

An Analysis of Effective Responsibility Accounting System Strategies in the Zimbabwean Health Sector (2003-2011)

¹Moses Nyakuwanika, ¹Gumisai Jacob Gutu, ¹Silibaziso Zhou, ¹Frank Tagwireyi and ²Clainos Chidoko
1Department of Accounting and Information Systems, 2Department of Economics
Great Zimbabwe University, Faculty of Commerce
Box 1235, Masvingo, Zimbabwe

Abstract:

The study set out to come up with strategies to ensure effective responsibility accounting system in the Ministry of Health and Child Welfare (MOHCW) in Mashonaland West Province of Zimbabwe. The study was largely prompted by the fact that despite having been professionalized in its functions, the Ministry was still facing a lot of challenges. The target population for the study was the management and a sample of 70 employees from the fourteen stations in the province was used. Systematic sampling (probability sampling) and purposive or judgmental sampling (non-probability sampling) were used. It was observed that departments were operating with mandated budgets and that planning and control were not integrated. In addition it was also observed that performance reports were being used to fix blame on management and that performance reports were not being distributed to sectional managers on a regular basis. It is recommended that when coming up with budgets for the province the leadership should allow station managers to participate in the budget formulation and their suggestions should be taken on board and incorporated in the master budget.

Key words: Strategies, Responsibility Accounting, Public Sector

Introduction

According to Horngreen (1991:186) responsibility accounting is a system that measures the plans (by budgets) and actions of each responsibility centre. The responsibility accounting approach traces the costs to either the individual who has the best knowledge about why the cost rose or the activity that caused the cost. McNair and Carr (1994) states that responsibility accounting is an underlying concept of accounting performance measurement systems. They argue that the basic idea is that large diversified organizations are difficult, if not impossible to manage as a single segment, and thus they must be decentralized or separated into manageable parts. This approach allows responsibility to be assigned to the segment managers that have the greatest amount of influence over the key elements to be managed.

The basic idea underlying responsibility accounting is that a manager should be held responsible for those items- and only those items- that the manager can actually control to a significant extent. Each line item (ie cost or revenue) in the budget is made the responsibility of a manager who is held responsible for subsequent deviations between budgeted goals and actual results (Noreen, Brewer and Garrison 2008:298)

The Ministry of Health and Child Welfare has many segments (functional areas) from its head office to operational levels and these include pharmacy, out-patients, in-patients, maternity, canteen, laboratory, stores, information, health promotions, nutrition and administration. Noreen, Brewer and Garrison (2008:439) says decentralized organizations need responsibility accounting systems that link lower level managers decision making authority with accountability for the outcomes of those decisions. An effective responsibility accounting systems allows for the effective utilization of resources within the ministry. An implicit assumption of responsibility accounting is that separating a company into responsibility centers that are controlled in a top down manner is the way to optimize the system and the separation must consider many of the interdependencies within the organization.

Background to the research: Before 2003 most of the administrative duties within the Ministry of Health and Child Welfare were done by the health services administrators (HSAs) and most of the functions were centralized. The HSAs were responsible for human resource issues, health promotional issues, budgeting and budgetary control, financial management and accounting systems. In 2003 the Ministry of Health and Child Welfare went on to professionalize most of the functions which were previously done by HSAs. The idea behind going professional was to ensure that there was effective utilization of resources within the ministry. A lot of departments were thus introduced with the idea of improving the responsibility accounting system and to enhance effective utilization of resources. Among the departments introduced were the accounting department, human resource department, health promotions department and the nutrition department. This process witnessed the introduction or conversion of the grades of Deputy Secretary (finance) to Director Finance and Under Sector (finance) to Chief Accountant. In

addition grades of accountant, accountant, nutritionist, director human resources, health promotions officer were introduced and thus doing away with a host of unrelated grades.

