Insight On The Use Of Management Accounting Practices Among Large Manufacturing Entities In Zimbabwe: A Case Study Of Bulawayo Metropolitan Province.

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Abstract: The manufacturing sector in Zimbabwe is facing various obstacles which steered to the closure of numerous corporations. Management Accounting Practices (MAPs) have a critical role in the prosperity and survival of organizations as they offer vital pecuniary and non-pecuniary information for decision-making, policy formulation and promoting competitive edge for the entity. MAPs are used by manufacturing organizations in improving and assessing their operations. The study sought to explore the use of MAPs among large companies in Zimbabwe. Data were collected using questionnaires and in-depth interviews from manufacturing companies in the Bulawayo Metropolitan Province and analyzed using SPSS version 22. The study shown that large entities in the Bulawayo Metropolitan Province use few modern MAPs such as ABC, activity based budgeting and strategic management accounting and mainly apply traditional MAPs in their operations. The study recommends that large entities should adopt more modern management accounting practices in their operations. Entities should also consider using management accounting software so as to fully exploit the benefits of management accounting in a volatile business environment. It is essential for entities to consider the best practice in management accounting and scan their environment since the surrounding factors influence their choice of MAPs.

Keywords: Management Accounting Practices (MAPs), Costing system, Budgeting, Performance evaluation, Decision support system, Strategic management accounting

1. Introduction

Most of the raw materials in Zimbabwe are exported to other countries and the country is losing value and jobs to foreign countries. According to the Ministry of Industry and Commerce strategic plan document for 2011-2015, the manufacturing sector is key to the Zimbabwean economy as it has an important role in the development and growth of the economy. Since the late 1990s the achievement of the manufacturing sector has declined due to factors such as shrinking domestic market, a high cost of production, and heterogeneity of supply-side obstructions that included electric power, fuel and imported inputs (Damiyano et al., 2012). The sector is currently seriously ill as it faces various challenges such as competition from imports, credit and liquidity crunch, low local demand and access to finance. A survey conducted by CZI in 2017 revealed that the sectors’ capacity utilization declined to 45.1% in 2017 from 47.4% recorded in 2016 as escalating costs of production and foreign currency shortages continuously toll on the sector. In the past three decades, a good number of manufacturing firms in Zimbabwe were based in Harare the capital city and Bulawayo the second largest city in the country. With concern, especially in the last decade, we have witnessed large manufacturing entities closing in Bulawayo and some migrating to Harare. In the industrial area in the Bulawayo, a factory which used to supply hundreds of families now supply one family where a factory has been turned to be a church. Companies have been closed down at an alarming rate and the reasons for the closure of these companies is not certain. In the ever-changing business environment, organizations should be more audacious, antagonistic and vigorous in detecting strategies that will guarantee their growth and survival. Management should develop business strategies that will direct the entity towards profit maximization. The literature has shown that proper implementation of management accounting improves organizational efficiency and effectively reduces business failure (Mhizha, 2014). Over the years, various innovative techniques have been developed in management accounting to help management in planning; directing and controlling organizational resources and these are referred to as Management Accounting Practices (MAPs) (Gichaaga, 2014). MAPs assist organizations to gain a competitive edge in a rapidly changing business environment as they offer high-quality products and services (Mitchell & Reid, 2000). Moreover, MAPs play a pivotal function in business success and survival as they offer vital monetary and non-monetary information for decision-making purposes and policy formulation (Horngren, et al., 2009). Furthermore, MAPs provide strategies that assist companies in offering affordable, high quality products and services to many consumers with a durable inclination for the products of the company. The use of MAPs may provide a sustainable competitive advantage to an entity (Thompson, Strickland & Gamble 2009). MAPs are used by manufacturing entities to evaluate their processes and these MAPs include budgeting, costing systems, standard costing and performance evaluation. Changes in customer preferences, new technology and globalization have forced manufacturing entities to be more innovative and efficient in production in order to manage recent market changes. The fast changing economic environment imposes the need to adopt MAPs in an attempt to counter the dynamics of the modern market (Pavlatos & Kostakis, 2015). Previous studies have pointed out that, MAPs are an essential tool in the success and survival of business organisations as they stimulate
efficiency and improve the competitive advantage (Folk et al., 2002; Horngren et al., 2009). There is miniature research-based knowledge on the use and application of MAPs by large entities in Zimbabwe. This study provides a research-based knowledge on the usage of MAPs among manufacturing entities in Zimbabwe. The recommendations provided will help the Ministry of Industry and Commerce as a policymaker in its efforts to resuscitate the Zimbabwean economy. The study will benefit manufacturing entities on improving their practices and controlling production costs. Therefore, it is of paramount importance for manufacturing entities in Zimbabwe to be on the lead, especially on the exploration and improvement of strategies which aid the entity to continue competitive and profitable. This study seeks to explore the MAPs used by manufacturing entities in the metropolitan province of Bulawayo in Zimbabwe and provide possible recommendations.

