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Responsibility accounting (RA) as a tool to enhance cost control. A position paper of retail outlets in Zimbabwe.

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ABSTRACT

This research sought to explore the impact of responsibility accounting as a tool to enhance cost control in businesses. A case study of Zimbabwean retail outlets was used and both theoretical and historical data was collected over half a year period to deduce recommendations from this study. The research observed unwillingness from management in most retail outlets to delegate responsibilities. Management highlighted their greatest fear to delegation being, unskilled subordinates yet the research exposed power hungriness on management's part. To improve the businesses' operations, responsibility accounting was recommended, were willingness to delegation of responsibilities was encouraged, a clearly definition of lines of command and decentralisation of decision making to branches was vied for.

Key terms: *Responsibility accounting, Cost control, Control activity, Segregation of duties, Retail outlets, Zimbabwe.*

INTRODUCTION

Can "responsibility accounting" boost organisational performance?

Background of the study

During the period of the study, retail outlets in Zimbabwe were constantly faced with increased staff turnover, high shrinkage levels, improper documentation for transactions, delayed reports from branches, omission of costs and / incomes from reports, high bank charges and poor cash flow management among others. There appeared to be issues relating to responsibility of costs and this problem seemed to have been affecting organisational performance and its service delivery efficiency. Thus, this research sought to understand the impact of responsibility accounting and its relationship to cost control and turnover and how it relates to performance or productivity of an organization.

LITERATURE REVIEW

Responsibility accounting (RA).

Anderson & Sedatole (2003), talk of RA as an accounting control measure based on the recognition of specified areas of concern in a firm's organisational structure that can be traced to a specific individual. Anderson further explained that administration accounting also known as managerial or functional accounting is an information reporting system which;

- Classifies functional data according to the responsibility areas within the organisation and
- Reports upon the managers activities, more specifically only the incomes and expenses categories by a certain manager.

Anderson's explanation of what RA is all about, augers well with Horngren's, (2005) understanding of the same concept that takes RA as profitability accounting or activity accounting system which recognises various decisions or responsibility centres throughout the organisation and traces costs and revenue, assets and liabilities to the individual managers who are primarily responsible for making decisions about the costs in question. Both authors in this regard agree that RA is a management control system founded on the principles of delegating and locating responsibility. Thus, under this philosophy, divisions or organisational units are established with identified accountable people, who are then evaluated individually with their respective areas for their performance.

Prerequisites for successful implementation of responsibility accounting.

Anthony (1976), sets that for RA to be effective, management accounting should collect and report both planned and actual information system in terms of responsibility centres, whilst Okoye (2011), on the other side, purports that for RA to be implemented effectively, clear lines of responsibility have to be determined.

Significance of responsibility accounting

(Warren et al., 2003 and Fremgen, 2008) concurred that, apart from being used as a control measure, RA also acts as a motivational performance tool were performance benefits can be traced back to the respective individual, thus motivating managers to act in the best interest of the company. However, where RA is to be implemented, it is fair to get the buy-in of the people carrying out the tasks to have enough knowledge and understanding of what they will be doing and to know the value of this accounting tool. This can be achieved by training the team to appreciate the system and concertizing them of the need for regular performance reports to show variances if any between the budgeted and actual performance, so as to manage exceptions (Horngren; Datar, and Foster, 2005). However, Drury (2013), argued for great care in determining the frequency of reporting, since too frequently or overly delayed submitted reports might mar judgement of performance. Overall, there was a general agreement amongst the authors of RA that the contents of reports should broadly show budgeted against actual activities.

Delegation and control

According to Longenecker (2007), the twin objectives of management are delegating responsibility while retaining control are achieved by adoption of RA system. The basic idea of implementing RA emanated from the fact that a large and diversified organisation is difficult to manage as a single segment. Thus organisations should be decentralised or separated into manageable units where according to Horngren et al., (2005) several advantages can be realised such as faster decision making creating a competitive advantage over centralised organisations, flexibility and ease of adaptation to changes in market conditions. Also as an advantage RA fosters for segregation of duties which is critical to effective internal control since it reduces the risk of both erroneous and inappropriate actions such a deterrent to fraud because it will require collusion with another person to perpetrate a fraudulent act.

