critical role to play both in ensuring that financial reporting is true and accurate, to meet statutory requirements, but also in providing appropriate information for management decision making purposes as illustrated in Figure 2.1.



Figure 2.1: The role of the finance function in organisational decision making

It is essential that the finance function provides the central point for all data about the business and uses this to break down departmental silos. For example, with the increase in statutory requirements for sustainability reporting the finance function has a key role to play in collecting, sharing and reporting data.

In Chapter 1 a range of stakeholders were identified and each of these groups has an interest in business performance. These are summarised in Figure 2.2



Figure 2.2: Business stakeholders