CHAPTER-1
INTRODUCTION

1.1 Research Background
1.2 Statement of the Problem
1.3 Research Objective
1.4 Research Methodology
1.5 Research Hypotheses
1.6 Study Scope and Limitation
1.7 Key Definitions
1.8 Organization of Chapters
1.9 Chapter Summary
This chapter discusses the rationale for conducting the study. It begins by providing background and the importance of this subject to research. This leads firstly to a statement of the research problem, followed by the research questions and objectives that this study addresses. Following this, the methodology, hypotheses, study scope and limitation and key definitions are discussed. Finally, it concludes with a description of the organization of this thesis.

1.1 Research Background

Accounting is essential for the best administration of any organization, whether governmental or profit making business organization. Because it is a means through which the activities of the business are communicated to users of accounting information. Accounting has, therefore, been called the language of business. Everyone engaged in a business activity uses this language directly or indirectly. It can, consequently, be viewed as an information system that provides essential information about the financial activities of an entity to various individuals or groups for their use in making informed judgments and decisions.

The accounting literature identifies quite a number of specialized fields of accounting. Among them, financial accounting is the original field of accounting. Its main purpose is to record transaction details in monetary terms and prepare financial statements and reports in accordance with GAAP. The other part of accounting, Management accounting provides necessary information to assist management in decision making and management control. Management Accounting refers to the application of professional information in such a way as to assist the management in the formation of policies and in the planning and control of the operations of the undertaking (CIMA, 2001). It has been considered as an integral part of the management process,
and management accountants have been visualized as important strategic partners in an organization's management team.

Managerial accounting exists because managers require information to make decisions. Managers need information for different purposes; management accounting information can serve multiple roles simultaneously. The focus of management accounting information is designed for use by managers within the organization. Because accounting standards apply only to external financial reports, there is great flexibility in the type of information generated for managers. Therefore, management accounting information is relevant to managers at all management levels from the top of the organization through to managers in operational areas of a business. Top level managers need information that provides them with an overview of the entire organization, whereas middle level managers require more detailed information about their areas of responsibility. And low level/operational managers will need information to help them manage their specific operations on a day-to-day basis, to help ensure that their performance targets are met. Management accounting thus serve management at various levels of the organization in providing the needed data and information, including advice and recommendations. Some managers may need daily or even hourly reports; others may only need weekly or monthly reports.

Therefore, managers must pay attention to the efficiency of their management accounting information systems (MAISs). In order to implement MAIS successfully, it is important to address the quality of information adoption, to manage all the processes of accounting systems. Information should have numerous characteristics, which allow managers to better identify problems and clearly understand their causes, in order to be able to consider all existing alternatives as explained by Mendoza and
Bescos (2001). The success of a business will be based on effective decision-making, but making ‘right’ decisions is dependent on the quality and appropriateness of available information. Wouters and Verdaasdonk (2002) argue that most management decisions have consequences for different dimensions that require obtaining helpful accounting information to translate these different dimensions into a common financial dimension.

A management accounting information system (MAIS), part of an organization’s wider management information systems (MISs) is an information system that produces the information required by managers to manage resources and to create value. It provides timely and accurate information to facilitate efforts, to control costs, to measure and improve productivity, and to devise improved production processes (Johnson and Kaplan, 1987). The MAISs also provide information to satisfy the short term and long-term decision-making needs of management so that product costing and pricing decisions, cost management, special (tactical) decisions, profit planning, capital investment decisions, standard setting, product/ customer profitability decisions, introduction of new products, abandonment of obsolete products, and response to rival products can be made.

Finally, it should be noted that MAIS has been seen as a system to support management in its decision making. In addition to the management perspective, MAIS can be an essential tool for the entire organization. Even though, numerous studies in management accounting system have provided substantial empirical and theoretical contributions to the field of managerial accounting this area of research was still in its infancy. This present study aims to make some contributions to the
currently limited knowledge on this subject, and aims to offer some relevant insights into the daily practice of management accounting.

### 1.2 Statement of the Problem

All profit-seeking and nonprofit organizations need information regardless of the activities they pursue. As a result, management accounting is the most important component of information system within an organization (Hilton, Ramesh and Jayadev, 2008). The decisions that have to be made in order to ensure effective resources allocation requires a variety of information that only management accounting can make available to managers. According to Drury (2007), “Management accounting is often defined as a system that provides useful information for managers in terms of decision making, planning, control and performance evaluation”.

