

MANAGEMENT ACCOUNTING AS AN INSTRUMENT FOR CORPORATE
GOVERNANCE IN BOTSWANA

by

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Abstract

Problem statement: Management accounting is not given enough emphasis, at the board level, as a provider of timely and relevant information to facilitate the execution of good corporate governance. Without management accounting information corporations in Botswana may find it difficult to create sustainable corporate governance.

Methodology: A questionnaire was used to investigate the use of management accounting tools by the directors in the target organisations. The research was carried out among listed companies on the stock exchange and the parastatal organisations in Botswana.

Main findings: Most directors in the organisations don't emphasise the use of management accounting in decision making. Management accountants have also failed to provide the information at board level.

Conclusion: To execute their duties efficiently, directors may need to call for more management accounting reports from the senior management level up to the board level and regularly use them to facilitate their decision making.

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CHAPTER 1

INTRODUCTION AND BACKGROUND

1.1. Introduction

Major concerns about the need for good corporate governance always came about after large scale corporate scandals involving fraud and financial irregularities such as those experienced by Enron and Parmalat (Kenny, 2005). It is no wonder that past corporate governance discussions have been biased towards compliance to corporate governance guidelines and investment protection.

There is now a realisation that compliance to corporate governance guidelines alone does not guarantee success of an organisation. Charan (2005) observed that most boards of directors were in a state of instability and still not living up to their potential of providing truly good governance and that governance does not only prevent misdeeds but actually improves the stakeholder value of the corporation. 'Boards of directors' in context of this research can be defined as a group of people that are elected by shareholders of a company who make decisions affecting the company's business on behalf of the shareholders. The board of directors meets regularly to discuss governance issues, compensation packages and general business activities (Black, Wright and Davies, 2001). Boards of directors are tasked with the responsibility of providing good governance to the organisation that enables the company to provide increased shareholder value. This may indicate that corporate governance should also be viewed from the result-oriented point of view, where the terms of reference are drawn from the initial intentions of the organisation.

'Corporate governance' was broadly defined by the Organisation for Economic Co-operation and Development (1999) as the system by which business corporations are directed and controlled. The ideal corporate governance structure ought to specify the acquisition and distribution of inputs (e.g. assets) and responsibilities among different participants in the organisation, such as the board, managers, shareholders and other stakeholders. It may also need to spell out the rules and procedures for making decisions on corporate affairs. By doing this it may provide the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance.

Verhezen and Morse(2009)offered a more concise definition of corporate governance: the interactions between coalitions of internal and external actors and the board members in directing and steering a corporation for value creation. It is important to note that the underlying objective of good corporate governance is to create, maintain or enhance value for the respective stakeholders. Corporate governance therefore, may only be effective if it ultimately creates value for its stakeholders.

The stakeholders may inevitably need management accounting to measure and monitor the value created(or destroyed) in order to continuously assess the corporate governance system. Also, as a result of these financial and non financial measurements of value creation, actions will be taken to transform corporate governance from mere compliance to corporate governance guidelines which leads to effective value creation. Epstein and Birchard (2000) pointed out that value measures have great power, almost like genetic code, to shape action and performance. Employing various measures to determine value created may therefore motivate the board of directors to take actions which may shape the future of the organisation.

The term ‘stakeholder’ was defined by Freeman (2010) as individuals or groups who can influence or are influenced by the actions decisions, policies, practices, or goals of the organisation. ‘Stakeholder value’ would therefore mean the value, financial and non financial, attributed to the organisation by the various stakeholders. This should be differentiated from the term ‘shareholder value’ which Rappaport (1998) defined as: “corporate value less debt”, in other words the difference between the company’s assets and liabilities. Kaplan and Palepu (2003) observed that organisations can create shareholder value through more effective corporate governance, and through boards that do not only comply with corporate governance guidelines, but focus their time and efforts on the most critical strategic areas.

Although Kaplan and Palepu (2003) only mentioned shareholders, corporate governance is more than the demands for shareholder value (Carlson,2001). Black, Wright and Davis, (2001), who are ardent advocates of shareholder value, admitted that an organisation managed for value cannot afford to ignore the other stakeholders. Neely, Adams and Kennerly (2002) stated that it is no longer acceptable (or even feasible) for an organisation to focus solely on the needs of one or two of their stakeholders, especially shareholders and customers, if they wish to survive and prosper in the long term. This is because organisations

communicate and work together with stakeholders and are interdependent on each other (Carroll and Buchholtz, 2008). The actions and decisions which are made by any value-creating organisation should therefore be aimed at optimising stakeholder satisfaction. Kenny (2005) emphasised this when he stated that the success of an organisation does not depend only on emphasising the needs of one key stakeholder being the shareholder. Success may require that the strategy for the organisation pays heed to, and balances, the needs of all its key stakeholders. This study takes the stakeholders view when looking at the value created by corporate governance.

An effective governance system may need boards of directors (executive and non-executive) with the majority having at least sufficient knowledge of the organisation's activities and that of the industry within which it operates. The board should be able to fulfil the following five responsibilities as pointed out by Kaplan and Nagel (2004):

- Approve and monitor organisation strategy.
- Approve major financial decisions.
- Select the CEO, evaluate the CEO and senior executive team and ensure executive succession plans.
- Provide counsel and support to the CEO.
- Ensure compliance.

In order to fulfil the above responsibilities the board may need a competent management accounting function to facilitate its operations.

Management accounting, which was traditionally intended for internal use in organisations, has, through its ability to measure value and to present both current and forward-looking information, developed into a key instrument to organisations for delivering effective corporate governance to stakeholders. The widening definition of stakeholders, given by Freeman (2010) above, and the increasing demand for transparency by the same stakeholders has made the internal boundaries of organisations almost non-existent.

'Management accounting' is defined by the Chartered Institute of Management Accountants (CIMA) (Insight, 2009) as the practical science of creating value within private and public sector organisations. To create and manage a successful business, accounting, finance and management are combined with leading edge techniques and management accountants fulfil financial and non-financial roles in their organisations. Training as well as experience

requirements are gained within the organisation itself. Hence, management accountants are equipped with an exceptional insight into how their organisations function.

Another definition for management accounting by CIMA (2005) characterised it as “the process of identification, measurement, accumulation, analysis, preparation, interpretation and communication of information used by management to plan, evaluate and control within an entity and to assure appropriate use of and accountability for its resources”. Management accounting also involves the preparation of financial reports for groups such as shareholders, creditors, regulatory agencies and tax authorities which are not involved in the management of the organisation. From this definition it can be argued that management accounting may assist the board of directors in providing a realistic measurement of the organisation’s current value, taking into account all aspects of costs and values, therefore showing where the company is at a particular time. As Brewer, Garrison, and Noreen (2009) advise it is important to recognise the time value of money when evaluating projects. It is also expected that financial projection techniques of management accounting may provide a realistic value of the future position that the company aims to achieve. Hence enable the board to deliver on their mandate of effective corporate governance.

The board of directors (hereinafter referred to as the board), the stewards of the organisation, needs to know where the organisation is, at a particular time, where the organisation wants to go, and how best to go there. The board may employ strategic management accounting to determine where it wants to go by formulating strategies for achieving the organisation's objectives. Management accounting may deliver the traditional function of designing reporting systems which may generate timely, comprehensive and relevant reports to monitor progress towards the set objectives. The board and other stakeholders may also need to utilise management accounting techniques of performance evaluation to arrive at quality investment and divestment decisions, and to design remuneration and reward systems for individuals and groups of individuals who are responsible for the various activities which drive the organisation to achieve its objectives. All these tasks, activities and decisions hinge on the wider issue of what is termed as corporate governance.

This research therefore aims at investigating the extent to which management accounting facilitates the achievement of effective corporate governance, by assisting the board to fulfil the above-mentioned five responsibilities by Kaplan and Nagel (2004). The research setting involved the studying of the practices of corporations in Botswana.

Earlier writers on corporate governance in Botswana have looked at corporate governance from the compliance point of view. A report about corporate governance and accountability in Southern Africa prepared by the United Nations Economic Commission for Africa (2007) stated that all public companies are expected to comply with international accounting standards, as regulated by the Botswana Institute of Accountants. In the same report it was observed that most listed companies have close links with South Africa and seek compliance with South African governance standards guided by the King Report.

The problem of ineffective corporate governance in developing countries like Botswana was observed by Hope (2009) as emanating from lack of capacity to both achieve and sustain a climate of good governance. It was also observed in the report prepared by the African Development Bank (2009) about the country's governance profile that Botswana lacks adequate implementation capacity to translate otherwise good policies, plans, programmes and projects into reality. Management accounting may be employed to build the capacity needed to achieve sustainable corporate governance.

1.2. Management Accounting

It may be time that boards realise that management accounting has developed from the technical level to an all-encompassing decision making instrument for the low, medium, and high levels of the organisation.

For the directors to execute their duties efficiently, they may need to regularly use management accounting reports. These reports may facilitate their decision making processes. Management accounting reports may therefore need to go beyond the senior management level up to the board level. Sir Adrian Cadbury (2002) indicated that directors may consider that lack of timely relevant information, or the way in which debates are handled and decisions are made, made it difficult for them to contribute in a useful manner. In fact Epstein and Birchard (2000) observed that many companies turned to their management accounting systems to bypass the limitations of financial accounting. This may be because for every decision the board has to make, there is a need for timely and relevant management accounting reports to support it.

To approve and monitor an organisation's strategy, some of the management accounting reports the board may require (Hulbert and Fitzroy, 2004) are:

- A report on economic values of opportunities available for the company e.g. the expected revenues.
- A SWOT analysis. SWOT is an acronym for Strength, Weakness, Opportunities and Threats. Johnson, Scholes and Whittington (2008) define a SWOT analysis as “a report which summarises the key issues from the business environment and the strategic capability of an organisation that are most likely to impact on strategy development”. They argue that the report presents the costs of various threats, posed to the company and the benefits, which can accrue from the opportunities available to the organisation, bearing in mind the internal limitations of the organisation in form of weaknesses and strengths. Johnson *et al.* (2008) further argue that the SWOT analysis is only useful if it is comparative i.e. compares the strengths, weakness, opportunities and threats relative to those of the competitors.
- A report which compares the expected values of alternative strategies that are designed by the organisation. Such reports may enable the directors to understand the key value drivers of their organisations and the risks associated with them. Hence the reports assist them in choosing a strategy, which may optimise benefits.

To efficiently fulfil their duty of approving major financial decisions, the board may need to request management accounting reports, which show expected values and the impact of the various financial and management decisions (Ansari, Bell, Klammer and Lawrence, 1997). These may be investment or divestment decisions. Such reports may show the returns and the risks attached to those returns. They may show the marginal contribution each decision can make towards achievement of corporate objectives. This may be achieved using an incremental cost approach where only those costs and revenues that differ between two alternatives are included in the analysis (Brewer *et al.*, 2009). The directors may also consult the management accounting reports regarding project performance. These reports may show whether the approved projects are performing as expected (Hulbert and Fitzroy, 2004). These reports may also provide a basis for future financial decisions. The boards may need a fair ground upon which they can base their assessment when evaluating themselves as a board, the CEO, and senior executives. Management accounting reports, which come in handy, are the ones which quantify value added (Blocher, Stout and Cokins, 2010) and differentiate individual contribution from group contribution and economic performance from personal performance (Ehrhardt and Brigham, 2009). Therefore, management accounting

reports may be needed to quantify value and assess contributions made to the organisation's value.

In order to offer valuable counsel and support to the CEO the boards may need to look at management accounting reports such as the balanced scorecard (Kaplan and Norton, 2006) and the bench marking report (Zairi, 2001) in order to be in a position to perform this role. To ensure compliance to corporate governance guidelines, management accounting reports may be indispensable. They may show, by their exceptional reporting style (McWatters, Zimmerman and Morse, 2008), when there is a divergence from the guidelines. The reports may also show the costs of non compliance as a way to motivate corrective action.

The above illustration shows clearly that management accounting may not only be reduced to a mere peripheral support function of the organisation but may be recognised as the major tool which may be used by both the board of directors and other stakeholders in any value creating organisation. It demonstrates the potential management accounting may have in enabling good corporate governance in any organisation by facilitating quite a number of important decisions that the boards of directors have to make that may have a significant impact on the survival of the organisation.

1.3. Problem Statement

Management accounting is not given enough emphasis, at the board level, as a provider of timely and relevant information to facilitate the execution of good corporate governance. Without the use of management accounting information corporations may find it difficult to create sustainable corporate governance.

Without utilising management accounting, Botswana would easily fall in the trap of requiring compliance to corporate governance guidelines in haste, to bring the much wanted foreign investment, while ignoring performance and value creation which could guarantee sustainable development. This is the problem this study is focusing on. The problem could lead to the eventual collapse of the seemingly well governed organisations and cause economic damage to the stakeholders and the country at large.

