

The Role of Management Accounting Practices in Strategy Implementation by Small and Medium Enterprises in Manufacturing Sector in Bulawayo Metropolitan Province

Dr Fainos Chinjova¹, Elvis Msipha²

^{1,2} Graduate School of Business; National University of Science and Technology; P O Box AC 939, Ascot, Bulawayo, Zimbabwe

Abstract : The study sort to establish the role of management accounting practices in strategy implementation by SMEs in manufacturing sector in Bulawayo Metropolitan Province. The research was motivated by the fact that SMEs in manufacturing sectors in Zimbabwe are facing a host of challenges which includes failure to adopt prudent accounting practices in their strategy implementation. An explanatory study in which a survey research design was adopted. The major finding was that SMEs were willing to adopt management accounting practices in their strategy implementation, but were constrained by a number of challenges that included a volertile economic environment, ever changing government policies as well as lack of financial resources.

Key Words: MAPS; SMES

I. INTRODUCTION

The strategic financial performance of any business entity is ultimate and of paramount importance to its owner. Different authors of strategic management have forwarded divergent explanations as to what constitute the basis of strategic financial performance. According to Porter (1979), the manipulation of the market structure by a firm is the basis for competitive advantage and performance. Comparably, scholars considers a firm's resources as the explanation for differences in financial performance. Despite these two seemingly prominent propositions, there are still variations in the strategic financial performance of firms within the same industry albert with comparable resource. This led to the refinement and extension of the resource based view that argues that resources can be valuable if they meet the four fundamental attributes. These attributes are that resources must be valuable, rare, inimitable and non-substitutable. The possession and successful orchestration of these resources will lead to sustainable competitive advantage. These resources can either be intangible and tangible.

Background To The Study

Management Accounting Practices (MAPs) play a vital and influential role of providing accurate information that can be used by management to make informed decisions that can help firms to gain a competitive edge over competitors (Wang and Huynh ,2013). This is buttressed by Bell, AnsarI,

Klammer and Lawrence (2004) who concurs that MAPs by using both financial and operational information have the ability to direct actions of management. Importantly this points to management accounting practices as an integral part of strategy implementation and represents the intangible resource endowments to an entity. However the most saddening part is that a lot of SMEs in manufacturing sector seem not keen to adopt and exploit management accounting practices which more often than not are at their disposal.

In developing countries like Zimbabwe, the manufacturing sector provides a path to middle income and wealth status while contributing to innovation in advanced economies noted Manyika, George and Rassey, (2013). Given the importance of SMEs in many sectors it is prudent to study their contribution to the overall national manufacturing output.

The prevailing harsh and volatile business environment in Zimbabwe is the major contributor to the failure and subsequent closure of many SMEs in the manufacturing sector in the country. However apart from the demise caused by external factors there are certain business practices whose lack of adoption tend to accelerate this rate of failure. These practices are embedded mostly in management accounting. And by virtue of them being independent from any international standards in terms of execution it implies that they are versatile and can be tailored to meet company strategy implementation requirements. These management accounting practices (MAPS) are endowed with tools and techniques that are ideal for aiding any execution of a plan of action. When it comes to the formulation of a plan of action most entities including SMEs fare very well in this aspect but tend to struggle or even fail dismally when it comes to implementation. This is despite the availability of management accounting practices at their disposal which possess ideal tools for implementation. What is of particular concern to the accounting fraternity is the shying away by SMEs from adopting these readily available blue prints of execution. This predicament is echoed by Kyei (2015) who submitted that entities fail to embrace management accounting practices such as budget and budgetary control which are undoubtedly the bedrock of any successful

business entity. The mere fact that MAPS like budget and budgetary control provide targets and allocates resources to various departments it means they are ideal and appropriate for any execution of a plan. Most SMEs however are not embracing management accounting practices in most cases these are either dormant or totally shunned.

The SME sector, as noted by Davig and Brown (1993), Culkin and Smith (2000) and Jocumsen (2004) cited by Nyoni and Bonga (2018) continues to be plagued with high failure rates and poor performance level. This failure rate is worrisome especially on SMES in the manufacturing sector who are supposed to turn around the fortunes of the Zimbabwean economy which is in dire distress in the current moment.

