ST. MARY'S UNIVERSITY COLLEGE
SCHOOL OF GRADUATE STUDIES

THE ROLE OF MANAGEMENT ACCOUNTING IN ENHANCING DECISION MAKING AT METALS AND ENGINEERING CORPORATION (METEC)

BY
MINTESNOT HAILU

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ADDIS ABABA, ETHIOPIA

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APPROVED BY BOARD OF EXAMINERS

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Advisor	**Signature**
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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of ____. All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

____________________________ ________________________

Name Signature

St. Mary's University College, Addis Ababa **May, 2013**

ENDORSEMENT

This thesis has been submitted to St. Mary's University College, School of Graduate Studies for examination with my approval as a university advisor.

______________________________ ____________________________

Advisor Signature

St. Mary's University College, Addis Ababa **February, 2013**

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ABSTRACT

The purpose of this thesis is to understand how information derived from management accounting has an impact on decision making and therefore to better understand the relationship between management accounting information and decision making. This research explores the role of management accounting information in METEC. It also determines the extent of use of management accounting information in METEC, identifies the current strengths and weaknesses of management accounting system and lastly examines what measures needed to taken to improve management accounting information system. The survey was conducted with individuals working in METEC in industries under the supervision of METEC using self administered questionnaire and structured interviews with selected individuals.

The results show that the prevailing management accounting system has many draw backs. Although the results indicate the use of management accounting information for decision making is very low and the management's focus towards management accounting is below the required level. Further, the research result shows that the accounting policy is financial accounting oriented and not helpful in making management accounting reports. The findings of the research can be specifically informative for policy makers intent on developing management accounting skills among Ethiopian manufacturing firms. It will also promote interest among Ethiopian researchers as well as researchers to make the manufacturing sector a focus of interest in management accounting research.

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1. INTRODUCTION

1.1. Background of the study

Decision making is a major function of management. It is a comprehensive process that comprises with identifying the problem and decision criteria, allocating weights to the criteria, move to developing, analyzing and selecting an alternative that can resolve the problem, implementing the alternative and ending with the evaluation of the decision's effectiveness. Management accounting is concerned with the use of information in facilitating managers to make informed business decisions effectively. Management accounting is not required to conform to national accounting standards. This allows business owners to customize the management accounting techniques as per the demand of the company.

The basic aim of management accounting is to facilitate managers in performing the following management tasks: planning, organizing, directing, controlling and decision making. In any organization the main goal is to achieve satisfactory financial results. To achieve this financial success the management of the company should be both effective and efficient in their decision.

Most authors like Atrill P., Decoster, D.T, Engler,M.T, in their works about management accounting define the discipline in terms of its decision making role. It is generally stated that since managerial functions using information for better planning and control, therefore, management accounting is very important for effective and successful management at all levels.

As opposed to financial accounting which provides economic information from the perspective of many external users, management accounting focuses mainly up on the needs of internal managers of an organization (Hoper et al., 2007)

Metals and Engineering Corporation (METEC) is established by the Council of Ministers of regulation number 183/2010. According to this regulation METEC is established to design, manufacture, erect, and commission of manufacturing industries, to engage in maintenance and overhauling of manufacturing industries; to manufacture industrial machineries, capital goods and industrial spare parts. Moreover it is expected to expand and enhance engineering and technological capabilities through creating partnership for the integration and interfacing industrial resources, to undertake production, manufacturing, maintenance, overhauling and upgrading of weapons, equipments, and parts useful to defense and security forces for combat and war operations. Additionally METEC is established to sell products of weapons, equipments, and parts to domestic and overseas buyers and to build technological capabilities of the country's defense forces by identifying existing and potential needs and through research and development;

These days METEC is involving in mega hydro electric projects and erection of new sugar factories. For instance METEC took the hydro mechanical part on the Great Renaissance Dam and also on supply of different equipments for the new sugar factories.

1.2. Statement of the problem

On its establishment regulation it is stated that, METEC is a state owned enterprise engaged in the design, manufacture, upgrading and maintenance of different products and services of the defense industry including upgrading combat aircraft and helicopters, tanks, vehicles and weapons. It is also engaged in fabrication and erection of: - electric power transmission towers, television towers, telecommunication towers, electric power cables and wires, transformers and generators.

Since METEC incorporates many projects and have a huge part in attainment of the five year Growth and Transformation Plan (GTP), there are number of internal and external decisions the corporation need to make. Management received different financial reports for information purposes and to make strategic and operational decisions based on it. There are financial accounting reports and there are also management accounting reports.

However, financial accounting reports don't provide adequate and essential information for the following reasons:

- It shows only overall performance of the organization. It does not give data regarding departments, products, processes and sales territories, etc.
- It is historical in nature.
- It has no performance appraisal scheme. there is no system of developing norms and standards to appraise the efficiency the use of materials, labor and other costs by comparing the actual performance with what should have accomplished during a given of time.

According to Horngren (2002) financial accounting is not helpful in evaluating strategic decisions. The financial records are based on certain conventions and concepts. METEC requires management accounting reports that will show:

- ✓ The level of output for a desired profit under the given conditions of production.
- ✓ The impact of prices level changes on the financial position of the enterprise.
- ✓ What should be the reasonable cost per unit of output?
- ✓ Should METEC build a new plant or modernize the old one?
- ✓ How far it can go in lowering prices to increase its sales volume?
- ✓ Is METEC's plant operating efficiently and economically?
- ✓ Which of our costs are out of line, and how can they can be controlled?
- ✓ Are sales prices set realistically in relation to costs?

(Horngren, 2002)

Therefore, practicing management accounting is a very crucial to make decisions like listed above in huge companies like METEC.

Much has been written about firms in developing countries and in particular about their failure rates (Watson and Everett, 1996). Richard (2000) stated that there are many reasons for the failure rate of companies in developing countries, including lack of adequate working capital, poor market selection, and rapidly changing external market conditions. However, the most significant reason for this high failure rate is the inability of these firms to make adequate use of essential business and management practices. Many firms fail to develop an initial plan, and those that do establish a plan fail to continually adjust and use it as a benchmarking tool.

Similarly, Wichmann (1983) argued that one of the reasons for business failure is poor management ability which includes accounting problem-solving. Further, Hopper et al. (1999) using data based on the results from Japanese companies' concluded that a failure to adopt management accounting information (i.e. cost management systems) in a similar way to their experienced counterparts and, at the margins, to experiment with new forms of control that are more profit oriented may be a factor in the currently high failure rate of firms. Based on these argument it can be suggested that management accounting information is important for them if they are to avoid failing.

Another driver of this thesis is the scarcity of research into the use of management accounting information among firms in developing countries. Despite the increasing amount of research in management accounting in the past decade, little is known of its form and effectiveness within firms in developing countries (McChlery et al., 2004). This lack of research based knowledge may have been based on a belief that the discipline in management accounting is best served by studying the most innovative and successful examples of practice that can be found in the leading western and Japanese firms (Mitchell et al., 1998). However, Mitchell et al. (1998) contended that research into management accounting in firms in developing countries provides possibilities of a different type which are nonetheless of great importance to the fundamental explanation and understanding of the discipline. Indeed, many of the research opportunities inherent in firms in developing countries derive directly from the contrasts which they provide with organizations in developing countries

Therefore given the significant economic importance of METEC and the gap in the literature, this research aims to obtain a broad overview of the use of management accounting information in METEC, their roles in the management of METEC, and to examine both the factors that lead to their use as well as their impact on performance.

1.3.Research Questions

Managers are constantly faced with the need to understand and control costs, make important decisions, coordinate resources, and guide and motivate employees. Managerial accounting provides an information framework to organize, evaluate, and report proprietary in light of an organization's goals (Hilton, 1997).

Based on the above theoretical and empirical information the researcher sets the following questions to be addressed in this study.

- What are the strengths and weaknesses of the management accounting reporting system in place?
- What is the attitude of managers towards management accounting reports?
- What types of management accounting reports reach executives at METEC?
- What policy interventions are needed to mitigate the weaknesses identified with regard to management accounting at METEC?

1.4. Objective of the Study

The general objective of this study is to identify the role played by management accounting information on managerial decision making purpose.
The following are specific objectives of the study:

1. To investigate the extent to which management accounting information is employed in decision making process at METEC.
2. To investigate the role played by relevant units in providing management accounting information.
3. To identify the benefits of management accounting information provided at METEC.
4. To determine what policy actions are needed to improve management accounting system at METEC.

1.5.Significance of the Study

This study will have useful implications for theory and practice. Regarding the potential implications for theory, the study will expand the existing management accounting literature in two main ways. First the study will provide new empirical evidence on the use of management accounting information. Second, the study will contribute an additional study in the new context of Ethiopian manufacturing firms regarding what contingent factors affect the extent of management accounting use.