The key element in the decision making process is information (Clarke, 2002). “To manage a business well, is to manage its future and to manage the future is to manage information” (Wilmshurst and Mackay, 2002). To do these things management needs information. To effectively manage this information, a company needs management accounting information systems (MAISs). This explains why a number of text books are based on a postulate that summarized MAIS as follows: Horngren et al. (2002) state, “Management accounting information system was defined as those parts of the formalized information system used by organizations to influence the behavior of their managers that leads to the attainment of organizational objectives”.

MAIS provide primary data for decision making. Thus, the information characteristics currently prepared can help decision makers seek more alternatives to the solution of the problem in hand. Information access related to the main transactions of an
organization leads to a categorized detail information which facilitates managerial decisions in any difficult situation (Mia and Chenhall, 1994). Effectiveness of MAIS also depends on the perception of decision makers and on the usefulness of information generated by the system to satisfy informational needs for operation processes, managerial reports, budgeting and control within organization.

Surveys of the role of MAIS on managerial decisions have focused mainly on companies in developed countries. However in Ethiopia¹ there has been no literature that has discussed the role of MAIS on managerial decisions in private and public sectors. Moreover, we do not know exactly if the printing companies in Ethiopia use the management accounting information system when making managerial decisions. Therefore there is a need for ‘triangulation’ in the research by providing evidence from developing countries like Ethiopia. To remedy this, the researcher focuses with the aim of obtaining a broad overview of the role of MAIS on managerial decisions in Ethiopia printing industry in the case of medium and large scale companies.

The present study aims to solve this research problem. In particular, this study will probe and deduce answers for the following research question.

“To what extent does management accounting information system play an important role in providing managers with valuable, timely and relevant information to help them to enhance managerial decisions in medium and large scale printing companies in Ethiopia?”

¹ This study was conducted on Ethiopia, an East African country of about 90 million people. A brief background about Ethiopia is provided in chapter 2, section 2.1.
1.3 Research Objective

In view of the lack of evidence on management accounting practices in printing industry operating in Ethiopia, the basic research objective of this study is “To examine the role of MAIS on managerial decisions in printing industry in Ethiopia in the case of medium and large scale companies and to give recommendations for the problems identified”.

Several sub-objectives can be derived from this central objective:-

- To understand whether respondent companies have sufficient and competent number of accountants to handle the accounting function and the management of the companies recognizes the role of accountants;
- To understand cost accounting system and pricing policy applied by medium and large scale printing companies in Ethiopia;
- To examine the usage level of management accounting techniques in medium and large scale printing companies operating in Ethiopia;
- To identify the characteristics of MAIS and the important quality factors affecting the MAISs in medium and large scale printing companies in Ethiopia;
- To examine the role and use of MAIS in support of managerial decisions in medium and large scale printing companies in Ethiopia;
- To identify any major difficulties that printing companies may have with their current MAISs and propose possible solutions.

1.4 Research Methodology

In order to achieve the research objectives, both quantitative and qualitative research approaches are employed. Thus, the study addresses the research problem by
collecting and handling a combination of quantitative and qualitative data. The reason for the use of such a mixed method approach is to gather data that could not be obtained by adopting a single approach. In the case of sampling technique, the study adopted stratified random sampling because under stratified random sampling, units from each main group are included and may be more reliably representative.

A questionnaire was developed to collect data to empirically test the hypotheses of this thesis and to describe the extent of management accounting information system’s (MAIS) role on managerial decisions. The survey consisted of 600 managers (general managers, marketing managers, production managers and finance managers) and managerial accountants from 120 medium and large scale printing companies and the questionnaire was distributed to them. The results are then enriched by results of interviews with finance managers, marketing managers and production managers as well as reviews of relevant documentary evidence. A detailed description of the methodology is presented in chapter 5.

1.5 Research Hypotheses

The following hypotheses were formulated and tested by the researcher after reviewing relevant literature.

H1. There is a positive relationship between the levels of respondents’ education and the use of MAIS in the organizations.

H2. There is a positive relationship between study field of respondents’ and the use of MAIS in the organizations.

