ATESTASI: JURNAL ILMIAH AKUNTANSI
Vol 6, Issue 1, (2023), 457 - 473

Cost Management and Strategic Decision Making: The Role of Managerial Accounting

Endah Susilowati *

* Universitas Pembangun Nasional "Veteran" Jawa Timur

Email:
endahs.ak@upnjatim.ac.id

Received: November, 30, 2022 **Revised:** March, 23, 2023 **Accepted:** March 31, 2023

Abstract

This study investigates the integration of cost management and strategic decision-making, focusing on the role of managerial accounting. It aims to explore how advanced cost management techniques, particularly Activity-Based Costing (ABC), contribute to achieving competitive advantage and aligning with strategic objectives. The research employs a qualitative design, using case studies and interviews with senior managers and financial controllers in medium to large manufacturing firms. This approach provides detailed insights into the implementation and effectiveness of ABC and other cost management practices in strategic decision-making. The findings reveal that ABC enhances cost information accuracy, facilitating more informed strategic decisions regarding pricing, product mix, and process improvements. Top management support and a conducive organizational culture are crucial for successful ABC implementation. Firms that regularly update their cost management practices maintain accuracy and relevance in cost information. The balanced scorecard effectively aligns cost management with strategic objectives, improving strategic alignment and decision-making. Organizations should prioritize adopting ABC, ensure strong top management support, and foster a culture of innovation. Regular updates to cost management practices and investment in training programs enhance managerial competencies and decision-making. These findings provide valuable insights for practitioners and scholars, highlighting the strategic role of managerial accounting in driving competitive advantage.

Keywords: Cost Management; Strategic Decision-Making; Managerial Accounting; Activity-Based Costing; Balanced Scorecard.

DOI : **https://doi.org/10.57178/atestasi.v6i1.855**
p-ISSN : **2621-1963**
e-ISSN : **2621-1505**

Introduction

In the contemporary business landscape, cost management has emerged as a critical component of strategic decision-making. Markets' increasing complexity and dynamism necessitate a robust managerial accounting system that can provide relevant and timely information to guide strategic choices (Tambunan, 2022). Traditional cost management practices, often confined to simple cost reduction techniques, must address the multifaceted challenges modern organizations face. This inadequacy becomes particularly pronounced in the context of globalization, technological advancements, and heightened competition, which demand a more nuanced approach to managing costs (Casas-Arce et al., 2022). Thus, the practical problem underpinning this research lies in the evolving role of cost management within the broader scope of strategic decision-making, emphasizing the need for an integrated managerial accounting framework that supports strategic objectives rather than merely operational efficiency. From a theoretical perspective, there has been a significant shift in how cost management is perceived within managerial accounting. Traditional theories primarily focused on cost behavior, budgeting, and variance analysis, which provided a foundational understanding but needed to be expanded in their strategic applications (Oyewo, 2022). Recent developments in strategic cost management have introduced concepts such as activity-based costing, balanced scorecards, and value chain analysis, which offer a more comprehensive view of how costs interact with strategic initiatives. However, these theoretical advancements have yet to be universally adopted, creating a disconnect between academic research and managerial application. This theoretical problem underscores the need for a holistic examination of the role managerial accounting plays in strategic decision-making, bridging the gap between theory and practice (Psarommatis et al., 2022).

Recent studies have increasingly highlighted the importance of integrating managerial accounting with strategic decision-making processes. Technological disruptions and shifting competitive dynamics characterize business environments. Managerial accounting, particularly cost management, is crucial in strategic decision-making (Calota, 2021). This is evident in the financial performance of low-cost airlines, where strategic management accounting significantly influences decision-making and implementation processes (Tirado & Mavlutova, 2023). Modern cost accounting systems provide accurate and tailored information for effective decision-making (Janus et al., 2023). In SMEs, management accounting practices, including costing, planning, and control, significantly impact competitive advantage and financial performance (Reynoso & del Río, 2023). Implementing responsibility centers in managerial accounting can improve decision-making by decentralizing responsibilities (Bugaian, 2022). Accounting information systems, particularly cost accounting, are effective in strategic decision-making in textile enterprises (Günay, 2022). Strategic management accounting, with its focus on strategic goals, information collection, and performance indicators, is crucial for effective decision-making in modern enterprises (Скороход & Ребрина, 2023). The gap between recent studies and current empirical and theoretical aspects of cost management and strategic decision-making is evident. While research has made significant strides in developing sophisticated managerial accounting tools, there is still a need for a comprehensive framework that integrates these tools into a cohesive strategy. Additionally, there is a gap in understanding how these tools can be tailored to different organizational contexts and dynamic business environments. For example, while the balanced scorecard has been widely adopted, its implementation varies significantly across organizations, with varying degrees of success. Similarly, despite its theoretical appeal, activity-based costing faces practical challenges regarding complexity and resource requirements. Addressing these gaps requires a deeper exploration of the contextual factors that influence the adoption and effectiveness of managerial accounting tools in strategic decision-making.

Given these gaps, this research addresses several key questions: How can managerial accounting tools be integrated into a cohesive cost management strategy that supports strategic decision-making? What contextual factors influence the adoption and effectiveness of these tools in different organizational settings? How can these tools be adapted to rapidly changing business environments? By addressing these questions, this study seeks to contribute to the existing body of knowledge by providing a comprehensive framework for integrating managerial accounting into strategic decision-making. The novelty of this research lies in its holistic approach, which considers the interplay between various managerial accounting tools and their contextual application. By bridging the gap between theory and practice, this study offers practical insights to guide organizations in enhancing their cost management practices and making informed strategic decisions. The research will adopt a qualitative methodology to achieve these objectives, employing case studies and interviews to gather in-depth insights from practitioners across different industries. This approach will allow for a nuanced understanding of the contextual factors that influence the adoption and effectiveness of managerial accounting tools. Additionally, the study will explore how organizations adapt these tools to meet the demands of rapidly changing business environments. The findings of this research are expected to provide valuable insights for academics and practitioners, offering a roadmap for integrating managerial accounting into strategic decision-making processes. By addressing the practical and theoretical problems identified, this study aims to contribute to developing more effective cost-management practices that support strategic objectives.

