

## THE EFFECTIVENESS OF STRATEGIC MANAGEMENT ACCOUNTING ON FINANCIAL PERFORMANCE IN THE FINANCIAL SERVICES SECTOR

Azli Fahrizal, Lindrianasari, Yuliansyah, and Fajar Gustiawaty Dewi

### Article Info

#### Article History

Received:  
August 15, 2021

Accepted:  
November 07, 2021

**Keywords :** Strategic management accounting, financial performance, banks, Indonesia

**DOI:**  
10.5282/zenodo.5644257

### Abstract

**Objective** – The use of strategic management accounting was under reported in financial services firms in developing countries. This study aimed to examine the effect of strategic management accounting in improving the financial performance of the banking industry in Indonesia, with the problem of high levels of competition, nearly equal services products and government regulations.

**Design/methodology/approach** – Data were collected through questionnaires to middle-level managers of banks in Jakarta and supported by information from print out and electronic media which could be accounted for to review performance information and problems with banking institutions in Indonesia.

**Results** – Strategic management accounting had an effect on the financial performance of banks in Indonesia, based on the understanding of respondents who were experienced with a long period of work in their field work and education level.

**Originality/value** – The research could explain that strategic management accounting had a direct relationship and impact on financial performance.

### A. Introduction

The application of strategic management accounting (SMA) has been associated with a high level of competition, and many studies have been conducted on the manufacturing sector in developed countries. Several studies have found that strategic management accounting produces information for strategic decision making (Ma and Tayles, 2009) and it has affect on organization's ability to allocate and utilize resources (Lay and Jusoh, 2017), competitive advantage (Alamri, 2018), organizational performance (Berliantiningrum et al., 2017; Aksoylu and Aykan, 2013; Noordin et al., 2015; Al-Mawali, 2015; Kalkhouran et al., 2015), cost control and cost reduction (Dmitrović-Šaponja and Suljović, 2017), but very few explanation related its effect on the financial performance of the services sector.

This research examines the effectiveness of strategic management accounting on financial performance (FP), carried out in banking because of the high level of competition with nearly equal services products, moreover the results of the study found that a long-term competitive strategy is needed that goes far beyond the financial sector for the sustainability of a potential banking business (Strelnikov, 2020), and it is carried out in Indonesia because the private banking strategy in Indonesia is having problem of no significant investment to attract more customers and focus on capital preservation rather than wealth accumulation (Gunardi et al., 2020).

Strategic management accounting is very rational when it is associated with financial performance and to see its direct effect on financial performance, because strategic management accounting focuses on profitability management (Mohamed and Jones, 2014), and the tools used are directly related to the efforts in improving financial performance, such as attribute costs, costs with activity based /management with activity based, life cycle costs, quality costs, target costs, value chain costs, strategic costs, and strategic costs (Guilding et al., 2000; Cravens and Guilding, 2001; Cinquini and Tenucci, 2007; Cadez and Guilding, 2008; Shah et al., 2011; Fowzia, 2011), which is used to support value chain analysis in studying competitor, market and customer relationships, as well as their information for strategic decision making.

Strategic management accounting is important in the service sector, because the service sector relies on service strategies and the quality of its human resources to improve performance. Research in the service sector found that service quality affects customer satisfaction and customer loyalty, eventually leads to company profitability (Yee et al., 2010) and strategic management accounting integrates competitor, customer and market information to produce strategic information which is used for strategic decision making. Strategic management accounting research in the service sector found that strategic management accounting and customer performance mediate on the relationship between the use of market orientation

strategies and financial performance (Turner et al., 2017), but banks in Jordan did not use strategic management accounting and its tools (Alnawaiseh, 2013).

This research contributes to the strategic decision making of banking in Indonesia by using strategic information in the process of formulating competitive strategies to improve banking financial performance. The results are expected to support SMA which is doubtful about its effectiveness and the lack of clarity of definitions and tools by some previous researchers. The use of strategic management accounting information builds communication of various functions in the formulation of strategies to increase banking competitiveness, therefore services and human resources work on the similar purpose.

## B. Theoretical Framework and Hypotheses

### Strategic Management Accounting (SMA)

SMA is best understood as a general approach to calculate strategic position, it is defined as an attempt to integrate insights from management accounting and marketing management within a strategic management framework (Roslender and Hart, 2003), and the results of a review of 23 leading accounting journals over the last 12 years (2008 - 2019) explain that the external environment of the organization, long-term orientation and the using of non-financial information are used as criteria to isolate SMA technique from traditional management accounting tools (Rashid et al., 2020).

