

THE USE OF MANAGEMENT ACCOUNTING
PRACTICES IN SMALL AND MEDIUM-SIZED
ENTERPRISES IN MOGADISHU, SOMALIA

BY

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ABSTRACT

Small and medium-sized enterprises (SMEs) in the context of post-civil war face greater challenge in the face of tremendous and rapid development in business environment. The needs to use information in making timely decisions is imperatively demanding. Hence, the use of financial and non-financial information from diverse management accounting practices tools would enhance the efficiency and effectiveness of business operations. Prior studies mostly concentrated on use of management accounting practices in manufacturing industry context. This study aims to provide findings on the use of management accounting practices in manufacturing, trading and services industry within the context of post-civil war where the use is still at the infancy stage. Also, studies about management accounting practices in smaller firms or SMEs in developing countries are still lacking. Therefore, there is a need for further study to contribute to filling the literature gap in MAPs in SMEs in a developing country, especially in reference to Somalia. This study examined the level usage of MAPs in Somali SMEs and factor that affect the level of usage of MAPs in Somali SMEs in Mogadishu. The questionnaires were distributed to 372 small and medium-sized enterprises in Mogadishu by using a purposive sampling method. The findings demonstrated that most responses from SMEs in Mogadishu have used budgeting systems and performance measurement systems compared to costing systems, decision support systems, and strategic management accounting. From the regression analysis, this study indicated that two out of five contingent factors influence management accounting practices. For instance, market competition and technology have been significantly and positively associated with the level of usage of management accounting practices. Nevertheless, the size of the firm, types of businesses and age of firm do not have a significant relationship with the level of usage of management accounting practices. Thus, this study suggests that managers and owners of SMEs would benefit greatly from using management accounting practices when their small and medium-sized enterprises have high market competition. Also, small and medium-sized enterprises should use proper technology to increase their chances of getting adequate information by the adoption of management accounting practices.

خلاصة البحث

تواجه الشركات الصغيرة والمتوسطة في سياق ما بعد الحرب الأهلية تحديًا أكبر في تبني تطور هائل وسريع في بيئة الأعمال. إن الحاجة إلى استخدام المعلومات في اتخاذ القرارات في الوقت المناسب أمر لا غنى عنه. وبالتالي، فإن استخدام المعلومات المالية وغير المالية من الاستخدام المتنوع لأدوات ممارسات المحاسبة الإدارية من شأنه أن يعزز كفاءة وفعالية العمليات التجارية. وبالإضافة إلى ذلك، ركزت الدراسات السابقة في الغالب على استخدام ممارسات المحاسبة الإدارية في سياق الصناعة التحويلية. وتهدف هذه الدراسة إلى تقديم نتائج حول استخدام ممارسات المحاسبة الإدارية في الصناعة والتجارة والخدمات في سياق ما بعد الحرب الأهلية حيث لا يزال الاستخدام في مرحلة الطفولة. وأيضاً، لا تزال تفتقر الدراسات حول ممارسات المحاسبة الإدارية في الشركات الصغيرة أو الشركات الصغيرة والمتوسطة في البلدان النامية. هناك حاجة لمزيد من الدراسة للمساهمة في سد الفجوة في الأدبيات في خرائط العمل في الشركات الصغيرة والمتوسطة في البلدان النامية، لا سيما فيما يتعلق بالصومال. وتناولت هذه الدراسة مستوى استخدام خطة عمل البحر الأبيض المتوسط في الشركات الصغيرة والمتوسطة الصومالية والعوامل الذي يؤثر على مستوى استخدام خطة عمل البحر الأبيض المتوسط في الشركات الصغيرة والمتوسطة الصومالية في مقديشو. وتم توزيع الاستبيانات على 372 شركة صغيرة والمتوسطة في مقديشو باستخدام طريقة أخذ العينات المهادفة. وأظهرت النتائج أن معظم الردود من الشركات الصغيرة والمتوسطة في مقديشو استخدمت أنظمة الموازنة وأنظمة قياس الأداء بشكل كبير مقارنة بأنظمة التكاليف وأنظمة دعم القرارات والمحاسبة الإدارية الإستراتيجية. ومن تحليل الانحدار، أشارت هذه الدراسة إلى أن اثنين من أصل خمسة عوامل عرضية تؤثر على ممارسات المحاسبة الإدارية. وعلى سبيل المثال، كانت المنافسة في السوق والتكنولوجيا المرتبطة بها بشكل كبير وإيجابي بمستوى استخدام ممارسات المحاسبة الإدارية. ومع ذلك، فإن حجم الشركة وأنواع الأعمال وعمر الشركة ليس له علاقة كبيرة بمستوى استخدام ممارسات المحاسبة الإدارية. وبالتالي، تشير هذه الدراسة إلى أن مديري ومالكي الشركات الصغيرة والمتوسطة سيستفيدون كثيراً من استخدام ممارسات المحاسبة الإدارية عندما يكون لدى مؤسساتهم الصغيرة والمتوسطة منافسة عالية في السوق. وأيضاً، يجب على الشركات الصغيرة والمتوسطة استخدام التكنولوجيا المناسبة لزيادة فرصهم في الحصول على معلومات كافية من خلال اعتماد ممارسات المحاسبة الإدارية.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a thesis for the degree of Master of Science (Accounting).

