Adoption of Strategic Management Accounting and Its Effect on Banks' Perceived Performance in Nepal

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Abstract

This study investigates adoption of Strategic Management Accounting (SMA) techniques and their impact on Perceived Organizational Performance (POP) of Nepalese banks. SMA extends traditional management accounting by incorporating strategic and competitive information, enabling more informed decision-making and better alignment with long-term goals. Data were collected from 225 respondents, including branch managers and accounting officers, using structured questionnaires and analyzed through descriptive statistics and Structural Equation Modeling (SEM). The results reveal that SMA adoption explains 74% of variance in perceived performance, with competitor analysis and benchmarking being the most widely adopted techniques. In contrast, strategic pricing and value-chain costing are less used due to regulatory constraints and limited cost-tracing capabilities. The study confirms a significant positive effect of SMA adoption on POP of Nepalese banks, consistent with global findings and supported by Contingency Theory. The implications suggest that enhancing SMA adoption can improve both financial and non-financial outcomes in Nepalese banks and potentially in other sectors.

Keywords: Strategic Management Accounting, Organizational Performance, Competitor Analysis, Benchmarking, Structural Equation Modeling, Contingency Theory, Nepalese Banks.

1. Introduction

Strategic Management Accounting (SMA) extends traditional management accounting by including strategic and competitive information. In early definitions, Simmonds (1986) describes SMA as "the collection of management accounting information about a business and its competitors for use in developing and

monitoring the business strategy. Bromwich (2015) also defines SMA as preparing and analyzing financial data on product markets, costs, competitors' cost structures, and strategy monitoring. SMA provides timely information (such as activity-based costing, target costing, and competitor costing) that aids planning, controlling, and decision-making to meet strategic objectives. In practice, SMA techniques utilize tools such as activity-based costing, target costing, benchmarking, life-cycle costing, strategic pricing, and customer accounting.

Adopting SMA techniques is thought to yield a competitive advantage. "The adoption of SMA techniques may provide an organization with a sustainable competitive advantage over its rivals". Empirical studies support a positive link between SMA and performance: Odia (2019) notes that SMA provides information (like strategic costing and target costing) that "contributes positively to improvement in financial performance." Likewise, Lan et al. (2021) find that SMA has a significant positive effect on firm performance. Thus, firms that effectively use SMA tend to exhibit superior competitiveness and financial results.

In Nepal's banking sector, strategic orientation is similarly critical. Commercial banks play a vital role in economic development, and aligning accounting practices with strategy can enhance performance. Kandel et al. (2025) observe that integrating strategy and management accounting is recognized globally as key to sustaining a competitive advantage, and that Nepalese banks must adapt these global best practices to local constraints (limited resources, technology, etc.) to avoid performance declines.

2. Objective of Study

The following are the objectives of this research:

i) To assess the level of adoption of SMA techniques in Nepalese Banks.
ii) To examine the influence of SMA practices on the perceived performance of Nepalese banks.

3. Literature Review

SMA was introduced in the mid-1980s as a response to the shortcomings of traditional management accounting, which often failed to provide forward-looking, competitor-focused, and strategically relevant information for decision-making (Simmonds, 1981). Unlike conventional accounting methods that focus mainly on internal financial reporting, SMA emphasizes the inclusion of external market data, competitor cost structures, and value chain analysis in organizational planning (Cadez & Guilding, 2008). This broader perspective enables businesses to align their accounting information with long-term strategic goals and changing market conditions.

SMA involves several advanced tools and techniques that go beyond standard accounting practices. These include competitor analysis, customer profitability analysis, strategic costing, life-cycle costing, target costing, the balanced scorecard, and benchmarking (Roslender & Hart, 2010). Each technique provides a

unique strategic benefit: for example, target costing helps manage costs during product design, while benchmarking allows firms to measure their performance against industry leaders. Together, these tools enhance decision-making by integrating strategic and operational perspectives.