Mashonaland West Province covers Chinhoyi Provincial hospital, Banket District hospital, Karoi hospital, Kariba hospital, Siyakobvu hospital, Chegutu hospital and Kadoma General hospital. There are five mission hospitals to compliment state hospitals and more than 200 clinics.

Complaints have been raised in the print media and by the community that the Ministry of Health and Child Welfare has failed to meet its client expectations. From December 2008 the donor community despite donating drugs, capital equipment and money started paying some retention allowances to all health professionals on top of the salary and allowances they get from the government. This strategy has attracted a lot of professional who had quit the ministry because of the economic meltdown such that all vacant post are almost filled up. Despite the above measures and efforts of the donor community service delivery has not improved. This research seeks to assess the responsibility accounting system current in use and come up with strategies to ensure effective responsibility accounting system in the Ministry of Health and Child Welfare.

Justification of the research: An effective responsibility accounting is beneficial to the Ministry of Health and Child Welfare and its various stakeholders. To start with an effective responsibility accounting allows the effective utilization of organizational resources. According to McNair and Carr (1994) responsibility accounting system provides a way to manage an organization that would otherwise be unmanageable. Assigning responsibility to lower level managers allows higher level managers to pursue other activities such as long term planning and policy making. Noreen, Brewer and Garrison (2008) argues that responsibility personalizes accounting information by holding individuals responsible for revenues and costs. This concept is central to any effective profit planning and control system. Someone must be held responsible for each cost or else no one will be responsible and the cost will inevitably grow out of control. Being held responsible for financial performance does not mean that the manager is penalized if actual results do not measure up to the budgeted goals. However, the manager should take the initiative to correct any unfavorable discrepancies, should understand the source of significant favourable or unfavourable discrepancies and should be prepared to explain the reasons for the discrepancies to higher management. The point of an effective responsibility accounting system is to make sure that nothing falls through the cracks and that the organization reacts quickly and appropriately to deviations from plans, and that the organization learns from feedback it gets by comparing budgeted goals to actual results. The point is not to penalize individuals from missing targets but to make them be accountable.

Theory and Empirical Studies

Responsibility accounting: Weygandt, *at al* (2002:282) says responsibility accounting involves accumulating and reporting costs (and revenues where, relevant) on the basis of the manager who has the authority to make the day-to-day decisions about the items. Noreen, *at al* (2008:298) says that, ‘the basic idea underlying responsibility accounting is that a manager should be held responsible for those items and only those items-that the manager can actually control to a significant extent. Each line item (i.e. revenue or cost in the budget is made the responsibility of a manager who is held responsible for subsequent deviations between budgeted goals and actual results. In effect, responsibility accounting personalizes accounting information by holding individuals responsible for revenues and cost.’

The concept of responsibility accounting is central to any effective profit planning and control system. Someone must be held responsible for each cost or else no one will be responsible and the cost will inevitably grow out of control. In the same vein Zimmerman (2011:171) says responsibility accounting system is part of the performance evaluation system used to measure the operating results of the responsibility center. Responsibility accounting then dictates that the performance measurement system measures the performance that results from the decision rights assigned to the responsibility center.

Being held responsible for financial performance does not mean that the manager is penalized if actual results do not measure up to the budget goals. However, the manager should take the initiative to correct any unfavorable discrepancies, should understand the source of significant favorable or unfavourable discrepancies and should be prepared to explain the reasons for discrepancies to higher management (Noreen, *at al* 2008). An effective responsibility accounting is a system that measures the plans, budget, actions and actual results of each responsibility center. A responsibility center can be structured to promote better alignment of individual and company goals (Horngren, 2006:197). Noreen, *at al* (2008) argues that, the point of an effective responsibility accounting system is to make sure that nothing “falls through the cracks,” that the organization reacts quickly and appropriately to deviations from its plans and that the organization learns from the feedback it gets by comparing budgeted goals to actual results.