SMA is influenced by the implementation of a differentiation strategy (as opposite of cost leadership strategy), and the SMA technique most intensively used is on strategic planning and budgeting, customer accounting, and target costing, and the least used is on integrated performance measurement systems, strategic pricing, and activity-based costing (Peters and Šoljaková, 2020). However, on the previous research findings claim that the SMA technique most widely used in on customer accounting, competitive position monitoring, competitor performance appraisal based on published financial reports, and quality costing (Cinquini and Tenucci, 2010).

The application of SMA has a positive effect on cost control and reduction (Rogošić and Ramljak, 2012; Dmitrović-Šaponja and Suljović, 2017), financial and non-financial performance (Alamri, 2019). All dimensions of SMA play an important role in determining business outcomes as congruent with the theory of a view based on the company resources (Phornlaphatrachakorn and Na-Kalasinhu, 2020), and found the positive impact of the integration of SMA in strategic decision making and SMA in operational decision making in reducing the company's financial failure (Shaqqour, 2020).

### Financial Performance (FP)

Financial performance is organizational performance as measured by financial information, which includes and relates to income, expenses, assets, liabilities and cash flows (Burkhardt and Wheeler, 2013), and the correlation of several financial ratios is more effective for assessing financial performance (Aidoo and Mensah, 2017), but the most important thing is what has affected it.

The research in service companies found that competitive advantage (Cantele and Zardini, 2018), intellectual capital (Ekwe, 2012), and customer satisfaction (Chi and Gursay, 2009) contribute and have a positive impact on financial performance, and research in manufacturing companies finds organizational learning has an effect on the financial performance (Hatane, 2015), and the effect of the performance measurement process on the financial performance through non-financial performance mediation (Hernaus et al., 2012).

### Hypothesis

In business units with results based, the application of SMA is not only limited to the accounting function, managers in other functions may be motivated to implement SMA but also when management accountants are not part of the process (Hadid and Al-Sayed, 2021), such as strategic management accounting research on Banks in Nigeria found that SMA is not a concept, but as an operating principle, and that SMA contributes significantly to strategic decision making in the areas of competitive advantage and increasing market share (Oboh and Ajibolade, 2017).

Management accounting practices that offer extensive information have been shown to be positively related to company performance (Kalkhouran et al., 2015), such as strategic management accounting with broader tools found to have been used to improve the financial performance of companies operating in high-complexity environments (Santini, 2013), and companies with low profitability in the past to improve financial performance in the future (Pavlatos and Kostakis, 2018). Based on that explanation above, the hypothesis of this research is that “the application of strategic management accounting (SMA) contributes to improve the financial performance (FP) of banks in Indonesia”.

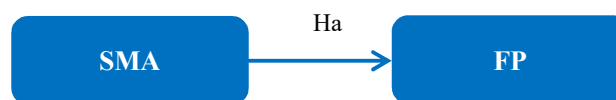


Figure B1. Research Model

### C. Research Methods

The survey was conducted on 72 conventional and Islamic banks in Indonesia with 216 middle-level managers as respondents. The questionnaires were delivered directly and only 98 people were willing to become respondents from 66 banks, or only 45.37% of the total planned respondents for reasons of confidentiality and time, therefore the authors used Partial Least Square (PLS) software in version 3 to perform data processing and analysis.

#### Variable Measurement

The size of the strategic management accounting (SMA) variable consists of 12 statements with an answer scale of 1 to 5, from very important to very unimportant and financial performance (FP) variable consists of 4 statements with an answer scale of 1 to 5, from furthest above average to furthest below average.

#### Strategic Management Accounting (SMA)

The questionnaire was taken from Oboh and Ajibolade (2017) which examined strategic management accounting (SMA) in banking in Nigeria. The structure of the questionnaire consists of statements about:

- 1) The use of strategic management accounting in banking (knowledge of strategic management accounting, understanding of strategic management accounting, technique applications of strategic management accounting in banks);
- 2) Information about competitors (understanding of competitors in operations and strategies, understanding of competitors in developing banking strategies, understanding of operational cost information to compete).
- 3) Information about customers (understanding of customer needs and service preferences, understanding of customer complaints, customer ideas and suggestions helps to bank management);
- 4) Information on the market (developments in the exploration of business opportunities, information on the banking industry in developing new operating strategies, important information in formulating strategies to survive in crisis conditions) (Oboh and Ajibolade, 2017).