It is not clear to which extent the organisations in Botswana use management accounting to facilitate the achievement of effective corporate governance, by assisting the boards to fulfil their responsibilities. The study investigated the practices of boards of directors of companies

in Botswana in light of the fact that management accounting may enable effective corporate governance.

1.4. Hypothesis

It is hypothesised in this study that organisations in Botswana do not utilise management accounting information at the board level to enable them to deliver effective corporate governance. Their boards of directors do not use enough management accounting information in approving and monitoring organisational strategy; in approving major financial decisions; in evaluating the performance of senior management and themselves; in providing counsel and support to the CEO; and in ensuring compliance of the organisation to good corporate governance guidelines. In this study the above five key responsibilities of the board of directors in executing good corporate governance were pursued as mini hypotheses (see Table 4.1). The study then sought to establish through the research instrument that the boards do not actually utilise management accounting information in executing their duties of delivering effective corporate governance. The opinion at the onset of the study was that the situation in a number of organisations in Botswana will be in agreement with the hypothesis.

1.5. Objectives of the Study

This study aimed to determine the extent to which management accounting is utilised to assist the boards in delivering effective corporate governance. Hence the objectives of the research were to investigate:

- Whether Boards of directors take definite steps to ensure that they fulfil their responsibilities.
- Whether the organisations have dedicated and effective management accounting systems.
- Whether management accounting systems provide sufficient and appropriate information that can assist the board and other stakeholders in their assessments and decision making.
- Whether the boards and other stakeholders utilise available management accounting information in making decisions that affect their corporations.
- Which factors limit the existing management accounting systems from supporting effective application of corporate governance systems.

In a nutshell, the research aimed to establish the extent to which management accounting is utilised by companies in Botswana in assisting boards to carry out their functions of ensuring good corporate governance.

1.6. Benefits and Beneficiaries of the Study

The study may benefit the management accounting profession, the directors of organisations, investors, and other stakeholders as follows:

- i. The research findings highlight the great significance of management accounting in aiding and promoting value creating corporate governance by providing information required for decision making by directors, investors and other stakeholders.
- ii. The conclusions drawn from the research may benefit the participating organisations by giving them clues of the areas which may need attention and recommendations of ways to improve the achievement of ultimate value for their stakeholders.
- iii. The research findings may also be used as a basis for the establishment of a universal code of corporate governance for the country of Botswana.

1.7. Scope of the Study

The study was carried out in public corporations and listed companies in Botswana. These are collectively referred to in this study as organisations. The study chose to focus on these organisations because it is in such organisations that the separation of ownership and management is most visible. The size of these organisations also calls for a multitude of stakeholders of all types. It is therefore in such organisations that corporate governance issues are most likely to have far reaching implications to the stakeholders and to the economy at large.

There are currently 31 listed companies on the Botswana Stock Exchange market. The research intended to cover all the elements in this group. The same number of elements was targeted as a sample from the parastatal organisations, where the government of Botswana is a substantial shareholder.

The research did not cover government institutions, private limited companies, societies, clubs and other non government organisations (NGOs) where corporate governance may be constrained by the objectives and the interests of a few major stakeholders like government, donors, shareholders etc.

The research also did not cover other accounting and financial disciplines like financial accounting and auditing whose practice may dictate different approaches to provision of information.

1.8. Research Methodology

The study constitutes three parts namely: a document review, a questionnaire, and personal interviews. The document review involved the perusal of publicly available corporate documents such as financial statements and company profiles. The empirical study using the questionnaire and interview constituted a survey that targeted companies listed on the Botswana Stock Exchange and parastatal organisations where the government of Botswana is a substantial shareholder.

1.9. Layout of the Dissertation

In Chapter 2 and 3, a review of the literature is presented. The review looks at recommendations from the United Kingdom's corporate governance code by Sir Adrian Cadbury (2002). It also looks at the UK Corporate Governance Code, formally known as the Combined Code, authored by the Financial Reporting Council (FRC, 2010). In addition it examines the King III report (2009) on corporate governance in South Africa that was authored by the King committee together with its code of best practice. It further examines the statutory requirements of the Sarbanes-Oxley act (2002) of the United States of America. Lastly it examines statements from various authorities in management accounting and/or management in general using the following guidelines:

- Management accounting and strategy formulation.
- Management accounting systems to monitor strategy implementation.
- Management accounting evaluation tools aiding financial decisions.
- Management accounting for performance evaluation.
- Management accounting reports on compliance.

Chapter 2 is devoted to reviewing the literature on management accounting and strategy formulation. This is because without strategy formulation and monitoring the organisation collapses.

Chapter 3 deals with management accounting tools which aid: financial decisions, performance evaluations, counselling and support of CEO, and compliance.

The methodology employed in this study is discussed in Chapter 4. This includes a discussion on research methods, sampling techniques, design of data collection instruments and a deeper analysis of the target population in terms of the relevant people contacted and challenges faced by the researcher during data collection.

Chapter 5 and 6 covers the data analysis and findings. As indicated above, the research is basically of qualitative type, where descriptive data was presented in the research problem. Data were analysed using associative analysis to determine if there is a relationship between the responses to one question and the responses to another question (Burns and Bush, 2006). Finally a summary is presented and recommendations made in Chapter 7. This chapter concludes the research findings. Mephram (1980) stated that many real life problems are too complicated to be comprehended without simplification, which the use of an appropriate model can give. Based on the five responsibilities of the board, as pointed out by Kaplan and Nagel (2004) a model is proposed to illustrate how management accounting can facilitate good corporate governance by supporting the decision making processes (see Table 7.1).

CHAPTER 2

MANAGEMENT ACCOUNTING, STRATEGY FORMULATION AND CONTROL

2.1 Introduction

This chapter reviews literature on the theory and practice of using management accounting to facilitate corporate governance. This provides the necessary theoretical background to guide the study. The research problem is reiterated here below to further orientate the chapter.

It is not clear to which extent the organisations in Botswana use management accounting to facilitate the achievement of effective corporate governance, by assisting the boards to fulfil their responsibilities.

Botswana, like many other developing countries, may still need to develop a country code of best practice in corporate governance. Large economic organisations have tended to adopt the available international codes with minimal adjustments. These include for example: the King III report (2009) on corporate governance in South Africa, the Combined Code of best practice from the United Kingdom (UKCC) (FRC, 2010), and the corporate governance recommendations made by the Commonwealth Association for Corporate Governance (CACG, 1999). The choice might have depended on the source of training of the managers, directors or auditors of these organisations. However, these codes may emphasise compliance more than value creation. This may have encouraged the tendency of “box-ticking” on the recommendations, to avoid arousing international criticism. As a result many board members may not actually take definite steps to ensure that they fulfil their responsibilities.

This chapter concentrates on the practices in the use of management accounting tools and techniques to facilitate strategy formulation and control, which is a key function of the board in corporate governance as pointed out by Kaplan and Nagel (2004). The chapter identifies the directors’ responsibilities in formulating and controlling corporate strategy, based on recommendations from: the UKCC on corporate governance (FRC, 2010), the King III report (2009) together with its code of best practice and the statutory requirements of the Sarbanes-Oxley act (SOX) (2002) of the United States of America. Hence it identifies the critical

decisions that directors may be expected to make in formulating and controlling corporate strategy and it reviews the management accounting information upon which corporate governance decisions can be made.

The chapter reviews various authorities highlighting how management accounting can prepare and deliver analytical reports which can offer such information to enable the directors to make quality decisions.

In the next section, management accounting and organisational strategy are discussed. Section 2.3 covers the formulation of a strategy with specific reference to the SWOT analysis, PESTEL framework and the five competitive forces of Porter. A discussion on how strategy may be monitored and controlled to deliver the desired outcomes follows in Section 2.4. This section also looks at control tools like variance analysis and the balanced scorecard. Section 2.5 concludes the chapter.

2.2 Management Accounting and Organisational Strategy

Management accounting comprises a set of tools and techniques to support planning, decision making and control in business organisations (Collier, 2009). Hence, management accounting may be of value to the board of directors in formulating and controlling the strategy of the organisation.

Ansoff and McDonnell (1990) defined 'strategy' as a set of decision making rules for guidance of organisational behaviour and that it is designed to transform the organisation from the present position to the position described by the objectives, subject to the constraints of capabilities and the potential. The definition of Johnson *et al.* (2008) of strategy is more encompassing: the direction and scope of an organisation over the long term, which aims to achieve advantage in a changing environment through its configuration of resources and competences. The aim of the strategy is to fulfil stakeholder expectations. The definition emphasises the fact that strategy is geared over a long period of time and it may therefore be important to choose the right direction for the organisation.

Charan (2005) states that, every company strategy rests on a thorough view of the external context in which the company competes. This had long been observed by contemporary opinionleaders in the field of strategic management including Michael Porter (1998), who stated that the essence of formulating a competitive strategy is relating a company to its environment. With the use of management accounting tools and techniques the company may

easily identify the various factors of its environment that can affect it and may also be able to assess the impact of such effects in monetary and non-monetary terms. In generating reports using monetary and non-monetary measures management accounting may also assist in the configuration and re-arrangement of company resources, as suggested by Johnson *et al.* (2008), to achieve optimum value for the stakeholders.

2.3 Strategy Formulation

The King III report (2009) recommended, under Principle 1.4, that the board should play a prominent role in the strategy development process and should not be the mere recipient of a strategy proposed by the management. In the view of Cadbury (2002), the board is responsible for the strategy of the business and for harmonising the operating plans and targets required to turn the strategy into action. UKCC (FRC, 2010) endorsed this view when it recommended that the board should set the company's strategic aims. Hence, the board may do better using management accounting reports in executing this task.

In order for the board to fulfil the corporate governance recommendations regarding strategy, it should, according to Kaplan and Nagel (2004), understand the strategy and should be able to judge that the strategy is capable of delivering long term shareholder value at acceptable levels of business, financial and technological risk. Directors may therefore need management accounting reports on the internal state of affairs in order to define the organisations strengths and weaknesses, and another report on the environmental factors outside the organisation which may affect the implementation of the strategy. Some of the management accounting tools which may be employed in the formulation of a strategy include the following:

- SWOT analysis,
- PESTEL framework and
- Porter's five competitive forces model

Each of the above is discussed in more detail in the next section.

2.3.1 SWOT Analysis

SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats (Johnson *et al.*, 2008). The management accountant can present a report analysing the company's position under the SWOT guidelines. This report will look into the company's inner strengths and weaknesses and will also look at the opportunities available in the environment and the threats posed to the company at that time. A SWOT analysis summarises the key issues from the business environment and the strategic capability of an organisation that are likely to impact on the development of a strategy (Johnson *et al.*, 2008). The strengths and weaknesses are identified from within the organisation by an internal environment analysis while the opportunities and threats are identified by looking at the external environment.

Contemporary writers like Grant (2005) argue that an arbitrary classification of external factors into opportunities and threats, and internal factors into strengths and weaknesses is less important than a careful identification of these external and internal factors followed by an appraisal of their implications. This is supported by Hulbert and Fitzroy (2004) when they state that what the organisation should understand is which critical variables are changing, the pace at which these changes are occurring and their possible impact on the organisation. This involves (Hulbert and Fitzroy, 2004):

- selecting key variables that can affect their organisation,
- forecasting the nature and pace of these changes, and
- estimating the potential impact of these changes on the organisation.

Management accounting may play a very important role in making meaningful forecasts and quantifying the effects of changes to the organisation. Using various techniques management accounting may be able to quantify the threats and highlight them to the board for immediate attention. On the other hand, management accounting may also assist in estimating the value of the opportunities for the board to justify commitment of the organisation's resources to pursue such opportunities.

2.3.1.1 Internal Environment Analysis

Although he seemsto differ from Johnson *et al.* (2008), Grant (2005) agrees that when internal environment analysis looks at the organisation and the way resources are brought together to create organisational capabilities, it seeks to establish how the organisation can:

- Deploy its strength to maximum advantage.
- Minimise its vulnerability to its weaknesses.
- Develop to meet challenges of the future.

Hulbert and Fitzroy (2004) also observed that organisations succeed because they have unique and hard to imitate resources that permit them to develop a competitive advantage, therefore generating superior performance. It may be deduced that the contemporary writers were looking at the same factors using a different approach.

The management accounting department may be the best place to find records and hence generate reports about the organisation's resources or internal environment factors. Resources as defined by Hulbert and Fitzroy (2004) are an organisation's specific assets that enable the organisation to perform activities in a manner superior to their competitors. They include tangible resources such as:

- financial (cash and cash equivalents);
- physical resources (equipment, land), and
- intangible resources (intellectual assets).

The combination of resources is what is called competencies, and it is the competencies that create the value for an outside party that is critical to the financial success of an organisation (Hulbert and Fitzroy, 2004). A competence is valuable to the extent that it allows the organisation to reduce costs or increase revenue over what it would have been without the competence (Hulbert and Fitzroy, 2004). Management accounting, using costing and revenue recognition techniques may easily identify valuable competencies of the organisation and be able to provide a report to support decision making.