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DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Mohamed Abdirashid Farah

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This dissertation is dedicated to my beloved parents and siblings.

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LIST OF ABBREVIATIONS

ABC	Activity-Based Costing
ADB	African Development Bank Group
AMT	Advanced Manufacturing Technology
BSC	Balanced Scorecard
BS	Budgeting System
CS	Costing System
DSS	Decision Support System
MAPs	Management Accounting Practices
PMS	Performance Measurement System
SMA	Strategic Management Accounting
SMCI	Somali Ministry of Commerce and Industry
SMEs	Small and Medium-Sized Enterprises

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

This chapter is categorized into seven sections. Section 1.1 defines the background of the study. Section 1.2 discusses the problem statement of the study. Then, section 1.3 presents the research objectives and research questions of the study. This is followed by section 1.4, which states the motivation of the study. Subsequently, section 1.5 highlights the significance of the study. Section 1.6 organizes the research as a chapter. Finally, section 1.7 provides the chapter summary.

1.2 BACKGROUND OF THE STUDY

Small and medium-sized enterprises have an essential role in economic development in countries. Small and medium-sized enterprises (SMEs) represent a vital power in the present economy and make up a large percentage of the business population in developing countries, as well as developed countries. On average, the SMEs in this sector contains more than 90% of the whole number of businesses in large countries such as Japan, the UK, and ASEAN (Caruso, 2015; Lucas et al., 2013; Japan Patent Office, 2009). Similarly, in African countries, SMEs represent over 90% of business entities (NCR, 2011). In Somalia, SMEs are approximately 90% of private sectors (Adan & Kising'u, 2018). SMEs are gradually taking the role of the fundamental vehicles for income generation, the creation of employment by self-employment, and tools for poverty alleviation. This plays a critical role in the development of the economy and has the ability to support entrepreneurship, jobs, and innovation (Duale et

al., 2015). In addition, SMEs assist people who may find it hard to find different sources of income (Mohamud & Mohamed, 2016).

However, SMEs in Somalia faced several challenges including financial constraints as well as weak accounting systems and procedures. There has also been a lack of training and experience in management practices, inadequate education, and skill (Adan & Kising'u, 2018; Duale et al., 2015). Also, poor management and inadequate information have delayed the smooth running and growth of Somali Micro and small businesses, as was revealed by Adan and Kising'u, (2018). As a result, many small businesses fail in the early years (Adan & Kising'u, 2018).

For a business to survive and remain in the market, SMEs should gather proper information about financial and non-financial information. Management accounting practices (MAPs) are tools that provide appropriate information to firms for the management of resources effectively and efficiently. These tools allow them to attach worth to shareholders as well as customers (Langfield-Smith, 2009). The use of MAPs has become more common than before and has also increased in business over the years (Abdel-Kader & Luther, 2006). It is known that MAPs are essential to the success of a firm (Horngren et al., 2009). Firms use MAPs to assess their operations by organizing them into five types such as performance measurement systems, costing systems, budgeting systems, strategic management accounting, and decision support systems. These types support firms in planning, directing and controlling operating costs, and helping to attain profitability.

To observe the advantages of the use of management accounting practices, it is essential to encourage understanding and awareness of management accounting practices in SMEs. However, many studies have mostly examined the use of management accounting practices among larger firms. Thus, there are important gaps

in the knowledge about MAPs in SMEs that should be filled due to information that is provided by MAPs which may support the administrative features of SMEs (Ahmed, 2017). Management accounting among SMEs offers a new potential that is of considerable significance toward the required clarification and comprehension of the discipline (Mitchell et al.,1998). Even though the implementation of MAPs often seems to be more useful for big firms because of the nature of their complicated activities, the helpfulness of MAPs among SMEs should still be considered (Ahmed, 2017).