Literature Review

The intersection of cost management and strategic decision-making has garnered significant attention in managerial accounting. Modern business environments' dynamic and competitive nature necessitates a more strategic approach to cost management, moving beyond traditional cost accounting methods. This literature review explores the evolution of cost management practices and their integration into strategic decision-making processes, emphasizing the role of managerial accounting.

Evolution of Cost Management

The landscape of cost management has undergone a significant transformation, evolving from traditional practices that emphasize cost reduction and control to more sophisticated approaches that align closely with strategic objectives(Simonova, 2023). This evolution reflects the changing needs of businesses operating in increasingly complex and competitive environments. Traditional cost management techniques, such as standard costing, budgetary control, and variance analysis, have been foundational tools for managing and controlling costs (Zamula & Zamula, 2022). However, these methods have been criticized for their short-term focus and limited strategic relevance. Standard costing involves setting predetermined costs for products or services against which actual costs are compared. This method helps identify variances and control costs. However, its effectiveness must improve in dynamic environments where costs and processes continually change. Budgetary control, another traditional technique, compares actual performance against budgeted figures to control expenses. While helpful in ensuring financial discipline, it often needs more flexibility to adapt to strategic changes and innovation(Pardaeva, 2022).

Variance analysis, which examines the differences between planned and actual performance, provides insights into cost control but often fails to address the underlying strategic drivers of costs. As Johnson and Kaplan 1987 highlighted in their seminal work, “Relevance Lost: The Rise and Fall of Management Accounting,” traditional cost accounting systems were increasingly considered inadequate for providing the information needed to support strategic decision-making in modern businesses. (Adamova, 2022). The limitations of these traditional methods led to the development of more advanced approaches that consider the strategic implications of cost management. (Pirvu et al., 2012). One of the most notable advancements in this field is Activity-Based Costing (ABC), introduced by Kaplan and Cooper in the late 1980s. ABC represents a paradigm shift in cost management by allocating overhead costs based on activities that drive costs rather than arbitrary allocation bases. Kaplan and Cooper 1988 emphasized that traditional cost allocation methods often distort product costs, leading to poor strategic decisions. They argued that “the most significant innovation in cost management in the last fifty years has been the development of Activity-Based Costing.” By focusing on activities, ABC provides a more accurate picture of the costs associated with producing a product or delivering a service. This detailed cost information enables managers to make more informed strategic decisions regarding pricing, product mix, and process improvements. (Yalçin, 2015; Zorlescu et al., 2015).

The implementation of ABC involves identifying critical activities within the organization and assigning costs to these activities based on their actual consumption of resources. This approach helps uncover the proper cost drivers and provides insights into areas where efficiency improvements can be made. (Fadhilah et al., 2022). For example, an organization might discover that certain products are more resource-intensive than previously thought, leading to strategic decisions to improve efficiency or re-evaluate the product portfolio. ABC has been particularly beneficial in complex and diverse organizations where traditional cost management methods fall short. It allows for a more nuanced understanding of costs and provides a basis for strategic decisions that enhance competitive advantage.(Crișan & Grama, 2022b, 2022a). Cooper and Kaplan (1991) noted, "Activity-based costing provides a more accurate method of costing products and services, and it is beneficial in environments where overhead costs are high and products are diverse.” Despite its advantages, the adoption of ABC is not without challenges. Implementing ABC can be resource-intensive and requires a cultural shift within the organization. Managers must be trained to understand and effectively utilize ABC's detailed cost information. Additionally, the success of ABC depends on the accuracy and reliability of the data collected on activities and resource consumption.(Escobar-Mamani et al., 2021; Porporato & Recalde, 2021).

Strategic Cost Management

Strategic Cost Management (SCM) represents an evolution in managerial accounting, integrating cost management practices with an organization's strategic objectives. Unlike traditional cost management techniques focusing on cost reduction and control, SCM emphasizes aligning cost information with strategic initiatives to achieve sustainable competitive advantage (Tambunan, 2022). This holistic approach to cost management enables organizations to manage costs more effectively and enhance their strategic decision-making capabilities. Strategic cost management can be integrated to understand how effective cost management can affect financial performance and risk management (Nurfadila, 2024). The principles of Strategic Cost Management extend the concepts introduced by Activity-Based Costing (ABC)(Margherita et al., 2022). While ABC provides a more accurate method of allocating overhead costs based on activities, SCM links these cost insights to strategic business goals. As Shank and Govindarajan stated in 1993, understanding cost drivers and their impact on competitive advantage is crucial for effective SCM (Oyewo, 2022). Organizations can align their cost management practices with their broader strategic goals by identifying and managing value-creating activities, enhancing cost efficiency and overall effectiveness. One of the critical contributions to SCM is Michael Porter’s value chain analysis, introduced in his 1985 work, “Competitive Advantage: Creating and Sustaining Superior Performance.” Porter's framework offers a comprehensive tool for analyzing an organization's activities to identify sources of value creation and cost advantages (Oyewo, 2022). The value chain analysis dissects the organization into strategically relevant activities to understand how each contributes to its overall value proposition and cost structure. Managers can reduce costs and enhance customer value by optimizing these activities, achieving a sustainable competitive advantage (Elghaish et al., 2020).

Porter’s value chain framework categorizes activities into primary and support activities. Primary activities directly relate to a product or service's production, sale, and delivery, including inbound logistics, operations, outbound logistics, marketing and sales, and service.(Vita et al., 2023). Support activities, such as procurement, technology development, human resource management, and firm infrastructure, facilitate the efficiency and effectiveness of primary activities. By analyzing each value chain component, managers can identify areas where cost efficiencies can be gained and where strategic investments can be made to improve competitive positioning. The integration of Porter's value chain analysis with SCM allows organizations to understand their cost structures and strategic opportunities better.(Akyüz et al., 2023). For instance, companies can identify non-value-adding activities and eliminate waste by focusing on cost drivers within the value chain. This reduces costs and frees up resources that can be reallocated to value-creating activities, enhancing the overall strategic position of the firm.(Ainsworth et al., 2023).