2.3.1.2 External Environment Analysis

Hulbert and Fitzroy (2004) are of the view that drivers of change are for the most part external to the organisation. Johnson *et al.* (2008) argue that this analysis facilitates the identification of opportunities and threats posed to the organisation. Hulbert and Fitzroy (2004:58) argue further that the aim of the external environment analysis should be:

- To select key variables that can affect the organisation.
- To forecast the nature and pace of these changes.
- To estimate the potential of these changes on the organisation.

The value of the management accountant may be in the identification of the relevant variables which can affect the organisation and assigning values to such variables in order to assist the board to make a decision based on optimisation of stakeholder value.

Atrill and McLaney (2009) argue that management accounting information can play a valuable role in providing projections that set out the likely financial outcomes from a proposed course of action. Management accountants may provide reports using techniques of estimating costs and values and of forecasting cost and revenue behaviours. Such reports may assist the decision makers to identify these factors, or threats and opportunities as well as the impact they have on their organisation. Hence, they may be able to make quality decisions regarding strategy.

A very important tool that may be employed by management accountants to analyse the external environment is the PESTEL framework.

2.3.2 PESTEL Framework

The PESTEL framework categorises the environmental factors into six main types (Hulbert and Fitzroy, 2004):

- Political factors,
- Economic factors,
- Social factors,
- Technological factors,
- Environmental factors, and

- Legal factors.

Johnson *et al.* (2008) suggested that a PESTEL framework would assist the decision makers to identify the various environmental factors, as displayed in Table 2.1, which can affect strategy. A management accounting report based on the PESTEL framework may be an effective tool in giving the board a clear picture of how their organisation is placed within the global arena.

Table 2.1 Types of Environmental Factors and their Instantiations (Augmented from Johnson *et al.* (2008))

Types of Environmental Factors	Instantiations of the Factors
Political	Stability of the Government, Government spending, privatisation policy, employment laws, taxation policy, regulation of the financial markets, competition policy, local protection and citizen empowerment drives.
Economic	Interest rates, disposable income, inflation, levels of unemployment, labour cost and productivity, GDP per capital, savings rate, exchange rates, and balance of payments.
Social	Population size and growth, population age and ethnic mix, religion, education levels, labour market participation rate, attitudes towards technology, social mobility and cultures.
Technological	Availability and access to the internet, global technology transfer, technological advantages of the country, incremental and disruptive technology, new products, level of spending on research and development.
Environmental	Environmental legislation, number and actions of non-government organisations in the field of environmental protection, corporate social responsibility requirements and expectations.
Legal	Status of the rule of law, consumer protection, legal framework, acceptable trade practices.

Using various costing and valuing techniques the management accounting report may put values and weights to the factors identified above, hence highlighting the key drivers of change i.e. the forces likely to affect the structure of an industry, sector or market (Johnson *et al.*, 2008:69). This may assist the board in deciding how much of the organisations resources to allocate to help address the respective factors.

On a micro scale the external environment may be looked at by analysing the industry within which the organisation operates. A management accountant can employ Porter's five forces model (Porter, 1998) to provide a report under this analysis.

2.3.3 Porter's Five Competitive Forces

Porter (1998) suggested that every organisation is influenced by five forces from the business environment:

- The power of suppliers
- The power of customers
- The threat of substitutes to its offering
- The threat of competition from its peers, and
- The threat of new entrants into its market domain.

Porter's five forces model may be employed by a management accountant to present analytical reports upon which directors may base their contributions or criticisms to the strategic debate as illustrated in Table 2.2.

Table 2.2 Management Accounting Reports based upon Porter's Five Forces

Type of Force	Management Accounting Report
The power of suppliers	A summary of the number of suppliers and the volumes they supply to the organisation. This will be compared to the total volume of supplies to the organisation to show the degree of dependence the company has on each one of them, hence judge their power and influence on the organisation.
The power of customers	A summary of the number of customers and the volumes they buy from the organisation. Using customer account profitability analysis, the management accountant can derive the number and trading volumes of customers. This will be compared to the total volume of sales and profits of the organisation to assess the degree of dependence the company has on each one of them, hence judge their power and influence on the organisation.
The threat of substitutes to its offering	<p>A comparative report of the company's product and the available substitutes showing value added of the different attributes of the product to justify its price. Then a comparison of product price-value characteristics of substitutes/compliments. (e.g. if the price of a substitute is too high, it may not be a threat);</p> <p>A report showing price elasticity of industry demand i.e. how changes in prices represent changes in quantity demanded. (e.g. rising industry costs may drive consumers to substitute products).</p>
The threat of competition from its peers	A competitor analysis report showing the market shares of competitors and the movements therein. Also analysing competitor's costs and prices and value offered to the market in comparison with the organisations position.
The threat of new entrants into its market domain	The job of the management accountant of analysing the ratio of fixed costs versus variable costs will help to explain the ease of entry and exit from the business hence judge the threat of new entrants.If the fixed costs are high, new entrants will be disillusioned.If the fixed costs are very low, the new entrants will be attracted to take their chances.

Source: Porter (1998)

With information from the above reports, the board may have a better view of the future of the organisation and also may be able to report whether there is reason to believe that the

business will not be a going concern in the year ahead, as required by both the King III report (2009), under Principle 1.13 and the UKCC (FRC, 2010).

Factors that can be considered (Hulbert and Fitzroy, 2004) when analysing the threat posed by substitute products or services are:

- availability of close substitutes and/or compliments;
- price-value characteristics of substitutes/compliments (e.g. if the price of a substitute is too high, it may not be a threat);
- price elasticity of industry demand (e.g. rising industry costs may drive consumers to substitute products);
- the threat of competition from its peers. Michael Porter (1985) argues that competition is at the core of the success or failure of the organisations.
- the threat of new entrants into its market domain. The traditional costing job of the management accountant of analysing the ratio of fixed costs versus variable costs will help to explain the ease of entry and exit from the business hence judge the threat of new entrants. Assuming that if the fixed costs are high, new entrants will be disillusioned. Conversely if the fixed costs are very low, the new entrants will be attracted to take their chances.

The management accounting reports issued to the directors using the Porter's five forces model (Porter, 1985) may attach costs and values to the powers and threats of the various elements mentioned above so that the board can decide whether to ignore them or to dedicate time and funds to address them.

Reports generated by the management accounting function of the organisation with the aid of tools such as: SWOT, PESTEL and Porter's five competitive forces, may empower the directors with objective information about the environment in which the organisation operates. With this kind of information the directors may be in a better position to make meaningful contributions or criticisms to the strategy formulation debate of the organisation thereby fulfilling one of their corporate governance functions.

2.4 Monitoring and Controlling Strategy

Controlling can be defined as the process of ensuring that results agree with plans (Morse, Davis and Hartgraves, 2003). A general nature of control, according to Hoque (2006), is that it places emphasis upon performance and the monitoring of activities that facilitate the accomplishment of an organisation's objectives. Charan (2005) emphasised that to monitor performance well, management and the board should first identify the critical activities that drive future financial results and find a way to measure them. Pun and White (2005) are of the same opinion when they state that effective organisation management depends on the strategic measurement of performance and results.

Cingula (2006) emphasised that controlling is an important process within corporate governance, and all stakeholders who follow performance results of a business organisation or organisations engaged in public well-being, should recognise the importance of control. This may only be realised when management accounting reports, in form of variance analyses, are presented to show where and when there are control lags which may lead to divergence from the expected results.

The King III report (2009) was more direct under Principle 1.1 regarding control, when it emphasised that companies should be headed by a board that should be in effective control of the company. It also recommended that the board should include a statement that they have established formal policies and frameworks for the design and implementation of the system of internal financial controls.

The UKCC (FRC, 2010) recommended that the board should set the company's values and standards and ensure that its obligations to its shareholders and others are understood and met. This may be where the board can depend on the various management accounting reports presented at different levels of disclosure, to convince both the stakeholders and the external auditors of the compliance to the principle of effective control.

Bruns (2005) presents control as being dependant on measurement. Furthermore management control seeks to compare performance to a plan or standard (Roehl-Anderson and Bragg, 2005). Monitoring a corporate strategy may essentially need identification of the critical success factors and then, using a well designed control system, get feedback reports on achievement of those factors to determine whether the organisation is following the strategy.

The management accountant assists in this function by providing information to the managers for each function so that they can enforce control related issues (Roehl-Anderson and Braggs 2005). Management accounting reports, which are basically reports on cost and values measured, can serve as strong communication tools amongst the directors at the board level and other stakeholders when monitoring performance. Such reports therefore facilitate control.

Crowther (2004) observed that the precise nature of the quantitative information given by accounting makes the evaluation of performance a relatively straightforward exercise. Kaplan and Norton (1996) are of the view that the use of measurement as a language helps translate complex and frequently nebulous concepts into a more precise form. The modern methods of presenting management accounting reports which includes financial and non-financial aspects of the business makes the work of the directors in corporate governance a lot easier.

Management accounting reports which are geared towards control may be presented in such a way as to show exceptional performance on the identified critical success factors, hence attract attention of the decision makers to institute control measures. Using the exceptional performance approach, such reports may be able to show how much the current operation differs from the expected strategy. It may therefore make it easier for the board to make meaningful decisions about the control action to take.

This may be done in well presented management accounting reports using the following tools:

- Variance analysis
- Balanced scorecard

Each of these is discussed in detail in the following sections.

2.4.1 Variance Analysis

Variance analysis is one management accounting tool that can be used to monitor and control strategy. Variance analysis is the process of calculating variances and investigating the reasons why they occurred. This information is used to improve future operating plans (Eldenburgh, Wolcott, Chen and Cook, 2010).

Bragg (2010:513) identified the following three types of variances:

- **Price variance:** What is the difference between the standard purchase cost of an item and the actual cost at which it was purchased? This is used to recognise the price changes in the market.
- **Efficiency variance:** What is the difference between the quantities of resources needed to manufacture something, less the standard quantity, multiplied by the standard cost?
- **Volume variance:** What is the fixed overhead portion of the overhead rate multiplied by the number of units produced, minus same amount from total fixed overhead cost pool?

Information about variance analysis may be used to improve future operating plans in order to improve efficiency of the company and hence profitability and shareholder value.

2.4.2 Balanced Scorecard

Another management accounting tool which can be used to monitor and control strategy is the balanced scorecard. Kaplan and Norton (1996) indicated that the process of building a balanced scorecard clarifies objectives and identifies the critical few drivers of strategic objectives. The balanced scorecard translates mission and strategy into objectives and measures. It is organised into four different perspectives (Kaplan and Norton, 1996) namely:

- Financial
- Customer
- Internal business process
- Learning and growth.

The strength of management accounting under the balanced scorecard approach of reporting may be in the measurement of all aspects of the organisation, both financial and non financial. Hence a management accounting report using the balanced scorecard approach may be like a panoramic view of the entire organisation and its environment. This is because it may show values created and/or destroyed in all aspects of the organisation. Therefore it may enable the board to make quality decisions about how to steer and control their organisations at present and in the future.

The type of management accounting reports that may be generated using the balanced scorecard approach can be illustrated in Table 2.3.

Table 2.3 Management Accounting Reports Using the Balanced Scorecard Approach Derived from (Kaplan and Norton, 1996)

Balanced scorecard perspective	Key questions to be answered	Management accounting report/tools
Financial	What are our stakeholders' expectations for financial performance?	ROI (return on investment) ROE (return on equity) P/E (Price Earnings ratios).
Customer	To reach our financial objectives, how do we create value for our customers?	Customer growth Market share External stakeholder survey reports Number of meetings with shareholders.
Internal business process	What processes should we excel at to satisfy our customers and shareholders?	Staff development analysis, staff training etc. Risk analysis. Reports on investments in technology updates.
Learning and growth	How do we align our intangible assets (people, systems and culture) to improve the critical processes?	Analysis of investments in research and development Report on new products developed - report on employee satisfaction complaints, employee turnovers etc.

The financial performance measures indicate whether a company's strategy, implementation, and execution are contributing to the bottom-line improvement whereas the customer perspective assists the managers to identify the customer and the market segments in which the business unit will compete and the measures of the business unit performance in these targeted segments. The customer perspective employs measures like; customer

satisfaction, market and account share, customer retention, new customer acquisition, and customer profitability.

The internal business processes perspective assists the executives to identify the critical internal processes in which the organisation should excel. These processes enable the business unit to deliver the value proposition that will attract and retain customers in the target market and satisfy shareholder expectations of excellent financial returns whilst with the learning and growth perspective the organisation identifies the infrastructure the organisation should build to create long-term growth and improvement. This comes from three principal sources (Kaplan and Norton, 2006):

- people
- systems
- organisational procedures.