The nature of management accounting control system: Drury (2008:396) states that management accounting control systems have two core elements: the first is the formal planning processes such as budgeting and long term planning. These processes are used for establishing performance expectations for evaluating performance; the second is responsibility accounting which involves the creation of responsibility centers. Responsibility centers enable accountability for financial results and outcomes to be allocated to individuals throughout the organization. The objective of responsibility accounting is to accumulate costs and revenues for each individual responsibility center so that the deviations from a performance target (typically the budget) can be attributed to the individual who is accountable for the responsibility center. For each responsibility center the process involves setting a performance target, measuring performance, comparing performance against target, analyzing the variance and taking action where significant variances exist between actual and target performance.

Drury(2008) says responsibility accounting is implemented by issuing performance reports at frequent intervals, (normally monthly) that inform responsibility centre managers of the deviations from budgets for which they are accountable and are required to take action. Drury (2008:398) goes on to say responsibility accounting involves: distinguishing between those items which managers can control and for which they should be held accountable and those items over which they have no control and for which they are not held accountable (i.e. applying the controllability principle); determining how challenging the financial targets should be; and determining how much influence managers should have in setting of financial targets.

Human factors in budgeting: Noreen, *at al* (2008) states that the success of a budget program also depends on the degree to which top management accepts the budget program as a vital part of the company's activities and the way in which top management uses budget data. If a budget program is to be successful, it must have the complete acceptance and support of the persons who occupy key management positions(Noreen, *at al*, 2008)

Horngren (2006) argues that to be effective, 'budgeting require "honest" communication about the business from subordinates and lower-level managers to their bosses. But subordinates may try to build in budgetary slack. Budgetary slack describes the practice of underestimating budgeted costs, to make budgeted targets more easily achievable. It frequently occurs when budget variances are used to evaluate performance. Budgetary slack provides managers with a hedge against unexpected adverse circumstances. Budgetary slack also misleads top management about the true profit potential of the company, which leads to inefficient resource planning and allocation and poor coordination of activities across different parts of the company.'

Noreen, *at al* (2008) went further to say, when administering the budget program, it is particularly important that top management not use the budget to pressure or blame employees. Using budgets in such negative ways will breed hostility, tensions and mistrust rather than cooperation and productivity. Part of top management responsibility is to promote commitment among the employees to a set of core values and norms. These values and norms describe what constitutes acceptable and unacceptable behavior.

Materials and Methods

The aim of this study was to come up with strategies to ensure effective responsibility accounting systems in the Ministry of Health and Child Welfare. Despite the Ministry having professionalized its operations from 2003 the Ministry of Health and Child Welfare is still facing a lot of challenges despite attracting a lot of donor funds and funding from treasury.

The Research Design: Research strategies, research choices and time horizons can be thought of as focusing on the process of research design, that is turning one's research questions into research project (Robson 2002). This research is couched in the realism paradigm and employed both qualitative and quantitative methods (triangulation) of data collection. Triangulation maybe defined as the use of two or more methods of data collection in the study of some aspect of human behavior (Cohen and Manion 1994). The quantitative methods used in this study strives to control for bias so that facts can be understood in an objective way, the qualitative approach strives to understand the perspective of the Ministry of Health and Child Welfare stakeholders, looking to first-hand experience to provide meaningful data.

Target Population: Mashonaland West Province has thirteen hospitals and these maintain the same management structure. The target population for this study were all those employees who hold management position since they are the ones involved in decision making and planning. The target population from the thirteen hospitals and the provincial offices comprise 182 employees (holding management positions).

Sample: Since it was not feasible to interview all possible respondents within the target population, and also time constraints made this impractical, a representative group was chosen. Using systematic sampling the sample of 70 people was randomly selected from the population.

Data Analysis and Discussion

Work Experience in the MOHCW: The study observed that 93% of the respondents had work experience of above 4 years. The average work experience is 10 year as indicated by the above workings. Mosoge (1996) observed that a direct relationship between employees years of work experience and quality of service delivery to stakeholders. He stated that the higher the level of experience the better the quality of service delivery.