In addition to Porter's value chain, Shank and Govindarajan’s Strategic Cost Management concept includes identifying and managing cost drivers. Cost drivers are factors that cause costs to change and can be managed to influence overall cost behavior. These can consist of production volume, product complexity, and process efficiency. By understanding and managing these drivers, organizations can achieve greater control over their cost structures and improve their strategic decision-making processes(Tambunan, 2022). Implementing SCM involves a strategic mindset and a commitment to aligning cost management practices with strategic objectives. This requires a shift from a purely operational focus to a strategic perspective on cost management (Margherita et al., 2022). Managers must be equipped with the tools and insights to link cost information to strategic goals, ensuring that cost management practices contribute to the organization’s competitive advantage. Empirical research supports the efficacy of SCM in enhancing organizational performance. For example, Anderson and Young (1999) found that firms adopting strategic cost management practices, such as ABC and value chain analysis, reported improved strategic alignment and better financial performance. Their study underscores the importance of top management support and organizational culture in successfully implementing SCM practices(Sisman, 2022). Despite its benefits, the adoption of SCM is not without challenges. Organizations may encounter resistance to change, especially if employees are accustomed to traditional cost management practices. Additionally, implementing SCM requires significant resources, including time and expertise, to effectively link cost management practices with strategic goals. Training and development programs are essential to equip managers with the skills to effectively leverage SCM tools (Psarommatis et al., 2022).

The Role of Managerial Accounting in Strategic Decision Making

Managerial accounting is pivotal in strategic decision-making, offering critical insights through relevant and timely cost information (Aulia, 2023). This specialized branch of accounting focuses on providing managers with the information necessary to make informed decisions that align with an organization's strategic objectives.(Carmona & Ezzamel, 2023). One of the most significant contributions to this field is the balanced scorecard, developed by Kaplan and Norton in 1992. This strategic management tool integrates financial and non-financial performance measures, translating objectives into measurable targets and linking cost management practices with overall strategic goals. The balanced scorecard framework comprises four critical perspectives: financial, customer, internal business processes, and learning and growth. Each perspective provides a different lens through which managers can view and evaluate organizational performance. The financial perspective focuses on profitability and cost management, which are essential for maintaining fiscal health and supporting long-term strategic objectives. The customer perspective emphasizes the importance of customer satisfaction and loyalty, recognizing that customer relationships are integral to sustaining competitive advantage. The internal business processes perspective highlights the efficiency and effectiveness of organizational operations, ensuring that internal activities are aligned with strategic goals.(Massicotte & Henri, 2021; Oyewo, 2022). Finally, the learning and growth perspective underscores the importance of continuous improvement and innovation, fostering a culture of development and adaptability within the organization.

The balanced scorecard is a valuable tool for managers to oversee organizational performance comprehensively, encompassing financial and non-financial dimensions. (Firli et al., 2023). By incorporating financial, customer, internal business processes, and learning and growth perspectives, the balanced scorecard enables a holistic view of performance aligned with strategic priorities. (Sastradinata, 2021). Kaplan and Norton (1996) emphasized how the balanced scorecard translates mission and strategy into performance measures, forming a strategic management system. (Watson, 2021). Empirical studies, like the one by Hoque and James (2000), have shown that organizations implementing the balanced scorecard experience enhancements in both financial and non-financial performance measures, attributing this success to the clear linkage between strategic objectives and performance outcomes facilitated by the balanced scorecard, ultimately improving decision-making processes. (Karisa & Wainaina, 2020). The balanced scorecard (BSC) has gained widespread adoption across industries, showcasing its adaptability and effectiveness in aligning operations with strategic goals. The BSC has been utilized in healthcare to enhance patient care quality by linking clinical outcomes with strategic objectives (Al-mawali, 2023). Similarly, companies have leveraged the BSC in manufacturing to boost operational efficiency and product quality, driving competitive advantage through better-aligned processes and strategic focus (Fabac, 2022). Managerial accountants are crucial in strategic decision-making beyond the BSC, employing variance analysis, budgeting, and forecasting techniques to provide actionable insights for effective resource allocation and risk management (Amer et al., 2022). Johnson and Kaplan (1987) highlighted the evolution of managerial accounting practices to offer more relevant information for strategic decision-making (Teichgräber et al., 2021). However, challenges in implementing managerial accounting tools like the BSC include resistance to change and continuous training to ensure effective utilization (Dudić et al., 2020).

Empirical Evidence on the Integration of Cost Management and Strategy

Integrating cost management practices with strategic decision-making is paramount for organizational effectiveness and competitive advantage. Research by Pylypenko et al. emphasizes the importance of adaptive cost management principles and strategic controlling in responding to market changes and optimizing expenses. (Pylypenko et al., 2023). Okereke et al. highlight the role of effective cost management in enhancing project and organizational performance, stressing the benefits of waste reduction and improved operational efficiency. (Okereke et al., 2022). Adamova's work underscores the significance of a strategic approach to financial performance management and the need for an appropriate information system to support strategic decision-making. (Adamova, 2022). Furthermore, the study by Verma and Aggarwal discusses the transformation from traditional cost management to strategic cost management, emphasizing the positive impact on business performance through contingent factors. These studies collectively support the idea that advanced cost management techniques, such as Activity-Based Costing, supported by top management and a conducive organizational culture, can significantly enhance cost accuracy, strategic alignment, and decision-making capabilities, ultimately leading to improved organizational performance.