1.3 PROBLEM STATEMENT

There is limited information on the challenges faced by small businesses in Somalia which has delayed the success of all the strategies employed by various stakeholders (Adan & Kising'u, 2018). It is commonly known that SMEs face different challenges that affect their growth and success, thus reducing their ability to contribute successfully to sustainable development. Adan and Kising'u (2018) have reported that many small businesses fail in the early years because of poor management skills and training. Thus, there is a continuous failure of SMEs in Somalia (Adan & Kising'u, 2018; Mohamud & Mohamed, 2016; Hafiez et al., 2013).

Several studies indicate that the failure rate of SMEs is due to the lack or ineffective use of MAPs (Mbogo, 2011; Nandan, 2010; Hopper et al. 1999). Mbogo (2011) stated that the lack of management experience and certain types of knowledge have led SMEs to adopt ineffective MAPs. Nandan (2010) also stated there is lack of skills on owner-managers to produce needed management accounting information due to absence of accounting knowledge. Moreover, Hopper et al. (1999) suggested that the present high failure rate of SMEs may be as a result of failure to adopt MAPs (i.e., cost

management systems) in a comparable way to their bigger counterparts as well as failure to research with new designs of control that are more profit-oriented.

With respect to MAPs, they are tools that provide relevant information to organizations for the efficient and effective use of management resources, and to attach worth to shareholders and customers. (Langfield-Smith, 2009). MAPs have a potentially crucial positive effect on SMEs (Ahmad, 2014). Similarly, Nandan (2010) highlighted that the role of management accounting information has an important role to monitor and control the activities of SMEs.

SMEs in the context of post-civil war face greater challenges in adopting tremendous and rapid development in the business environment. The need to use information in making timely decisions is imperatively demanding. Hence, the use of financial and non-financial information from diverse use of management accounting practices tools would enhance the efficiency and effectiveness of business operations. In addition to that, prior studies mostly concentrated on use of management accounting practices in manufacturing industry context. Therefore, this study aims to provide findings on use of management accounting practices in manufacturing, trading and services industry within the context of post-civil war where the use is still at the infancy stage. Also, studies about management accounting practices in smaller firms or SMEs in developing countries are still lacking. Hence, the expected findings able to set the stage in developing further SMEs within the context of developing countries that faced greater challenges in limited resources. Therefore, the purpose of this study is to examine the level of usage of MAPs in SMEs in Mogadishu, Somalia.

1.4 RESEARCH OBJECTIVES AND QUESTIONS

Based on the prior discussion about issues and problems, this study identifies two objectives and two research questions as follows:

RO1: To examine the level of usage of management accounting practices in small and medium-sized enterprises in Mogadishu, Somalia.

RQ1: What is the level of usage of management accounting practices in small and medium-sized enterprises in Mogadishu, Somalia?

RO2: To examine the factors that affect the level of usage of management accounting practices in small and medium-sized enterprises in Mogadishu, Somalia.

RQ2: What are the factors that affect the level of usage of management accounting practices in small and medium-sized enterprises in Mogadishu, Somalia?

1.5 RESEARCH MOTIVATION

The studies about management accounting practices in a smaller firm or SMEs in developing countries are still lacking, as stated by Ahmad (2014). In Somalia, there is still a lack of a wide-ranging and comprehensive academic research on management accounting practices in SMEs. Prior studies have investigated SMEs in Somalia in various contexts such as factors that influence their performance in Mogadishu, Somalia (Adan & Kising'u, 2018); the impact of financial management practices on the growth of SMEs in Mogadishu, Somalia (Mohamud & Mohamed, 2016); the accessibility of microfinance for small businesses (Hafiez et al., 2013); and the challenges facing SME's performance at Gobanimo market in Hargeisa, Somalia (Duale et al., 2015). Finally, SMEs in Somalia have been facing challenges and failures. The findings of this

study may assist SMEs to encourage steps that can be taken by managers/owners, government, and other groups with interest in SMEs to obtain reliable information to improve small and medium-sized enterprise's performance and to protect small and medium-sized enterprises from failing. In fact, this study intends to examine further the use of different management accounting practices tool in different type of industry.

1.6 SIGNIFICANCE OF THE STUDY

Firstly, this study will contribute to previous literature about the level of usage of management accounting practices in SMEs and factors which influence the level of usage of management accounting practices in SMEs. This study will have valuable implications for theory and will increase the present literature on management accounting in the two important methods. This study offered results about MAPs in SMEs and also added research to Somali SMEs about the level of usage of MAPs and the factors that influence the level of usage of MAPs in SMEs. Therefore, this study is beneficial to researchers and scholars from accounting who have an interest in management accounting in SMEs. Secondly, this study will be beneficial for SMEs in Somalia by showing findings from the current research that may help owners and managers to enhance their activities by the level of usage of MAPs. Also, the findings in this study may provide areas of improvement needed by the managers of SMEs by highlighting the significance level of usage of MAPs in different industries. This knowledge will help to improve business performance and maintain competitiveness in the market. Finally, the results of this study may provide an essential contribution to the government in Somalia and other groups with interest in SMEs, such as financial institutions. This study can provide necessary information for decision making with regards to creating policies for SMEs in Somalia.

