

Strategic Accountancy - Making The Numbers Really Add Up

Strategy and accounting: could two words taken together produce more yawns from business managers?

Accountancy has long laboured under the arcane "bean counter" image. Accountants are seen simply as bearers of financial news - and frequently not always good news. Psychology also plays a part - accounting departments are seen as control oriented rather than ones that are looking for growth opportunities. And accountants are often too inwards-focused: concerned simply with this company's numbers and not enough on comparing the numbers with the competition's.

We don't need to spend too long trying to understand why this situation has arisen. In part it's due to accounting departments that are content to see themselves simply as reporters. But perhaps the biggest culprit is senior management and its strategic governance processes. When the financial focus is on simply accounting for profit and cash flow, rather than understanding what has caused these results, then we are heading for trouble.

What is needed is to re-instate accounting to its rightful place - one of the key pillars on which strategic thinking ought to depend.

What are the tell-tale signs that accountancy is falling down on its strategic role? Apart from the ones noted above, look out for:

- Where decisions about key business directions are taken without reference to financial performance indicators such as cash flow and profit;
- Where accountants report to strategy meetings but are not asked to explain the business trends that might have generated the numbers;
- Where marketing departments develop strategies without road-testing these in financial terms;
- Where senior management is willing to sign-off new strategic moves without forecasting the impact in terms of value-creation.

Changing this benighted view of accounting will require effort from more than the accounting department. Just as marketing staff need to be able to discuss the company's financial results, so accountants need to be able to debate the organization's marketing strategy. Serious effort needs to be made to understand each other's language.

Here are some initial actions to consider to address the situation:

- Institute a change program at Board level to ensure that future strategic governance can deal more effectively with corporate accounts;
- Re-vamp accounting departments to also provide insightful information about what is happening in the business;
- Build stronger links with the providers of customer and market Management Information in the company;
- Build financial models that explicitly connect strategy to financial impacts;
- Build training courses on key financial measures for the other departments in the company;

Such efforts will pay-off over time. The captain of a naval destroyer understands exactly the capability of the engine room and where the precise application of horsepower will have most effect. Accounting departments need similarly to see themselves as guardians of the information that drives the engine room of the business.

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