Finally, the research will test for a relationship between the use of management accounting information and the effectiveness of decision in the context of Ethiopian manufacturing firms. The focus on Ethiopia is especially important because research on management accounting is very limited in this country and developing countries more generally. Benefits for practice will include the following:

- the creation of an awareness among managers of the importance of management accounting as a means of improving performance and maintaining competitiveness in the marketplace.
- the provision of results that may assist policymakers, such as the level of use of management accounting among firms and factors that affect the use of management accounting, that may ensure that future policy decisions made by the government, financial institutions, and other groups are evidence based.

1.6.Delimitation/Scope of the Study

The major aim of study is to assess the role of management accounting information on decision making process in manufacturing organizations, particularly in METEC. The study will only cover METC and all industries under the supervision of METEC which resides in Addis Ababa and its surroundings.

Since the study will focus on the role of management accounting in decision making, the participants of the study will be specialists on finance and management area, this will limit the number of participants. The analysis of the data from the interviews and questionnaires will limit the type tools that will be used.

Lack of awareness about the concept and usability of management accounting of concerned personnel of the company limits the number of participant to do the research.

2. LITERATURE REVIEW

2.1. Meaning of Management Accounting

The latest definition of accounting states that,” Accounting is a service activity. Its function is to provide quantitative information, primarily financial information in nature, about economic entities that is intended to be useful in making economic decisions – in making reasoned choices among alternative courses of actions.” This definition tried to give an emphasis on the role of accounting information for decision making. Different authors and scholars tried to discuss about management accounting on their works. Among them Yeshmin and Hossan (2011), shown that management accounting is more concerned with gathering and reporting internal financial information to facilitate decision- making process. Although it allows business to customize the management accounting techniques as per demand of the company.

Management accounting may be simply defined as a body of knowledge primarily consisting of concepts and techniques (tools) useful to management in making better decisions and evaluating performance (Cooper 1996). International Federation of Accountants (IFACs) (1998), defined management accounting as “the process of identification, measurement, accumulation, analysis, preparation, interpretation, and communication of information (both financial and operating) used by management to plan, evaluate, and control within an organization and to assure use of and accountability for its resources” IFAC (1998) - A definition which is grounded in traditional ideas of the subject. However, only nine years later the scope had widened considerably and Revised International Management Accounting Practice 1 (IFAC, 1998, p. 86) issued by the Financial Management and Management Accounting Committee (FMAC) of the International Federation of Accountants (IFAC) viewed management accounting as an activity that is interwoven in the management processes of all organizations. Management accounting refers to that part of the management process which is focused on adding value to organizations by attaining the effective use of resources by people, in dynamic and competitive contexts.

The goal of managerial accounting is to provide information for internal decision making; primarily, for planning and control purposes. Similarly, Sigel and Sorenesen (1999), defined management accounting as a profession that involves partnering in management decisions making, devising planning and performance management systems, and providing expertise in financial reporting and control to assist management in the formulation and implementation of an organization's strategy.

According to Malik and Saukat (2011), since managerial functions involve using information for better planning and control, therefore, management accounting is very important for effective and successful management at all levels. The main trust of management accounting is towards determining policy and formulating plans to achieve desired objectives of management. It helps the management in planning, controlling and analyzing the performance of the organization in order to follow the path of continuous improvement. It utilizes the principle and practices of financial technique for effective operation of the company.

Horngren (2002) describes management accounting as a synthesis of various disciplines. Among these disciplines, Management Theory, Financial Accounting, Finance Theory, Economic Theory, Marketing Theory and Mathematics Theory are the major ones. Hilton (1997) added more about management accounting by stating that management accounting is any form of accounting that is useful to management in the discharge of its managerial functions for efficient utilization of business resources to achieve the fundamental objectives of optimizing profit.

Management accounting is that accounting approach of an entity activity that allows separation and structure in subdivisions of property and financial results. In this way you can know how to generate profit or loss in the entity, and ways to influence its activity in order to increase profitability (Briciu, 2010). Bouquin (2004) believes that the major role of management accounting should be producing information to enable modeling the relationship between resources deployed and the results obtained in return.

Another definition of management accounting that was given by the U.S. National Association of Accountants (NAA) which defines management accounting as "the identification, measurement, collection, analysis, preparation, interpretation and transmission of financial information used by management of an enterprise for planning, evaluation and control of appropriate and responsible use of its resources."

In 1987 Chartered Institute of Management Accountants UK (CIMA) explained management accounting as "Management accounting is an integral part of management dealing with the identification, presentation and interpretation of information used for: the formulation of strategies, planning and control of activities, decision-making; the use of resources, information of members and other external information users, information of workers, protection of assets. "

Johnson and Kaplan (1987) described how a management accounting system must provide timely and accurate information to facilitate efforts to control costs, to measure and improve productivity, and to devise improved production processes. The management accounting system must also report accurate product costs so that pricing decisions, introduction of new products, abandonment of obsolete products, and response to rival products can be made.

Lately, the management accounting system focuses increasingly more to activities to be undertaken at all organizational levels. Assessment, management and continuous improvement of these activities are critical to the success of a company.

Management accounting is able to "add value" to a business, through the following five major goals (Hilton, 1997):

- Providing information for decision making and planning, and proactively participating as part of the management team in the decision-making and planning processes;
- Assisting managers in directing and controlling operational activities;
- Motivating managers and other employees toward the organization‘s goal;

- Measuring the performance of activities, subunits, managers, and other employees within the organization;
- Assessing the organization‘s competitive position, and working with other managers to ensure the organization‘s long-run competitiveness in its industry.

Since management accounting is managerially oriented, its data is selective in nature. It focuses on potential opportunities rather than opportunities lost. The data is operative in nature catering to the operational needs of a firm. It details events, monetary and non-monetary. The nature of data, the form of presentation and its duration are mainly determined by managerial needs. It is quite frequently reported as it is meant for internal uses and managerial control. An accountant should look at his enterprise from the management's point of view. Whenever he fails to do that he ceases to be a management accountant. Management accounting is highly sensitive to management needs. However, it assists the management and does not replace it. It represents a service phase of management rather than a service to management from management accountant. It is rather highly personalized service. It can be said that the management accounting serves as a management information system and so enables the management to manage better (Decoster and Schafer,1979)**.**

2.2. History and development of management accounting

Management accounting was first known as cost accounting. This origin was reflected in the earlier title for practitioners of cost or works accountants (Wilson and Chua, 1988). Accounting historians have long endorsed the view that cost accounting is a product of the industrial revolution (Johnson, 1981). For example (Wilson and Chua, 1993) claimed that cost accounting was practiced by the mechanized, multi process, cotton textile factories that appeared in England and United States around 1800. This point of view was consistent with Garner (1947) who pointed out that cost accounting had emerged only after eighteenth century as a result of the rise of the factory system in the industrial revolution. The traditional view contends that cost accounting arose due to the increased use of fixed capital prompted accountants during the industrial revolution to graft cost accounting onto the double-entry system (Johnson, 1981). This widely held belief however was rejected by Johnson (1981) who argued that changes in the way textile mills and giant manufacturing firms organized economic activity, not just changes in the temporal structure of their costs, prompted the industrial organizations to develop internal cost accounting procedures. Cost accounting is defined as the equivalent of 'direct costing' designed to provide financial information for management decision-making and control (Johnson, 1981). Garner (1947) argued that the practices and theories of cost accounting origins can be traced to the fourteenth century. During this period there was a rapid growth of Italian, English, Flemish, and German commerce, and various industrial enterprises were engaged in the manufacture of woolen cloth, books, coins, and other products (Garner, 1947). Cost accounting at this time was concerned with those specialized aspects of general accounting which have to do with recording and analysis of factory expenditure (Garner, 1947).

Later in the twentieth century, the term of cost accounting started to change into management accounting. Wilson and Chua (1988) claimed that the term 'management' or 'managerial accounting' only came into widespread use at the beginning of the 1960s. A useful distinction between the era of cost accounting and the era of management accounting was made by Horngren (1975). In an exaggerated sense, the cost accountant‘s main mission might have been depicted as the pursuit of absolute truth, where truth was defined in terms of getting as accurate or precise costs as possible.

The factor that led from a costing to a managerial emphasis was the development of new corporate structures such as multidivisional organization, the conglomerate and the multinational enterprise (Wilson and Chua, 1988). These new structural forms placed fresh demands on an organization‘s accounting function. For instance, a means of evaluating divisional performance had to be devised. Similarly, prices had to be established for goods that were sold by one division to another within the same organization. These extra informational requirements led to a development of the subject beyond a narrow costing emphasis (Wilson and Chua, 1988).