Research in developed countries has consistently shown a positive link between SMA adoption and improved organizational performance. For example, Langfield-Smith (2008) found that SMA practices help improve decision quality, strengthen strategic alignment, and provide a competitive edge. In Nigeria's banking sector, Odia (2019) demonstrated that SMA adoption led to better financial performance, as measured by metrics such as Return on Assets (ROA) and Return on Equity (ROE). Similarly, Lan, Tang, and Zeng (2021) showed that SMA positively influences both financial and non-financial performance indicators in Chinese firms.

In South Asia, SMA research is still in its early stages but shows promising potential. Ahmad (2012) reported that commercial banks in Pakistan had relatively low but growing awareness of SMA tools, which were perceived as beneficial for market positioning and improving customer service. In Nepal, Bhattarai, Kandel, and Timilsina (2025) observed that while management accounting practices exist, they often lack a strong strategic orientation. They argue that cultural and organizational changes are needed for Nepalese banks to fully benefit from SMA adoption.

The review applies Contingency Theory**,** which argues that the effectiveness of management accounting systems, including SMA, depends on contextual factors such as environmental uncertainty, competitive pressures, and organizational size (Chenhall, 2003; Rashid et al., 2020). This theory is particularly relevant to Nepal's banking sector, where regulatory reforms, technological shifts, and market competition vary greatly among institutions. Based on the reviewed studies and the conceptual framework, the following hypothesis has been formulated:

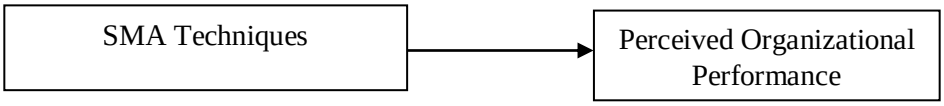

Figure 1: Conceptual framework

Formulation of Hypothesis

H_1: There is a significant effect of SMA adoption on banks' perceived performance.

4. Research Methodology

This study adopted a descriptive design to assess the extent of SMA practices in Nepalese banks and a causal-comparative design to examine their impact on perceived performance. The population comprised all Nepalese banks licensed by the Nepal Rastra Bank, with purposive sampling used to select branch managers,

accounting officers, and other senior staff familiar with accounting and strategy, yielding 225 valid responses, a 75% response rate out of 300 total planed respondents from 20 commercial and 17 development banks in the Kathmandu Valley. Zhang and Morris (2014) and Farouk et al. (2016) suggest that the Managers generally provide high-quality responses. As a result, the relatively 168 sample size justifies the objectivity of the results. Data was gathered through structured questionnaires and supplemented by secondary sources, including annual reports, NRB publications, and industry surveys. The size of the SMA adoption variable consists of 8 statements and performance consists of 6 statements with five-point Likert scales (1 = strongly disagree to 5 = strongly agree) respectively. The test items for SMA technique were adapted from the works of Bhattarai et al. (2025); Cadež and Guilding (2008) and Roslender and Hart (2010) while those for POP were drawn from the studies of Al-Tamimi (2010); Bhattarai et al. (2025); Athanasoglou et al. (2008); Bhattarai et al. (2025); Cadež & Guilding (2008) and Roslender & Hart (2010).

The analysis involved both descriptive statistics to describe how widely SMA is adopted and Structural Equation modeling (SEM), Confirmatory Factor Analysis (CFA), and path analysis the collected data, allowing for a robust examination of the proposed hypothesis. Reliability checks like Cronbach's alpha ensured the questionnaire's consistency. Statistical analysis was conducted using SPSS and AMOS, enabling comprehensive data interpretation and validation of research findings.

5. Results and Discussion

Respondent's profile

The survey consisted of 225 respondents with diverse demographic characteristics, including gender, age, education level, and work experience. The majority of respondents were male, accounting for 66.67% of the sample, while female respondents made up 33.33%. In terms of age distribution, the largest proportion (52%) belonged to the 41–50 age group, followed by 24% in the 30–40 age group. The remaining respondents were evenly distributed below 30 age group (12%) and those over 50 years (12%).