Participation in the Budgeting: When respondents' answers were categorized it was observed that 87% of the respondents participate in budgeting. Participation of employees in budgeting is good for employee development. As pointed out by Noreen, et al(2008) that the success of responsibility accounting system is largely determined by the way a budget is developed. Noreen, et al(2008) go further to say that in most successful budget programmes managers actually participated in preparing their own budgets, rather than having them imposed from above.

Incorporation of suggestion in the formulation of the budget and budget bids for the province: Despite 87% of the respondents participating in the formulation of budgets and decision making the study observed that only 8% had their contribution or suggestions taken into consideration on the formulation of the budget and budget bids for the province. 88 % of the respondents have their contributions or suggestions not taken into account / consideration in the formulation of the budget. The implication is that 88% of the respondents are there to make up the numbers of those required in the board and decision making is done by only 8%. When you participate in decision-making, but your suggestions is not taken into account it means therefore that you are there to add on to the numbers of the board.

Quantity and Quality of information availed on budget matters: It was noted that 94% of the respondents are not happy with the quality and quantity of information availed on budgetary matters. From this study it therefore seems that the respondents are not adequately equipped with budgeting information and this may be a cause for an ineffective responsibility accounting. Pasha (2009) pointed out that each manager should know his responsibility and what is expected of him Noreen, et al (2008) also pointed out that many managers believe that being empowered to create their own budget is the most effective method of budget preparation. A budget can be instrumental in identifying constraints and bottlenecks. This study therefore seems to confirm that lack of quality and quantity information is adversely affecting the responsibility accounting system within the Ministry of Health and Child Welfare.

Mandated Functional Budgets: Even though the study observed that 87% of the respondents participated in formulation of budgets and that their contributions were of not incorporated into the master budget, this study also observed that functional budgets were imposed on employees by the province and the head office. 79% of the respondents agreed that functional budgets were imposed on them by the province and the head office. The upper-level executives, call the shots and lower level units are essentially reduced to doing the basic budget calculations consistent with directives. The use of mandated functional budgets is contrary to what was said by Noreen, *et al* (2008) who pointed out that a participatory budget recognizes all members of the team as valuable and budget estimates prepared by front-line managers are often more accurate and more reliable than estimates prepared by top managers who have less intimate knowledge of day to day operations.

Integration of Planning and Control in the Current responsibility accounting system: The aspect of this study seem to confirm that planning and control are not integrated as 76% of the respondents agreed that the two are not integrated while only 11% said the two are integrated. Glauntier and Underdown (1991:581) claimed that "an effective responsibility accounting system was one that integrated planning and control. They argued that the origin of control was the objectives of the organization from which plans were developed. Besides control allows achievements to be compared with the organizations desired objectives, thereby enabling new goals and new objectives to be formulated.

Use of performance reports: This aspect of the study observed that 87 % of the respondents agreed that performance reports are used to fix blame on management while 11% were of the contrary view. The use of performance reports to first blame is contrary to what was advocated by Hilton (2002:53) who argued that responsibility accounting system can influence behavior significantly and that this depended on how the responsibility accounting system was implemented. Hilton argued that the proper focus of a responsibility accounting system should be information. The aspect of the study therefore seems to confirm that the use of performance reports to fix blame on management is the cause of an inefficient responsibility accounting system in the MOHCW.

Opportunity to respond to performance evaluation feedback: This aspect of the study observed that 83% of the respondents are not given the chance to respond to performance evaluation feedback.

Distinction between controllable costs and uncontrollable costs in performance reports: The aspect of this study observed that performance reports used in the MOHCW do not distinguish between controllable and uncontrollable costs when appraising employees. Only 8% of the respondents were undecided over the issue. This is contrary to

what was said by Drury (2008:298) when he stated that responsibility accounting is based on the application of the controllable principle which means that it is appropriate to charge to an area of responsibility only those costs that are significantly influenced by the manager of that responsibility centre. The aspect of this study seems to confirm that failing to distinguish between controllable and uncontrollable costs in performance reports and evaluation could be the cause of an ineffective responsibility accounting system and the challenges being faced by the institution.