The first known textbook in management accounting emerged in 1950, written by Vatter, and titled Managerial Accounting (Kelly and Pratt, 1994). Vatter argued that management accounting has the purpose of supporting managers, not of reporting to owners (Kelly and Pratt, 1994). The changes from cost accounting to management accounting was also manifested when The Institute of Cost and Works Accountants changed the name of its journal from Cost Accounting to Management Accounting in 1965 and its own name to the Institute of Cost and Management Accounting in 1972. In 1986 it received its royal charter and became The Chartered Institute of Management Accountants (CIMA) (Allot, 2000). In the United States the National Association of Cost Accountants changed its name to the National Association of Accountants in 1958 (Scapens, 1991, p. 9). This organization became the Institute of Management Accountants (IMA) in 1991.

Overall it can be seen that after nineteenth century the focus changed from cost accounting to an emphasis on the provision of information that was appropriate to the needs of managers.

Johnson and Kaplan (1987) argued that the origins of modern management accounting can be traced to the emergence of managed, hierarchical enterprises in the early nineteenth century. Scapens, R.W. (1991), explained that the industrial revolution in the early nineteenth century resulted in the emergence factory system that dramatically changed the productions process. This has created a new demand for accounting information for decision making.

A lot of management accounting information is based on quantitative and qualitative data. This interest was initially prompted by a perceived gap between the theory and practice of management accounting, and specially the generally held belief that the traditional wisdom of management accounting textbooks is not widely used in practice.

In their acclaimed book Relevance Lost, Johnson and Kaplan (1987) traced the development of management accounting from its origins in the industrial revolution supporting process-type industries such as textile and steel conversion, transportation and distribution. These systems were concerned with evaluating the efficiency of internal processes, rather than measuring organizational profitability.

Financial reports were produced using a separate transactions-based system that reported financial performance. Johnson and Kaplan (1987) argued that by 1925 ‘virtually all management accounting practices used today had been developed’.

They also described how the early manufacturing firms attempted to improve performance via economies of scale by reducing unit cost through increasing the volume of output. This led to a concern with measuring the efficiency of the production process. Calculating the cost of different products was unnecessary because the product range was homogeneous.

Over time, the product range expanded and businesses sought economies of scope through producing two or more products in a single facility. This led to the need for better information about how the mix of products could improve total profits. However, after 1900 the production of accounting information was largely for external reporting to shareholders and not to assist managerial decision making.

2.3. Management accounting practices

In the UK, Drury et al. (1993) reported on practices of management accounting in 303 manufacturing organizations and found out that a variety of different practices were used. Although many appeared to correspond closely with theory, there was also evidence of considerable gulf between some aspects of theory and practice for some respondents. Abdel-Kader and Luther, (2006) conducted a survey on management accounting practices in the UK food and drinks industry. They concluded that traditional management accounting is ‘alive and well’ but there are indications of an increased use of: information concerning the cost of quality; non-financial measures relating to employees; and analyses of competitors’ strengths and weaknesses. Again, there was also evidence of a gap between current textbook practices and actual practices.

In other European companies, studies in management accounting were conducted by various researchers. For example, Anderson and Rohde (1994); Israelsen et al. (1996), Bruggeman et al. (1996); Pierce and O‘Dea, (1998); Szychta, (2004); and Hyvonen, (2005).These studies covered a variety of different management accounting practices such as costing, planning and control, performance measurement and evaluation and decision support system. For example, Bruggeman et al. (1996) examined the use of management accounting practices within Belgian companies. They found that traditional approaches were still in use although companies had started to adopt new techniques such as Activity Based Costing. Pierce and O‘Dea (1998) investigated management accounting practices among Irish management accountants and reported that traditional techniques continued to dominate management accounting systems (financial measures of control and performance evaluation); and that the update of more modern techniques low (Activity Based Costing and target costing) was generally. This suggests that the main contribution of newer techniques may be in supplementing, as opposed to replacing, traditional techniques. In another study, Hyvo¨ nen (2005) provided empirical evidence on management accounting practices in Finnish manufacturing companies. The study recorded the extent of adoption of the management accounting practices, the perceived benefits from their use and ascertained intentions for future developments in these practices. The results indicated that financial measures like product profitability analysis and budgeting for controlling costs will continue to be important in the future, but noted that greater emphasis will be placed on newer non-financial practices like customer satisfaction surveys and employee attitude surveys in the future.

Shields et al. (1991), who summarized the management accounting practices literature in U.S and Japan, discovered that there are many similarities as well as differences in the use of management accounting between Japanese and U.S companies. For example, they found that: there is about the same use of direct (variable) costing and full (absorption) costing in both countries though the Japanese firms report more frequent use of process costing to accumulate product costs and a higher percentage of U.S. firms do not use any form of Cost Volume Profit modeling. One of the biggest reported differences between Japanese and U.S. firms is in the use of capital budgeting decision models. Discounted cash flow models such as net present value and internal rate of return were commonly used by U.S. firms. In contrast, Japanese firms more frequently used pay back as the primary model. In Japan, Scarbrough et al. (1991) identified several important Japanese management accounting practices used in advanced Factory Automation manufacturing environments. The survey revealed that Japanese management accounting systems for product costing and inventory valuation did not employ newer or more innovative methods than Western manufacturers used. Instead, the firms appear to have put their innovating effort into cost analysis for decision-making and cost control through unique management 'accounting' techniques such as target costing and engineering performance enhancement methods (for example, total quality control (TQC), total productive maintenance (TPM), just-in-time (JIT), value engineering (VE) and return on sales (ROS)). Similarly, McMann and Nanni (1995) reviewed the literature on Japanese management accounting. They discussed the extant literature by reference to the following five themes: examining work using the ‘eyes’ of the market; focusing on the quality of work; employing ‘waste’ as the measure of cost; continually improving the way work is done and sharing knowledge through vertical and horizontal communication. Most evidence shows that Japanese and Western management accounting techniques and methodology are quite similar. What do vary between the two countries are the way these techniques are applied and the context in which they are used. The five recurring research themes (as mentioned before) provide a framework for Japanese firms to use management accounting techniques in order to create competitive advantage.

In Australia, Smyth (1960) compared management accounting techniques in Australia with those in the U.S and Canada. He found that Australian management made less use of the management accounting techniques than managers do in the U.S and Canada. For example; Australian companies were less likely to employ long-range sales plans, long-range plans for capital expenditure, cash, and profits, and budgeting techniques than companies in the US and Canada. A more recent study by Chenhall and Langfield-Smith (1998) found that Australian companies have a relatively high level of adoption of management accounting techniques compared to other countries. On average, the rates of adoption of traditional management accounting practices were higher than the adoption of current techniques. There were higher adoption levels on budgeting, planning and performance evaluation; and somewhat lower adoption levels for target costing, value chain analysis and Activity Based Costing. Wijewardena and De Zoysa (1999) looked at management accounting practices in large manufacturing firms in Australia and Japan. The results of the survey found a number of important differences between the two countries. The most striking difference was that while management accounting practices in Australian companies placed an emphasis on cost control tools such as budgeting, standard costing and variance analysis at the manufacturing stage, those of Japanese companies devoted much greater attention to cost planning and cost reduction tools based on target costing at the product planning and design stage. Further, the Japanese companies seem to have introduced more frequent changes to management accounting practices than their Australian counterparts.

2.4. Management accounting practices in developing countries

El-Ebaishi et al. (2003) found that, traditional management accounting techniques are perceived by Saudi manufacturing firms to be important and heavily used by responding firms. On the other hand, new management accounting techniques such as Activity Based Costing and Just-in-Time are used by only a limited number of respondents. El-Ebaishi et al. (2003) concluded that this result was in line with outcomes from studies in developed countries. Ghosh (1982) examined management accounting practices in Singaporean large companies operating in the manufacturing and services sectors. The results revealed a high level of adoption of budgeting and capital budgeting (more than 80 per cent), moderate use, ranging from 56 per cent to 80 per cent of long-range planning, breakeven point analysis, return on investment and standard costing; and a very low uptake (11 per cent) of Activity Based Costing.

Phadoongsitthi (2003) found similar results in Thailand to those established in Singapore and India. The study reported that for Thai companies in the manufacturing and services sectors the adoption of budgeting, planning and performance evaluation practices was high but the adoption of contemporary approaches such as target costing, product life cycle analysis and zero-based budgeting was low. In a more recent study, Nimtrakoon (2009) conducted a study of management accounting practices in Thailand. The findings confirm the popularity of the use of, and high perceived benefit from, traditional management accounting practices and reveal disappointing adoption rates of, and relatively low perceived benefit from, contemporary management accounting practices.

In India, Joshi (2001) explored management accounting practices in the Indian manufacturing and services sectors. The study indicated that the uptake of traditional management accounting practices, such as budgeting and performance evaluation, was higher than for contemporary techniques. Waweru et al. (2004) analyzed management accounting change over time within four African retail companies and found considerable changes in management accounting systems within the four cases. Such changes include increased use of contemporary management accounting practices notably activity-based cost allocation systems and the balanced scorecard for performance measurement. Frezatti (2007) surveyed management accounting practices in Brazilian medium and large companies operating in manufacturing and non-manufacturing sectors. The results showed that adoption was lower for recent management-accounting practices than for more traditional practices such as budgeting.

