

Case Study:

The Influence of Strategic Management accounting on Iraqi Service Companies' Performance

Timimi Suhail A.L.

Department of Accounting, College of Administration and Economics, University of Basra, IRAQ
suh2001971@yahoo.com

Abstract

Organizations use management accounting information in a variety of ways, especially management accounting information, significantly contributes to the effective functioning of management process. Furthermore, management accounting information contributes to the organization's performance by providing feedback on the implementation of strategic plans and completion of jobs. But the new management accounting system due to its strategic characteristics (i.e. externally and future-oriented) may overcome many of the weaknesses of conventional management accounting systems; it still lacks a solid base of empirical studies. The main objective of this study is to determine the effect of Strategic Management Accounting on Iraqi Service Companies' Performance.

This study uses a quantitative method; the quantitative data are collected by questionnaire. The total selected sample size for the quantitative approach was 127 companies. The research found that the Strategic Management Accounting influence on companies' performance could be used as subjects of references. Company management should understand the importance of accounting information for strategic decision making.

Keywords: Management Accounting, Financial Performance, Iraqi Service Companies.

Introduction

The services sector plays an important role in the economic development of any country.⁴⁵ It has been internationally accepted that the services sector contributes up to 20% of the global economy and specifically in Iraq, the ratio of the profits from the services sector amounted to 72% of the Iraqi market in 2008 (Iraq Stock Exchange Report, 2015). The Iraqi services sector has seen many developments that put it equally with those of the developed countries.⁵¹ This sector is considered as the most important sector that supports the gross domestic product (GDP). Compared with other economic sectors, such as manufacturing industry and agriculture, it has contributed more than 65% to GDP in 2009. Furthermore, more than 79% of the Iraqi labour force is working under the services sector while less than 25% of labour force is working under other sectors such as manufacturing industry and agriculture.

Increasing local and global competition, globalisation, technological advancements and increasingly demanding customers, have all contributed to environmental uncertainty within the services industry and have modified the characteristics of competition in the wide world,^{4,34} in particular, in the Iraqi marketplace. For example, in the last two years, three new banks have been established in Iraq. However, under such a progressively competitive environment, Iraqi services companies need to strive to remain competitive and to achieve better performance. Therefore, services companies should be able to generate and utilise more strategic information regarding the external and future events to support and update their business strategy and accomplish higher levels of organizational performance.^{31,32,40,44}

In a more theoretical vein, the fundamental assumption in contingent-based accounting studies is that superior organizational performance depends on the fit or match between accounting information systems (AIS) and other contingent factors (such as environmental uncertainty, business strategy, firm size etc.). Accounting information as output of accounting system, especially management accounting information, significantly contributes to the effective functioning of management process. The essence of such functioning centres decision-making is planning, organizing, directing and controlling. To meet this need, management accounting system provides management with information that focuses on decision making.³⁷

Organizations use management accounting information in a variety of ways. Belkaoui⁷ characterized four usage types, namely to help management planning, to facilitate organizational problem solving, to aid the examination of control functions and to facilitate operational systems management. Other authors have classified these four types into two usage streams, namely to evaluate managerial performance and to assist managers in making decisions.⁶²

Furthermore, management accounting information contributes to the organization's performance by providing feedback on the implementation of strategic plans and completion of jobs. Specifically, appropriate MAS can help managers be aware of and address organizational expectations: customers' needs, competitive markets, or internal organizational goals.⁵² In addition, ex-ante information can assist in meeting organizational challenges resulting from competing market faced by the organization and supports its value-added efforts relative to its competitors.⁸