Eldenburgh *et al.* (2010) agree that a balanced scorecard is a formal approach used to help organisations translate their vision into objectives that can be measured and monitored using both financial and non financial performance measures. A good performance measurement system is one that helps us to identify the drivers (causes) of performance, or lack thereof, and therefore guide us in making decisions that will improve performance (Hulbert and Fitzroy, 2004). The balanced scorecard implements strategy by providing a comprehensive performance measurement tool. This tool reflects measures critical for the success of the organisation's strategy and thereby provides means for aligning the performance measurement in the organisation to the organisation's strategy (Ehrhardt and Brigham, 2009).

Not only does it provide a framework to determine financial performance of the organisation, the balance scorecard may enable management to measure non-financial indicators e.g. customer satisfaction, quality which are key determinants of measuring performance. This information may be very important to the board in exercising its corporate governance of guiding strategy formulation and execution in the organisation.

Some of the benefits of the balanced scorecard as outlined by Ehrhardt and Brigham (2009) are as follows:

- A means for tracking progress towards achievement of strategic goals.
- A means for implementing strategy by drawing managers' attention to strategically relevant critical success factors and rewarding them for achievement of these factors.
- A framework that organisations can use to achieve a desired organisational change in strategy by drawing attention to and rewarding achievement on factors that are part of a new strategy.
- A fair and objective basis for organisations to use in determining each manager's compensation and advancement.
- A framework that coordinates efforts within the organisation to achieve critical success factors by enabling managers to see how their activity contributes to success and motivates team work.

However, Ehrhardt and Brigham (2009) observed that there were challenges which have to be addressed in order for the balanced scorecard to be implemented successfully. They include:

- The need for strong support of the balanced scorecard from top management.
- The balanced scorecard should accurately reflect the organisation's strategy.
- The need for communicating the organisation's strategy clearly to all managers and employees who understand and accept the balanced scorecard.
- The organisation should have a process that reviews and modifies the scorecard as the organisation's strategy and resources change.
- The managers and employees should have clear incentives linked to the balanced scorecard.
- The balanced scorecard should have processes assuring accuracy and reliability of the information within it.
- The organisation should ensure that relevant portions of the scorecard are readily accessible to those responsible for measures, and that the information is also secure, available only to authorised staff.

For every benefit or challenge mentioned above there may be a need to provide a management accounting report either as a mini report relevant to that section or as a part of the whole balanced scorecard report to the managers and directors. Therefore management accounting reports using the balanced scorecard may provide the board with a clear view of the entire organisation and enable them to make decisions on control of the organisation in its entirety.

2.5 Conclusion

This chapter reviewed the literature about the use of management accounting tools and techniques to facilitate strategy formulation and control as one of the key functions of the board in corporate governance.

The various roles of boards of directors in strategy formulation and control of corporate governance in their organisations have been highlighted. The different management accounting tools that may facilitate each of the identified roles were presented and how they may facilitate the boards to fulfil their corporate governance roles. This was deemed necessary since the study investigated the extent to which the boards of directors of companies in Botswana use management accounting to facilitate their role of ensuring corporate governance of their corporations.

The next Chapter continues with the literature review by looking at the other functions of the board of directors as pointed out by Kaplan and Nagel (2004). These include: approval of major financial decisions; selection of the CEO; evaluation of the CEO and senior executive team; ensuring of executive succession plans; provision of counsel and support to the CEO; and ensuring of compliance to corporate governance requirements.

CHAPTER 3

MANAGEMENT ACCOUNTING: FINANCIAL DECISIONS, PERFORMANCE EVALUATIONS, COUNSELLING AND SUPPORT OF CEO AND COMPLIANCE

Introduction

This chapter reviews literature on management accounting looking at the other functions of the board of directors as pointed out by Kaplan and Nagel (2004). These include: approval of major financial decisions, selection of the CEO, evaluation of the CEO and senior executive team, ensuring of executive succession plans, provision of counsel and support to the CEO, and ensuring compliance to corporate governance requirements.

It identifies the director's responsibilities in the above mentioned functions based on recommendations from: the UKCC (FRC, 2010) on corporate governance, the King III report (2009) together with its code of best practice, and the statutory requirements of SOX (2002). The chapter reviews various authorities in management accounting, highlighting how management accounting can prepare and deliver analytical reports upon which good corporate governance decisions can be made.

Section 3.2 looks at how management accounting may facilitate the board in making good financial decisions while Section 3.3 looks at how management accounting may facilitate the board in the evaluation of itself and individual directors. Section 3.4 focuses on a discussion of management accounting information for support and counsel of the CEO while Section 3.5 discusses the role of management accounting in facilitating compliance to corporate governance requirements. Section 3.6 concludes the chapter.

Management Accounting for Financial Decisions

The King III report (2009) recommended, under Principle 3.1, that boards should have audit committees where the majority of the members are financially literate. The UKCC (FRC, 2010) also recommended that all company boards should have audit committees and specifically requires that among the main responsibilities which should be included in the terms of reference for the audit committee are: to review the company's internal financial controls and to monitor the integrity of the financial statements on the company's financial performance.

The Sarbanes-Oxley act (2002, Section 1350, d) also stipulates that a financial expert is required on the audit committee or the companies should disclose the reasons for not having such a person. The rationale is to make sure that information contained in any periodic report to the stakeholders, fairly presents, in all material respects, the financial condition and results of operations of the particular organisation. The importance of actual participation in financial decision-making is reinforced by the penalties of up to 5 million dollars or 20 years in prison if any director or person certifies an incorrect periodic statement issued to the stakeholders.

The company's financial management is an integral part of its business strategy. This is because any organisation has to operate within financial constraints and deliver perceived value for money to its stakeholders (Neely, 2002). Crowther (2004) stated that it is impossible for managers to ignore the financial implications of any decisions which they might make and therefore the evaluation of any decision in financial terms is a crucial part of the decision making process. The major financial decisions that the board is expected to reserve for itself include (Watson and Head, 2006):

- Decisions about making major investments for the company in order to bridge the expectations gap,
- Whether to continue financing or divest from some problematic projects,
- Whether to finance acquisitions of new assets or to hire such assets and free the cash flow for the company, and
- Whether to borrow from outsiders or finance approved projects from company resources.

For the directors to make meaningful contributions to financial decisions, they may need to know the following aspects: the cost of finances, the alternative uses of the available finances, the basis for approval of investment projects, and the returns expected from such approved projects. Watson and Head (2006) categorised financial decisions into three groups i.e.

- Financing decisions,
- Investment decisions, and
- Dividend decisions

Financing Decisions

Watson and Head (2006) suggest that the company should develop an efficient financial policy that will raise the appropriate level of funds, at the time they are needed, at the lowest possible cost. To develop such a policy, the decision makers (the board) should consider the internal and external sources of finance and determine the optimum mix. This optimum mix will depend on factors like (Watson and Head, 2006):

- The level of finance required.
- The cash flow from existing operations.
- The opportunity cost of retained earnings.
- The costs associated with raising external finance.
- The availability of external sources of finance.
- The dividend policy (e.g. the more dividend the company decides to pay, the more need for external funding to finance its projects).

The management accounting tool of costing may provide information on the level of the finance required, the opportunity cost of retained earnings and the costs associated with raising external finance. Another management accounting tool, the cash flow analysis may provide the required report on the cash flow from existing operations.

Investment Decisions

Kaplan and Norton (1996) stated that financial objectives represent the long term goal of the organisation i.e.: to provide superior returns based on the capital invested in the unit. Therefore, a decision to invest according to Bruns (2005) means that an organisation has to live with the effects of the investment for many years to come. Atrill and McLaney (2009) agree that investment decisions in many cases involve large amounts of money and if mistakes are made, the effects on the business could be significant, if not catastrophic. The board cannot risk leaving such a sensitive area to lower management. This is one of the major areas where the board should reserve specific power to itself according to the King III report (2009). A management accounting system should be able to provide information that makes long term impact on management decisions visible (Ansari *et al.*, 1997:2). Management accounting tools which can be used to assist the board in investment decision making include:

- Net Present Value
- Internal rate of return
- Pay Back period

These can be illustrated in Table 3.1.

Table 3.1 Management Accounting Reports Based on Investment Decision Making Tools (derived from Hilton 2005)

Investment decision making tool	Management Accounting report generated	Board decision to be made
Net Present Value	Summaries of all positive and negative cash flows related to an investment project by period and discounted based on a discount rate (which takes into account the time value of money) and comparison with other projects.	The board may approve a project which yields the greatest cash flows.
Internal rate of return	Summaries of all positive and negative cash flows related to an investment project by period and discounted based on a discount rate then compared with competing projects and the organisation's cost of capital.	The board may approve an investment project if its internal rate of return is greater than its cost of capital (or interest rate).
Payback period	A calculation of the average annual cash flow divided into the initial investment to show how long it will take for the competing projects to earn back the initial investment.	The board may approve a project if it pays back quickly.

Each of the above is discussed next.

3.2.1.1 Net Present Value

The management accountant can present cash flow reports to the board on competing projects using the net present value method which summarises all positive and negative cash flows related to an investment project by period and then discounts the cash flows based on a discount rate (Roehl-Anderson and Bragg, 2005). The net figures will show negative or positive cash flows, with comparative amounts, which will form a basis for the decision on which project the company can invest. The board may approve a project which yields the greatest cash flows as it means more value to the stakeholders.

3.2.1.2 Internal Rate of Return

Internal rate of return is defined as the discount rate that would be required in a net present value analysis in order for the assets net present value to be exactly zero (Hilton, 2005). The board may approve an investment project if its internal rate of return is greater than its cost of capital (or interest rate).

3.2.1.3 Payback Period

Payback period of an investment is the amount of time it will take for the after tax cash flows from the project to accumulate to an amount that covers the original investment (Hilton, 2005). A management accounting report using the payback period method of project evaluation is simply a calculation of the average annual cash flow divided into the initial investment. This report will show the board how long it will take for the project to earn back its initial investment. If the project pays back quickly, then it has a low risk, a project that takes many years to payback is high risk (Roehl-Anderson and Bragg, 2005). Although it has some shortcomings, the payback period provides a tool for roughly screening investment proposals (Hilton, 2005). This provides an objective criterion of selecting projects to fund.

Dividend Decisions

At least four factors may be considered (by the board) in deciding on a dividend policy (Watson and Head, 2006):

- **Legal constraints:** For instance if a particular Companies Act (of a particular country) requires that companies pay dividends solely out of accumulated net realised profits.
- **Liquidity:** What is the effect of the dividend decision on the liquidity of the company? (Bearing in mind that profits are not necessarily the same as cash available to the company).
- **Interest payment obligations:** Dividends are paid out of profits remaining after interest and tax liabilities have been accounted for.
- **Investment opportunities:** Because retained earnings are a major source of finance (internal) for the company, availability of investment opportunities may affect the decision to pay dividends.

After considering the above factors the board may decide to opt for any of the following dividend policies (Watson and Head, 2006: 293):

- **Fixed percentage payout ratio:** With this policy the company pays out a fixed percentage of annual profits as dividends.
- **Zero dividend policy:** Where a company pays no dividend and re-invests all its profits.
- **Constantly or steadily increasing dividend policy:** The dividend policy is such that the dividends to be paid steadily increase, either in real terms (percentage) or money terms.
- **Dividend policy in practice:** When the company decides to follow the dividend policy used in the industry within which it operates.

On the other hand, after the factors mentioned above the company may opt for alternatives to cash dividends (Watson and Head, 2006) such as:

- **Scrip dividends:** Where the company offers additional ordinary shares to equity investors in proportion to their existing share holding (e.g. one for every 100 shares held).
- **Share repurchases:** When the company decides to buy back some of its shares from the equity investors. This may enhance the value of the remaining share while the current shareholders receive the surplus cash.
- **Special dividends:** This is a decision to make a cash payout in excess of the dividend payout usually made by the company.
- **Non-pecuniary benefits:** The company decides to give non-monetary benefits to its shareholders. E.g. discounts on company goods and services or offers of complimentary goods.

As shown above, management accounting reports may highlight: differences between profits and cash available to the company; investment opportunities available and their financial magnitudes; interest and tax obligations and their timing, etc. Such reports may assist the board and the directors in arriving at reasonable financial decisions that may optimise the financial resources of the organisation.

The next subsection discusses the role of management accounting in facilitating the function of evaluating the performance of the directors and the board which is one of the requirements of good corporate governance.