2.5. Management accounting in manufacturing companies

Most of the study in relation to management accounting techniques conducted in world is on manufacturing firm as the concept of cost and management accounting has emerged in manufacturing organizations. Chenhall and Smith (1998) has surveyed Australian manufacturing firms to identify the extent to which they have adopted certain traditional and recently developed management accounting practices. The findings indicate that, overall, rates of adoption of traditional management accounting practices were higher than recently developed techniques. However, newer techniques, such as activity-based costing, were more widely adopted. The evidence suggests that the majority of large Australian firms have adopted a range of management accounting techniques that emphasize non-financial information, and take a more strategic focus. Adler et.al. (2000) has done a detailed examination of manufacturers' adoption and utilization of advanced management accounting techniques as well as perceived barriers as structural and environmental changes to implementation of new techniques by surveying 165 New Zealand manufacturing sites. Joshi P.L. (2001) has done a study which examines the management accounting practices in a sample of 60 large and medium size manufacturing companies in India. The findings reveal that the adoption rate in India for traditional management accounting practices was higher than for the recently developed techniques.

Sharkar & Yeshmin (2005) has focused on the application of responsibility accounting as one of the management accounting techniques in 30 organizations. The authors have focused on four responsibility centre as cost center, revenue center, profit center and investment center to show the accountability of the organization. This study has also revealed that the most common technique - budget is using to evaluate the performance. Sharkar et.al. (2006) has given an overview of the management accounting practices in the listed manufacturing companies of Bangladesh. The analysis of this study has revealed that all sectors fail to practice some newly developed techniques. They have suggested to improve and fasten the management accounting practices.

Khajavi and Nazemi (2006) have found that the world-class companies should use the newest and modern techniques in manufacturing. Flexibility in manufacturing, advanced information technology, programming and control, sketching and product innovation, organization structure, financial controls, bench marking, long range strategic plans, comprehensive quality management, and personnel active partnership in business operation and business process are considered as the main characteristics of world-class companies. In continuation, a model will be presented, on the basis of which, management accounting system can help these companies. In order to establish this model, activity based costing techniques, target costing, theory of constraint, balanced scorecard, and manufacturing on time will be used.

Wegmann (2007) has analyzed the management accounting applications which try to improve the Activity-based Costing method. He also shows several proposals:

Customer-driven Activity Based Costing, Inter-organizational Cost Management, Resource Consumption Accounting and Time-driven Activity Based Costing.

Overall based on research in developed and developing countries, it may be concluded that, traditional management accounting practices are widely employed but new more sophisticated practices are not yet widely adopted despite their claimed relevancy.

2.6. Management Accounting Vs Financial Accounting

Broadly the discipline of accounting divided in to two broad categories; namely financial accounting and managerial accounting. In broad senses, financial accounting, as a branch of accounting in general serves all type of users. Management accounting; on the other hand, is intended to serve primarily management's internal information needs; therefore, managerial accounting is not governed by strictly defined and publicly promulgated principles and standards. Financial accounting is concerned with the reporting of operations to external parties; where as management accounting is internal in direction and is primarily concerned with serving decision-making needs of management (Garrison and Eric, 1997).

Engler and Calvin (1990) tried to distinguish between management and financial accounting using two approaches: Input/ Output approach and financial statement approach. In Input/output approach it is explained the management accounting deals with a wide range of input and outputs. Also, the methodology of processing data involves numerous types of mathematical models. In case of financial accounting the inputting, processing and outputting of data is highly dictated to a set of rules dealing only with historical data where as management accounting is not.

In the second approach, i.e. Financial Statement Approach the difference between management and financial accounting has been presented as; both financial and management accounting are concerned with financial statements. The financial accounting is concerned with analysis and recording the historical transaction (past decision) of the business and although fairly representing financial statements base on past events. The management accounting is primarily concerned with desired future events. The management accounting is concerned with financial statements (e.g budgeted financial statements) that reflect the anticipated consequences of planned decisions (planned transaction). For instance the financial accountant is concerned with questions like: what is the amount of cash on hand? What is the cost of inventory or hand? The management accountant, however, is concerned with questions such as: What amount of cash should be on hand? What is the desired level of inventory?

Table 1 Summary of differences between management accounting and financial accounting. Macintosh (1994)

Items of Difference	Financial Accounting	Management Accounting
Primary Users	External decision makers, such as creditors, stockholders, tax authorities and regulators	Internal decision makers-managers at various levels.
Time orientation	Past Oriented	Future oriented
Precision	Precision of information is required	No emphasis is given to actual figures. Approximate figures are considered more useful than exact figures.
Freedom of choice	Must follow GAAP	Need not follow GAAP
Reporting entity	Organization as a whole. That is, only summarized data for the entire organization are presented.	Detailed segment reports about departments, divisions, products, customers and employees are prepared.
Compulsion	Mandatory for external reports	Not mandatory
Description	Monetary	Monetary and non-monetary
Publication	Financial accounting statements are published	Management accounting statements are not published
Source of data	Internal sources	Both internal and external sources
Delineation of activities	More sharply defined	Less sharply defined
Time span	Less flexible	Flexible

According to Charles (2002), there are also some similarities that management accounting have in common. These similarities are summarized in two ways. The first similarity is on both management and financial accounting uses the same accounting information systems. It would be a waste of money to have two different data collecting systems existing side by side. One part of the overall accounting system is the cost accounting system, which accumulates cost data for use in both management and financial accounting. The second similarity is on the concept of responsibilities or stewardships. Financial accounting is considered with stewardship over the company as a whole; management accounting is concerned with stewardship over its parts, and this concern extends to last person in an organization who has any responsibility over cost.

2.7. Decision making and Management Accounting information

The primarily role of management accounting in the decision-making process is to provide relevant information to the managers who make the decisions. Production managers typically make the decisions about alternative production processes and schedules, marketing managers make pricing decisions, and specialists in finance usually are involved in decisions about major acquisitions of equipment. All of these managers require information pertinent to their decisions. The management accounting plays a huge role by providing information relevant to the decisions faced by managers throughout the organization.

Management accounting is concerned with gathering and reporting internal financial information to facilitate decision-making process. As management accounting is not required to conform to national accounting standards, it allows business to customize the management accounting techniques as per demand of company. As a process of this customization, some advanced quantitative as well as number of qualitative techniques accompany with the traditional techniques, have been emerged to cater the information need in decision making (Yeshmin and Hossan,2011).

In 1983 The Chartered Institute of Management Accountants' definition of the core activities of management accounting includes:

- Participation in the planning process at both strategic and operational levels, involving the establishment of policies and the formulation of budgets;
- The initiation of and provision of guidance for management decisions, involving the generation, analysis, presentation and interpretation of relevant information;
- Contributing to the monitoring and control of performance through the provision of reports including comparisons of actual with budgeted performance, and their analysis and interpretation.

Atrill and McLaney (2005) identified four broad areas of decision making where management accounting information is required. The first area is at the stage of developing objectives and plans. Managers are responsible for establishing the mission and objectives of the business and then developing strategies and plans to achieve these objectives. Management accounting information can help in gathering information that will be useful in developing appropriate objectives and strategies. It can also generate financial plans that set out the likely outcomes from adopting particular strategies. Managers can then use these financial plans to evaluate each strategy and use this as a basis for deciding between the various strategies on offer. The second are is when management performs evaluation and control. Management accounting information can help in reviewing the performance of the business against agreed criteria. Currently non-financial indicators are increasingly used to evaluate performance along with financial indicators. Controls need to be in place to ensure that actual performance conforms to planned performance. Actual outcomes will, therefore, be compared with plans to see whether the performance is better or worse than expected. Where there is a significant difference, some investigation should be carried out and corrective action taken where necessary. The third are is at the time of allocating resources. Resources available to a business are limited and it is the responsibility of managers to try to ensure that they are used in an efficient and effective manner. Decisions concerning such matters as the optimum level of output, the optimum mix of products and the appropriate type of investment in new equipment will all require management accounting information. The last are is when determination of costs and benefits is being made. Many management decisions require knowledge of the costs and benefits of pursuing a particular course of action such as providing a service, producing a new product or closing down a department. The decision will involve weighing the costs against the benefits. The information from management accounting can help managers by providing details of particular costs and benefits. In some cases, costs and benefits may be extremely difficult to quantify; however, some approximation is usually better than nothing at all.