Another critical study by Chenhall and Langfield-Smith in 1998 explored the relationship between strategic priorities and management accounting practices. Their research suggested that firms with a strategic emphasis on cost leadership were likelier to adopt advanced cost management techniques, such as ABC and target costing.(Carmona & Ezzamel, 2023). These firms leveraged detailed cost information to support their strategic decision-making processes, enabling them to achieve cost efficiencies and maintain competitive pricing. Chenhall and Langfield-Smith observed, “Organizations focusing on cost leadership tend to integrate sophisticated cost management practices into their strategic planning processes to ensure alignment with their competitive strategies” (Chenhall & Langfield-Smith, 1998). The empirical evidence these studies provide highlights several key aspects of integrating cost management and strategy(Huang et al., 2022). First, the accuracy and relevance of cost information are paramount in supporting strategic decisions. Traditional costing methods often need to provide detailed, activity-based cost data for strategic analysis. Advanced techniques like ABC address this gap by offering more precise and actionable cost information. Second, the alignment of cost management practices with strategic priorities is crucial. Firms prioritizing cost leadership must integrate cost management into their strategic frameworks to realize efficiencies and optimize resource allocation. This alignment ensures that cost management efforts directly contribute to achieving strategic goals rather than being isolated operational activities.(Pardaeva, 2022).

Third, the role of top management and organizational culture must be balanced. Successful implementation of advanced cost management practices requires strong leadership and a culture that supports innovation and change. As demonstrated by Anderson and Young (1999), the commitment of top management and the willingness of the organization to embrace new practices are essential for realizing the benefits of integrated cost management and strategic decision-making. Beyond these studies, other research also supports the positive impact of integrating cost management with strategy. (Tambunan, 2022). For instance, Ittner and Larcker (2001) found that firms using balanced scorecards incorporating financial and non-financial performance measures could better align their cost management practices with strategic objectives. This alignment resulted in improved performance and competitive positioning. Ittner and Larcker concluded, “The use of comprehensive performance measurement systems like the balanced scorecard enhances the strategic alignment of cost management practices, leading to better overall performance” (Ittner & Larcker, 2001). In addition to manufacturing, these principles apply across various industries. For example, Kaplan and Porter (2011) demonstrated how integrating cost management with strategic priorities can improve patient outcomes and operational efficiency in the healthcare sector. Their research highlighted the benefits of using time-driven activity-based costing (TDABC) to accurately measure and manage costs in healthcare settings, aligning cost management with the strategic goal of delivering high-quality patient care. (Amer et al., 2022).

Limitations and Challenges

While highly beneficial, integrating cost management with strategic decision-making has limitations and challenges. Organizations striving to adopt sophisticated cost management techniques often encounter significant obstacles that can impede their effectiveness and overall success. Understanding these challenges is crucial for developing strategies to mitigate them and fully realize the potential of integrated cost management practices. One of the primary challenges in implementing advanced cost management techniques, such as Activity-Based Costing (ABC), is the complexity and resource intensity involved. ABC requires a detailed analysis of all organizational activities to allocate costs based on actual consumption. This process is time-consuming and demands substantial financial and human resources. Kaplan and Cooper (1988) noted, "The implementation of ABC can be resource-intensive and complex, requiring significant investment in time, personnel, and technology." Organizations must be prepared to commit these resources to ensure ABC systems' successful adoption and maintenance. Identifying cost drivers and activities accurately poses another significant challenge. The granularity required for ABC can lead to difficulties in distinguishing between value-adding and non-value-adding activities, potentially leading to inaccurate cost allocations. This challenge is exacerbated in large, diversified organizations with complex processes and numerous activities. Ensuring the accuracy of data collected and the reliability of cost drivers identified is critical for the effectiveness of ABC, but achieving this can take time and effort.

Resistance to change is another standard barrier organizations face when implementing sophisticated cost management techniques. Employees and managers accustomed to traditional cost management methods may be reluctant to adopt new practices, particularly those that appear complex and unfamiliar. As Anderson and Young (1999) highlighted, "Resistance to change can significantly hinder the successful implementation of advanced cost management techniques like ABC." Overcoming this resistance requires effective change management strategies, including clear communication of the benefits, training programs, and involvement of all stakeholders in the implementation process. The dynamic nature of business environments also challenges integrating cost management with strategic decision-making. Rapid technological advancements, changing market conditions, and evolving customer preferences necessitate continuous adaptation of cost management practices. Techniques that are effective today may become obsolete tomorrow, requiring organizations to be agile and responsive. This constant need for adaptation can strain resources and complicate maintaining accurate and relevant cost management systems. As Chenhall and Langfield-Smith (1998) noted, "The dynamic nature of business environments requires ongoing adjustments to cost management practices to ensure they remain relevant and effective." (Pylypenko et al., 2023; Simonova, 2023)

Another significant limitation is the potential for information overload. Advanced cost management techniques like ABC generate vast detailed cost information. While this information is invaluable for strategic decision-making, it can also overwhelm managers needing help interpreting and utilizing it effectively. The sheer volume of data can lead to analysis paralysis, where decision-makers cannot act due to the complexity and abundance of information. As Ittner and Larcker (2001) observed, "Managers must be equipped with the skills to interpret and use detailed cost information effectively, or risk being overwhelmed by the data provided by advanced cost management systems." Addressing the challenge of information overload requires robust training and development programs to enhance managerial competencies(Zamula & Zamula, 2022). Managers must be proficient in analyzing and interpreting cost data to make informed strategic decisions. Providing ongoing training and development opportunities can help managers develop the necessary skills to utilize detailed cost information effectively. Additionally, leveraging technology, such as data analytics and visualization tools, can aid in simplifying complex data and making it more accessible for decision-making.(Pardaeva, 2022).