Management Accounting for Directors and Board Performance Evaluation

Neely *et al.* (2002) defined 'performance measurement' as the process of quantifying the efficiency and effectiveness of past actions. Most corporate governance codes recommend that there should be continuous evaluation of the performance of the board of directors both as a whole and at individual director level. The King III Report (2009), under Principle 1.23, recommends that improved board performance and effectiveness can be achieved through regular and timely appraisals of the board. The UKCC (FRC, 2010) recommends that the board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

The boards can only carry out proper performance evaluations if they are provided with the relevant information to base their assessment upon. The tried and tested way through which such performance information can be acquired is through the management accounting system. Neely *et al.* (2002) state that a performance measurement system enables informed decisions to be made and actions to be taken because it quantifies the efficiency and effectiveness of past actions through acquisition, collation, sorting, analysis and interpretation of appropriate data. All organisations, according to Crowther (2004), should measure their performance and report upon those measurements, and one of the principal vehicles for such measurement is through the use of accounting information. A management accounting report using Economic Value Added (EVA) would be very effective in assisting the board to measure such performance and arriving at a quality decision. EVA is a measure of financial performance designed to approximate an entity's economic profit, calculated as: Net Operating Profit after tax (adjusted for accounting distortions) less an imputed charge based on the level of invested capital (Blocher *et al.*, 2010).

Higgs's (2003) review of non-executive directors made the need for management accounting performance reports very prominent when he recommended that non-executive directors should scrutinise the performance of management in meeting the agreed goals and objectives and to monitor the reporting of performance. This had been argued by Ward (2000:10)

when he stated that if a regular, well-planned and unbiased evaluation of the CEO of an organisation is based on firm performance measures and targets the board can build the result of the evaluation into the remuneration of the CEO and clearly communicate who is in charge. This is very important because one of the ways which the board can use to motivate the CEO to grow shareholder value may be by pegging the remuneration of that CEO to his/her performance.

The management accounting tool of EVA can be employed in the production of the reports which can be used by the board in conducting such evaluation. EVA measures the extent to which the organisation has increased shareholder value, therefore, if managers focus on EVA this will help ensure that they operate in a manner consistent with maximising shareholders' wealth (Ehrhardt and Brigham, 2009). Leblanc and Gilles (2005) advocate for job descriptions of directors because they provide very clear guidelines against which a director's and the board's performance may be measured. These job descriptions with specific duties which can be measured is very important or else nothing may be achieved. This may negatively impact on shareholder value.

The board, however, has to be fair when making evaluations. Brickley, Smith and Zimmerman (2005) state that shareholder value is subject to random factors from outside the company, such as conditions in the general economy-tax rates, level of unemployment and the oil price levels that are beyond any individual employee's control. A fair performance report for an individual should therefore focus on the particular individual's performance. Ehrhardt and Brigham (2009) advocate EVA because it shows value added during a given period and it can be applied to individual divisions or other units of a large organisation. Hence a management accounting report which is based on EVA may enable the board to make a fair evaluation of a particular director or the CEOs during the period relevant to his/her engagement.

The individual evaluation, according to the UKCC (FRC, 2010), should aim to show whether each director continues to contribute effectively and demonstrates commitment to his role. On re-election of a non-executive director, the chairman should confirm, in the documents set out to the shareholders, that, following formal performance evaluation, the individual's performance continues to be effective.

According to Jensen (2005) the proper measure for any person or business unit in a multi-divisional company will be determined mainly by two factors namely: 1) the company strategy and 2) the actions that the evaluated person or division can take to contribute to the success of the strategy. Such measures may be achieved by management accountants using responsibility accounting, activity based costing and the balanced scorecard which are discussed next.

Responsibility Accounting

A responsibility accounting system uses the concept of controllable costs to assign managers the responsibility for costs and expenses under their control and the responsibility accounting performance report accumulates and reports the cost and expenses a manager is responsible for as well as the budgeted amounts (Wild, 2005). Morseet *al.* (2003) defined 'responsibility accounting' as the structuring of performance reports addressed to individual (or group) members of an organisation in a manner that emphasises the factors they are able to control. Young (2003) states that responsibility accounting focuses on the resources for which a manager has been given responsibility. As such it distinguishes between revenues and costs that are controlled by a manager and those that are not. Using responsibility accounting, a management accounting report may be used to differentiate between group performance and/or economic performance and that of the particular individual being assessed.

Activity Based Costing

Among the methods used by a management accountant to arrive at more realistic and relevant costs for decision purposes is activity based costing. Activity based costing accumulates overhead costs into activity cost pools and then uses activity rates to allocate those costs to products (Wild, 2005). This involves four steps:

- Identify activities and the costs they cause.
- Grouping similar activities into activity pools.
- Determine an activity rate for each activity cost pool.
- Allocate overhead costs for products using those activity rates.

After getting such realistic and relevant costs it may be easy for the board to make a fair assessment of the performance of respective departments or individuals by implementing

responsibility accounting. Some of the management accounting tools which can be used in group or individual evaluations(Hulbert and Fitzroy, 2004) are:

- ROI (return on investment)
- ROCE (Return on capital employed)
- Residual Income

Management accounting reports which can be generated using these tools can be tabulated as shown in Table 3.2.

Table 3.2 Management Reports based on Business Performance Tools for Group or Individual Evaluations

Business Performance tool	Subject of evaluation	Management accounting report
ROI (return on investment)	Individual directors	Report to the full board showing how much operating income has been generated using funds controlled by the individual director.
	Entire Board	Report to the shareholders showing how much operating income has been generated using the total organisation's investment.
ROCE (Return on capital employed)	Entire Board	Report to the stakeholders on how the board has managed the capital entrusted to them during that period.
Residual Income	Entire board	Report to the investors/shareholders showing how much the board has exceeded the rate of return required by the investors or providers of capital.

Each of the business performance tools is briefly discussed in the next sections.

3.3.1.1 ROI (Return on Investment)

Return on investment is the ratio of operating income to average operating assets (Eldenburgh *et al.* 2010). Where operating income is calculated as earnings before interest and taxes (EBIT), and operating assets include all assets used in production of goods and services e.g. cash accounts receivables, inventory, and equipment. It is evident that by using return on investment, the board may attempt to assess the performance of the individuals or departments by determining how much operating income have been generated using the organisation's investment.

3.3.1.2 ROCE (Return on Capital Employed)

Return on capital employed measures how well the organisation is using the capital under its control (Hulbert and Fitzroy, 2004). Using the return on capital employed the board may measure their own performance and report, to the stakeholders, on how they have managed the capital entrusted to them during that period.

3.3.1.3 Residual Income

Residual income measures the monetary amount of profits in excess of required rate of return (Eldenburgh *et al.*, 2010).

$$\text{Residual income} = (\text{operating income}) - (\text{required rate of return} \times \text{average operating assets})$$

Using the residual income the board may be seeking to assess their performance by looking at how much they have exceeded the rate of return required by the investors or providers of capital.

Balanced Scorecard in Management Performance

The balanced scorecard mentioned earlier, is another important management accounting tool which can be used in evaluating board performance. A number of boards may find using an organisation's balanced scorecard in their periodic meetings, and in monitoring management performance as a straight forward application of their responsibilities for strategic oversight (Kaplan and Norton, 2006).The authors suggested a three-component balanced scorecard to address the evaluation and performance issues of the board and its directors namely:

- **The Organisation balanced scorecard** which, as a tool to manage the entire organisation, describes the organisation strategy, measures and targets.
- **The Board balanced scorecard** which, as a tool to manage the performances of the board and its committees, defines the strategic contributions of the board and clarifies the strategic information required by the board.
- **The Executive balanced scorecard** which, as a tool to assess and reward the performance of executives, defines the specific contributions of each executive.

It has been shown that management accounting tools i.e. responsibility accounting, activity-based costing and balanced scorecard may be very important in providing information that can facilitate the measurement of the directors' and the board's performance which is one of the key tenets of good corporate governance. The next sub section discusses the use of management accounting information to support and give counsel to the CEO.

Management Accounting Information for Support and Counsel of the CEO

Although the codes of best practice do not explicitly state the role of boards giving counsel to the CEO, it is well implied in the various recommendations. Hence the board is collectively responsible for the success of the company (FRC, 2010). Since the actions of the CEO, as the major hand of the board of directors, impact on the success of the company, it is reasonably expected that the board should provide the necessary support and counsel to ensure that success. Charan (2005) agrees that directors have an obligation to help the new CEO succeed. Cadbury (2002) advised that chief executives should be able to see their boards as a continually available source of counsel and support, rather than mainly as a monitor and paymaster.

The King III report (2009), after preferring a majority of non-executive directors on the board, under Principle 1.17, implied the role of counsel and support when it recommended that the board should have sufficient management information to enable a proper and objective assessment to be made. Both the UKCC (FRC, 2010) and the King III report (2009) agree that, the board, in general, including the chief executive, rely on the company secretary who should provide a central source of guidance and advice to the board, and within the company, on matters of ethics and good governance. This should not be seen as a way to avoid responsibilities, because it is upon the board to appoint a skilled and competent

secretary, and the board is ultimately responsible for the affairs of the company (King III report, 2009). The company secretary is responsible to ensure the proper compilation of board papers, which would necessarily comprise of management accounting reports to support decision making. In supporting the board to give proper counsel and support to the CEO, the company secretary would therefore work closely with the management accountant to obtain relevant and comprehensive reports to the specific areas which may need counsel.

Kaplan and Nagel (2004) suggest that individual directors can contribute specific knowledge of the industry, functional and management expertise, and guidance based on the company's history and competitive position. This can be achieved according to Charan (2005) as progressive boards that maintain an open, constructive relationship with the CEO and are mindful of preserving that relationship. They recognise that the best results come from the exchanging of ideas and information. In order to give effective support and counsel, the directors, or the person delegated by the directors, should be equipped with relevant information. Therefore the King III report (2009) recommends, under Principle 1.6, that the board should have unrestricted access to all company information, records, documents and property. The importance of getting quality information to enable the directors to give good counsel and support to the CEO was recognised by both the King III report (2009) and UKCC (FRC, 2010) when they recommended that if necessary, directors should take independent professional advice at the company's expense. Sussland (2005) states that independent management assessments should present the board with an in-depth analysis of the key issues in the internal and external business environment as well as with some insights on the workings of management.

Management accounting can support the board in this role by making reports available using tools such as:

- benchmarking, and
- the balanced scorecard

Each of these is discussed briefly in the next sections.

Benchmarking

‘Benchmarking’ was defined by Zairi (2001), as a continuous process of measuring performance gaps, establishing where best practices are, and introducing change capable of closing identified gaps. Benchmarking includes the following stages (Zairi, 2001):

- Planning/setting standards of performance.
- Performing and measuring (establish) actual standards and compare with set standards.
- Conducting improvements/closing the gap (by developing new methods/practices to close performance gaps).
- Revise existing standards/set new ones.

From the benchmarking reports, the directors will know how the organisation ranks compared to the best performers in the industry and be able to determine their own organisations position. Hoque (2006) observed that benchmarking focuses on an on-going process of measuring and improving products, services and practices against the best that can be identified worldwide. Benchmarking reports may be of immense benefit to the boards in enabling them to provide counsel and support to the CEO on how to add value to their own organisation. Individual directors, drawing from the experience from other organisations where they had exposure, may use the idea of benchmarking to identify gaps in the organisation and provide value advice to the CEO.

Balanced Scorecard in Counselling

Management accounting reports following the balance scorecard framework may give the directors a panoramic view of the various factors affecting the organisation. Kaplan and Nagel (2004) underscored this when they stated that there was a growing trend among balanced scorecard adopters to use the tool for interactive discussions with their boards about strategic direction and to keep the board appraised for performance.

Management accounting information from benchmarking and balanced scorecards coupled with the directors’ information, knowledge, and expertise may provide a pillar of support and counsel for the CEO to rely on. This may assist the CEO to make decisions that are far reaching and impacting on shareholder value. However, while accountants are available to assist in obtaining and evaluating relevant information, individual managers (or the boards of

directors) are responsible for requesting information, analysing it, and making final decisions (Morse, Davis, and Hartgraves2003). It may be of great importance therefore for all organisations to have strong management accounting departments which can generate these reports at call and short notice otherwise they may have to rely on outside management consultants who may only provide post-mortem reports after the organisation has suffered a great financial or business misfortune.

The next subsection discusses the aspect of compliance and how it can be facilitated by management accounting reports in order to practice good corporate governance.

Management Accounting Facilitating Compliance to Corporate Governance Requirements

Compliance to relevant laws, regulations and codes of business practice is one of the cornerstones of good corporate governance. The King III report (2009) was very clear in its recommendation, under Principle 7.4, that the board is responsible for the organisation's compliance with laws and regulations and should ensure that the organisation implements an effective compliance framework and processes to execute this task. Among the specific items the directors should include in the organisation's annual report, according to the King III report (2009), is whether the code of corporate practices and conduct has been adhered to, and if not, reasons should be given for the divergence from the recommendations. The Sarbanes-Oxley act (2002) requires that a statement of compliance be signed by the CEO and the chief financial officer (or equivalent thereof), and it has stiff penalties, "of up to 1million dollars or 10 years imprisonment or both", for anyone who signs such a statement knowing that they don't conform to all the requirements of the act.