Similarly Mia and Clarke (1999) found that there are four stages that need information from management accounting. According to them managers need management accounting information at the time of implementing strategy. Managers implement strategies by translating them into actions. Creating value for customers is an important part of planning and implementation of strategies. Strategic planning and implementation will include decisions regarding the design of products, services or processes, research and development, production, marketing, distribution and customer services. Each of this area is important for satisfying customers and keeping them satisfied. Management accounting will help to track the costs of each of the activity mentioned above. The ultimate target is to reduce costs in each category and to improve efficiency. Cost information also helps managers make cost benefit analysis. The other are in which management accounting information is must at the time of supply Chain Analysis: Companies can also implement strategy, cut costs and create value by enhancing their supply chain. The term ‘Supply Chain’ describes the flow of goods, services and information from the initial sources of materials and services to the delivery of products to customers regardless of whether those activities occur in the same organization or in other organization. Customers expect improved performance from companies through the supply chain. They expect that the companies should perform all these activities in an efficient manner so as to reduce costs and also maintain quality of the products and the products be available easily for them. This is no doubt a daunting task and the management accounting plays a vital role in ensuring value for money for the customers. Tools like standard costing and target costing can be used effectively for cost control and cost reduction and thus ensure reasonable prices for customers. A system of budgets and budgetary control will ensure continuous planning and monitoring various functions and thus provide for introspection. Continuous improvement in these activities will help in creating value for customers. The other area they mentioned the importance of management accounting information is on the process of decision making. Management accounting helps in this crucial area by providing relevant information to the management. Techniques like marginal costing helps to generate information, which will be useful for taking decisions. Decisions include make or buy decisions, adding or dropping a product line, working of additional shift, shut down or continue operations, capital expenditure decisions and so on. Decisions based on information are expected to be more rational and objective rather than subjective. The last are they mentioned is performance measurement. Management accounting helps immensely for the measurement of performance of the organization. The main aspect of performance measurement is comparison between the targets and actual. There are several tools and techniques like budgets and budgetary control, standard costing and marginal costing, which are used in measuring the actual performance against the target performance. This will facilitate introspection and corrective action can be taken for further improving the performance.

2.8.Summary

This chapter reviewed literatures relevant to the role of management accounting information in decision making. A good number of studies shown that management accounting practices initially commenced in developed countries in the 1990s. In developing countries, the majority of extant empirical evidence on this subject has been obtained in the twenty first century.

Studies also revealed that there is a substantially body of research that focuses on specific management accounting practices and techniques: costing systems;

budgeting and performance evaluation systems have been the most popular areas for study.

The literature suggests that the uptake of traditional management accounting practices and techniques was perhaps not surprisingly higher for traditional management accounting techniques than for contemporary management accounting practices and techniques in both developed and developing countries. However, there are indications in recent studies, of an increasing use of more contemporary practices. The literature indicates there is very little evidence on the usage of management accounting information among manufacturing firms in developing countries.

The review has therefore identified a significant gap in research about management accounting practices among firms as there are very few studies related to developing countries. Addressing the stated research questions of the thesis will endeavor to close this gap and add to existing knowledge about the adoption of management accounting practices by providing information on the use of management accounting practices by manufacturing firms in a developing county, Ethiopia.

The next chapter presents the research methodology used to meet the objective of this research project.

3. RESEARCH DESIGN AND METHODOLOGY

3.1.Research design

Mostly known approaches of research methodology include qualitative research methodology, quantitative (descriptive) research methodology, and mixed research methodology. As Leedy and Ormrod (2005) explained, qualitative research encompasses several approaches to research that, in some respect, quite different from one another. Yet all qualitative approaches have two things in common. First, they focus on phenomena that occur in natural settings that are in the “real world”. And second, they involve studying those phenomena in all their complexity. Qualitative researchers rarely try to simplify what they observe instead, they reorganize that the size they are studying has many dimensions and layers, and so they try to portray the issue in its multifaceted form.

Qualitative researchers believe that the researcher’s ability to interpret and make sense of what he or she sees is critical for understanding any social phenomenon. In this sense, the researcher is an instrument in much the same way that a socio gram, rating scale, or intelligence test is an instrument. Furthermore, some qualitative researchers believe that there isn’t necessary a single, ultimate truth to be discovered. Instead, there may be multiple perspectives held by different individuals, with each of these perspectives having equal validity, or truth (Cresswell, 1988). One goal of a quality study then might be to reveal the nature of these multiple perspectives.

Because qualitative researchers tend to ask open ended question at the beginning of investigation, they sometimes have difficulties in identifying a head of time the exact methods they will use. But as they are studying and so on can ask more specific question, so too, can they better specify what methods they should use to answer those questions.

Quantitative or descriptive quantitative study involves either identifying the characteristics of an observed phenomenon or exploring possible correlations among two or more phenomena. In every case, descriptive research examines a situation it is. It does not involve changing or modifying the situation under investigation, nor is it intended to determine cause-effect relationship (Leedy and Ormrod, 2005).

Descriptive or quantitative research design involves observation studies, correlation research, developmental design,, and survey research. These approaches yield quantitative information that can be summarized through statistical analyses. In descriptive (quantitative) research design the research aims to go beyond the observation.

The mixed method of research approach is used when the researcher combines elements of both quantitative and qualitative approaches. Quantitative and qualitative research design (Mixed) is appropriate for answering different kinds of questions. When we use mixed approach we learn more about the research problem. During mixed research approach both quantitative and qualitative data are collected to answer a single research question. Historical research strategy is largely qualitative endeavor although historical researchers often make use of quantitative data as well (Leedy and Ormorod, 2005).

The purpose of this study is to identify impact of management accounting information on decision making. As it can be seen from the research problem it is more explanatory type and tries to answer the relationship between management accounting information and decision making of executives. Therefore, based on the nature and type of data to be collected to address the topic, the researcher employed both qualitative and quantitative research approaches where data were collected through questionnaires and interview schedules which finally help to draw conclusions.

3.2. Population and sampling technique

The target population will be all industries which are under the supervision of Metals and Engineering Corporation (METEC) and METEC itself.

The sample size for self-administered questionnaires distributed to 83 respondents and delivered physically to all targeted categories.

For this study the most appropriate type of sampling design was a non-probability purposive sampling method. Purposive sampling where the researcher selects the sample on his particular purpose for instance the researcher may choose people who represent diverse perspective and knowledge on the issue (Leedy and Ormrod,2005).According to Diamantopoulost and Schlegelmilch (2000), purposive sampling is used when sample members are chosen with specific purpose or objective in mind. This researcher selects purposive sampling method because decision making process and financial management works are done and the practical knowledge is found within few employees and not all employees and officials.

The sample selection will be based on the following process – First Metals and Engineering Corporation (METEC) and all industries in Addis Ababa and its surroundings were targeted. Second people who work in the above industries and involve producing management accounting information and decision making such as experts, accountants, management members, section heads and team leaders were targeted.

3.3. Instruments of data collection

This researcher collected data using self-administered survey questionnaire method and conducted an interview to collect some relevant data which will help to elaborate questions rose on the questionnaire.

3.4.Procedures of data collection

The questionnaires (paper- pencil format) were distributed physically in person to the targeted respondents. And follow-up calls were conducted to provide feedback, clarification and remainder. Statistical analysis then conducted on this data. For literature review and other purposes, different books, articles, manuals, websites and other secondary data were reviewed.

Data was primarily collected through simple self administered questionnaires with Likert scale type of questions. A Likert scale is a variation of the summated rating scale which consists of statements that express either a favourable or unfavourable attitude toward the object of interest (Cooper & Schindler, 2003). Respondents were asked to agree or disagree with each statement. Each response was given a numerical score to reflect its degree of favorableness (1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 =

Agree, 5 = Strongly Agree). Likert scales helped the researcher to compare a respondent's score with a distribution of scores from the sample group.

Interviews were used as a secondary and qualitative tool to get more insight and meaning of the research problem.

Respondents were asked to fill the questionnaire and send it back within five days. One week later, a reminder was sent to all selected respondents. Two weeks after the initial posting, reminders were again sent to respondents who had not returned their questionnaires.

To help answer the research question, opinions of management members and highly experienced accountants sought. Here although non-probability sampling was used.

Interviews were scheduled with three management members and four experienced accountants over a one week period. Again the researcher used convenient samples.

Only 4 out of the 7 scheduled interviews materialized. Structured interview questions were used although respondents were not entirely restricted to the interview questions. Open but limited discussions were encouraged.

3.4.1. Data analysis methods

There are different types of inferential statistical techniques or procedure used in quantitative research methodology and its usage varies based on purpose and appropriateness for each research situation.

The data collected were analyzed, interpreted, and discussed by using quantitative and qualitative method of analyses. The data were analyzed by using statistical tools such as percentages and averages.

The first analysis done was to determine the profile of the respondents according to working position, the amount of experience the respondent has, and the company they are currently working in.

Next the questions were collated and grouped under headings to ease analysis. This included the questions on the strengths and weaknesses of management accounting reporting system in place, the attitude and understanding of management members towards management accounting, management accounting reports reaches the executives and areas where improvement is needed. The responses were assigned codes and then ranked from those with the most responses to the least to determine which was most important.