The frequency at which performance reports are produced and distributed: The aspect of this study noted that performance reports are not received regularly. This was evidenced by 85% of the respondents who said they do not receive performance reports regularly while 13% of the respondents stated that they receive them regularly. The only person who gets the report every month is the medical officer because he is the head of the station. It was observed that departmental heads don't even know how their departments are performing and thus on rare occasions when they get reports they will be four or five months late. This therefore confirms that failure to produce and distribute performance reports at regular intervals could be the cause of an ineffective responsibility accounting system within the MOHCW.

Motivational effects of the responsibility accounting system: The study observed that the current responsibility accounting system is not motivational. 89% of the respondents said it was not motivational while only 3% said it was motivational and 8% of the respondents were undecided. If the responsibility accounting system is used to fix blame, operating employees views are not taken on board during its design and performance reports include uncontrollable costs and the results are that managers will tend to undermine the system and view it with skepticism. The aspect of this study seems to suggest that the way the responsibility accounting has been designed, implemented and how it is being used has had an adverse impact and has contributed towards the ineffectiveness of the system.

The organizational structure: how coordinated are executive roles: The aspect of this study observed that 41% of the respondents were of the view that the organizational structure in the MOHCW clearly defined the formal relationships which exists between the different executives while 56% of the respondents were of a different view and 3% of the respondents were undecided. It was noted that the responsibility centres though dependent on each other lacked coordination. The formal relationship of these centres was not clearly defined to the extent that instead of cooperation responsibility center managers would end up competing for resources. It was also observed that the medical officer (doctors) who are technical people without any management knowledge are entrusted with running stations. These medical officers were given too much power even if they are fresh from college and this has created resentment from managers.

Centralized decision making: The study observed that even though there are boards at each station and that 87% of the respondents participate in budgeting even though their contribution are not incorporated in the master budget, stations are operating with imposed functional budgets. The study also observed that stations could do much better without the centralized function. 80% of the respondents agreed that they could do much better without the centralised function, 16% of the respondents were of a different view while 4% was undecided. It is observed that managers of responsibility centres should have direct input into the process of establishing budget goals of their areas of responsibility. Without such input, managers may view the goals as unrealistic or arbitrarily set by top management. Such views adversely affect the managers motivation to meet the targeted objectives.

Responsibility accounting and human factors: The aspect of this study also observed that human factors are not taken on board when designing the responsibility accounting system and this was supported by 92% of the respondents who said human factors were not taken on board when designing a responsibility accounting system. 8% of the respondents were undecided. The aspect of this study seems to confirm that lack of involving employees when designing the system of responsibility accounting and its failure to incorporate human factors could be the cause of an ineffective responsibility accounting system.

Change management models: The study observed that when a new system was introduced there were no models of change management adopted to help manage the change process. When answers from respondents were categorized (figure 4.13) 95% of the respondents pointed out that no model of change management is adopted while 5% of the respondents were undecided. The aspect of this study seems to confirm that failure to use a change management model could be the cause of an ineffective responsibility accounting system.

Effect of strategies on service delivery: During focus group discussion, the study also observed that the success or failure of strategies put in place have an effect on service delivery. The answers to this question ranged from greatly, to an extent and no effect. 57% of the respondents agreed that strategies have a bearing on service delivery in that they affect employees attitude to work. 18% of the respondents had argued that strategies put in place could affect service delivery to an extent depending with the calibre of personnel at a station. 25% of the respondents argued that

strategies had no effect on the service delivery if there are resources in place. It was also observed that the success or failure of strategies depends on how the strategies are accepted by the employees.