Busco, Frigo, Giovanni, Riccaboni and Scapens (2005) observed that lacking compliance could damage a company's image and reputation, thereby affecting organisational performance. Parker (2002) recommended that compliance should be incorporated into top-level decisions on strategic planning, goal-setting and corporate investments. The most important corporate governance tool according to Lipman and Lipman (2006) is creating a corporate culture within an organisation that is both law abiding and sensitive to legal risks. Whereas Hattingh (2007) states that corporate behaviour is defined and informed by principles and ethics that should be hard-coded into the corporate DNA, Management accounting can assist in hard-coding the corporate behaviour by setting and codifying

standard behaviour and then monitor the corporate culture by continuous periodic reporting. Ehrhardt and Brigham (2009) held the view that management accountants are custodians of ethics. Whereas financial accountants and managers may use jargon and creative accounting to portray the organisation in a better position, the management accountant, through his value definitions may uncover such fraud and present reports which reflect realistic value hence build investors' confidence.

Both the King III report (2009) and the UKCC (FRC, 2010) clearly specify that the board should have a code of ethical conduct and should report to the stakeholders as to what extent they think the code of ethics has been complied with. Kaplan and Norton (2006) emphasised that the board should ensure that the company managers are operating ethically within the company's code of conduct, in the company's dealings with suppliers, customers, and communities as well as with employees.

The key determinant of how effectively a board may monitor the legal and ethical performance of a corporation is its access to information (Conger, Lawler and Finegold, 2001). The need for management accounting information therefore does not have to be over-emphasised. The first step in ethics, according to Roehl-Anderson and Bragg (2005) is to establish a written ethical standard and to enforce it throughout the whole organisation through the use of regular audits. Once standards are set, managers can gauge performance by comparing actual operating results against the standards (McWatters *et al.*, 2008). Lipman and Lipman (2006) recommend that companies should follow a compliance and ethics program which, among others, includes monitoring to detect criminal behaviour and periodic evaluation of the effectiveness of the program. Compliance may also require the board to report to the stakeholders about the steps taken to adhere to the principles, recommendations and guidelines on best practice.

The King III report (2009) mentioned that some issues requiring special consideration in reporting include:

- Description of practices reflecting a committed effort to reduce workplace accidents, fatalities, and occupational health and safety incidents against stated measured targets and objectives.

- Reporting on environmental corporate governance, which includes demonstrating ‘Best Practicable Environmental Option’ (the option that has most benefit, or causes the least damage to the environment at a cost acceptable to the society).
- Policies defining social investment.
- Disclosures of human capital development- covering areas such as number of staff, employee investment and financial investment committed.

Management accounting may provide non financial reports which may enumerate the principles and practices of the board while highlighting the variance, if any, from best practices in the industry hence assist the board in making an informed decision on the way forward or assist the stakeholders to appreciate the board’s efforts in compliance. Parker (2002) identified seven steps of a compliance programme which include:

- Secure top management commitment to the compliance programme.
- Conduct a review of the compliance/social responsibility risks raised by the organisation and its context, and compile a list or register of laws, regulations, voluntary codes, which the company ought to comply with.
- Match the risks and the laws raised above to relevant business units of operation and individual job descriptions, to make it clear which roles and units need to comply with which provisions and principles.
- Design management structures, standard operating procedures, directives and guidance systems to ensure compliance.
- Design training programmes and documentation to communicate particular compliance responsibilities to all employees.
- Set up auditing and monitoring systems for discovering and responding to potential compliance problems e.g. implementing customer/staff complaints handling systems, hotlines,
- Use performance reviews disciplinary systems, promotions and bonuses to hold staff accountable or reward them in relation to implementation of their compliance responsibilities.

In adhering to the King III report (2009) above, compliance reporting may even take the form of performance reports – that is regular reports on the implementation of compliance processes and compliance rates as appropriate (Parker, 2002). Some of the

management accounting tools used in control may also be used, by the board, to assist in monitoring and evaluation of the compliance programme as discussed in the next sections.

Exceptional Reporting on Compliance

Management accounting will assist the board to track compliance using exceptional reporting to highlight any divergences from the recommendations. Directors may be able to take corrective action using a system called ‘management by exception’. McWatters *et al.* (2008) defined management by exception as a management strategy that focuses management effort on significant variances. Management accounting controls resemble the thermostat control model as shown below (Drury 2009):

- standards of performance are determined;
- measurement systems monitor performance;
- comparisons are made between standards and actual performance, and
- feedback provides information on variances.

An effective management accounting department may be able to provide feedback, on time, exceptional reports on variances from the normal or set standards of behaviour to the board. This may enable the board to stop the company from continuing with the flawed behaviour and take corrective actions in time to save the organisation from failure or penalties.

Variance Analysis in Compliance Reporting

Variances alert managers that something is not going according to plan (McWatters *et al.*, 2008). Eldenburgh *et al.* (2010) observed that variances can be used whether or not an organisation uses a standard costing system. The process requires the ability to compare actual results with some type of benchmark, which might be a standard cost, a budgeted cost or some other measure of expectation.

Variance analysis can be a very strong tool in compliance reporting. The first step would be to set performance standards in the form of the compliance code. Dasher, Strawser and Strawser (2004) state that performance standards represent the expectations for the activities of the organisation and that variances are important because management can use them to identify potential inefficiencies. Gable (2006) observed that strong emphasis on reporting has emerged and standards have become central to compliance efforts. Verschoor (2006)

observed that important outcome measurements include audit or regulatory findings, fines and penalties assessed, and the number and type of customer complaints.

Management accounting may be able to identify the critical factors which need to be considered when looking at ethical conduct and develop standards from there. Then, using variance analysis, it may be able to give periodical reports regarding how the standards have been met or whether there were any divergences that needed corrections, therefore assisting the board to ensure compliance with the guidelines of best practice.

Cost Benefit Analysis for Compliance

Using cost benefit analysis management accountants may be able to show the board the benefits and costs associated with compliance and non-compliance. Crowther (2004) observed that the more clearly costs are identified the more possible it is for managers to make appropriate decisions. A cost benefit analysis is a process of analysing alternative decisions to determine which decision has the greatest expected benefit relative to its cost (McWatters, *et al.*, 2008). The management accountant will be able to present a report to the board which will identify and quantify costs and weigh them against benefits of compliance and a comparative analysis of costs and benefits of non compliance. Drever, Stanton and McGowan (2007) advise that management or the board should know that reactive and proactive management strategies have associated costs and benefits related to regulatory compliance and risk management and can affect the organisations financial health. With the cost benefit analysis report the board may be able to make a quality decision whether to comply or not to comply. If it chooses not to comply, the management accountant may assist the same board to provide a report giving a logical explanation for its decision to the stakeholders.

Costs of compliance may include (Gable, 2006):

- Developing internal organisation structures;
- Making available resources, and
- Commitment and devising compliance architecture to support the sharing of technical resources.

Benefits of compliance on the other hand may include (Ho, Oddo and Alfonso, 2007):

- Enhanced value of the organisation or consumer brand. Compliance and governance are the primary ingredients for a recipe to protect and enhance a company's reputation in the business community and the marketplace (Schneider, 2007).
- Better discipline in the company's financial processes,
- Improved documentation of key controls,
- A more thorough understanding of controls and risks i.e. a more detailed understanding of the linkage between business operations and financial reporting.
- Strengthening entity-wide governance, and uncovering more opportunities for operational efficiency through a standardised business process and internal controls.

Management accounting reports using the cost benefit analysis may also assist the directors to justify their divergence, in some instances, if they decide to take such a decision. Schneider (2007) observed that compliance program costs have increased exponentially over the past decade. This implies that, in small organisations, the costs of compliance may outweigh the expected benefits. But before opting for non-compliance, the board may want to look at the costs of non-compliance such as litigation costs and stakeholder reactions. The management accounting report based on costs and benefit analysis may be a very important source of information for the directors to make decisions on compliance.

It has been illustrated that management accounting tools such as variance analysis and cost benefit analysis may facilitate an organisation in complying with the relevant laws, regulations and codes of business practice which is an important attribute in corporate governance. The next subsection summarises the chapter and draws conclusions from the chapter.

Conclusions

This chapter completed the literature review on the use of management accounting tools and techniques to facilitate the board in corporate governance. It observed the other functions of the board of directors as pointed out by Kaplan and Nagel (2004). These include: approval of major financial decisions; selection of the CEO, evaluation of the CEO and senior executive team, and ensuring executive succession plans; provision of counsel and support to the CEO; and ensuring of compliance to corporate governance requirements. The various management accounting tools that may facilitate each of the identified roles were presented and how they

may facilitate the boards to fulfil their corporate governance roles. The next chapter presents the research design of the study. It discusses the various methods employed in collecting the data used to solve the research problem.

CHAPTER 4

METHODOLOGY

4.1 Introduction

This chapter presents the research methodology employed in the study and the research strategies employed in collecting the data used to test the main hypotheses in order to solve the research problem. It is imperative at this juncture to reiterate the research problem and the subsequent hypotheses that were tested in the study. The problem at hand is:

It is not clear to which extent the organisations in Botswana use management accounting to facilitate the achievement of effective corporate governance, by assisting the boards to fulfil their responsibilities.

The research was therefore premised on the hypothesis that: Organisations in Botswana do not utilise management accounting information at the board level to enable them to deliver effective corporate governance.

Hence the objectives of the research were to investigate:

- Whether Boards of directors take definite steps to ensure that they fulfil their responsibilities.
- Whether the organisations have dedicated and effective management accounting systems.
- Whether management accounting systems provide sufficient and appropriate information that can assist the board and other stakeholders in their assessments and decision making.
- Whether the boards and other stakeholders utilise available management accounting information in making decisions that affect their corporations.
- Which factors limit the existing management accounting systems from supporting effective application of corporate governance systems.

The chapter starts with a discussion on the research method employed, followed by the survey method. The chapter presents: the population of the study, sampling techniques employed, and the data collection procedures.

4.2 Research Methods

Kothari (2008) defines research as the pursuit of truth with the help of study, observation, comparison and experiment. This author also defines research as a systematic method of finding solutions to a problem identified. He further argues that the process of research is a systematic method that includes the following in logical sequence:

- Enunciating or defining the research problem.
- Formulating the hypothesis/research questions from the research problem.
- Designing the appropriate research process.
- Collecting facts or data to help answer the research questions.
- Analysing the data.
- Reaching certain conclusions from the analysed data hence answering research questions.

Processes from the third bullet to sixth bullet constitute what is termed a research method for it enables the obtaining of the data necessary to answer the research questions or to test the hypothesis and hence solve the research problem.

Research methodology on the other hand is inclusive of the research methods and encompasses the overall approach to the research process from the definition of the problem to the selection of the appropriate research method, the analysis of the data and drawing conclusions from the analysis (Kothari, 2008). The focus of this chapter is mainly to state strategies employed to collect data to test the identified hypothesis.

The expansion of the role of management accounting into strategic decision making which requires a lot of non financial information may require at least partly the use of descriptive research methods to understand those aspects. Nazari, Kline and Herremans (2006) state that surveys can be used either for explanatory or confirmatory purposes. This may be the case in this particular research project because the research studied the particular behaviour of the board and board members in the conduct of governing their organisations. The descriptive survey method was therefore employed in the study.

4.2.1 Survey Method

The study employed the survey method in collecting the primary data which came from the literature review, the questionnaire and interviews. The advantages of this method are:

standardisation, ease of administration, ability to tap into the unseen, and suitability to tabulation and sensitivity to subgroup differences (Burns and Bush, 2006).

Descriptive survey research methods seek to describe that which exists. The method is used to obtain information concerning the current status of the phenomena to describe “what exists” in a population (Burns and Bush, 2006:267). Blumberg, Cooper and Schindler (2005) describe it as a method used to describe behaviour or practices of a particular population of study, such as consumers, doctors, or directors of companies. In the context of this research, the study described existing practices related to the use of management accounting as a tool for enabling corporate governance. The survey method was chosen as the appropriate method for the research at hand for the following reasons:

- It is the most appropriate in collecting data about the characteristics of a large population in terms of cost effectiveness and within the constraints of time available, moreover the questionnaire is employed as the main tool for data collection (Burns and Bush, 2006). This is important because the study has set a short finite deadline.
- Another advantage of this method is the fact that the survey method produces data based on real world observation which makes the data empirical. Therefore since the survey is done meticulously the data and hence the findings are scientific (Burns and Bush, 2006).
- It allows for a large coverage of a population as opposed to a case study which may observe only one or a few cases and its findings may be generalisable if a representative sample is taken (Leedy and Ormrod, 2009) as the practices of the corporations under study.

A survey, according to Leedy and Ormrod (2009) involves acquiring information about one or more groups of people by asking them questions and tabulating their answers. The major tools employed in surveys are questionnaires and face-to-face interviews. This study employed mainly the questionnaire method although interviews were also conducted to gain more insight into the practices of the corporations under study.

