Management Accounting Practices in Small to Medium Enterprises in Harare Metropolitan and Implications on Business Stability

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Abstract

Small and Medium Enterprises (SMEs) plays an important an important role in each economy worldwide. Changes taking place in global business environment has driven transformation in these businesses to move towards sustainability through focusing on cost efficiency. MAPs literature continues to allude to its adoption as beneficial in improving business performance. This study sought to find out the impact of adopting MAPs by Manufacturing Small and Medium Enterprises in greater Harare Metropolitan province. The quantitative methodology was used in the study to find the results. A five point likert scale questionnaire was administered on a population of 300 SMEs. The regressed results were fully discussed in the study. In conclusions results indicated that if fully adopted MAPS have a positive impact on business performance and hence efforts must be made to ensure its full adoption to improve performance.

Keywords: Small and medium enterprises • Management accounting practice • Performance

Introduction

Management Accounting Practice (MAP) plays a crucial role as a managerial and decision making tool for value addition to operational functions that enhance performance of an enterprise. Several authors concur that MAPs act as the main source of information system for efficient information processing that enable organizations to cope with current conditions change and to improve performance [1-5]. Despite several reviews of MAP literature in developing countries, fragmented findings are documented in terms of environmental and political conditions, stages of development, or orientation towards certain techniques [1]. SMEs just like large, organizations do face issues related to business sustainability as a result of globalization, size, technology advancement, intensity of market competition, change in management and constraints in capital funding. It has been asserted that developing countries provides ample opportunity for researchers to study the development of MAPs in a relatively short period of time [2]. The Zimbabwean SMEs provides such a context for undertaking the research.

Materials and Methods

Statement of the problem

Management accounting practices plays a significant role as a managerial tool for adding value to the overall operational functions towards enhancing the performance of an organization. Despite shifts in MAPs over time to capture broader areas in today's management system and changes in business

strategies and technology, SMEs have not yet fully embraced it. Recent literature has shown that utilization of systematic MAPs is prevalent in large firms as many previous studies reveal the issues and development of MAPs from the perspective of large firms which face fewer issues for MAPs adoption due to availability of resources. SMEs are constrained by the availability of resources. This study seeks to examine the use of MAPs by manufacturing SMEs in Harare Metropolitan province. This paper aims to fill the gap in in literature and to provide an input to regulators and policy makers to help improve performance of SMEs sector.

SMEs in Zimbabwe

SMEs are defined as businesses that employ five to forty (5-40) people with an annual turnover and assets as low as $50 000 to 2 million dollars [6]. Their contribution is immense; in Zimbabwe they contribute 8, 58 billion to the country's Gross Domestic Product (GDP) in 2016 and employed 5, 9 million people translating to over 75% of the total work force that stood at 7, 8 million people (Bulawayo 24). SMEs make the majority up to 70% of ZIMRA data base of registered tax payers while contributing only 20% in taxes. The sector faces a plethora of challenges across the continent and fails to live up to expectations. Despite several interventions by SEDCO (Small Enterprise Development Corporation), Zimtrade, local banks, Corporates and the Reserve Bank of Zimbabwe) National Financial Inclusion strategy to capacitate them they still face a plethora of challenges. However, with systematic development approach and adoption of correct MAPs they can drive the economy from under development towards high growth and industrialization [7]. Understanding the types MAPs used by them is critical for the academic fraternity, practitioners and professional associations [2,8]. The scarcity of researches that examined the current state of MAPs in SMEs from the developing African countries especially Zimbabwe made this study possible to establish the status quo in Harare Metropolitan province.

Research objectives

As a result, this study seeks to address the following research questions: which traditional and modern MAPs are used by Zimbabwean Harare Metropolitan SMEs? What reasons exist for lack of use of certain MAPs in Harare SMEs? And what relationship exists between use of MAPs and SMEs performance?

Review of related literature

Managing an SME organization has become more difficult especially when dealing with the aim of achieving competitiveness [9]. The need for management accounting information has increased over years leading scholars to pay particular attention to examining MAPs adoption and use across the globe and nature of firms. It is argued that MAPs are critical to each organization since such practice support both the management accounting process and organizational structure [10]. Supporting the importance of MAPs, the CIMA (Chartered Institute of Management Accountants) sponsored a research on the practice of management accounting by SMEs in the United Kingdom (UK) CIMA. Lucas, Prowle & Lowth, (2013) are of the view that failure and poor performance among SMEs is caused by lack or use of MAP techniques. The researchers advocate for the need of increased awareness and education among SMEs on the management accounting tools to use and how to use them in varying business Enterprises.