In order for data to be easily understood, graphs and table were used to present the data.

4. RESULTS AND DISCUSSION

4.1. Findings of the study

The results of the study are presented below under the following four subsections to achieve the objective of the research.

4.1.1. Background information of the respondents

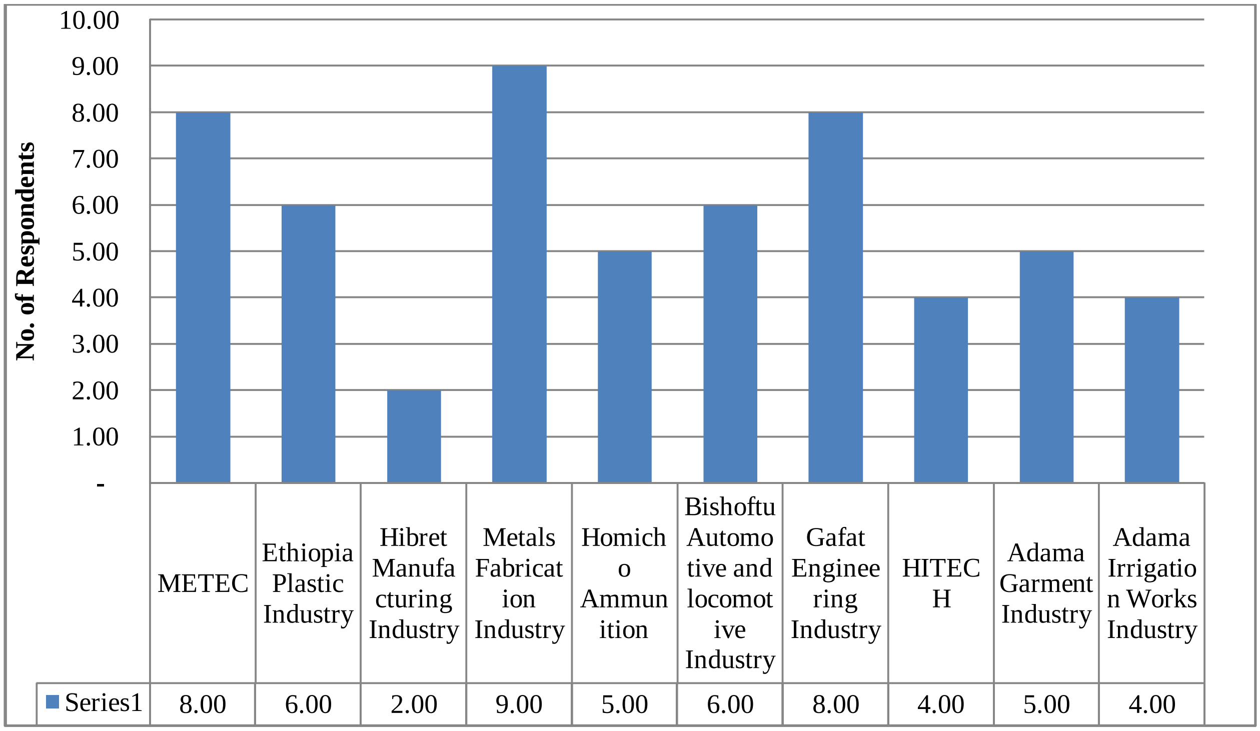
To do this research a total of 83 questionnaires were distributed physically to the targeted group of employees. These questionnaires were distributed to employees of METEC and industries which are under the supervision of METEC. Out of the total 83 questionnaires 57 were fully responded and returned, thus achieving 69 percent response rate.

Table 2 Response Rate

Sample Size	83
Completed and Returned Questionnaires	57
Response Rate	69%

Among the respondents 9 were from Metals Fabrication Industry. METEC head office and Gafat Industry contributed 8 employees each. Although Ethiopia Plastic and Bishoftu Industries contributed 6 employees each. Figure 4.1 presented below shows in which companies do the respondents work.

Fig 1 Number of respondents by company.



Source: Survey Outcome and own computation.

With regard to respondents working position in their respective companies, 30 (52.6percent) employees work as an Accountant, 11 (19.3 percent) are Department Heads, 8 (14 percent) indicated that they are Section Head and the remaining 8(14 percent) are Team Leaders.

Table 3 Working position of respondents

Position	Frequency	Percent	Cumulative percent
Accountant	30	52.6	52.6
Section Head	8	14.0	66.7
Department Head	11	19.3	86.0
Team Leader	8	14.0	100.0
Total	57	100.0	

Source: Survey Outcome and own computation.

In respect to experience 23 employees, 40.4 percent of the total population, indicated that they have 1-5 years of experience. 16 employees have 6-10 years experience which constitutes 28.1 percent. 11 respondents have the experience of 11-15 years and the rest 7 employees are 21-25 years of experience.

Table 4 Work experience of the respondents.

Years of Experience	Frequency	Percent	Cumulative percent
1-5 years	23	40.4	40.4
6-10 years	16	28.1	68.4
11-15 years	11	19.3	87.7
21-25 years	7	12.3	100.0
Total	57	100.0	

Source: Survey Outcome and own computation.

4.1.2. Strengths and weaknesses of management accounting reporting system

To identify the strength and weakness of the prevailing management accounting system in METEC there were six questions raised. The first question tried to investigate about adequacy of finance department workers with respect to numbers. As it is presented on Table 5 below, 12.3 percent of the entire respondents strongly disagree that their finance department has sufficient number of workers, 43.9 percent disagree on this issue and 29.8 percent of them were neither agreed or disagree and the remaining 14 percent agreed.

The other question raised regarding the accounting system was about the finance department competence regarding their educational background. From the total respondents 54.4 percent disagree on the educational background appropriateness of the workers. 29.8 percent responded as they are neutral and the remaining 15.8 percent agreed. Respondents were also asked about the management accounting reports quality from the point of timeliness, relevance, reliability and understandability. On this issue 43.9 percent respondents disagree, 28.1 percent responded as they agree on the quality of the reports while 17.5 percent were stayed neutral and the remaining 10.5 percent strongly disagree. On question 15 respondents were asked about the modernity and efficiency of the accounting software currently in use. From the responses given it can be conjectured that 59.6 percent of the respondents disagree on the efficiency of the accounting software to prepare the necessary reports.

Respondent which constitute around 21.1 percent was remained neutral and 19.3 percent agreed on their finance department currently used software.

Accounting policy is one the major components in accounting system. Similarly as with the previous questions there was a question regarding the accounting policy help to make management accounting reports in METEC. 43.9 percent of respondents disagree on the assistance of the current accounting policy on the management accounting policy on management accounting reports. Around 22.8 percent responded that they are neutral, 19.3 percent respondents disagree and 14 percent of the entire respondents agreed. The last question to regarding the strength and weakness of the accounting system was the about the accounting reports prepared help top executives in strategic plan formulation, resource allocation and performance evaluation functions.

Table 5 Strengths and weaknesses of management accounting system

Question No.	Question		Frequency	Percent
2	There are adequate numbers of workers.	Strongly disagree	7	12.3
		Disagree	25	43.9
		Neutral	17	29.8
		Agree	8	14
	Total		57	100
3	Workers are with adequate educational background.	Disagree	31	54.4
		Neutral	17	29.8
		Agree	9	15.8
	Total		57	100
12	Management accounting reports prepared ensure timeliness, relevance, reliability & understandability.	Disagree	25	43.9
		Neutral	10	17.5
		Agree	16	28.1
		Strongly Agree	6	10.5
	Total		57	100
15	There is modern accounting software to make reports.	Disagree	34	59.6
		Neutral	12	21.1
		Agree	11	19.3
	Total		57	100
16	Accounting policy is helpful to make managerial accounting reports.	Strongly disagree	11	19.3
		Disagree	25	43.9
		Neutral	13	22.8
		Agree	8	14.04
	Total		57	100
17	Management accounting reports help managers in strategic plan formulation, resource allocation, performance evaluation functions of management.	Disagree	26	45.6
		Neutral	9	15.8
		Agree	22	38.6
	Total		57	100

Source: Survey Outcome and own computation.

Around 45.6 percent respondents disagree on their respective company's management accounting reports help, the other 28.6 percent agree on this issue and 15.8 percent were neutral.