4.3 Target Population

A population is the total collection of elements about which a researcher wishes to make some inferences (Blumberg *et al.*, 2005). It can also be defined as the group that the study is interested in knowing something about (Burns and Bush, 2006). The target population in this research is: companies listed on the Botswana stock exchange and public corporations, most of which are located in, or have their head offices in, Gaborone.

Botswana has a small number of companies listed on the Botswana stock exchange compared to other developed countries. All together they are 31 companies (BSE2009). However, the study assumes that, taken together with the parastatal organisations, these organisations give a fairly accurate picture of corporate governance in Botswana. As the population of study is so small (less than 100), they were all surveyed in a technique known as a census. There was therefore no need for sampling in this group.

4.4 Data Collection

A number of methods may be used in research to obtain data to solve the research problem, some of which include the following: observation, documentation review, interviews and administering questionnaires (Be'dard and Gendron 2004). This study employed document review, a questionnaire, and personal interviews.

4.4.1 Document Review

Document review as a source of data was used in collecting secondary data. The study involved the perusal of publicly available corporate documents such as financial statements and company profiles. The prospectuses of the companies listed were scrutinised in order to identify compliance to good corporate governance.

4.4.2 Interviews

The interview, a two-way conversation initiated by the interviewer to obtain the required information from the participant, gives more control of the topic and pattern of discussion (Blumberg *et al.*, 2005). It also offers an opportunity to adjust the language of the interview in case of problems or unexpected effects of the exercise on the participant.

Only six interviews were employed in the study because of the associated challenges such as: high costs normally associated with this type of exercise, difficulties of scheduling interviews

with the CEOs who are normally very busy. The interview lasted between 15 and 20 minutes and was guided by an interview schedule (see Appendix D). Notes were taken during the interview sessions.

4.4.3 Structured Questionnaire

Primary data for the study was collected by sending a questionnaire to the chief executive officers or chief administration officers of the target organisations. The questionnaire (see Appendix C) was the main instrument employed in collecting data for the study.

According to Burns and Bush (2006) a questionnaire has six functions:

- To translate the research objectives into a set of specific questions.
- It standardise questions and response categories so that every participant responds to identical stimuli.
- It fosters co-operation and keeps respondents motivated to complete the questionnaire.
- It serves as permanent records of the research.
- It speeds up the process of data analysis.
- It provides information on which reliability assessments are made.

The questionnaire sought responses regarding recommendations by the corporate governance codes of conduct and the need for supporting management accounting information as analysed in the literature reviews. The questions were formulated, guided by the above functions.

4.4.3.1 Questionnaire Format

Questions which are used in a questionnaire can be structured or unstructured. Unstructured questions are open-ended, allowing the respondent to answer in their own words. Although very good in identifying underlying motivations, beliefs and attitudes, the complexity of recording, tabulation and analysis outweighs their advantages. Structured questions specify the set of responses as well as their format. The formats may be in multiple choice scales of preferences or just two choices referred to as dichotomous questions (Burns and Bush 2006).

In this study measurement of questions on a Likert scale of five options was mainly presented to the target participants. This helped to facilitate the questioning process as well as data entry. The questions were grouped according to the five responsibilities of boards of directors identified in the literature review. The responsibilities include the following:

- To approve and monitor organisation strategy.
- Approving major financial decisions of the corporation.
- Evaluating performance of the board, the CEO and senior executives.
- Offer valuable counsel and support to the CEO.
- Ensure compliance to corporate governance guidelines.

4.4.3.2 Pilot study

Prior to the questionnaire dissemination a pilot study was undertaken to make sure that the questions are clear, unambiguous and understandable to the respondents. Pilot studies are done best by interviews (Malhotra, 2010). However, since the main study was by questionnaire, interviews were not conducted during the pilot study, but the researcher was present while the selected participants in the pilot study completed the questionnaire so as to make a note of any direction, question or answer that caused difficulty (Kolb, 2008). This was also done to enable an observation of the estimated length of time it took for the survey to be completed (Kolb, 2008). The pilot study especially looked for: misinterpretations by the respondents, lack of continuity, poor skip patterns, additional alternatives for pre-coded and close-ended questions, and general reactions to the questionnaire (McDaniel and Gates, 2010).

The pilot study responses were then analysed to serve as: a check on the adequacy of the problem definition and data analysis to obtain the necessary information (Malhotra, 2010).

Corrections and adjustments then had to be made before the final questionnaire was sent out to the target respondents. Bryman and Bell (2006) emphasised the importance of a pilot study especially in self-completion questionnaires, since they are sent out in large numbers and considerable waste may occur prior to any problems becoming apparent.

4.4.3.3 Questionnaire Dissemination

Fortunately most of the respondents were located in or have their head offices in Gaborone. The questionnaire was dropped off as part of the dissemination strategy. This was where respondents were approached by the researcher and introductions were made for the purpose of the survey. The questionnaire was given to the respondent to fill out on his or her own (Burns and Bush, 2006). In this respect the respondent is given ample time to read through and respond to the questionnaire at their own convenience.

The organisations were approached and the suitable respondents for the study were identified, in this case the CEOs or their deputies were approached. The purpose of the study was explained to them and their cooperation was sought when the questionnaire was dropped off for them to respond. The completed questionnaires were collected at a later date after they have been filled in. It should be emphasised that the questionnaire was not simply mailed to the organisation, since it might not have been filled in by the right respondent.

4.4.4 Data Analysis

Five basic types of statistical analyses were identified by Burns and Bush (2006): descriptive analysis, inferential analysis, difference analysis, predictive analysis, and associative analysis. Each is briefly described below.

- **Descriptive analysis** merely describes the general pattern of responses, using measures such as mean, mode, range, etc.
- **Inferential analysis** employs the statistical procedures to draw conclusions, from the sample data, which generalizes the characteristics of the whole target population.
- **Difference analysis** determines if differences exist and to what degree do those differences exist within the target population. For example the mean response of one group compared to the mean response of another group within the same target population.

- **Predictive analysis** applies statistical models and procedures, like regression analysis and time series analysis, to make forecasts about future events.
- **Associative analysis** determines the strength and direction between two or more variables. For example it can determine strength and direction of association between two or more questions in a given study.

The study employed difference analysis and associative analysis. Difference analysis enabled the comparison of means in order to test the main hypothesis of the study. The associative analysis method was employed in order to determine if there is a relationship between the responses to one question and the responses to another question on the questionnaire (Burns and Bush (2006).

4.5 Design of the Data Collection Procedures.

The research procedures went according to ethical guidelines. The Ssegawa's (2003) methodology guidelines have been adopted and modified in designing the questionnaire, presented in Appendix C, which was used to collect primary data.

4.5.1 Introduction Letter and the Letter of Consent

An introduction letter (Appendix A) and a letter of informed consent (Appendix B) accompanied the questionnaire (Appendix C), which explained the objective of the questionnaire in order to make the respondents relaxed and motivated to respond easily. Respondents were assured of privacy, confidentiality, and anonymity.

The key themes of the questionnaire are discussed next.

4.5.2 Questionnaire Content

The questionnaire was made up of five sections (the mini hypotheses of the study), A to E. The contents of each section and their link to the main hypothesis of the study are made in the Data Analysis and Presentation Plan (see Table 4.1).

Table 4.2 Data Analysis and Presentation Plan

Objective	Mini hypotheses	Analysis	Chapter
Section A: Strategy approval and monitoring			
<p>To investigate the extent to which the boards of directors of the organisations use management accounting reports such as Gap analysis, SWOT analysis, balanced scorecard in formulating and monitoring of organisational strategy.</p>	<p>Mini hypothesis 1:Boards of directors do not use management accounting information in approving and monitoring organisational strategy</p>	<p>The responses to the following questions were grouped together according to their similarity. They were then analysed to find out whether organisations with management accounting departments monitor their strategies more closely and if they have employed management accounting reports in doing so.</p>	Chapter 5
Section B: Approval of Major Financial Decisions			
<p>To investigate the extent to which boards of directors use management accounting information such as net present value, internal rate of return, and payback period in the approval of major financial decisions.</p>	<p>Mini hypothesis 2: Boards of directors do not use management accounting information in approving major financial decisions.</p>	<p>Responses to this category of questions were grouped together according to their similarity. They were analysed to find out whether the organisations which have more members with financial qualifications and who receive more management accounting information such as net present value, internal rate of return, and payback period are able to constructively debate financial decisions before approving them.</p>	Chapter 5

Objective	Mini hypotheses	Analysis	Chapter
Section C: Evaluation of the CEO and Senior Executives			
The objective of this section was to investigate the extent to which boards of directors use management accounting information in evaluation of the senior management and themselves.	Mini hypothesis 3: The boards of directors' do not use management accounting information to enable them to evaluate the performance of the senior management and themselves.	The responses from the following set of questions were grouped together according to similarity. They were then analysed to find out whether the boards which get management accounting information are more able to make meaningful evaluation of the CEO, themselves, and senior managers.	Chapter 6
Section D: Provision of Counsel and Support to the CEO			
This section investigated the extent to which the boards of directors use management accounting information in provision of counsel and support to the CEO.	Mini hypothesis 4: Boards of directors do not have access to management accounting information as a basis of providing counsel and support to the CEO.	The responses to the following questions were analysed to determine the extent to which organisational practice of providing management accounting reports to directors will impact on the ability of the boards of directors providing CEOs with support and counsel because the directors will be more equipped to provide such counsel and support.	Chapter 6
Section E: Ensuring Compliance			
The objective of this section was to investigate if the board uses management accounting information in monitoring and ensuring compliance.	Mini hypothesis 5: Boards of directors do not ensure compliance of their companies to good corporate governance.	The responses to these questions were grouped together according to similarity and analysed to determine the impact of organisations having management accounting reports on compliance on their ability to ensure compliance.	Chapter 6

It was assumed that the questionnaire was able to unravel the practices of the corporations related to the nature and extent to which they use management accounting in order to facilitate corporate governance around the key responsibilities of boards of directors which are reiterated below:

- To approve and monitor organisation strategy
- Approving major financial decisions of the corporation
- Evaluating performance of the board, the CEO and senior executives
- Offer valuable counsel and support to the CEO
- Ensure compliance to corporate governance guidelines

4.6 Conclusion

The chapter presented and described the research methodology employed in collecting data to solve the research problem of the study. It has identified and described the different data sources. A survey method where both the questionnaire and the interview were employed for collecting primary data was found to be the most appropriate for the study. The chapter further described the design of the questionnaire and the interview guide. It identified the different aspects of management accounting as a tool to facilitate corporate governance which the research instruments sought to obtain data about. The means of data analysis have also been tabulated. The next two chapters present the data analysis and findings based on the literature review done in Chapters 2 and 3.

CHAPTER 5

DATA ANALYSIS AND FINDINGS: APPROVAL AND MONITORING

5.1 Introduction

This presents the data, its analysis and a discussion of the findings from the first two sections of the questionnaire, interviews, and document reviews. As shown in Table 4.1 the two sections comprise of the mini hypotheses which are:

- **Section one:** Strategy approval and monitoring
- **Section two:** Approval of major financial decisions.

The researcher mainly depended on the designed questionnaire which was used to collect primary data because most CEOs did not have the time to conduct interviews. A drop-off survey method was employed when presenting the questionnaire. The researcher collected the questionnaire after some time and on six occasions had a short interview (lasting 15 to 20 minutes) with the respondents. The questionnaire had a mixture of dichotomous closed-ended questions and multiple category closed-ended questions.

5.2 Responses

Sixty one copies of the questionnaire were hand-delivered by the researcher to the secretaries of the targeted persons in the various organisations. In some instances the researcher managed to contact the target person himself/herself and deliver the questionnaire to him/her personally. It was also in some of these instances where the researcher could get a short interview with the respondent about the topics in the questionnaire.

A total of 47 responses were collected. This is a 77% response rate. Almost in all the cases where the researcher delivered the questionnaire to the target person a response was obtained and in a time not exceeding two weeks. In only two cases there was no response because the persons who had been targeted had changed positions and were unable to respond.

However where the questionnaire was delivered to the secretaries, it took a number of reminder calls to get a response and some still failed to respond, claiming to have no time within their busy schedules to fill a questionnaire. It was also because the researcher was

blocked by the secretaries from reaching the target respondent and presenting the request formally.

5.2.1 Respondents' Profile

The following table explains the profile of the respondents derived from the questionnaire and document review.

Table 5.1 Respondents' Profile according to organisation

Organisation Type	Financial Sector	Parastatals	Other listed Companies (excluding Financial)
No of respondents	12	14	21
Percentage response rate	100	74	75
Percentage of Total respondents	26	30	44

The best response rate was from the financial sector as all the targeted organisations managed to respond. There were 12 respondents from the financial sector, 14 from the parastatals, and 21 from other listed companies (excluding the financial sector) this gave a total of 47 respondents. It was from the twelve respondents from the financial sector where interviews were also conducted.