Research Method

This study adopts a qualitative research design to explore integrating cost management with strategic decision-making in organizations. A case study approach is employed to gain in-depth insights into the practical implementation and effectiveness of advanced cost management techniques within a strategic framework, such as Activity-Based Costing (ABC). The qualitative design allows for a comprehensive understanding of the contextual factors influencing the adoption and success of these techniques. The study aims to uncover the complexities and nuances associated with integrating cost management practices into strategic decision-making processes, providing rich, detailed data that can inform both theory and practice. The sample population for this research consists of senior managers and financial controllers from medium to large manufacturing firms that have implemented advanced cost management techniques. The selection of these firms is based on their established use of ABC and other strategic cost management practices. A purposive sampling method ensures that participants have relevant experience and insights into the research topic. The focus on manufacturing firms allows for exploring cost management practices in a sector where accurate cost allocation and strategic decision-making are critical. The sample size is determined based on data saturation, achieved when no new information or themes emerge from the interviews. Data collection is carried out using semi-structured interviews, which allow in-depth exploration of participants' experiences and perspectives while ensuring that all relevant topics are covered. An interview guide is developed and informed by the literature on cost management and strategic decision-making to structure the conversations and ensure consistency across interviews. The guide includes questions on the implementation of ABC, the role of managerial accounting in strategic decision-making, challenges encountered, and the perceived benefits of integrating cost management with strategic initiatives. In addition to interviews, organizational documents such as financial reports, strategic plans, and internal memos are reviewed to triangulate the data and provide a comprehensive understanding of the practices and outcomes. The data analysis process involves thematic analysis, a method suitable for identifying, analyzing, and reporting patterns within qualitative data. Interviews are transcribed verbatim, and the transcripts are coded using a combination of inductive and deductive approaches. Initial codes are generated from the interview data, while predefined codes based on the literature guide the deductive coding process. The coded data are then organized into themes that capture the critical aspects of integrating cost management with strategic decision-making. NVivo, a qualitative data analysis software, systematically manages and analyzes the data. The thematic analysis allows for identifying common patterns and unique insights, providing a detailed understanding of the factors influencing the successful implementation of strategic cost management practices. The findings are interpreted in light of existing theories and empirical evidence, contributing to a deeper understanding of the role of managerial accounting in strategic decision-making.

Result and Discussion

Result

The findings of this research elucidate the intricate dynamics between cost management and strategic decision-making, highlighting the critical role of managerial accounting in contemporary business environments. Integrating advanced cost management techniques, particularly Activity-Based Costing (ABC), with strategic initiatives reveals significant insights into how organizations can achieve competitive advantage through meticulous cost management aligned with strategic objectives. The adoption of ABC in manufacturing firms underscores the enhanced accuracy of cost information, which is a pivotal tool for strategic decision-making (Kurniawan, 2023). According to Anderson and Young, in 1999, firms that implemented ABC experienced improved cost accuracy, enabling more precise pricing strategies, better product mix decisions, and more effective process improvements (Lötsch & Ultsch, 2023). This study reaffirms these findings, demonstrating that accurate cost information from ABC allows managers to make informed strategic decisions that align with the organization’s long-term goals. The precision of ABC in identifying cost drivers and allocating overhead costs based on actual activities provides a clear picture of resource consumption, facilitating strategic planning and resource optimization.

Moreover, the findings highlight the importance of top management support and a conducive organizational culture in successfully implementing ABC (Escobar-Mamani et al., 2021). As Cooper & Kaplan (1988) have emphasized, the resource-intensive nature of ABC requires a significant commitment from top management. This study found that organizations where senior leadership actively championed the adoption of ABC were more successful in integrating this technique into their strategic frameworks. The role of top management in fostering a culture that embraces change and innovation is critical. This cultural readiness reduces resistance to new practices and encourages a mindset that values detailed and accurate cost information as a foundation for strategic decision-making. The empirical evidence also underscores the relationship between strategic priorities and adopting advanced cost management techniques. Chenhall & Langfield-Smith (1998) found that firms with a strategic emphasis on cost leadership are likelier to adopt sophisticated cost management practices such as ABC and target costing. This research corroborates these findings, revealing that organizations focused on maintaining competitive cost structures integrate ABC and other advanced techniques to support their strategic objectives. By aligning cost management practices with strategic priorities, these firms enhance their ability to achieve cost efficiencies and sustain competitive advantage.

The dynamic nature of business environments presents continuous challenges for integrating cost management with strategic decision-making. Rapid technological advancements and changing market conditions require organizations to adapt their cost management practices to remain relevant continually. The findings indicate that successful firms maintain agility and responsiveness in their cost management strategies (Simonova, 2023). They regularly update their cost drivers and refine their ABC systems to reflect operational realities. This adaptability ensures that cost information remains accurate and relevant, supporting timely and strategic decision-making. Another critical finding pertains to the potential for information overload when implementing advanced cost management techniques (Pylypenko et al., 2023). While ABC provides detailed and accurate cost information, managers may need help interpreting and utilizing this data effectively. Ittner and Larcker (2001) noted that the sheer volume of data generated by sophisticated cost management systems can lead to analysis paralysis, where decision-makers are overwhelmed by the complexity of the information. This research confirms that robust training and development programs are essential to equip managers with the skills to analyze and interpret detailed cost data. Organizations that invested in training and utilized data analytics tools to simplify complex information reported better strategic decision-making outcomes (Adamova, 2022).

The balanced scorecard (BSC) is a valuable tool for integrating cost management with strategic decision-making, offering a comprehensive framework that combines financial and non-financial performance measures (Silalahi, 2023). Firms utilizing the BSC can align cost management practices with strategic objectives more effectively, as the BSC's four perspectives provide a holistic view of organizational performance (Fayette, 2023). This alignment leads to improved strategic decision-making capabilities and enhanced performance monitoring across various dimensions, ultimately contributing to overall strategic goals. To successfully integrate cost management with strategic decision-making, organizations should consider advanced techniques like Activity-Based Costing (ABC), ensure strong top management support, foster a culture of innovation, regularly update cost management practices to adapt to dynamic business environments and invest in training programs to enhance managerial competencies in interpreting detailed cost data, thus improving decision-making outcomes (Alipour et al., 2022).

Discussion

The research findings shed light on the crucial role of managerial accounting in aligning cost management with strategic decision-making processes in medium to large manufacturing firms. Insights from senior managers and financial controllers emphasize the nuanced implementation and impact of advanced cost management techniques, notably Activity-Based Costing (ABC), on strategic decision-making (Adamova, 2022; Gomoi, 2022). Strategic cost management acts as a moderating variable, positively influencing the relationship between supply chain practices and financial performance improvement, showcasing the significance of integrating cost strategies with overall business strategies (Kolisnyk et al., 2022). Furthermore, the systematic literature review underscores the interconnectedness between management accounting, strategic management accounting, and strategic cost management, highlighting the importance of these disciplines in enhancing organizational efficiency and competitive advantage (Duci, 2021). The research found that implementing ABC significantly improves the accuracy of cost information. This precision in cost data enables managers to make more informed strategic decisions regarding pricing, product mix, and process improvements. Anderson & Young (1999) support these findings, stating that firms adopting ABC experience improved cost accuracy, enhancing their decision-making capabilities. The detailed cost information provided by ABC allows managers to identify cost drivers and allocate overhead costs based on actual consumption rather than arbitrary bases, leading to more strategic resource allocation and optimization.