While a plethora of extant literature reveals lack of consensus regarding the antecedents of MAPs adoption, there seems to be an agreement about its necessity and influence on performance. Given the forgoing, prior studies have advocated for the use of MAPs by SMEs to achieve sustainable growth and improved performance. Based on these empirical studies it can be recommended that MAPs are important for growth and improved performance of SMEs. Table 1.1 indicates the classification of SMEs in Zimbabwe.

Table 1: SME Classification Criterion

BASE	CATEGORY	RANGE	POINTS	FACTOR
EMPLOYMENT LEVEL	Small	Up to 5 Employees	1	A
	Small	6-40 Employees	2	
	Medium	41-75 Employees	3	
	Medium	76 and Above	4	
ANNUAL TURNOVER	Small	Up to \$50 000	1	B
	Small	\$50 001-\$500 000	2	
	Medium	\$500 001-\$1000 000	3	
	Medium	\$1000 001 and Above	4	
GROSS VALUE OF ASSETS	Small	Up to \$50 000	1	C
	Small	\$50 001 – \$500 000	2	
	Medium	\$500 001-\$1000 000	3	
	Medium	\$1000 001-\$2000 000	4	

Source: ZIMRA (2016)

According to the ZIMRA criterion of 2016 any organisation whose score is below 7 points is deemed to be an SME as pointed by Nyoni and Bonga (2018)

Statement of the Problem

The proliferation and the growth of SMEs are consequential to the development of any nation Nyoni and Bonga,(2018).

Regrettably, SMEs face a host of challenges in Zimbabwe and elsewhere. Some of these challenges include their failure to embrace and adopt prudent management accounting practices in their strategy implementation process.

Research Objectives

The study was guided by the following objectives:

- To determine the extent to which management accounting practices are being utilized in strategy implementation by SMES in the manufacturing sector in Bulawayo Metropolitan Province.
- To assess the challenges encountered in utilizing management accounting practices in the strategy implementation process by SMEs in the manufacturing sector in Bulawayo Metropolitan Province.
- To recommend how the challenges encountered in adopting management accounting practices in strategy implementation process by SMEs in the manufacturing sector can be addressed.

Research Questions

The study was guided by the following research questions:

- To what extent are management accounting practices being utilized in strategy implementation by SMES in the manufacturing sector?
- What are the challenges encountered in utilizing management accounting practices in strategy implementation by SMES in the manufacturing sector in Bulawayo?
- How can the challenges encountered in the adoption of management accounting practices in strategy implementation by SMES in the manufacturing sector be addressed?

Delimitations Of The Study

The study was based on four broad management accounting practices that are derived from the balanced scorecard model which are financial management practices (financial perspective), customer management practices (customer perspectives), operations management practices (internal business processes), and innovation management practices (innovation and learning perspective). The cross sectional abductive study focused on manufacturing SMEs that are listed on the Bulawayo City Council register. The chosen entities conform to the criteria of the SMEs targeted for this study.

II. LITERATURE REVIEW

According to Wang and Huynh (2013) there is a positive relationship between the implementation of management accounting practices and firm performance. This suggests that a higher usage of MAPs helps to enhance business performance. Relatedly, a study by (Consolata, 2018) carried out among manufacturing firms in Nairobi revealed that the

use of MAPs such as the use of Budgeting, Cost Volume Profit Analysis and ABC costing is vital in planning and decision making in a company and recommended all manufacturing firms to adopt these as they improve firm performance. Financial performance refers to the degree to which financial objectives are being or has been accomplished. Extensive literature regarding the firm's objectives, places much emphasis on the maximisation of shareholder's wealth. Managers are thus concerned about maximising shareholder's wealth as it connotes future prospects, reflects steady growth, and provides a risk shield. (Sharma (2009).

Apart from the financial management measures, an organization might employ internal process measures. These measures help by tracking progress on processes that are aimed at achieving strategic objectives. Examples include new product introduction interval, stock out percentage and distribution reach just to mention but a few. Andersen, Cobbold and Lawrie, (2001) recommends that internal process measures like asset utilization, capacity utilization and lead time help in strategy implementation and performance.