Disadvantages of RA

Despite RA bringing numerous benefits to a firm, Warren (2003) identified some disadvantages that could be drawn from decentralisation such as, increased cost of gathering information due to decentralisation and at times it leads to duplication of activities.

Shrinkage in Retail Outlets

According to De Kok, (2008) "shrinkage is the loss of sales due to a variety of factors such as theft, error, damage, and so on. The benchmark for shrinkage in most retail operations is 2%. He further explained that a research in United States revealed that the 2% shrinkage in retailing results from the following:

- Employees stealing product 51%
- Incorrect receiving 9%
- Customer stealing products 24%

- Damage to product 7%
- Accounting error 5%
- Incorrect retail pricing 4%”

De Kok, further explained that shrinkage can be controlled in other businesses while other shrinkage such as those through accidents and damage are uncontrollable. De Kok, pointed out notorious shrinkage areas in retail businesses being at the exit point, and proposed that to mitigate such, a thorough check of the price of any merchandise which is deemed damaged is necessary. Further measures were put forward such as to keep the cash register closed and locked between transactions or if unattended. An inspection of all merchandise tendered for payment, especially boxes or cartons was suggested.

According to Clarke & Webb (1999), the most common items stolen in retail stores were:

- Cosmetics 23.6%
- Food 14.6%
- Household goods 5.2%
- Miscellaneous 15.9%.

Research literature has revealed that RA is closely linked to control. There is consistent correlation between responsibilities. Literature emphasised the notion by most researches that responsibility leads to control of the resources and costs.

METHODOLOGY

A case study of four Zimbabwean retail outlets was used and both theoretical and historical data was collected over half a year period to deduce recommendations from this study.

DATA ANALYSIS

When respondents were asked if they were aware of RA, 17% did not know about it whereas 50% indicated that they partly know it. 33% knew about RA system. Since 83% of the respondents either knew or partially knew RA, it was recalled that though management had staff trained their subordinates on RA, new employees were not inducted to it, 20% employees had forgotten about it and the other old employees did not fully understand it during the time the information was disseminated to them.

The respondents who indicated some knowledge of responsibility accounting were further asked how they become aware of responsibility accounting. 40% said they discovered it on their own and 20% noted that they got to know of it through staff training. Meanwhile 20% of the respondents revealed that they found out about RA through performance evaluation and the other 20% had forgotten how they got to know about it. An analysis of the findings showed that management was doing little to show employees that the organisation is using RA. It indicates poor management systems since the majority of the employees had to discover RA on their own.

Table 4.1 Do branches have control over their activities?

Response	No. of respondents	% Response
Not at all	20	33
To a lesser extent	30	50
To a greater Extent	10	17
Total	60	100

An analysis of the information in Table 4.1 above, showed that the respondents believe that control of the branches does not rest with their supervisors. Supervisors have some control over the activities of the branch but to a lesser extent. The essence of RA was ignored where managers do not have full control over the activities they perform. According to Khan (1997), a cost is treated as controllable only when the person responsible for incurring the costs has influence over it. Non influential costs are termed non controllable costs.