1.7 ORGANIZATION OF THE STUDY

The thesis contains seven chapters. Chapter one introduces the main subject of the study. The chapter mainly focuses on the background of the study, the research problem, the research objectives, research questions, the significance of the study, and motivation for the study.

Chapter two in this study are SMEs in Somalia. This chapter discusses the background of Somalia, the importance of SMEs in Somalia, and finally highlights the challenges for SMEs.

Chapter three reviews prior literature on management accounting and factors that influence the level of usage of management accounting practices. The gaps in the study will also be addressed in this chapter.

Chapter four explains the theoretical framework of the study. Firstly, it explains the theory used in this study and how it relates to the connection among variables in this study. Secondly, the chapter provides the research framework of the current study. Finally, chapter formulates and develops the hypotheses of the study.

Chapter five discusses the research methodology of the study. It covers the research design of the study that includes a sample of the population, research instrument, data collection, measurement of the dependent and independent variables, and data analysis employed by the study. In chapter six, the findings, analysis, and discussion of the data are explained. Finally, the study is concluded in chapter seven, where the summary, conclusion, limitations, and recommendation of the study are presented.

1.8 CHAPTER SUMMARY

This chapter started with the background of the study regarding MAPs and SMEs. Also, this chapter discussed the problem statement and explained the research objectives and research questions of the study. Furthermore, sections five and six in this chapter highlighted the significance and motivation of the study. Finally, the organization of this study is presented in this chapter.

CHAPTER TWO

SMALL AND MEDIUM-SIZED ENTERPRISES IN SOMALIA

2.1 INTRODUCTION

This chapter explains the context of SMEs. Section 2.1 briefly presents the background of Somalia. Then, section 2.2 highlights SMEs in Somalia, specifically the definition of SMEs. Section 2.3 discusses the importance of SMEs to the Somali economy. Section 2.4 provides challenges faced by SMEs. Finally, section 2.5 summarises the chapter.

2.2 BACKGROUND OF SOMALIA

Somalia is a Muslim country located in East Africa and is positioned conveniently in the Gulf of Aden and the Red Sea. The population of Somalia is estimated at approximately 12 million people (African Development Bank Group, 2017). The Somali border is defined by Kenya to the east, the Republic of Djibouti to the northwest, the Gulf of Aden to the north, and Ethiopia to the west. The land area in Somalia is 637,655 squares kilometres, while the Somali coastline is 3,333 kilometres (KM) in length. Additionally, the primary religion in Somalia is Islam and almost 100% of the population belonging to the branches of Sunni or Shafi'i school as Islamic jurisprudence. Both the race and official language in Somalia are referred to as Somali.

In 1960, Somalia became an independent country from Britain and Italy. The Republic of Somalia was formed by the union of two territories under a civilian government. At that time, Aden Abdulla Osman was elected president of Somalia. In 1969, the military coup came to an end leading to a democratic parliamentary. The

civilian government was overthrown by General Mohammed Siyad Barre who ruled Somalia from 1969 to 1991 (Siyad, 2013).

The Somali government collapsed in 1991, which led to the civil war. The systems for social control and political administration were destroyed by the conflict and cause governmental instability in Somalia. The civil war cause Somalia to suffer from political weakness and aggressive conflict for many years. From 2004 to 2012, the transitional federal government (TFG) ruled Somalia.

After a civil war that spanned more than two decades, Somalia is presently hopeful about their political situation. Somalia has begun a new chapter of peacebuilding, recovery, and stability, resulting in the termination of the political transition on 20th August 2012. The Somali people who once fled their country are now coming back into Somalia to invest in their country. They are leading investors into a country that delivers a predictable 80 percent of the business capital in SMEs (ADB et al., 2017). SMEs have a significant role in the developing economy of Somalia in terms of production, contribution export, and creating jobs.

2.3 DEFINITION OF SMEs

There is no internationally agreed definition of SMEs. It differs on account of revenue, employees, size of the business, type of business, as well as assets from country to country (Maziriri & Mapuranga 2017). For example, SME Corporation (2014) defined Malaysian SMEs as enterprises that have between 5 and 70 employees for the service sector, or between 5 and 200 employees for the manufacturing sector. In Kenya, microenterprises have less than 5 employees, small enterprises have between 5 and 59 employees, and medium enterprises have between 50 and 99 employees (Mbogo, 2011).