Past studies found that traditional MAPs such as costing, budgeting or profitability analysis concentrate on cost ascertainment and financial control and these have been used by both small and large enterprises globally. However due to uncertainty in business environment and intensive competition, most of these traditional MAPs are out of date and not suitable for modern day business.

Modern MAPs (strategic management accounting) is considered helpful technique that provides useful information concerning market, product, cost and cost structure of competitors [11-15]. Their study of UK SMEs found that only a minority of small firms, set budgets, do investment appraisal and these had a significant effect on the operation and performance of business. The impact of management accounting system was greatest in firms that were struggling to survive as they could use it to monitor finances daily thereby enabling identification of trends in key variables. In their study of the use of management accounting systems by micro manufacturing enterprise in the Gaza found that 133 findings for queries on how the generation and use of management accounting information (MAI) related to owners/managers, enterprise and extent of written and oral MAI generated and used. Similarly, Chand and Dahiya (2010) explored MAPs in Indian Small and Medium hospitality enterprise noted that management accounting techniques have a great impact on different firm's aspects especially on cost reduction and quality improvement. The major challenge for management accounting techniques has had to do with ownership, firm size and extensive high cost.

MAPs enable organizations to improve efficiency of an organization's management thereby improving organizational performance [16]. Organizations survive in highly competitive environment as well as ever changing demands of customers if these MAPs are adopted and used. MAPs enable managers to remain flexible and adapt to changes easily. Organizations that adopt MAPs avoid the chances of failure into the future as MAPs accord them the ability to compete in the market.

In their study, Nuhu, Baird & Appuhami found that MAPs had a direct effect on organizational performance. Their results show that organizations that make use of MAPs experience greater change within them and are able to perform strongly in the market. With the use of MAPs organizations can adapt to changes if and when necessary and can perform well [17,18]. In such situations it can also be concluded that MAPs show a positive effect on the performance of SMEs in order to improve their productivity and performance.

Literature in MAPs in SMEs suggests that SMEs adopt simple traditional MAPs in the organization which is easy to use, understand and maintain. It is argued that they possess a relatively basic understandability of accounting reports. In support, Lucas M, et al. [11] suggest that there is a tendency among small firms to make decisions without adequate or additional funnelled information or analysis. Much of this information related to developed countries and little on SMESs in developing countries. Research in SMEs has been overlooked and the findings are still fragmented and unconnected [19]. This research intends to fill the research gap on SMEs.

Methodology

In this study the quantitative research approach was adopted in order to collect the results of the study. The choice of the survey method is to gain an opportunity to make use of questionnaires in data collection so as to obtain unbiased opinion that reflect the feeling of respondents. The target population of this research study were manufacturing firm owners or managers and accounting staff of SMEs that were operating in the Harare Metropolitan province. The notable areas of Harare's small business clusters are Glenview complex, Gaza land. Statistics obtained from the Ministry of Small to Medium Enterprise Development indicated that there are 667 registered manufacturing firms in Harare Metropolitan prominent areas. Theses SMEs ranged from carpentry, metal industry, chemicals and detergents, paper manufacturing, dress making and food processing. The SMEs sector plays a critical role in employment and contributing significantly to the income generation and hence is central to economic Development [20]. Manufacturing sector contributes to increased exports and that also the government has contributed to their success. Manufacturing sector also involves the most complex operating environment which would generally utilise a greater use of MAPs compared to other sector.

Sampling

The sample frame for this study was SMEs that were operating within the Harare Metropolitan where the survey was conducted so as to fulfill the objectives of the study. Probability sampling technique was adopted as the sampling method for the study. Simple random sampling approach was used so as to give the population equal opportunity to be selected as the sample.

Sample size

Prior sample size technique was adopted in selecting the sample for this study. The researcher used past studies in the area to select a sample for the study. The researcher used six prior studies in the area which gave a guide as to the sample size. The major reason for the use of prior studies was to get an idea as to what sample size is suitable for conducting the survey on the chosen topic to obtain required results. After analysis of past studies, the researcher used a sample of 300 SMEs the size which was seen as sufficient representative of SMEs in the province. In choosing the sample four factors guided the research in coming up with the sample size that is groups of SMEs involved within the sample, population variability, cost of sampling and accuracy of and information required.

Questionnaire design

A structured self-administered questionnaire was designed for conducting the survey. It was divided into two categories such as demographic questions first and the rest on variables on section B. Questions relating to the independent variables were adopted from prior studies based on a five point likert scale where 5 stood for strongly agree and 1 stood for strongly disagree. The questionnaire was distributed to the SMEs in the named locations. Items relating to MAPS such as costing systems budgeting, performance evaluation, strategic analysis were obtained from prior studies and those relating to performance evaluation of SMEs were obtained [21].