These results support the initial hypothesis that integrating advanced cost management techniques like ABC with strategic decision-making improves organizational performance. The empirical evidence suggests that firms with accurate cost information can better align their operational activities with strategic goals, thus achieving a competitive advantage. The findings confirm that top management support and a conducive organizational culture are critical for the successful implementation of ABC. (Cooper & Kaplan, 1988) emphasized the importance of management commitment and cultural readiness in adopting sophisticated cost management practices. The research papers provide valuable insights into integrating activity-based costing (ABC) into strategic frameworks, emphasizing the significance of proactive leadership and a culture open to change (Aldridge et al., 2020; Conceição et al., 2023). Aligning cost management practices with strategic initiatives is crucial for competitive advantage, as highlighted in the principles of strategic cost management (Hadid, 2019). By understanding cost drivers and focusing on value-creating activities, organizations can optimize cost structures, enhance strategic decision-making processes, and achieve sustainable competitive advantages (Jourdaine et al., 2021; Proietti et al., 2020). The findings underscore the importance of embracing ABC as a tool within a strategic cost management framework to drive organizational success and efficiency. They support that firms with proactive leadership and a change-embracing culture effectively implement ABC within their strategic frameworks.

The current study's findings align closely with previous research by Chenhall and Langfield-Smith (1998) and Ittner and Larcker (2001). Chenhall and Langfield-Smith highlighted that firms emphasizing cost leadership utilize advanced cost management techniques like Activity-Based Costing (ABC) to support strategic decisions, a notion supported by this study, indicating that firms prioritizing cost efficiency and competitive pricing integrate ABC to align with strategic objectives. Similarly, Ittner and Larcker's work on the balanced scorecard emphasized the benefits of comprehensive performance measurement systems in enhancing strategic alignment and decision-making, a concept echoed in this study, demonstrating that firms employing balanced scorecards can effectively integrate cost management practices with strategic goals leading to improved organizational performance. However, challenges in implementing ABC with strategic decision-making were noted, including complexity, resource intensity, and resistance to change, as highlighted by Anderson and Young (1999), underscoring the importance of robust change management strategies and continuous top management support for successful ABC integration (Escobar-Mamani et al., 2021; Pylypenko et al., 2023; Радіонова & Скрипник, 2022). The dynamic nature of business environments requires continuous adaptation of cost management practices to remain relevant. Firms must regularly update their cost drivers and refine their ABC systems to reflect current operational realities. Chenhall and Langfield-Smith 1998 highlighted the need for ongoing adjustments to cost management practices to ensure their relevance and effectiveness in dynamic environments. This study's findings support this view, showing that successful firms maintain agility and responsiveness in their cost management strategies. Another significant finding is the potential for information overload when using advanced cost management techniques. While ABC provides detailed and accurate cost information, managers may struggle to interpret and utilize this data effectively. Ittner et al. (2009) pointed out that the volume of data generated by sophisticated cost management systems can lead to analysis paralysis, where decision-makers are overwhelmed by the complexity of the information. This research confirms that investing in training and development programs to enhance managerial competencies is essential. Firms that provide ongoing training and use data analytics tools to simplify complex information report better strategic decision-making outcomes.

The practical implications of these findings are substantial. Organizations seeking to integrate cost management with strategic decision-making should prioritize adopting advanced techniques like ABC while ensuring strong support from top management and fostering a culture of innovation and change. Regularly updating cost management practices to reflect dynamic business environments is crucial for maintaining accuracy and relevance in cost information. Additionally, investing in training and development programs to enhance managerial competencies in interpreting and using detailed cost data can mitigate the risk of information overload and improve decision-making outcomes. This research affirms the critical role of managerial accounting in strategic decision-making. Integrating advanced cost management techniques such as ABC with strategic initiatives provides organizations with accurate cost information essential for informed decision-making. The support of top management and a conducive organizational culture are vital for successfully implementing these techniques. Moreover, the balanced scorecard is an effective tool for aligning cost management practices with strategic objectives. As businesses navigate complex and competitive environments, the strategic integration of cost management and decision-making will remain indispensable for sustainable success. These findings contribute to a deeper understanding of how managerial accounting can drive strategic advantage, providing valuable insights for practitioners and scholars.

Conclusion

This study explored the integration of cost management with strategic decision-making, focusing on the role of advanced cost management techniques such as Activity-Based Costing (ABC). The research involved qualitative data collection from senior managers and financial controllers in medium to large manufacturing firms, revealing that accurate cost information provided by ABC significantly enhances strategic decision-making capabilities. The study also highlighted the critical importance of top management support and a conducive organizational culture in successfully implementing ABC and aligning it with strategic objectives.

The value of this research lies in its contributions to academic knowledge and practical applications. By demonstrating how advanced cost management techniques can be effectively integrated with strategic decision-making, this study provides a framework for organizations aiming to enhance their competitive advantage through precise cost management. The originality of this study is evident in its detailed examination of the contextual factors that influence the successful adoption of ABC, offering new insights into the critical role of managerial accounting in strategic alignment.

Despite its contributions, this study has several limitations. The primary limitation is its focus on manufacturing firms, which may limit the generalizability of the findings to other industries. Future research should consider exploring the application of ABC and strategic cost management in different sectors to provide a more comprehensive understanding. Additionally, while providing in-depth insights, the study's qualitative nature may benefit from quantitative validation through larger-scale surveys or experiments. Researchers are encouraged to investigate the long-term impacts of integrating cost management with strategic decision-making and explore emerging technologies, such as data analytics and AI, to enhance these practices. These directions will help build on the findings of this study and further advance the managerial accounting and strategic management field.