2.0 LITERATURE REVIEW
The following section will review literature in management accounting related to this study in particular.

2.1 Definition of Management Accounting
Management accounting (MA) has no generally agreed definition, different authors and accounting bodies have presented many definitions (Scapens, 1991). MA is the collection, recording, and reporting of valuable numerical and accounting data for decision-making purposes to meet the beneficiary needs (Crossman 1958; Horngren et al. 2005). MA is the broadest field of accounting, which integrates all areas of accounting and other non-accounting aspects in the organization in an effort to create value in an entity with a principal edge practices necessary to determine efficacious businesses. It mixes financial analysis and business strategy, combining qualitative and quantitative data analysis to generate and keep value for organisations. Various methods have been developed in management accounting which is referred to as MAPs.

2.2 Management Accounting Practices
MAPs are methods used in managerial accounting to help organizations in planning, guiding and controlling operating costs and in order to make profitability (Gichaaga, 2014). MAPs are methods and techniques used to create value in an organization (Ittner & Larcker 2001). Ojua (2016) stated that MAPs are accounting tools that help management with quality, precise and appropriate information for decision making purposes and policy formulation. MAPs can be dichotomized into five broad classifications; “costing”, “budgeting”, “performance evaluation”, “decision support systems” and “strategic management accounting” among many others. Figure 1 below illustrates components that consist of MAPs.

2.2.1 Costing system
Costing system is a technique or system applied to ascertain the production cost for a product or service in the business organization (Horngren et al., 2005). This is a guideline that aid the estimate production cost and profitability analysis for various products. It is a watchdog that keeps entities expenses in line with profitability. The selection of the best costing system for the organization should be according to the production process. For example, entities involved in continuous mass production where units go through one or more processes should apply process costing. Traditionally, costing systems are mostly used in the manufacturing industry, other non-manufacturing entities will ignore the practice and those entities which use costing also do budgeting.

2.2.2 Budgeting
Budgeting is a tool used in forecasting, allocating resources and controlling activities in the institution (Drury et al., 1993). Budgeting is identified as essential planning, controlling and performance evaluation system in an organization (Hansen & Van der Stede, 2004). Chenhall & Langfield-Smith (1998) as well as Joshi et al. (2003) stated that the focal purpose of budgeting is to coordinate activities, timely recognise problems and improve future activities. It also quantifies the plans of the organization and predicts future financial need. The significant role of MAPs for controlling and planning function of management is also achieved with the usage of budgetary control system. Budgets which are mostly prepared in manufacturing entities includes production budgets, material utilization budgets, Activity-Based Budgeting, cash budgets, among others (Sulaiman et al., 2004). Budgeting has a vital part in the communication of goals, formulation of strategy and in performance evaluation.

2.2.3 Performance evaluation
Performance evaluation is essential in business administration as it assists in the provision of information to evaluate the various aspects of the organisation (Emmanuel, Otley & Merchant, 1990). Hall (2008) noted that organisations in contemporary times develop comprehensive performance evaluation systems to aid employees and management in managing their operations. Gomes, Yasin and Lisboa, (2004) as well as Demirbag et al. (2006) cited
that systems such as balanced scorecard along with other financial and non-financial measures are generally used as performance measures. Literature reveals that Return on Investment (ROI) and other return measures are financial measures which are extensively used in many countries (Abdel-Kader & Luther, 2006; Ismail, 2007). The fact that information readily available on financial measures make them have a high acceptance level as compared to non-financial measures. Banker, Potter and Srinivasan (2000) cited by Ahmad, (2012) noted that non-monetary indicators are best pointers of forthcoming economic performance. The usage of pecuniary methods only to assess firm performance has been lambasted for their narrow focused focus (Yang, 2010). The use of financial accounting information in performance evaluation has been criticized because of its vulnerability to manipulation due to external reporting purposes (Ittner et al., 1997; Ittner & Larcker, 1998). Performance evaluation act as a guide in assisting managers to benchmark to future periods and help in the decision-making system.