#### Financial Performance (FP)

The questionnaire was taken from the research of Yuliansyah et al., (2016), which examined the alignment of strategies in banking in Indonesia. The structure of the statement includes: rate of return on assets, level of income, return on investment and profitability (Yuliansyah et al., 2016).

### D. Research Results

Data analysis was carried out and the results explained that the items using strategic management accounting in banking in Indonesia (FP1, FP2, FP3), and market information items (SMA11) were eliminated because they did not meet the minimum value criteria of 0.700, it has meaning that banks in Indonesia did not use strategic management accounting in the business strategy formulation process and the establishment of a strategic performance measurement system, therefore the results depend on the understanding and abilities of the respondents based on their experience and years of work in banking (see table D2). The understanding of respondents on market information is only for the purpose of exploring business opportunities and strategies to survive in crisis conditions, and other measures of strategic management accounting are considered important as information which is integrated with the average respondent's answer to the SMA size of 4.22 and the financial performance measure is considered good for representing information assessed from year to year, with an average respondent's answer of 3.99 (see table D1).

**Table D1. Descriptive statistics**

Variable	N	Theoretical Range		Actual Score		Mean	Standard Deviation (SD)
		Minimum	Maximum	Minimum	Maximum		
Strategic Management Accounting (SMA)	98	1	5	3	5	4,22	0,59
Financial Performance (FP)	98	1	5	3	5	3,99	0,56

**Table D2. Cross Loadings**

	FP	SMA
FP1	<b>0.922</b>	0.663
FP2	<b>0.921</b>	0.661
FP3	<b>0.935</b>	0.665
FP4	<b>0.912</b>	0.661
SMA4	0.488	<b>0.712</b>
SMA5	0.593	<b>0.821</b>
SMA6	0.573	<b>0.763</b>
SMA7	0.545	<b>0.804</b>
SMA8	0.485	<b>0.771</b>
SMA9	0.587	<b>0.754</b>
SMA10	0.550	<b>0.784</b>
SMA12	0.576	<b>0.739</b>

The construct reliability and validity values also support cross loading. The Average Variance Extracted (AVE) value of strategic management accounting (SMA) and financial performance (FP) are each above 0.5 or have good discriminant validity and the composite reliability value is above 0.7 or reliable and Cronbach's alpha value is above 0.6 or reliable (see table D3 ).

**Table D3. Construct Reliability and Validity**

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
FP	0.942	0.942	0.958	0.851
SMA	0.901	0.903	0.920	0.592

Strategic management accounting (SMA) predicts financial performance (FP) moderately. The R-Square value explains the variability of the financial performance construct by 51.6% and is explained by other variables outside the study of 48.4% and the adjusted R-square value of 51.1% (see table D5).

**Table D5. R-Square**

	R-Square	R-Square Adjusted
FP	0.516	0.511

The results of hypothesis testing explain that strategic management accounting (SMA) has a positive effect on financial performance (FP). The statistical T value is greater than the T table or  $5.445 > 1.98525$  with a beta coefficient of 0.718 and a P-value of 0.05, which is 0.000 (see Figure D1 and table D6). These results support the finding that strategic management accounting (SMA) techniques (strategic planning, performance control and measurement, competitor accounting, and customer accounting) have a significant positive relationship with organizational competitiveness and sustainable organizational performance (Thapayom, 2019), and these results also support strategic management accounting research on banks in Nigeria, that SMA has a positive impact on the economic, environmental, and social sustainability of banks (Omowunmi Jumoke et al., 2021).

This study integrates competitor information, customer information and market information as strategic information used for the formulation and implementation of business strategies for the purpose of improving banking financial performance on the dimensions of return on investment and profits. Dimensional integration is defined as a process of generating strategic information, thus assessing it partially does not represent the character of SMA as a provider of information for monitoring and controlling business strategies to increase competitiveness such as suggested by Simond (1981).