Regarding educational qualifications, a significant majority (76%) held a master's degree, while 20% had a bachelor's degree. A small proportion (4%) possessed above master's degree qualifications. In terms of work experience, 44% of respondents had 6–10 years of experience. Those with 3–5 years and above 10 years of experience each accounted for 24% and 32% respectively of the sample. The detailed demographic profile of the respondents is summarized in Table 1.

Table 1: Respondent's Background Profile

Demographic	Categories	Respondents	Percentage
Gender	Male	150	66.67
	Female	75	33.33
Age group	Below - 30	27	12
	30-40	54	24
	41-50	117	52
	Above-50	27	12
Education Level	Bachelor	45	20
	Master	171	76
	Above Master	9	4
Experience	3-5 years	54	24
	6-10 years	99	44
	Above 10 years	72	32

(Source: Field survey, 2025)

Adoption of SMA Techniques

The study examines the level of adoption of SMA techniques in Nepalese Banks, collecting data from branch managers, accounting officers, and other senior staff and presenting descriptive values in Table 2. The results are analyzed to enhance understanding of the adoption of SMA techniques in these banks.

Table 2: Descriptive Statistics of SMA Techniques Practices

SMA Technique	Mean	Std. Dev.	Adoption Rank
Competitor Analysis	4.21	0.61	1
Benchmarking	4.03	0.68	2
Budgeting for Strategic Goals	4.00	0.66	3
Balanced Scorecard	3.85	0.73	4
Customer Profitability Analysis	3.78	0.70	5
Activity-Based Costing	3.35	0.79	6
Strategic Pricing	2.84	0.81	7
Value Chain Costing	2.92	0.77	8

(Source: Field survey, 2025)

Nepalese banks often use competitor analysis and benchmarking because they want to keep an eye on market trends, learn from other banks, and follow the best practices of top performers to stay competitive. This shows they value simple, affordable ways—like studying competitors and comparing performance—to work more

efficiently and keep a strong position in the market. The low adoption of Strategic Pricing and Value-Chain Costing reflects Nepalese banks' reliance on traditional pricing methods, limited cost-tracing capabilities, and regulatory constraints that restrict pricing flexibility. This suggests a focus on compliance and operational simplicity over advanced costing and pricing strategies that could enhance profitability and cost efficiency.

Measurement Model

Table 3 all the constructions satisfy the reliability and validity thresholds. The SMA construct exhibited high reliability and validity as evidenced by Cronbach's Alpha (CA) of 0.865, a Composite Reliability (CR) of 0.923, and an Average Variance Extracted (AVE) of 0.692. These values conform to both excellent internal consistency and convergent validity. The threshold being 0.5for AVE (Fornell & Larcker, 1981), CA and CR 0.70 (Nunnally,1978; Hair et al., 2019). The POP construct shows good reliability and convergent validity, with its items effectively measuring the intended concept (CA = 0.726, CR = 0.755, AVE = 0.625). Additionally, the Variance Inflation Factor (VIF) values ranged values for all items are between 1.05 to 1.85. VIF values below 5 indicate no serious multicollinearity issues **(**Hair et al., 2019). So, no multicollinearity concerns among the items within each construct. The factor loadings for SMA and perceived performance items range from 0.512 to 0.939, indicating well-defined and robust measures that strongly represent their respective constructs, all exceeding 0.5 **(**Hair et al.,2019)**.**

Table 3*:* Measurement Model

Constructs	Items					
	Code	Loading	CA	CR	AVE	VIF
Strategic Management Accounting (SMA)	MP1	0.695	0.865	0.923	0.692	1.38
	MP2	0.724				1.55
	MP3	0.634				1.40
	MP4	0.519				1.42
	MP5	0.523				1.56
	MP6	0.623				1.45
	MP7	0.512				1.68
	MP8					1.85
Perceived Organizational Performance (POP)	OP1	0.939	0.726	0.755	0.625	1.05
	OP2	0.915				1.11
	OP3	0.784				1.12
	OP4	0.525				1.22
	OP5	0.520				1.15
	OP6	0.512				1.25

Note: Cronbach's Alpha (CA), Composite Reliability (CR), Average Variance Extracted (AVE), Variance Inflation Factor (VIF)

Structural Model Assessment

The structural model's fit was assessed using multiple fit indices, ensuring that the model met the recommended threshold values as exhibited in *Table 4.* The normed chi-square (χ^2/df) was 1.85, below the threshold of 3.0, indicating an acceptable fit (Kline, 2016).