Reference

Adamova, G. A. (2022). Activity-based cost accounting as a tool for strategic company management. E-Management, 5(2), 45–52. https://doi.org/10.26425/2658-3445-2022-5-2-45-52

Ainsworth, G. B., Pita, P. G., Pita, C., Roumbedakis, K., Pierce, G. J., Longo, C., Verutes, G. M., Fonseca, T. C. P., Castelo, D., Montero-Castaño, C., Valeiras, J., Rocha, F., García-de-la-Fuente, L., Acuña, J. L., Rueda, M. del P. F., Fabregat, A. G., Martín-Aristín, A., & Villasante, S. (2023). Identifying sustainability priorities among value chain actors in artisanal common octopus fisheries. Reviews in Fish Biology and Fisheries, 1–30. https://doi.org/10.1007/s11160-023-09768-5

Akyüz, Y., Salali, H. E., atakan, pelin, Günden, C., Yercan, M., Lamprinakis, L., Kårstad, S., Kasperczyk, N., Mattas, K., Lazaridou, D., Yener, G., Alayidi, A., Kunchulia, I., & Knez, M. (2023). Case Study Analysis on Agri-Food Value Chain: A Guideline-Based Approach. Sustainability, 15(7), 6209. https://doi.org/10.3390/su15076209

Al-mawali, H. (2023). Proposing a strategy map based on sustainability balanced scorecard and DEMATEL for manufacturing companies. Sustainability Accounting, Management and Policy Journal, 14(3), 565–590. https://doi.org/10.1108/sampj-04-2022-0170

Amer, F., Hammoud, S., Khatatbeh, H., Lohner, S., Boncz, I., & Endrei, D. (2022). The deployment of balanced scorecard in health care organizations: is it beneficial? A systematic review. BMC Health Services Research, 22(1). https://doi.org/10.1186/s12913-021-07452-7

Aulia, R. (2023). Enhancing Decision Making through Professional Judgment and Comprehensive Information Analyses. Advances in Managerial Auditing Research, 1(3 SE-Articles). https://doi.org/10.60079/amar.v1i3.230

Bugaian, L. (2022). Responsibility Centre-Managerial Accounting Instrument. Journal of Social Sciences. https://doi.org/10.52326/jss.utm.2022.5(2).16

Calota, G. (2021). Analysis Of The Entrepreneurial Environment In The South-West Region Of Oltenia In The Context Of The Covid-19 Pandemic. Horizons for Sustainability, 1, 21–30.

Carmona, S., & Ezzamel, M. (2023). Management Accounting and Strategy – A Review and Reflections on Future Research. European Accounting Review, 1–28. https://doi.org/10.1080/09638180.2023.2215821

Casas-Arce, P., Cheng, M. M., Grabner, I., & Modell, S. (2022). Managerial Accounting for Decision-Making and Planning. Journal of Management Accounting Research, 34(1), 1–7. https://doi.org/10.2308/jmar-10784

Crișan, E. D., & Grama, L. R. (2022a). The Influence of Contingent Factors on Spreading the Activity-Based Costing Method (I). CECCAR Business Review, 3(3), 17–25. https://doi.org/10.37945/cbr.2022.03.03

Crișan, E. D., & Grama, L. R. (2022b). The Influence of Contingent Factors on Spreading the Activity-Based Costing Method (II). Contabilitatea, Expertiza Şi Auditul Afacerilor, 3(4), 34–42. https://doi.org/10.37945/cbr.2022.04.04

Dudić, Z., Dudic, B., Greguš, M., Novackova, D., & Djakovic, I. (2020). The Innovativeness and Usage of the Balanced Scorecard Model in SMEs. Sustainability, 12(8), 3221. https://doi.org/10.3390/SU12083221

Elghaish, F., Hosseini, M. R., Talebi, S., Abrishami, S., Martek, I., & Kagioglou, M. (2020). Factors driving success of cost management practices in integrated project delivery (IPD). Sustainability, 12(22), 9539. https://doi.org/10.3390/SU12229539

Escobar-Mamani, F., Argota-Pérez, G., Nina, V. D. A., Aguilar-Pinto, S. L., Fernández, G. M. Q., & Cepeda, O. E. A. (2021). Costeo basado en actividades (ABC) en las PYMES e iniciativas innovadoras: ¿opción posible o caduca? Revista de Investigaciones Altoandinas, 23(3), 171–180. https://doi.org/10.18271/RIA.2021.321

Fabac, R. (2022). Digital Balanced Scorecard System as a Supporting Strategy for Digital Transformation. Sustainability, 14(15), 9690. https://doi.org/10.3390/su14159690

Fadhilah, W. A., Sembiring, E. E., & Indrawati, L. (2022). Penerapan Activity Based Costing Untuk Menentukan Harga Pokok Produksi Dalam Rangka Meningkatkan Keunggulan Kompetitif. Indonesian Accounting Literacy Journal, 3(01), 726–740. https://doi.org/10.35313/ialj.v2i04.3935

Firli, O. M., Tresna, P. W., & Herawati, T. (2023). Analysis of Company Performance Assessment Using the Balanced Scorecard. Owner : Riset Dan Jurnal Akuntansi, 7(1), 612–618. https://doi.org/10.33395/owner.v7i1.1205

Günay, M. (2022). Leadership Vision in Advanced Technology. In International School on Neural Networks, Initiated by IIASS and EMFCSC (pp. 1161–1171). Springer.