H3. There is a positive relationship between the work experience of respondents’ and the use of MAIS in the organizations.
H4. There is a positive relationship between the knowledge of managerial accounting of respondents’ and the use of MAIS in the organizations.

H5. There is a positive relationship between the degree of using technological equipment and the use of MAIS in the organizations.

H6. There is a positive relationship between using computers in administration and financial aspects and the use of MAIS in the organizations.

H7. There is a positive relationship between number of accountants employed and the use of MAIS in the organizations.

H8. There is a positive relationship between the existence of adequate number of accountants and the use of MAIS in the organizations.

H9. There is a positive relationship between the competence of accountants and the use of MAIS in the organizations.

H10. There is a direct relationship between the use of management accounting techniques and managerial decisions

H11. Using of accounting data from MAIS leads to better decision-making by managers.

H12. MAIS are used by managers in support of managerial decisions

H13. MAIS play a major role in managerial decision making process.

H14. Managers see MAIS as an enabling technology.

1.6 Study Scope and Limitation

The scope of the research was limited to medium and large scale printing companies in Ethiopia. The focus of the present study lies in the role of management accounting information system on managerial decisions. The study was specifically focus on the top management and managerial accountants in selected medium and large scale printing companies in Ethiopia. The differences in knowledge, degree of authority,
level of professionalism, and experience of managers might possibly be a limiting factor in completing the data. Several limitations should be noted and considered in order to properly interpret the findings and results of this study. These limitations are presented in chapter 9.

1.7 Key Definitions

The following is a list of the key definitions used in the thesis. They are compiled to provide an understanding of how these key terms have been selected, interpreted and defined within the scope of this study.

**Accounting**

Accounting can be seen as the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information (AAA as quoted in Drury, 2007).

**Accounting Information System (AIS)**

Accounting information system (AIS) is one part of management information systems (MIS) that gather, classify, and comply data for internal and external decision making (AAA as quoted in Ismail, 2007).

**Decision-making**

Decision-making is the process of identifying and choosing alternative courses of action in a manner appropriate to the demand of the situation (Fullan, 1982).

**Information**

Information is a collection of facts from which conclusions can be drawn (EOM, 2001).
Management accountant

Management accountant refers to an individual who has a special accounting training and works in an organization (Swagerman, 2003).

Management accounting

Managerial accounting is an integral part of management which provides information that is used by management to formulate strategies, plan, coordinate and control the activity, make decisions, optimize the use of resources and safeguard assets (Dutescu and Olimid, 2004).

Management accounting information system (MAIS)

MAIS is an accounting system that records, processes and reports financial information for internal use in accordance with the preferences of management (Bockholdt, 1999).

1.8 Organization of Chapters

The thesis is organized into seven chapters. Figure 1.1 depicts the relationships among all chapters of the thesis. The first chapter is the introductory part. It conveys the background of the research which leads to aims and problems of this research. In this chapter, the problem statement, research objective, methodology, research hypothesis, scope and limitation, and key definitions are provided. In addition, the organizations of this thesis are outlined. This is just to give a snapshot of the subject matter and the premise of the study.

The rest of the thesis is organized as follows: the second chapter is economic development and accounting practices in Ethiopia. It consists of general information, economy, industry, accounting and profile of printing industry in Ethiopia. Chapter 3 presents an in-depth discussion on the management accounting and decision making
concept by touching on the various definitions, tasks, techniques, processes and other related issues. Chapter 4 presents the theoretical concept of MAIS and the various related studies conducted in this important field of research. Chapter 5 discusses the research design and methodology adopted. This is to illustrate the research design of the thesis followed by the sampling and data collection methods. In addition, the chapter illustrates data analysis techniques. Consequently, Chapter 6, Chapter 7 and Chapter 8 evaluates the empirical results by analyzing the findings of the individual hypothesis taking into consideration the various questions allocated for each hypothesis. The analysis is facilitated through the use of SPSS software. Demographic profile of the survey respondents and interviewees are presented. Interview data also become a major data source for answering final research questions.

Finally, Chapter 9 presents the research findings, contributions, limitations, and offers suggestions for further research.
1.9 Chapter Summary

The purpose of this chapter was to lay the foundation for the research by providing background information, problem statement, the research objective, methodology, research hypotheses, study scope and limitation, and key definitions. Finally, organization of the chapters is discussed. In the next chapter, economic development and accounting practices in Ethiopia is undertaken.