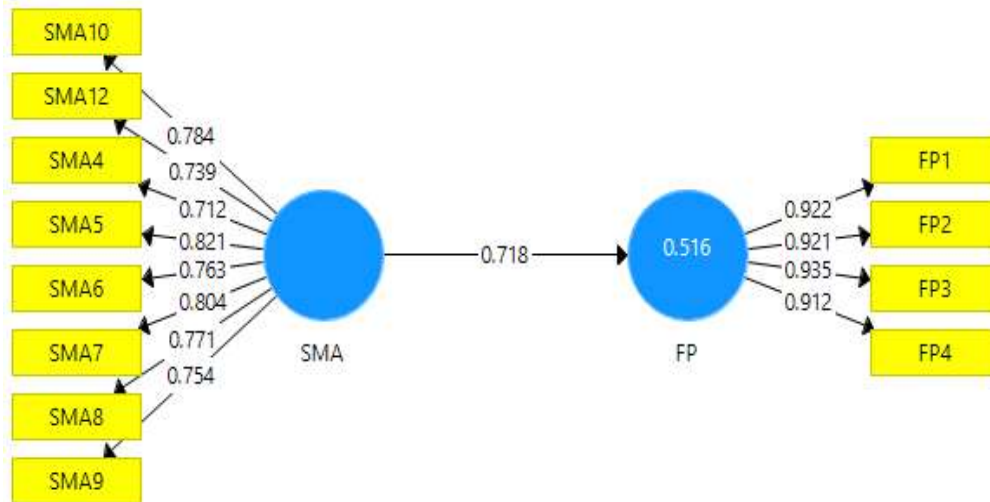


Figure D1. Model measurement structure

Table D6. Path coefficients

Hypothesis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (IO/STDEVI)	P-Values
Strategic Management Accounting (SMA) -> Financial Performance (FP)	0,718	0,670	0,132	5,445	0,000

### E. Discussion

Strategic management accounting is found to play an important role in banking management that relies on service quality supported by digital service technology capabilities and human resources, eventually increases investment returns and profits. SMA can be developed according to the needs of different organizational life cycles for the advancement of service companies (Fong, 2011), and SMA is used to manage profitability drivers (integrating costs, assets and revenues) (Mohamed and Jones, 2014), with the consideration on that pricing techniques, investment decision-making, and budgeting have a significant and direct relationship with performance (Soltani et al., 2014). Banking in having of high competition requires a business strategy that is able to adapt to changes in competitors' strategies, dynamic markets and customer tastes which are very responsive to changes in prices and service quality.

The results of this study have supported the previous finding that, the use of SMA mediates the relationship between differentiation strategy and company performance (Ah Lay and Jusoh, 2014), and the three-way interaction between environmental uncertainty, differentiation strategies, and management control systems have been used in high-performing companies (Eker and Eker, 2019).

Strategic information is the result of a value chain analysis process that assesses the interactions between competitors' operating strategies, competitors' costs and competitors' performance, thereby generating customer value and winning potential markets. It is then used as a comparison with internal strategy and various relevant SMA tools are used to support this process such as strategic performance measurement systems, ABC/ABM, cost drivers, value chain costs, and strategic costs to determine strategic prices in having low-cost strategies or competitor differentiation strategies.

SMA plays a role in assessing the strategy of the banking business unit, assessing the extent has fulfilled the wishes of certain customer groups and how to reach it and what tools have been used. Strategic management accountants collect data from marketing, production, finance and other divisions to assess business unit strategy in relation to target customer groups, technology used by business units and competitors, and pricing policies (Dixon and Smith, 1993), and research on banking found that the characteristic interaction of information system of management accounting with business strategy has a significant and positive effect on managerial performance (Syam, 2018).

Banks in Indonesia should apply SMA to change the principles of cost management into profitability management. The banking strategy in Indonesia to develop digital services and reduce branch offices for the purpose of reducing operating costs may need to be re-analyzed, because financial performance is determined by the level of competition. Considering the alignment between business strategies, digital technology operational strategies mixed in the context of creating

customer value may have a positive impact on financial performance. In addition, seeking sound financing through risk management is able to adopt the principles of strategic management accounting.

This study has weaknesses in respondents who work in banks who do not apply SMA, and only depend on individual understanding of the needs of their respective jobs, and the experimental method may produce findings that further support the understanding that SMA produces strategic information for the formulation and monitoring business strategies, ultimately puts the company at a competitive level thereby improving financial performance. Future research is better to use a contingency theory framework to maximize the role of SMA for company performance, because there is a potential for failure to utilize strategic information in the business strategy formulation process to increase competitiveness, and failure to align business strategy and operations strategy which involves various functions and relies on information about customers. Future researchers may be able to use strategic alignment and competitive advantage as a mediation that supports the effectiveness of SMA on the performance of service companies.

## F. Conclusion

This research is to examine the effect of SMA on banking financial performance and the results support the hypothesis. The SMA concept is important because it integrates information about competitors, customer information and market information to produce strategic information which is useful for decision making and evaluation of business strategies and recommends its sustainability, thus placing the company in a competitive position will improve financial performance on the dimensions of return on investment and profit dimensions. These results explain the direct and positive relationship between strategic information from the Strategic Management Accounting (SMA) concept and Financial Performance (FP) indicators.