SMEs have been found to be somewhat slow in implementing tools and techniques used in larger companies for improving their innovative performance, despite that some SMEs are very well aware of the importance of innovation, most of these find difficulties in applying them in their practices (Maravelakis ,Bilalis, Antoniadis, Jones and Moustakis ,2006). A number of researchers have tended to focus on recommending SMEs to embrace various innovations in their processes without proffering tangible methods to follow this up. In an attempt to close this gap Maravelakis *et al.* (2006) proposed some measures that can be used. These measures include R&D expenditure, Incremental Sales from new products and Number of new patented ideas. Having embraced and adopted these as complementary MAPs, it is envisaged that SME performance will be enhanced.

Research Gap

This study was motivated by the existence of a knowledge gap which related to lack of a study that zeroed in to look at the role of management accounting practice in the manufacturing sector by SMEs in Bulawayo, Zimbabwe. Related studies were confined to strategy implementation in general without the fusion of management accounting practices. In some instance the focus was on manufacturing companies in general. The study by Addul-hadi (2017) for example although focused on strategy implementation it focused on big companies. The overall review and analysis of the studies done by various other researchers revealed that similar studies done on this topic were geographical located away from Zimbabwe and more so Bulawayo as the scope of the study. Other studies done on SME from the bulk of literature did not attempt to fuse management accounting practices and strategy implementation.

III. METHODOLOGY

Research design

The research approach used was a descript-explanatory study (sequential explanatory design) which makes use of descriptions as a precursor to explanations. Confirming the strength of this approach, Saunders *et al.*, (2016) posits that this method combines descriptive as well as explanatory approaches and is suitable for studies that describe and explain situations or problems given the relationships between variables.

Research strategy

The survey method was used in this study. The survey method provided a broad capability that enabled a more accurate sample to gather targeted results. Specifically, an analysis on the adoption of management accounting practices and their effect on performance can be done at a given point in time and a survey helps to find similarities across a significant number of SMEs across various sectors. Due to the nature of the research, a cross sectional study was used. In contrast to longitudinal studies that take a lot of time and resources, cross sectional studies have limited time duration and are ideal for corporate sponsored and academic studies (Mtigwe, 2009). Since the researcher used the survey strategy, this was well suited with a cross-sectional study (Onwuegbuzie and Leech 2007). The cross sectional study was appropriately suited for this study because data about the extent of adoption of various MAPs could be collected within a limited amount of time.

Research population

The research population of the study includes all SMEs operating in the manufacturing sector in Bulawayo. However, the target population was on those SMEs who operated at designated locations and registered with Bulawayo City Council (BCC). Although the list of registered SMEs provided by the Bulawayo City Council (BCC) had about 1520.

Sampling method

Though the sampling was done in stages probability sampling techniques were largely used because of their representativeness of the target population. This increased the generalizability of the results to the larger population (Maziriri and Mapuranga ,2017). Table 2 below summarizes the sample size for the study.

Table 2: SME targeted clusters in Bulawayo Metropolitan City

	Mzilikazi	Kelvin	Renkini	CBD	Belmont	Totals
Carpentry	15	6	5			26
Chemicals		5		5	5	15
Clothing & Textile		6	10	7	10	33
Fabrication (Steel)	4	15	15			34
Total sample	19	32	30	12	15	108

Source: Author (2020)

IV. DATA ANALYSIS AND DISCUSSION

Response rate: The research targeted SMEs in and around Bulawayo Metropolitan in the manufacturing sector. From the sample of 108 respondents 89 questionnaires were returned giving a satisfactory response rate of around 82%. In view of the contention that a response rate of 50% is considered sufficient, 60% good and above 70% rate very good (Mugenda and Mugenda 2003). Hence the response rate was deemed to be satisfactory.

Extent to which management accounting practices are being utilized in strategy implementation.

Table 3 below shows the extent to which SMEs used management accounting practices in strategy implementation.