Conclusions and Policy Recommendation

Conclusions: The study observed that despite respondents being invited to participate in budgeting and decision making, their suggestions were not incorporated in the master budget and budget bids for the province which was creating resentment and adversely affecting the responsibility accounting. The stations were operating with mandated or imposed functional budgets from the head office and the province and departmental heads viewed these budgets as dictatorial standards. It was also observed that there was lack of information given out on budgeting to departmental heads and this was compromising responsibility accounting system.

It was also noted that employees were not given the opportunity to respond to performance evaluation feedback and this could be the cause of an ineffective responsibility accounting system. It was also observed that performance reports were not being produced and distributed to sectional managers on a regular basis and that these sectional managers didn't know how they were performing which in a way was a cause for an ineffective responsibility accounting system.

The study also observed that the current responsibility accounting system in use was not motivational since sectional managers did not own it and this could be the cause for an ineffective responsibility accounting system. In addition to the above, this study observed that the organizational structure does not clearly define the formal relationship which exists between the different executives. It was noted that responsibility accounting centers lacked coordination and instead of cooperation these centers were competing against each other both for resources and attention. In addition it was also noted that the position of the health services administrator and that of the accountant were not clearly defined since the health services administrator behaved as if owned the accountant.

The study observed that the stations were run by medical officers who are technical people, fresh from college and lacking management knowledge and experience which in a way could be contributing towards an ineffective responsibility accounting system in the MOHCW. The study again observed that a centralized decision making system was being used by the ministry and that responsibility centre managers were viewing the goals of the MOHCW as unrealistic or arbitrarily set and this could be the cause of an ineffective responsibility accounting system within the ministry. It was also noted that when introducing a new system no models of change management were being adopted and used to manage the change process and this could be the cause of an ineffective responsibility accounting system.

Recommendations: When coming up with the budget for the province the leadership of the province should allow station managers to participate in the formulation of budgets and their suggestions should be taken on board and incorporated in the master budget. Stations must be allowed to operate with self imposed budgets and the province must hold a lot of workshops on budgeting and assist station managers on how to budget. In addition these station managers must be given a lot of information on budget issues. Planning and control should be integrated. Control should ensure that the ministry activities are confirming with it plans.

Performance reports must not be used to fix blame on management. The proper focus of a performance report should be information and the information must assist managers in decision making which in a way will assist managers understand the reasons behind the station performance. There is need to produce performance reports which distinguish between controllable costs and uncontrollable costs and then evaluate the performance of station managers on controllable cost principle. Managers must also be given time to respond to performance evaluation feedback. It is also recommended that performance reports be produced on a regular basis and be distributed to sectional managers.

References

1. Adams, G. and Schvaneveldt, J. (1991) *Understanding Research Methods*, 2nd Edition, Longman: New York.
2. Argyris, C. (1990) *Overcoming organizational Defenses: Facilitating Organizational Learning*. Allyn and Bacon: Boston, MA. USA.
3. Back, K. W (1992) This business of topology. *Journal of Social Issues*; 48(2), 51 – 66.
4. Drury, C. (2008), *Management and cost accounting*, 7th edition, Cengage learning United Kingdom.
5. Henry, G.T. (1990) *Practical Sampling*. New. Bury Park: CA: SAGE.
6. Horngren, C.T and Foster, G.(1991) *Cost accounting: A Managerial Emphasis*, 7th Edition, Prentice-Hall International edition, USA.
7. Lewin, K. (1943a) Psychological ecology. In D Cartwright (ed) (1952): *Field theory in Social Science*.
8. Mosoge, M.J (1996) *Teacher participation in school management*. Doctoral thesis in Education Management.
9. Pavlov, I. P. (1927) *Conditioned Reflexes* (trans). Oxford University Press: London.
10. Zimmerman, J.L. (2011), *Accounting for decision making and control*, McGraw- Hill Education, Singapore.

-