4.1.3. Management and management accounting information

The other issue which this study tried to investigate was about the top management/executives understanding about the role of management accounting in making decisions. The other issue is the ability of management members in understanding of management accounting information. To study these six questions were raised to respondents. Firstly the respondents were asked about their management members' focus and emphasis given to management accounting. As it is indicated on Table 6 among the whole respondents, 19.3 percent respondents disagree 63.2 percent which disagree on this issue and 17.5 percent indicated that they are neither agree or disagree. To properly use accounting information management should be able to understand and interpret financial statements. Regarding this issue 63.2 percent of respondents indicated that they disagree on the ability to understand and interpret financial statements. The other 19.3 percent agreed and 17.5 percent remained neutral. On the importance of management accounting information for decision making, 54.4 percent respondents strongly agree and the rest 45.6 agreed. Again the respondents were asked to give their opinion on managers' use of management accounting information to make decisions. Majority of the respondents which constitutes around 54.4 percent of the total population responded that they disagree, 17.5 percent even strongly disagreed, 10.5 percent agreed and the rest 14.5 were neutral.

Using question 9 respondents were asked about whether they think managers gives equal emphasis to both management accounting and financial accounting statements. 50.9 percent of the respondents disagreed on this, 21.1 percent strongly agreed and 17.5 percent were neutral. The rest 10.5 percent were confident on that manager in their company gives equal concern to both.

Table 6 Management and Management accounting

Question No.	Question		Frequency	Percent
1	Management gives due attention towards management accounting.	Strongly Disagree	11	19.3
		Disagree	36	63.2
		Neutral	10	17.5
	Total		57	100
4	There is adequate management ability to understand and interpret financial statements.	Disagree	36	63.2
		Neutral	10	17.5
		Agree	11	19.3
	Total		57	100
5	There is adequate management ability to understand management accounting information.	Strongly Disagree	18	31.6
		Disagree	28	49.1
		Agree	11	19.3
	Total		57	100
6	There is strong management belief on essentiality of management accounting information for decision making.	Strongly Agree	31	54.4
		Agree	26	45.6
	Total		57	100
7	Currently, managers' use of management accounting information.	Strongly Disagree	10	17.5
		Disagree	31	54.4
		Neutral	10	17.5
		Agree	6	10.5
	Total		57	100
9	Currently, management's focus to both financial accounting and management accounting statements.	Strongly Disagree	12	21.1
		Disagree	29	50.9
		Neutral	10	17.5
		Agree	6	10.5
	Total		57	100

Source: Survey Outcome and own computation.

4.1.4. Usefulness & comprehensiveness of management accounting reports reaching executives at METEC

Table 7 summarizes the results about the current management accounting reports reaches to the top management numbers of METEC. To identify these reports the researcher raised four questions. The first question tried to identify if there are reports which shows profitability by departments or segments. 61.5 percent of the respondents disagreed, 14 percent agreed, 10.5 percent strongly disagreed and the remaining 14 percent remained neutral.

Table 7 Management accounting reports.

Question No.	Question		Frequency	Percent
8	Currently, reports are produced to show profitability by departments, segments or projects.	Strongly Disagree	6	10.5
		Disagree	35	61.5
		Neutral	8	14.0
		Agree	8	14.0
	Total		57	100
10	Currently, variance analysis is prepared and presented to management	Strongly Disagree	9	15.8
		Disagree	32	56.1
		Neutral	7	12.3
		Agree	9	15.8
	Total		57	100
11	Accountants prepare informative reports and submit the same to management regularly.	Disagree	27	47.4
		Neutral	8	14.0
		Agree	22	38.6
	Total		57	100
14	Accounting department produces reports which are helpful for different segments.	Disagree	30	52.6
		Neutral	15	26.3
		Agree	12	21.1
	Total		57	100

Source: Survey Outcome and own computation.

Using question 10 respondents were asked about if there is a variance analysis between actual results and plan is prepared and presented to management. From the entire respondents 56.1 percent disagreed on this idea, 15.8 percent strongly disagreed and another 15.8 percent agreed while 12.3 remained neutral. Furthermore the respondents were also asked if they believe that the accountants who are found in their company produce informative reports and submit it to management. 47.4 percent of the respondents disagree, 38.6 percent agree and about 14 percent were stayed neutral. Management accounting reporting system produces different reports which are helpful for different segments. To examine this, respondents were also asked whether there are special reports which are intended to help segments like Marketing, Production, Human Resource, Procurement and the like. Around 52.6 percent of the respondents have shown their disagreement on this issue. A respondent which constitutes 21.1 percent from the total agreed and the remaining 26.3 percent stayed neutral.

4.1.5. Interview results

To have a clear insight to the research questions and to have a more elaborated analysis interviews with management members and accountants conducted. The four interviews summarized as follows:

Summary results of interview with management members.

Question: *Do you think management of your company gives adequate emphasis and focus to management accounting?*

For this question both managers replied as the do not think. They said that there is lack of awareness about management accounting between management members and also most of managers have a background of technical part not business.

Question: *Should the frequency of management reports, if any, be improved??*

Both managers replied yes for this question. Depending on their reply the researcher raised a question on how they suggest the frequency should accelerate. The first interviewee said that by equipping finance department with the necessary inputs and by giving a thorough emphasis the frequency of the reports can be improved. The second respondent gave the same opinion with the previous one and added the issue of giving training to employees and management will help to enhance the reporting frequency and comprehensiveness.

Question: *Do you think there is willingness and capacity, at management level, to react using management accounting reports??*

For this question both respondents answer there is full willingness at management to use and react according to management accounting reports.

Question: *Do management accounting reports like variance analysis, Activity based costing (ABC) Process costing, Sales growth, Break-even analysis, Product profitability analysis, etc. reaches your office?*

The first respondent replied that variance analysis is prepared in their company. The second respondents answered there is variance analysis and process costing in their organization. The researcher asked the respondents in what interval are these reports are prepared and they indicated that mostly the reports are prepared in annual basis.

Summary results of interview with accountants

Question: Do you have internal users of financial information?

Both accountants replied Yes for this question. Production, Selling and Distribution, Procurement department are the major internal users of information from financial statements. Here the researcher asked whether these internal financial information users request for information on regular basis. Both interviewees responded that these users ask for financial information when they needed rather than regularly. They also noted that there is less experience of using financial information regularly and make decisions using it.

Question: *Do you think the prevailing accounting policy in our company is very helpful to make managerial accounting reports?*

Both respondents replied that they have doubt on the usefulness of the prevailing accounting policy in their organization to make management accounting reports and present them to management. Because it is more focused on financial accounting and it is designed by individuals who have less experience and knowledge about management accounting they don’t think the current policy is not helpful, they added.

Question: *What other measures should be taken to improve your company management accounting reports?*

The first respondent answered management accounting reports will be improved by, training employees about management accounting reporting, by creating awareness among management members, and through strengthening finance department with educated employees. The other respondent puts his opinion on how to improve management accounting reports. According to him by making sure the availability of latest management accounting software, by using internationally accepted accounting reporting standard and through designing and using financial policy which focuses on management accounting reports improvements can be made.

4.2. Discussion

The main objective of this research study was to identify the impact of management accounting information in enhancing decision making. Based on the results obtained from the respondents the discussion on the results presented as follows.

4.2.1. Management Accounting System

To make appropriate and useful management accounting reports, the accounting system should be strong in number of workers and, educational background, software being in use and efficient management accounting policies are required.

From the results obtained from questionnaire, there is a limitation of accountants in METEC to produce the management accounting reports required by managers. During the interview with some officials they mentioned that there are only 5-10 accountants in each industries but the required amount was above these number. The majority of these accountants are engaged in financial accounting tasks. The other issue was the educational background of the finance department workers. According the result obtained from survey, most respondents indicated that majority of finance department workers in METEC qualification is Diploma and Certificate. If the educational background of the respondents is below the required level it is obvious that the management accounting reports will be erroneous and will lead the management to wrong direction.

These days many jobs are done by using information communication technologies. For financial tasks also there are different softwares designed and used by users. In METEC finance department uses obsolete/ outdated accounting softwares. In some industries even there are no softwares used they just simply use manual calculations and Micro Soft applications like Excel. These applications and outdated softwares are not helpful to make management accounting reports. While the researcher interviewed two individuals from finance department, they mentioned that they are using old fashioned accounting softwares. According to them the, reasons for this was because modern softwares are unaffordable to have and there is also lack of know how to use them.

From the Table 5 we can interpret that the current accounting policy which is being used in the company is not helpful to make management accounting reports. During an interview with respondents they indicated that the policy current accounting policy focused highly towards financial accounting. Moreover the respondents also said that there should be an accounting policy which should be specifically designed for management accounting but there currently is no METEC.

It is also indicated that the management accounting reports currently made in METEC are less timely, relevant, reliable, and understandability. As it is discussed on previously, due to lack of enough number of workers, educational background problems, outdated softwares and similar problems, the management accounting reports are in question. Similarly from the survey results it is understood that the prevailing management accounting reports are not helping managers in strategic plan formulation, resource allocation, performance evaluation functions of management. When the researcher asks management members about the help of management accounting information on the aforementioned functions, they said that they merely formulate strategic plans without the help of information from finance. Because the reports are unreliable and are poor in quality, they ignore t use it.