Table 3: Use of management accounting practices in strategy implementation

Financial Measure	1	2	3	4	5	Mean	Std Dev
Using budgets to aid in strategy implementation	1%	5%	3%	72%	19%	4.53	0.71
Following set budgets	1%	4%	4%	72%	19%	4.54	0.71
Using break-even analysis	6%	10%	16%	55%	14%	4.08	1.03
Using standardized costing system (ABC)	6%	12%	15%	54%	14%	4.05	1.05

Source: Author (2020)

The results indicate that 72% of the respondent SMEs follow budgets while 54% use standard costing system and they use them to aid strategy implementation. This is further reinforced by a favorable mean of 4.5. This means that there is a strong inclination towards the adoption of the budgets as a management accounting practice. A considerable majority of respondents are conscious of the break-even point and considers units to calculate their profits and adopted a standardized costing system as evidenced by a mean above 4. A standard deviation above 1 however implies that the usage of breakeven point and standardized cost is not evenly across the SMEs as evidenced by a divergence from the mean of 1.03 and 1.05 respectively. This implies that SMEs are willing to utilize management accounting practices to a greater extent as affirmed by an average mean of 4.27 which confirms that 82% of the respondents wish to adopt management accounting practices (MAPs) in strategy implementation.

Challenges faced by SMEs in using management accounting practices in strategy implementation

Most of the respondents cited inadequate skills and lack of knowledge of the existence of the management accounting practices (MAPs) despite a majority of them (72%) having

indicated that they follow set budgets. The implication is that those SMEs did not know that budgets are part of management accounting practices and this mix up can be attributed to the fact that most of the interviewed SMEs (35%) were outsourcing the accounting services. Some respondents cited the ever changing government policies as the major challenge that they faced when trying to adopt management accounting practices in strategy implementation.

The majority of the interviewed respondents cited lack of financial resources as the major challenge they faced in adopting management accounting practices in strategy implementation. This is in concurrence with the fact that only 45% of the respondents indicated that adoption of management accounting practices requires allocation of resources for strategy implementation, which they did not have. This affirms why lack of resources is rampant. The instability of the Zimbabwean currency and the general turbulent economic environment was also given as the other challenges faced by SMEs in adopting management accounting practices in implementing their strategies. Interesting to note is that whilst an array of challenges were ushered during the interviews that pointed to the fact that very little of strategy implementation is actual done by SMEs.

V. CONCLUSION

The study concluded that SMEs appreciated the existence of management accounting practices and how they can be of assistance to strategy implementation. However, the major reason why they were not fully utilized in strategy implementation was due to the major macro economic challenges that Zimbabwe is going through. These challenges have caused SMEs to adopt survival techniques that disregard use of management accounting practices.

VI. RECOMMENDATIONS OF THE STUDY

Based on the findings above, the study makes the following recommendations:

- Respondents indicated that their survival tactics were focused on cost containment where they said they adjust their prices often to arrest the run-away inflation. Respondents indicated that they have informalised their operations to align to the informal markets as a survival strategy which they said ensured they survive to the next day. Hence, the SMEs are recommended to adopt tactical management accounting short term decision making strategies such as make or buy decision, pricing decisions and cost-volume – profit analysis. Respondents from steel fabrication manufacturing company indicated that they have adopted short term management accounting practices in order to survive the harsh business environment currently prevailing in Zimbabwe.
- Flexibility in terms of responding to the dictates of the Business environment was given as another way

that helped SMEs to enhance performance. Hence, SMEs are recommended to make use of flexible budgets to adopt to the ever changing business environment. Most responses given by respondents indicated that there is indeed very much uncertainty in the business climate in the country such that making use of the convectional budgets is no longer practical.

- Some SMEs are streamlining their activities to help manage cost. Where customer buy in was an issue some, respondents indicated that they allowed the out sourced accountants to initiate the process where employees will have to align to the given program. In this case, informalisation is a strategy that is recommended whereby management accounting practices were adopted in accordance with the dictates of the prevailing economic environment. The adoption does not seem to follow set procedures but are driven by necessity and the prevailing factors at play in the market.

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