Table 4: Fit indices values of the structural model

Model fit Indices	Threshold value	Sources	Obtained Value
χ^2/df	≤ 3.00	Kline (2016)	1.83
CFI	≥ 0.90	Hair et al. (2019)	0.95
TLI	≥ 0.90	Hair et al. (2019)	0.95
RMSEA	≤0.08	Hu and Bentler (1999)	0.06
SRMR	≤ 0.08	Hu & Bentler (1999)	0.05

The structural model achieved a satisfactory fit across multiple indices. The normed chi-square (χ^2/df) was 1.85, well below the 3.0 threshold (Kline, 2016). The CFI and TLI were both 0.95, exceeding the 0.90 benchmark (Hair et al., 2019). The RMSEA was 0.06 and the SRMR was 0.06, both within the acceptable limits of 0.08 (Hu & Bentler, 1999). These results collectively confirm that the model fits the data well, supporting the validity of the hypothesized relationships. The path diagram of the structural model and its regression coefficient is displayed in *Figure 2*.

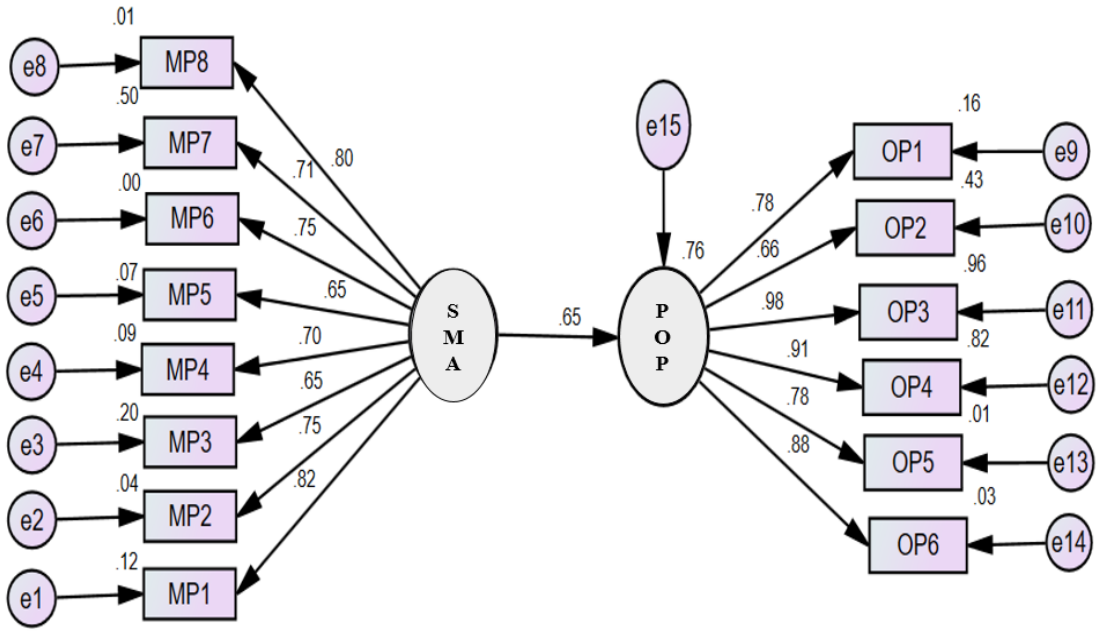

Figure 2. Structural model

Analysis of the Structural Equation Model

The Structural Equation Model (SEM) results indicate that the adoption of SMA techniques explains 76% of the variance in perceived organizational performance, demonstrating a strong effect. The remaining 24% is likely due to other organizational or individual factors. This high R^2 supports the hypothesis of a significant positive influence, underscoring the critical role of SMA in organizational success.