4.2.2. Management attitude towards management accounting information

To be effective, management accounting needs the support of management. To give the required support firstly management members have the proper attitude towards management accounting. Among the concerns of this paper, the attitude, understanding and focus given by management was one of them. The research results indicated that, management members in METEC gives less focus to management accounting information. From the interview conducted with two management members, they pointed out that mostly their focus is on financial accounting reports. The result also revealed that the management understanding about management accounting is also poor. On their interview the respondents indicated that since the understanding of managers is less its focus is more on financial accounting statements. They also mentioned that most of the users of financial information users are external bodies like banks and insurance companies. Since there are no internal users of financial reports the main focus goes on to the reports issued from financial accounting. The management ability to interpret financial accounting reports is also not satisfactory. The researcher also raised a question during an interview why they think management members have a problem in interpretation of financial statements; they said that most of management members have technical background and they are not graduated from business schools. So this makes it difficult for them to properly understand and interpret financial statements.

Even if the management members have a strong belief on the usefulness of management accounting information for decision making, the experience of using this information for decision making purpose is not satisfactory.

4.2.3. Reports reach the executives in METEC

Among the management accounting report which should be prepared and given to executives, profitability by segments or cost centers is the major one. In METEC currently this reports are not prepared and issued to management for decisions. In interview respondents indicated that some years before they prepare this kind of reports and submit it to management but these days they are not. The researcher asked why they decline to make these very important reports and the respondents answer that because they are highly engaged in financial accounting reports and the lack of management commitment were the major reasons.

Variance analysis is another very useful management accounting reports needed by managers. Variance analysis is made between the plan and actual results. In METEC variance analysis is sometimes prepare by finance department but not satisfactorily prepared. It lacks regularity, not reliable and based up on appropriate data. It is expected from accountants to prepare and submit informative data to management. But in METEC the accountants are not preparing these reports and submit them to management which will be using for decision making purposes.

The major difference between financial accounting reports and management accounting reports relies on the users of reports. Management accounting enables accountants to produce reports which will specifically help departments, segments, business units and the like. The accounting department in METEC is not producing such reports which are designed for each segment.

5. CONCLUSIONS AND RECOMMENDATIONS

5.1. Conclusion

As Hilton (1997) discussed, managers are constantly faced with the need to understand and control costs, make important decisions, coordinate resources, and guide and motivate employees. Managerial accounting provides an information framework to organize, evaluate, and report proprietary in light of an organization's goals. The broad objective of this research was to identify the impact of management accounting information in decision making. Investigating the level of management accounting information in enhancing decision making, investigating the level of management accounting information support provided by relevant units, identifying the benefits of management accounting information provided and determining what policy actions were needed to improve management accounting system at METEC were the specific objectives derived from the broad objective.

From this study the following major findings have been drawn.

- The workers in finance department are not sufficient to make the required management accounting information. This is shown on the results of survey in which 43.9 percent respondents shown their disagreement on this issue. 54.4 percent of the respondents disagree on the availability of workers with strong educational background which indicates that there is shortage of workers with adequate educational background in METEC. The timeliness, relevance, reliability and understandability of management accounting reports which are prepared in METEC are not satisfactory since the majority of the respondents, i.e., 43.9 percent disagree on this. 59.6 percent of the total respondents indicated that the current accounting policy is weak in helping finance department members to produce management accounting reports.
- The management focus towards management accounting information is less when compared to that of financial accounting reports. This is shown by the respondents' disagreement which constitutes around 63.2 percent from the total. From the results it can be concluded that the management ability to understand

and interpret management accounting statements is poor. 49.1 percent respondents believe that their managers are not able to understand and interpret management accounting information. All respondents have a strong belief on the essentiality of management accounting information for decision making. This is proven from the survey result that shows 54.4 percent agreement and 45.6 percent strongly agreement of the respondents. Though the management has a strong belief on about the importance of management accounting information, the practice of this is less.

- There is scarcity of accountants; limited number of workers with the necessary educational background, obsoleteness of software being used is among the weaknesses raised against the prevailing accounting system. In addition to this, management accounting reports timeliness, reliability and understandability are not in high-quality as needed by management.
- Management understanding about management accounting needs improvement. Even if the management members believe that management accounting information is very helpful in making decisions, their use of this information for decision making is at low level. Results also indicated that the ability to interpret and understand management accounting information among users is below the required level.
- Management accounting reports like variance analysis is not prepared regularly and submitted to management. The practice of preparing informative reports to management and presenting to management is also nonexistent. In some industries reports which are tailored to different segments and departments are prepared but there is lack of consistency.

5.2. Recommendation

These days using management accounting for decision making is becoming must. Hence, from the survey results the researcher recommends the following:

- ✓ To be able to produce the necessary management accounting information, finance department should have adequate number of workers.

- ✓ The management needs to make sure the availability of modern and updated accounting software. Specifically softwares which are helpful to make management accounting reports should be offered.
- ✓ Training related to management accounting information should be given to employees.
- ✓ Accounting policy which is intentionally designed for management accounting should be prepared and used.
- ✓ Awareness about management accounting information needs to be created among members of management.
- ✓ Management members need to should have to create awareness among all members and incorporate management accounting information in their decision making process.
- ✓ It is better to share experience from organizations which are practicing management accounting information appropriately.

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APPENDIX -1

Survey Questionnaire

The purpose of this study is to assess the importance of management accounting information on decision making process at your organization. Your company is one of the selected manufacturing companies for this study. The success of the study is highly dependent on your valuable response for the question raised.

Therefore, you are kindly requested to give your response for each question raised related to the role of management accounting for decision making in your company. The participation is fully voluntary and responses will be treated confidentially.

The results will be used for academic purposes and identity of respondents will not be disclosed in any manner. I would appreciate your positive consideration in completing the enclosed questionnaire and assisting me in my research efforts. If you have any questions please call 0911773291 or email mintuhailu@yahoo.com.

Thank you in advance!

Instruction I. No need of writing your name.

Instruction II. Please put √ symbol in the box given for your response.

1. Background information of respondents.
   - 1.1. Name of your company ______________________________
   - 1.2. Respondents education level: Certificate ☐ Diploma ☐ 1st Degree ☐ 2nd Degree and above ☐
   - 1.3. Respondents work experience: 1-5 ☐ 6-10 ☐ 11-15 ☐ 16-20 ☐ 21-25 ☐ above 25 ☐
   - 1.4. In what position are you working in your company?

     Accountant ☐ Section Head ☐ Department Head ☐

     Team Leader ☐ Other Please Specify ______________

Instruction III. The following are scales you attach to each question posed. Indicate how strongly you agree to each by making/putting a tick symbol (√) in each column. When you strongly agree under (SA), agree under (A), neutral under (N), disagree under (DA), and strongly disagree under (SD).

S/No.	Statement	SD	D	N	A	SA
2.1	Management of our company gives adequate emphasis and focus to management accounting.					
2.2	Our company finance department has enough number of workers which enables it to produce the necessary reports to management.					
2.3	Finance department has workers with adequate educational background.					
2.4	Management members of our company can properly understand and interpret financial statements.					
2.5	Management members of our company have proper understanding of management accounting information.					
2.6	Management accounting information is essential for decision making.					
2.7	Managers of our company use management accounting information to make managerial decisions.					
2.8	In our company reports are produced to show profitability by departments, segments or projects.					
2.9	Management of our company gives equal concern to both financial accounting statements and management accounting statements.					
2.10	In our company variance analysis is prepared and presented to management for decision.					

2.11	In our company accountants prepare informative reports and submit the same to management regularly.					
2.12	Management accounting reports prepared in our company are timely, relevant, reliable & understandable.					
2.13	Finance department uses international financial reporting standards.					
2.14	Accounting department produces reports which are helpful for different segments like Procurement, Human Resource, Marketing and Selling, Production ,etc					
2.15	Accounting department uses modern and up to date accounting software to make reports.					
2.16	The prevailing accounting policy in our company is very helpful to make managerial accounting reports.					
2.17	Current management accounting reports in our company helps managers in strategic plan formulation, resource allocation, performance evaluation functions of management.					

Interview Questions

Question1. Do you think management of your company gives adequate emphasis and focus to management accounting? If no why?

Question 2. Should the frequency of management reports, if any, be improved?? If yes how?

Question 3.Do you think there is willingness and capacity, at management level, to react using management accounting reports??

Question 4. Do management accounting reports like variance analysis, Activity based costing (ABC) Process costing, Sales growth, Break-even analysis, Product profitability analysis, etc. reaches your office?

Question5. How often these reports do presented management? Weekly, monthly, quarterly, Semi-Annually, Yearly??

Question6. do you have internal users of financial statements? If yes, name them

Question8. Do you think the prevailing accounting policy in our company is very helpful to make managerial accounting reports?

Question9. What other measures should be taken to improve your company management accounting reports?