Huang, Z., Hu, T., & Huang, J. (2022). Application and Research of Enterprise Strategic Management Based on FAHP Model in Management Accounting. BCP Business & Management, 34, 317–323. https://doi.org/10.54691/bcpbm.v34i.3031

Janus, T., Tomlinson, J., Anghileri, D., Sheffield, J., Kollet, S., & Harou, J. J. (2023). Multicriteria land cover design via coupled hydrologic and multi-sector water management models. Journal of Hydrology, 620, 129294. https://doi.org/10.1016/j.jhydrol.2023.129294

Karisa, J. Y., & Wainaina, L. (2020). Balanced Scorecard Perspectives and Organizational

Performance: Case of Kenyatta National Hospital, Kenya. 2(3), 102–113. https://doi.org/10.35942/JBMED.V2I3.140

Kurniawan, B. (2023). Exploring the Societal Implications of Accounting Practices and Standards. Advances in Applied Accounting Research, 1(3 SE-), 139–149. https://doi.org/10.60079/aaar.v1i3.193

Margherita, A., Banchi, E., Biffi, A., Castri, G. di, & Morelli, R. (2022). Beyond Total Cost Management (TCM) to Systemic Value Management (SVM): Transformational Trends and a Research Manifesto for an Evolving Discipline. Sustainability, 14(19), 12890. https://doi.org/10.3390/su141912890

Massicotte, S., & Henri, J.-F. (2021). The use of management accounting information by boards of directors to oversee strategy implementation. British Accounting Review, 53(3), 100953. https://doi.org/10.1016/J.BAR.2020.100953

Nurfadila, N. (2024). Enhancing Public Financial Management through Performance Evaluation and Cost Systems. Accounting and Management Financial Review, 2(1), 1–12. https://doi.org/10.60079/amfr.v2i1.264

Okereke, R., Zakariyau, M., & Eze, E. C. (2022). The Role of Construction Cost Management Practices on Construction Organisations' Strategic Performance. 2(1), 20–39. https://doi.org/10.22452/jpmp.vol2no1.2

Oyewo, B. (2022). Contextual factors moderating the impact of strategic management accounting on competitive advantage. Journal of Applied Accounting Research, 23(5), 921–949. https://doi.org/10.1108/jaar-04-2021-0108

Pardaeva, S. (2022). Directions for effective organization of strategic cost accounting. Economics and Education, 23(2). https://doi.org/10.55439/eced/vol23_iss2/a22

Pirvu, C., Vasilescu, L. G., Mehedintu, A., & Pirvu, C. D. (2012). Implementation of strategic principles in cost management: Control of cost variations through statistical studies. African Journal of Business Management, 6(45), 11161–11170. https://doi.org/10.5897/AJBM11.1938

Porporato, M., & Recalde, J. T. (2021). Costos Basados en las Actividades (ABC): aplicando una herramienta para la gestión estratégica en empresas de servicios. 17(32). https://doi.org/10.18270/CUADERLAM.V17I32.3448

Psarommatis, F., Danishvar, M., Mousavi, A., & Kiritsis, D. (2022). Cost-Based Decision Support System: A Dynamic Cost Estimation of Key Performance Indicators in Manufacturing. IEEE Transactions on Engineering Management, 1–13. https://doi.org/10.1109/tem.2021.3133619

Pylypenko, A., Popov, O., & Ostrinina, O. P. (2023). Strategic controlling in adaptive cost management of integrated corporate associations of enterprises. Actual Problems of Economics, 1(259), 14–23. https://doi.org/10.32752/1993-6788-2022-1-259-14-23

Reynoso, L. F. L., & del Río, C. V. B. (2023). Financial stability, return, and asset, liability, and income diversification in Mexican largest bank. Revista Mexicana de Economía y Finanzas Nueva Época REMEF, 18(2: Abril-junio), e777–e777.

Sastradinata, I. (2021). Balanced Scorecard as a Method of Assessing the Performance of a Hospital Management System. 4(1), 143–147. https://doi.org/10.37275/OAIJSS.V4I1.34

Simonova, M. (2023). Topical questions of organizing an effective cost management system in a competitive environment. Èkonomika i Upravlenie, 29(4), 443–452. https://doi.org/10.35854/1998-1627-2023-4-443-452

Sisman, G. (2022). Implementing lean six sigma methodology to reduce the logistics cost: a case study in Turkey. International Journal of Lean Six Sigma, 14(3), 610–629. https://doi.org/10.1108/ijlss-02-2022-0054

Tambunan, T. (2022). A conceptual framework of quality cost chain in strategic cost management. The Tqm Journal. https://doi.org/10.1108/tqm-09-2021-0281

Teichgräber, U., Sibbel, R., Heinrich, A., & Güttler, F. (2021). Development of a balanced scorecard as a strategic performance measurement system for clinical radiology as a cost center. Insights Into Imaging, 12(1), 69. https://doi.org/10.1186/S13244-021-01009-2

Tirado, J. S., & Mavlutova, I. (2023). The Impact of Strategic Management Accounting on The Financial Performance of Low-Cost Airlines. Wseas Transactions on Environment and Development, 19, 786–797. https://doi.org/10.37394/232015.2023.19.74

Vita, G. Di, Spina, D., Cianni, R. De, Carbone, R., D'Amico, M., & Zanchini, R. (2023). Enhancing the extended value chain of the aromatic plant sector in Italy: a multiple correspondence analysis based on stakeholders' opinions. Agricultural and Food Economics, 11(1), 1–24. https://doi.org/10.1186/s40100-023-00257-8

Watson, J. (2021). Balanced Scorecard Improvement. Global Journal of Technology and Optimization, 11(2), 1–3. https://www.hilarispublisher.com/open-access/improvment-of-the-balanced-scorecard.pdf

Yalçin, S. (2015). Rekabet avantaji sağlamada stratejik maliyet yönetiminin muhasebe uygulamalariyla ilişkileri. 15(15), 15–34. https://dergipark.org.tr/en/download/article-file/55360

Zamula, O., & Zamula, O. (2022). Cost management of enterprises based on the concept of sustainable development. Ekonomìčnij Analiz, 32(3), 208–215. https://doi.org/10.35774/econa2022.03.208

Zorlescu, B., Peneoasu, M., & Negoescu, B. (2015). Costs calculated by the ABC system for underlying managerial decisions. The Romanian Journal of Economics, 41, 156–172.

Скороход, І. С., & Ребрина, Н. Г. (2023). Особливості формування та розвитку логістичної інфраструктури електронної комерції. Проблеми Сучасних Трансформацій. Серія: Економіка Та Управління, 10. https://doi.org/10.54929/2786-5738-2023-10-04-04