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The Interface between Management Accounting and Organisational Strategy: From Strategic Control to Strategic Navigation

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Abstract

The literature suggests that there is an increasing expectation that management accounting and control systems should have a strong strategic focus, be innovative in design, flexible in operation and should enable rapid organisational change in response to capricious environmental circumstances. A management accounting focus mainly on conventional financial and non-financial based measurement and control is considered too narrow in scope. This thesis examines these issues, and proposes a performance management model for use in a turbulent organisational environment.

The thesis initially identifies a gap in the literature in that existing strategic control models do not seem to deal adequately with the issue of the impact of environmental turbulence on organisational strategy. It examines the issues of turbulence and unpredictability in providing an understanding of the nature of the interface between organisational strategy and management accounting. This resulted in the development of the concept of strategic navigation.

Successful management of the impact of environmental turbulence, with its capricious and uncontrollable nature, is a core premise underlying strategic navigation. Accordingly, rather than attempting to control turbulence, the emphasis is on rapid and flexible management response and avoidance of limitations on management discretion, judgements and actions that could be imposed by highly structured control and measurement frameworks. This recognises that in relation to turbulent and changing environmental conditions, identifying relevant variables to measure may be difficult and that the actual measurement itself could be an impediment to rapid response. Strategic navigation incorporates an explicit focus on organisational processes to help deal with turbulence.

An in-depth case study was undertaken of an organisation operating in a turbulent environment in order to explore the applicability of strategic navigation and its relationship with management accounting. The case findings suggest that rapid management response needs a focus on both operations and strategy, and illustrate how strategic issues and the idea of strategic navigation can potentially drive, and be closely integrated with, the operational side of an organisation. This also encompassed a strong process focus within the case organisation, due to a relatively limited measurement framework. In this context the case findings highlight the importance of an adequate measurement framework within an overall performance management system. Furthermore, the findings indicate how strategic navigation could provide an integrative means of comprehending the external environment, by concentrating on both process and measurement. This is an alternative to the idea of concentrating solely on identifying and developing more and better predictive measurement tools, in particular non-financial measures.

In summary, strategic navigation combines a process approach and measurement, as a means of integrating management accounting and strategy, in order to manage organisational performance in a turbulent environment. The development of the concept of strategic navigation is an attempt to extend the role of management accounting beyond traditional organisational control ideas and reflects arguments in the literature for a greater focus on performance management.

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