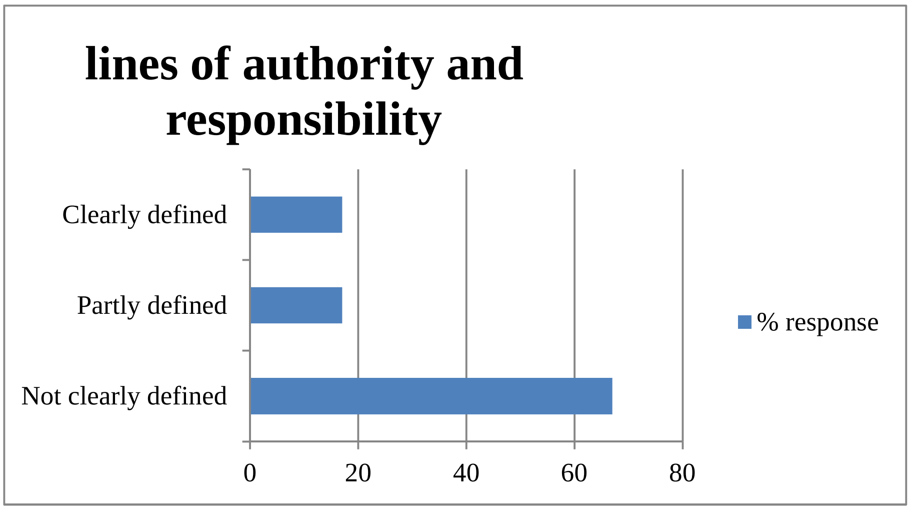

Figure 4.1 Are the lines of authority and control clearly defined?

Results in Figure 4.1 above, showed that 67% of the respondents indicated that the lines of communication, authority as well as responsibility were not well defined. 17% of the respondents indicated that responsibility were partly clear. However, 17% revealed that responsibilities were clearly defined.
The responses showed that the responsibilities were not clearly defined and individuals were not aware of the activities they are supposed to do as well as the individuals they report to. In cases of unclear responsibility, RA was deemed not to be relevant.

Table 4.2 How does management measure performance at branch level?

Measure of performance	No. of responses	% of responses
Revenue	20	33
Profits	10	17
Costs	0	0
Investment	0	0
Other (PAR)	30	50
Total	**6**	**100**

From Table 4.2 above, a majority of the respondents indicated that performance of the branches was measured using RA. Branches could neither be classified as revenue centres nor cost centres since those measures got 33% and 17% of the respondents respectively. The branches were not responsibility centres and therefore RA was seen as not relevant.
67% of the respondents said the accounting systems at branches incorporate RA to a lesser extent. 33% were of the opinion that the accounting system accommodated RA to a greater extent. Since the accounting systems did not fully recognise RA, for it to be effective there ought to be an accounting system designed to recognise it. This meant that the current RA techniques that were being applied were not effective. 83% of the respondents were of the opinion that RA was not satisfactory utilised since 80% of the participants indicated that it takes the branch an average of one week to solve the problems raised. A further analysis of the responses showed that the departments do not make their own decisions and all the decisions are made at the head office.

CONCLUSIONS AND RECOMMENDATIONS

Through observation the research concluded that unwillingness by management to delegate was the major factor affecting RA. Management indicated the following as factors affecting delegation:-

- Lack of skills by employees.
- Management thinking that it is efficient to retain some responsibilities.

Observation indicated that management mainly use revenues, once a year that is during the month of December. However, management indicated that when they initially established RA, it was accommodated in the system, but later dropped due to the changes in the technical environment where the company operated with computer systems that failed to accommodate large figures that were in use then. It was also observed that management are not willing to back up the accounting system at branches since it's very costly. This made RA irrelevant and ineffective.

However, management indicated that RA is relevant in the organizations, since most outlets have different branches that are under different supervision.

The following recommendations were made to improve company performance:-

- Delegation of responsibilities
- Clearly defining lines of communication.
- Giving decision making to branches to a greater extent.

The authors of this study agreed with the idea that RA was a worthwhile tool that could control costs within retail outlets, thereby boosting organizational performance. This notion was reached at after realisation that only if line managers are empowered enough to make their own cost centre's decisions, will they feel entrusted and eventually can effectively manage their areas of jurisdiction. Effective management and efficient running of one's strategic business unit enhances once professional growth thus acts as a motivational factor that cascades to better organizational performance.

LIMITATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

This study was not exhaustive on the impact of responsibility accounting as a tool to enhance cost control in businesses in the Zimbabwean economy. The research focused mainly on the retail outlets in Harare city, thus recommendations for future studies can be expand in the geographical arena and cover the entire country.

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