## References:

- Ah Lay T and Jusoh R (2014) Business strategy, intensity of competition, strategic role of accountants, strategic management accounting and firm performance.
- Aidoo M and Mensah FS (2017) Development of financial performance assessment indices for bank performance rating in Ghana. *Global Journal of Management and Business Research (C)* 17(7).
- Aksoylu S and Aykan E (2013) Effects of strategic management accounting techniques on perceived performance of businesses. *Journal of US-China Public Administration* 10(10): 1004-1017.
- Al-Mawali H (2015) Strategic management accounting usage, environmental uncertainty and organizational performance. *European Journal of Business and Management* 7(18): 219-226.
- Alamri AM (2018) Strategic management accounting and the dimensions of competitive advantage: Testing the associations in Saudi industrial sector. *International Journal of Academic Research in Accounting, Finance and Management Sciences* 8(2): 48-64.
- Alamri AMJBoM (2019) Association between strategic management accounting facets and organizational performance.
- Alnawaiseh M (2013) The extent of applying strategic management accounting tools in Jordanian banks. *International Journal of Business and Management* 8(19): 32-44.
- Berliantiningrum R, Sunaryanto H and Pratikto H (2017) The effect of strategic management and strategic management accounting system on the performance of manufacturing companies in East Java. *International journal of business, economics and law* 12(1): 44-51.
- Burkhardt JH and Wheeler JR (2013) Examining financial performance indicators for acute care hospitals. *Journal of health care finance* 39(3): 1-13.
- Cadez S and Guilding C (2008) An exploratory investigation of an integrated contingency model of strategic management accounting. *Accounting, Organizations and Society* 33(7-8): 836-863.
- Cantele S and Zardini A (2018) Is sustainability a competitive advantage for small businesses? An empirical analysis of possible mediators in the sustainability–financial performance relationship. *Journal of Cleaner Production* 182: 166-176.
- Chi CG and Gursoy D (2009) Employee satisfaction, customer satisfaction, and financial performance: An empirical examination. *International Journal of Hospitality Management* 28(2): 245-253.
- Cinquini L and Tenucci A (2007) Is the adoption of Strategic Management Accounting techniques really “strategy-driven”? Evidence from a survey.
- Cinquini L and Tenucci A (2010) Strategic management accounting and business strategy: a loose coupling? *Journal of Accounting & organizational change*.
- Cravens KS and Guilding C (2001) Brand value accounting: an international comparison of perceived managerial implications. *Journal of International Accounting, Auditing and Taxation* 10(2): 197-221.
- Dixon R and Smith D (1993) Strategic management accounting. *Omega* 21(6): 605-618.
- Dmitrović-Šaponja L and Suljović E (2017) Strategic management accounting in the Republic of Serbia. *Economic research-Ekonomska istraživanja* 30(1): 1829-1839.