Table 5: Value of R^2 of the model

Exogenous Variables	Endogenous Variable	Squared Correlations (R^2)
Strategic management Accounting techniques	Perceived organizational performance	0.76

Hypothesis Test

The regression analysis supports H_1, showing that the adoption of SMA techniques has a significant positive effect on POP in Nepalese banks ($\beta = 0.65$, $t = 2.58$, $p = .001$). This confirms that SMA adoption plays a key role in shaping performance perceptions and underscores its strategic importance for enhancing organizational outcomes.

Table 7: Values of Regression Coefficients of Influence of SMA Adoption on Perceived Organizational Performance

Hypotheses	Hypothesized Relationship	Standardized Estimates	T - Value	P- Value	Decision
H_1	POP <--- SMA	0.65	2.58	.001	Supported

Significant at a 5% level

The study revealed that SMA adoption has a significant and positive impact on the POP of Nepalese banks. Among SMA tools, competitor analysis and benchmarking were most widely used due to their affordability and strong link to competitive positioning, while strategic pricing and value-chain costing were less adopted, likely due to regulatory limits and cost-tracing challenges.

The measurement model showed strong reliability and validity for both SMA (CA = 0.865, CR = 0.923, AVE = 0.692) and perceived performance (CA = 0.726, CR = 0.755, AVE = 0.625), with all VIF values (1.05–1.85) well below the cutoff of 5. The structural model fit indices ($\chi^2/df = 1.85$, CFI = 0.95, TLI = 0.95, RMSEA = 0.06, SRMR = 0.05) met recommended thresholds (Kline, 2016; Hair et al., 2019; Hu & Bentler, 1999). Path analysis indicated that SMA accounted for 74% of the variance in perceived performance ($R^2 = 0.74$) and had a significant effect ($\beta = 0.35$, $t = 2.58$, $p = .001$).

These findings are consistent with prior studies (Odia, 2019; Lan et al., 2021), confirming that SMA enhances financial and non-financial outcomes, including better decision-making, efficiency, customer satisfaction, and market position in competitive, regulated environments. In line with Contingency Theory (Chenhall, 2003), the results suggest that SMA effectiveness depends on contextual factors such as regulation, competition, and organizational capabilities. Furthermore, Strategic management accounting emerged as a

key driver of performance, echoing evidence from Kuwait (Giacosa & Mazzoleni, 2017), Pakistan (Ahmad & Hadi, 2017), and Nigeria (Obamuyi & Akinbode, 2018).

6. Conclusion and Implication

The study concludes that SMA adoption has a significant and positive influence on the POP of Nepalese banks. SMA explains 74% of the variance in perceived performance, confirming its strong role in improving both financial (e.g., profitability, efficiency) and non-financial (e.g., customer satisfaction, market positioning) outcomes. Among the SMA techniques, competitor analysis and benchmarking are the most widely used due to their affordability and direct relevance to competitive positioning. On the other hand, strategic pricing and value chain costing are less frequently applied, mainly because of regulatory constraints and limited cost-tracing capabilities**.** These findings align with prior global research (Odia, 2019; Lan et al., 2021) and are supported by Contingency Theory (Chenhall, 2003), highlighting that SMA effectiveness depends on contextual factors such as regulatory environments, competitive pressures, and organizational capacity.

Although this study is about Nepalese banks, its lessons can be useful in other areas like manufacturing, tourism, healthcare, and education. Using SMA tools—such as competitor analysis, customer profitability analysis, benchmarking, and value-chain costing—can help these sectors work more efficiently, satisfy customers, and compete better. For example, SMA can help manufacturers control costs and set prices, tourism businesses improve services, healthcare providers manage resources, and schools use resources more effectively. To benefit, managers should get proper training and use modern technology, while policymakers can offer support and incentives. Future studies can look at how different industries' unique rules, markets, and technology affect SMA's success.

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