Data analysis and presentation

A questionnaire survey was carried out to manufacturing firms in the SME sector. The SMEs sector in Zimbabwe provides significant contribution to the income generation and become as central to economic development. The study limits its scope of study to manufacturing firms as the sector has been significantly contributing to increased exports in the Zimbabwean economy and the Government has contributed so much to the success of these firms. Manufacturing sector also involves the most complex operating environment which would generally utilise a greater use of MAPs compared to other sectors.

General information of respondents was computed in and also in the questionnaire, industry type, educational background, professional qualifications and working experience. For each MAP included in the second section of the questionnaire, respondents were asked whether they use or not (yes or no). Respondents were also asked to rate the importance of each MAP based on five point likert scale. The information was meant to ensure that only the appropriate respondents are selected to participate in the survey and that those selected have different characteristics to minimise non response bias.

A well-structured self-administered questionnaire was prepared in order to conduct the survey. The questions relating to different independent variables were taken from sources and the responses were represented by the use of likert scale.

Data presentation and analysis

Three hundred questionnaires were sent and 200 returned fully answered giving a response rate of 67%. The response rate was considered satisfactory considering prior studies by 37% Cuzddriorean and 67% Ntsonga & Kamala. The demographic data for the SMEs were summarized as shown in the (Tables 1 and 2). The data disclosed six types of business operations ranging from furniture manufacturing to food processing. The responses received indicate that 40% were furniture manufacturing, 20% shoe manufacturing, 15% metal industry, 5% chemical and detergents producers, 5% paper manufacturing firms, 10% dress making firms and 5% food item production firms. In most of these SMEs industries the number of employees was below 20.

The majority of the respondents held the position of owner 60%, accounting managers 15%, costing clerks, 10% and assistant accounting, 15%. The majority of respondents were male constituting 60% and 40% female showing dominance of men in the manufacturing sector and their ages were between 26 and 45 representing the most economic group. However, these results differ from those of ALkhajeh & Khalid indicating a different operating environment between the two country's metro provinces. Most of the respondents had a master's degree (20%), followed by undergraduate 25%, A' Level 30% and 20% ordinary level and 5% held a -professional qualification. These results show that respondents were educated enough to know and understand

management accounting practices that were in place. Similarly, most of the respondents had five or more years working for the company 50% up to ten years 25%, up to fifteen years 20% and above fifteen years 5% showing that they understand the operations of the organization for a long period (Figure 1).

In order to examine response and non-response bias analysis, an independent sample t-test was used. The first 25% were compared to test if responses differed between the two groups. The analysis show that no differences were identified, pronounced some support for the absence of non-response bias. The regression analysis was used to find out the impact of management accounting practices on the performance of SMEs manufacturing business. Business performance is the dependent variable and the independent variable used in the regression analysis include costing system, budgeting, balanced scorecard, information for decision making and strategic analysis. The model of fit was measured with the help of coefficient of determination which is also known as R-square.

The results of regression analysis conducted in the research, indicate that management accounting practices can also be considered as independent variable accounting for 41% of the variable of SMEs business performance. These results can be inferred that MAPS impact on business performance of SMEs, and as such to achieve success, these MAPs have to be implemented.

Discussion

The discussion is meant to bring to light why Small to Medium Enterprises make use of modern management accounting practices and also to discuss

Table 1. Demographic characteristic of respondents.

Characteristics	Classification	Percentage
Industry sector	Furniture manufacturing	40
	Shoe manufacturing	20
	Metal production	15
	Chemical	5
	Dress making	10
	Paper manufacturing	5
	Food processing	5
Ownership		
Educational background	O'level	20
	A'level	30
	Undergraduate	25
	Master's degree	20
	Professional qualification	5
Working experience	Less than 5years	50
	Up to ten years	25
	Up to 15years	20
	More than 15years	5%
Position occupied	Owner - manager	60
	Costing clerk	15
	Accounting assistant	15
	Accountant	10
Gender	Male	60
	Female	40

Source: Field survey 2022

Table 2. Dependent variable: SMEs business performance.