2.2.4 Decision support system
Rapid aggressive competitive business milieu require organizations entities to make well-informed short-term and long-term decisions for their survival. Wu, Boateng and Drury (2007) noted that the most important key factor in the modern changing business environment is effective decision-making. Ahmad and Zabri (2015) argued that managers have a major influence in planning, controlling and development of strategy and on the usage of MAPs which are associated with short-term decision-making. Appropriate information is required to make effective decisions and achievement of optimum utilization of the business resources. Manufacturing entities should leverage the decision support system to make their business more successful as they are faced with tactical and strategic decisions to be made.

2.2.5 Strategic Management Accounting
Strategic Management Accounting (SMA) is the monitoring of the strategies of the entity and rivals through the anatomization of pecuniary and pecuniary information (Bromwich, 1990). Alsoboa, et al. (2015) described SMA as methods, tools or procedures in management accounting applied in addressing different aspects in decision making needs, these tools include consumer and competitor accounting, planning, controlling, strategic costing and performance evaluation. SMA are management accounting tools or methods used to support strategic decision making in a competitive commercial environment. SMA supports strategy formulation through the provision of required financial information so that the entity gains a competitive advantage. Prior studies revealed that SMA is a contemporary management accounting practice with a low adoption rate among entities (Guilding, Cravens & Tayles, 2000; Abdel-Kader & Luther, 2006; Smith, 2007). Ojua, (2016) investigated the extent of use of SMA by local Nigerian manufacturing firms in effective decision making. The study showed that there is significant disapproval of SMA in local entities and this was because of deficiency of adequate or average understanding on the implementation and benefits of SMA.

2.4 Contingency theory
Otley, (1980) states that the concept of the contingency theory was first initiated in the mid - 1960s and recognized in the management accounting literature in the mid - 1970s. Covaleski, Dirschmann & Samuel, (1996) asserted that contingency theory’s viewpoint in the study of organizational behavior, “emphasizes how contingent factors such as technology, culture, and the environment influence the design and functioning of the organizations.” The contingency theory assumes that there are multiple ideal organizational anatomy that can be applied to different entities. The success of organizations hinge on the ability of the entity in fitting or matching well in the environmental volatility, type of technology and organizational function (Islam & Hu, 2012). Factors such as organizational size, technology, strategy, environment, and structure which affect the implementation of MAPs are considered contingency theory (Chenhall, 2007). Waweru, Hoque, and Uliana, (2004) on their study on management accounting change in retail services in South Africa adopted the contingency theory to understand and explore the rationale of management accounting systems changes. Abdel-Kader & Luther, (2008) in their study in the UK on the effect of organization physiognomies on MAPs, used the contingency theory to base their study. This study adopted the contingency theory based on the fact that the contingency aspects like technology, strategy, environment, and structure influence the use of MAPs.

3.0 METHODOLOGY
The descriptive survey was conducted in 2018 and both qualitative and quantitative data was collected from twenty-five (25) large manufacturing entities in the Bulawayo metropolitan province. In collecting feedback about research instruments the researcher conducted a pilot test using five questionnaires in manufacturing entities. Stratified random sampling technique was used to elicit information and five-point Likert scale questionnaires. In order to gain more insight, the researcher solicited more information by conducting more key informative interviews. Five management accountants from different organizations were interviewed (with open-ended questions). In an attempt to understand the study phenomenon, Confederation of Zimbabwe Industry (CZI) and two Chartered Accountants from accounting firms were interviewed to triangulate information with that from primary sources. Data was presented in the form of tables. Quantitative data from questionnaires was analyzed using SPSS ver.22 and summative content analysis was used to analyze qualitative data obtained from interviews.