- Eker M and Eker S (2019) Exploring the relationships between environmental uncertainty, business strategy and management control system on firm performance. *Business and Economics Research Journal* 10(1): 115-130.
- Ekwe MC (2012) Intellectual capital and financial performance in an emerging economy: An empirical investigation of a Nigerian Bank. *Ushus Journal of Business Management* 11(2): 1-20.
- Fong CS (2011) Strategic management accounting of social networking site service company in China. *Journal of Technology Management in China*.
- Fowzia R (2011) Strategic management accounting techniques: Relationship with business strategy and strategic effectiveness of manufacturing organizations in Bangladesh. *World Journal of Management* 3(2): 54-69.
- Guilding C, Cravens KS and Tayles M (2000) An international comparison of strategic management accounting practices. *Management Accounting Research* 11(1): 113-135.
- Gunardi H, Primiana I, Effendi N, et al. (2020) Risk and Competition in the Indonesian Private Banking Market: An Asymmetric Rivalry Within and Between Strategic Groups. *MPRA Paper*.
- Hadid W and Al-Sayed M (2021) Management accountants and strategic management accounting: The role of organizational culture and information systems. *Management Accounting Research* 50: 100725.
- Hatane SE (2015) Employee satisfaction and performance as intervening variables of learning organization on financial performance. *Procedia-Social and Behavioral Sciences* 211: 619-628.
- Hernaus T, Bach MP and Vukšić VB (2012) Influence of strategic approach to BPM on financial and non-financial performance. *Baltic Journal of Management*.
- Kalkhouran AAN, Rasid SZA, Sofian S, et al. (2015) A conceptual framework for assessing the use of strategic management accounting in small and medium enterprises. 35(1): 45-54.
- Lay TA and Jusoh R (2017) Organizational capabilities, strategic management accounting and firm performance. *Jurnal Akuntansi dan Keuangan Indonesia* 14(2): 222-246.
- Ma Y and Tayles M (2009) On the emergence of strategic management accounting: an institutional perspective. *Accounting and Business Research* 39(5): 473-495.
- Mohamed AA and Jones T (2014) Relationship between strategic management accounting techniques and profitability—a proposed model. *Measuring Business Excellence*.
- Noordin R, Zainuddin Y, Fuad, et al. (2015) Performance Outcomes of Strategic Management Accounting Information Usage in Malaysia: Insights from Electrical and Electronics Companies. *Procedia Economics and Finance* 31: 13-25.
- Obboh CS and Ajibolade SO (2017) Strategic management accounting and decision making: A survey of the Nigerian Banks. *Future Business Journal* 3(2): 119-137.
- Omowunmi Jumoke O, Gabriel Damilola F and David Olusanjo O (2021) The Impact of Strategic Management Accounting on Corporate Sustainability in Nigerian Banks. *Global Journal of Accounting* 7(1): 69-79.
- Pavlatos O and Kostakis X (2018) The impact of top management team characteristics and historical financial performance on strategic management accounting. *Journal of Accounting & organizational change*.
- Petera P and Šoljaková L (2020) Use of strategic management accounting techniques by companies in the Czech Republic. *Economic research-Ekonomska istraživanja* 33(1): 46-67.
- Phornlaphatrachakorn K and Na-Kalasindhu K (2020) Strategic management accounting and firm performance: Evidence from finance businesses in Thailand. *The Journal of Asian Finance, Economics, and Business* 7(8): 309-321.
- Rashid MM, Ali MM and Hossain DM (2020) Revisiting the relevance of strategic management accounting research. *PSU Research Review*.
- Rogošić A and Ramljak B (2012) Strategic management accounting practices in Croatia. *The Journal of International Management Studies* 7: 93-100.
- Roslender R and Hart SJ (2003) In search of strategic management accounting: theoretical and field study perspectives. *Management Accounting Research* 14(3): 255-279.
- Santini F (2013) Strategic Management Accounting and financial performance in the small and medium sized Italian manufacturing enterprises. *Strategic Management Accounting and Financial Performance in the Small and Medium Sized Italian Manufacturing Enterprises*. 77-107.
- Shah H, Malik A and Malik MS (2011) Strategic management accounting—A messiah for management accounting. *Australian Journal of Business and Management Research* 1(4): 1-7.
- Shaqqour OF (2020) IMPACT OF VERTICAL AND HORIZONTAL INTEGRATION BETWEEN STRATEGIC MANAGEMENT ACCOUNTING AND DECISIONMAKING ON REDUCING FINANCIAL FAILURES CASE OF JORDAN. *Academy of Accounting and Financial Studies Journal* 24(5): 1-9.
- Soltani S, Nayebzadeh S and Moeinaddin M (2014) The impact examination of the techniques of management accounting on the performance of tile companies of Yazd. *International Journal of Academic Research in Accounting, Finance and Management Sciences* 4(1): 382-389.
- Strelnikov VV (2020) Supply Chain Strategy in Banking Sector of Russia: New Challenges and Strategic Fundamentals of Development. *International Journal of Supply Chain Management* 9(1): 857-861.

- Syam F (2018) Influence of Characteristics of Management Accounting Information Systems to Managerial Performance with Variables of Business Strategy Modernations and Uncertainty Duties in Banking Companies in Aceh Province. *International Journal of Academic Research in Business and Social Sciences* 8(7): 238-256.
- Thapayom A (2019) Strategic Management Accounting Techniques and Organizational Sustainable Performance: Evidence from Industrial Estates in Rayong Area, Thailand. *Journal of Modern Management Science* 12(1): 51-74.
- Turner MJ, Way SA, Hodari D, et al. (2017) Hotel property performance: The role of strategic management accounting. *International Journal of Hospitality Management* 63: 33-43.
- Yee RW, Yeung AC and Cheng TE (2010) An empirical study of employee loyalty, service quality and firm performance in the service industry. *International Journal of Production Economics* 124(1): 109-120.
- Yuliansyah Y, Rammal HG and Rose E (2016) Business strategy and performance in Indonesia's service sector. *Journal of Asia Business Studies*.