Independent variable management accounting practices	Standard beta	T(t)	Sg p
Costing system	0.065	1.677	0.038
Balanced score card	0.294	2.322	0.001
Decision making	-0.173	1.149	0.001
Strategic analysis	0.524	3.342	0.012
Budgeting	0.337	5.513	0.000

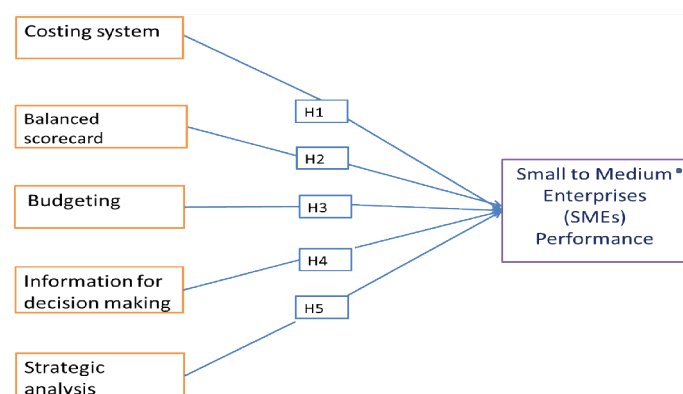R=0.413, Adjusted R= 0.434, Significant at level 0.05; **Source:** Survey Data 2022

Figure 1. Conceptual framework.

the impact of each MAP on performance of SMEs in the manufacturing sector. Results show that costing systems have a positive impact on the performance of the organization and hence an increased activity on costing has the ability to improve the performance of the organization. The regressed results show that performance evaluation when carried well also positively impact on business performance and hence, owners regularly appraise their business it can improve performance of their business. The results found for decision making management accounting practices agrees with showing that SMEs quickly makes decision without thorough study of its impact.

Costing systems

Results show that costing system has a positive impact on the performance of the organisation as shown ($\beta=0, 0065$ t=1.677, p=0.038) agreeing with findings which alludes to the fact that costing enhances performance of Small to Medium Enterprises. This therefore calls upon Small to Medium Enterprises to embrace costing systems to enhance performance.

Performance evaluations/Balanced Score Card (BSC)

The results from the regression analysis indicate that if owners, accountants/managers of manufacturing SMEs take positive strides in evaluation of their work performance can increase significantly ($\beta=0.294$, t=2.322, p=0.001). These results resemble earlier findings.

Budgeting

The results from the study show that budgeting plays a significant role in improving performance of manufacturing Small to Medium Enterprises in greater Harare Metropolitan Province as shown by findings of ($\beta=0.337$, t=5.513 p=0.000). The result resembles prior findings on their studies in South Africa, Romania and China respectively.

Information for decision making

The regressed results showed that there is no direct relationship to management Accounting practices (MAPs) aligned to decision making on the performance of manufacturing Small to Medium Enterprises as depicted the findings of the study ($\beta=-0.173$, t=-1.149, p=0.001). This study's findings are unique as prior studies have not found such results.

Strategic analysis

The findings from the study show that strategic analysis is key in enhancing performance of manufacturing Small to Medium Enterprises (SMEs) in greater Harare Metropolitan Province as by ($\beta=0.524$, t=3.342, p=0.012). These findings show strategic analysis as one of the greatest determinant of performance of these manufacturing Small to Medium Enterprises. The results impacts positively on the performance of Small to Medium Enterprises and hence each of these organization must strive to implement these management accounting practices so to improve their performance.

Conclusion

The core aim of this research paper was to investigate the importance of the use of MAPs by Small and Medium Manufacturing Enterprises in the Harare Metropolitan Province. A survey was conducted to pursue the objective. Drawing from previous studies, this study found out that there is close relationship between MAP adoption and usage and the resultant effect on performance of Small and Medium Manufacturing Enterprises. The study made use of the traditional MAPs such as costing system, budgeting, information for decision making and modern-MAPs such as strategic analysis, balance scorecard to evaluate performance.

Findings from the study indicate that MAPs have a great bearing to those organizations that have adopted. The results show that increased performance of MAPs result in increased performance of MAPs in both respects costing as well as decision making. The study has a great theoretical impact as well as managerial impact in that if well used greater result can be achieved. The result of this study can be of great importance to future researchers and policy makers/experts in manufacturing small and medium enterprises and implementers that correct MAPs application achieves super results and also increase the activity on SMEs which are always constrained.

Recommendations

This study recommends that SMEs owners or managers be made aware of the importance of adopting and using management accounting practices, as these can result in increased performance in terms of operations and management of the firms. Furthermore, they must be made aware of the existence of modern management accounting practices as these enable them to be highly competitive especially during these turbulent conditions.

Research Limitation and Future Studies

Despite the contribution made by the study towards the impact of management accounting practices, the study's findings may not apply in other sectors as it centres on specific sector within a particular province of Harare Metropolitan which puts limits in terms of data collection. However, a study needs to be conducted to look into the application of MAPs across different sectors in Zimbabwe due continued changes in operating environment.

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