4.0 RESULTS AND DISCUSSIONS

<table>
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<th>Table 1: Descriptive results</th>
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<tr>
<td>Performance</td>
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<tr>
<td>Costing system</td>
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<td>Budgeting system</td>
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| Performance                | 1.782 |
| Costing system             | 1.589 |
| Budgeting system           | 1.951 |
performance measurement system
Decision support system
Strategic management accounting

Table 2: Regression summary

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<tr>
<td>1</td>
<td>0.900a</td>
<td>0.7901</td>
<td>0.7901</td>
<td>0.801</td>
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Table 3: ANOVA a

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<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
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<tbody>
<tr>
<td>1 Regression</td>
<td>417.961</td>
<td>5</td>
<td>83.592</td>
<td>122.0</td>
<td>.000a</td>
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<tr>
<td>Residual Total</td>
<td>98.599</td>
<td>144</td>
<td>0.685</td>
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Table 4: Coefficients a

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
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<tbody>
<tr>
<td>1 (Constant)</td>
<td>2.277</td>
<td>0.475</td>
<td>4.796</td>
<td>0.000</td>
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<tr>
<td>Costing system</td>
<td>0.24</td>
<td>0.052</td>
<td>4.63</td>
<td>0.000</td>
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<tr>
<td>Budgeting system</td>
<td>0.754</td>
<td>0.045</td>
<td>16.636</td>
<td>0.000</td>
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<tr>
<td>Performance evaluation system</td>
<td>0.081</td>
<td>0.059</td>
<td>1.382</td>
<td>0.054</td>
</tr>
<tr>
<td>Decision support system</td>
<td>0.121</td>
<td>0.057</td>
<td>2.122</td>
<td>0.036</td>
</tr>
<tr>
<td>Strategic management accounting</td>
<td>0.176</td>
<td>0.67</td>
<td>2.631</td>
<td>0.009</td>
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Table 5: The result of the use of MAPs and their rank

<table>
<thead>
<tr>
<th></th>
<th>%</th>
<th>Ranking</th>
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<tbody>
<tr>
<td>Costing system</td>
<td>96</td>
<td>1</td>
</tr>
<tr>
<td>Budgeting system</td>
<td>91</td>
<td>2</td>
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<tr>
<td>Performance evaluation system</td>
<td>72</td>
<td>3</td>
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<tr>
<td>Decision support system</td>
<td>68</td>
<td>4</td>
</tr>
<tr>
<td>Strategic management accounting</td>
<td>57</td>
<td>5</td>
</tr>
</tbody>
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The study also revealed that large entities use budgeting systems including modern methods like Activity Based Budgeting and rolling budgeting approach. In the performance evaluation system, most organisation use more financial measures as compared to non-financial measures. In decision support system organisations will pick one or two systems and they do not try other DSS. Large entities embrace strategic management accounting and these results agree with the results revealed by Síla and Ebrahimpour (2005) in their study conducted in the USA. Howbeit, interviews revealed that strategic management accounting and decision support system remains a blueprint with less implemented because of dearth of proper management accounting software.

5.0 CONCLUSIONS AND RECOMMENDATIONS

The study explored the level of usage of management accounting practices in large entities in the emerging economies. The findings revealed that the application of costing, budgeting, strategic management accounting and performance evaluation system is higher than DSS. With regards to the performance evaluation system, most participants revealed that much importance is placed on monetary performance measures as compared to non-monetary performance measures. There was no sophisticated management accounting software in place for the generation of activity-based costing.
of information other than basic accounting software. The study showed that large entities use both traditional and modern management accounting practices as these have an influence on their performance. It is highly advisable for entities to adopt modern MAPs in their operations and also to scan their environment so that they chose the best MAPs for their operations. The study also recommends that entities should consider using management accounting software in an attempt to fully exploit the efficacy of using management accounting in their operations, and this will assist them to withstand global competition. Furthermore, the study recommends the use of kaizen costing as it assists an organization in cost reduction, provision of quality products and continuous improvement, hence, improve the competitive edge of the organization. The study suggests that upcoming researches ought to consider the effect of management accounting on firm performance.

References


Author Profile

PhD candidate in Management Accountancy with North-West University, received the Bcom and Mcom Degrees in Accounting from Midlands State University in 2009 and 2012, respectively, a holder of an Advanced dip in Management Accounting with CIMA. During 2009-2013, he worked as an Assistant Accountant and currently a Lecturer since 2014.