5.2.2 Approach to the Analysis

The objective of this research was to establish whether:

1. The organisations have management accounting departments which can provide the information required.
2. Management accountants or management accounting departments provide reports which can be utilised by the board in their decision making.
3. The directors or the boards of directors use management accounting information (reports) to support the decision making process.

The data were analysed in five (5) sections according to the questionnaire and Data Analysis and Presentation Plan (see Table 4.3), that was guided by the five (5) areas of responsibilities as pointed out by Kaplan and Nagel (2004). The findings of the first two sections being: strategy approval and monitoring and approval of major financial decisions, are discussed in this chapter. The remaining three sections being: Evaluation of CEO and senior executives, Provision of counsel and support to the CEO, and Ensuring Compliance, are discussed in Chapter 6.

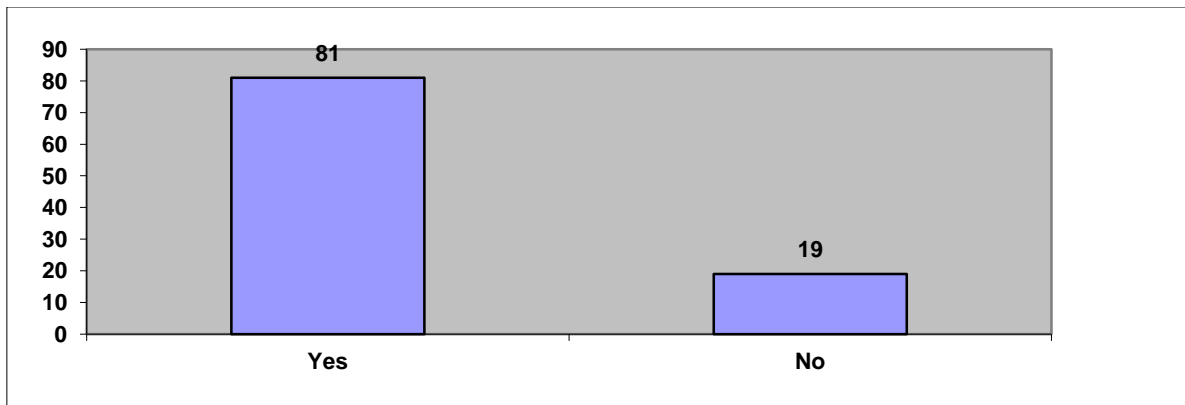
5.3 Section One - Strategy Approval and Monitoring

The objective of the research in this section was to investigate whether the boards use management accounting information in approving and monitoring company strategy. The questionnaire had nine items on strategy approval and monitoring. Each item is stated, followed by a graph representing the responses and a short analysis of the responses. Where available, interview responses are also provided.

Item 1.1: Does the organisation have personnel in charge of management accounting?
Yes/No

The responses are as shown in Figure 5.1.

Figure 5.1 Existence of Personnel in Charge of Management Accounting



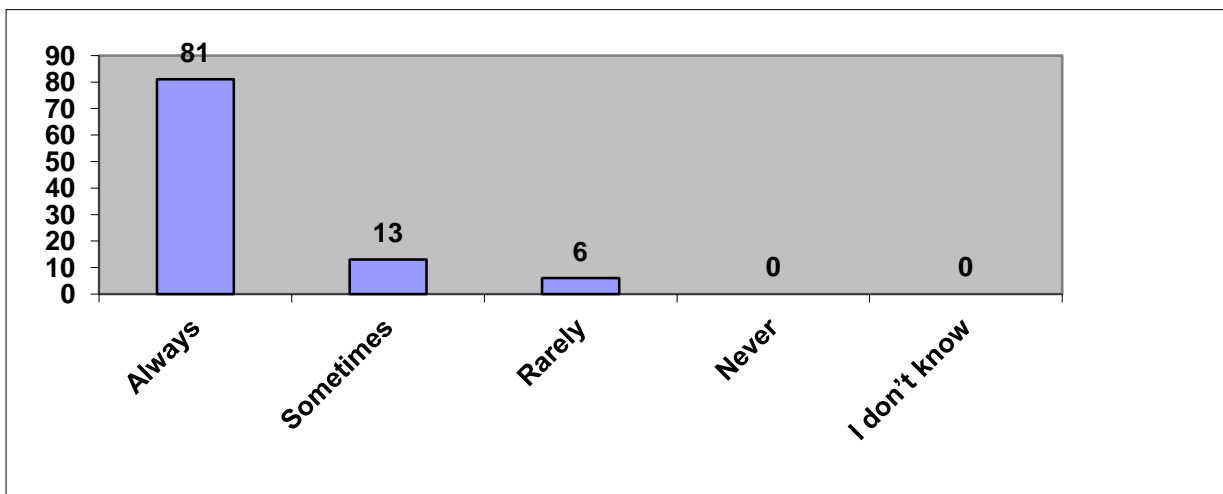
The majority, 81%, of the respondents answered that they had personnel in charge of management accounting while 19% answered in the negative. This may imply that most of the organisations have the capacity to produce management accounting information which comprises a set of tools and techniques to support planning, decision making and control in business organisations (Collier, 2009). It may be expected that the boards of directors of such

organisations may utilise such management accounting information to effectively govern their organisations.

Item 1.2: The organisation has an induction programme for newly appointed directors, which covers an overview of the company's operations: Always/Sometimes/Rarely/Never/I don't know

The responses are as shown in Figure 5.2.

Figure 5.2 Existence of Induction Programmes for Newly Appointed Directors

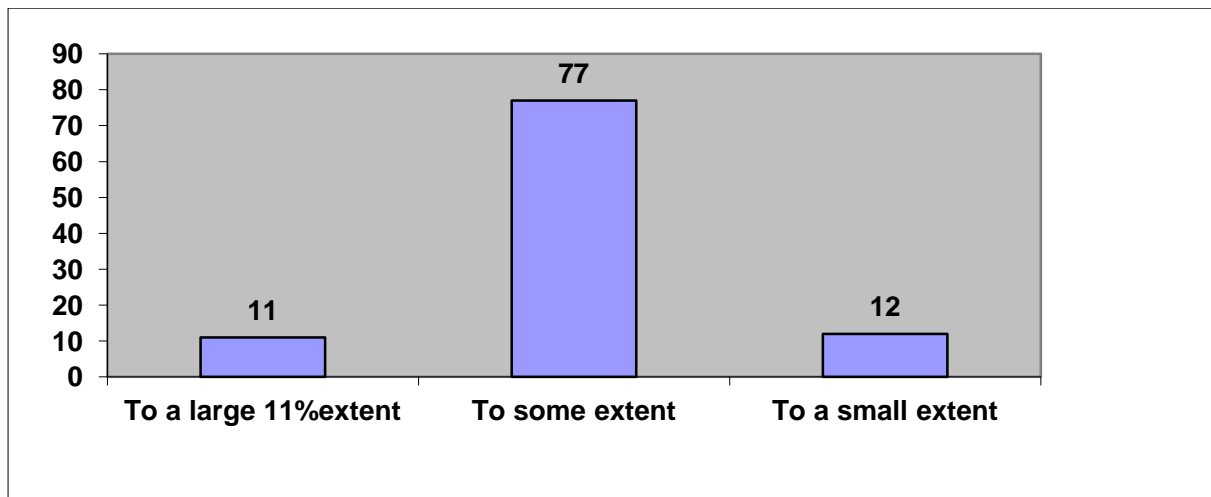


The majority, 81%, of the respondents answered that they had an induction programme for newly appointed directors, while 13% sometimes provided induction programmes. Only 6% of the respondents answered that they rarely had induction programmes. This may imply that the directors are aware of their duties and responsibilities in governing their organisations. It may also imply that the directors understand the internal environment of their organisations (i.e. the strengths and weaknesses), and external environment (i.e. opportunities and threats posed to their organisations according to Johnson *et al*,(2008)). Hence, they may be expected to direct their organisations effectively.

Item1.3: To what extent has the board of directors discussed the current organisational strategy? To a large extent/To some extent/To a small extent/Not discussed at all/I don't know

The responses were as tabulated in Figure 5.3.

Figure 5.3 Extent of Discussion of the Current Company Strategy

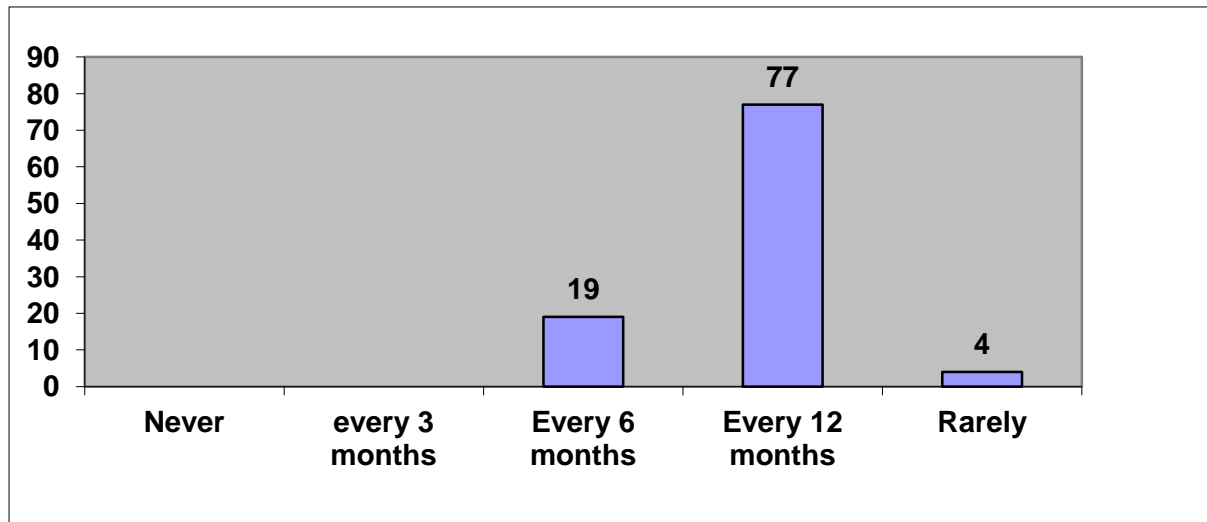


Only 11% of the respondents answered: to a large extent. The majority (77%) only discussed the company strategy to some extent and the rest, 12%, only discussed it to a small extent. The response rate to this question suggests that the directors may not actually be employing management accounting information to its full potential. It may also imply that management accounting is not providing sufficient information to motivate the directors to discuss the company strategy to a large extent.

Item1.4: How often does the board of directors review the organisation strategy?
Never/Rarely/Every 3 months/Every 6 months/Every 12 months

Responses were as shown in Figure 5.4.

Figure 5.4 Frequency of Review of the Company Strategy



The majority (77%) responded that they review the company's strategy every 12 months, while 19% did this every six months. The remaining 4% of the respondents answered that they rarely reviewed the company strategy. This is another realisation that management accounting may not be providing sufficient information to motivate the directors to review the company strategy or that directors may not be employing management accounting information to its full potential.

Item1.5: How do the directors get supporting information for review of the strategy?

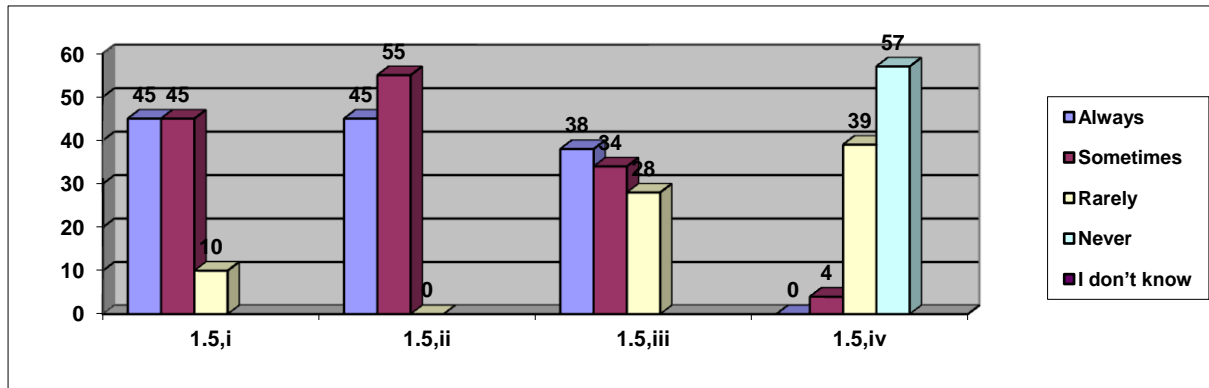
The respondents were presented with the following four suggestions:

- i. Management accounting reports are sent along with the notice and agenda for the meeting: Always/Sometimes/Rarely/Never/I don't know.
- ii. Management accounting reports are presented during the discussions at the time of the meeting: Always/Sometimes/Rarely/Never/I don't know
- iii. Management accounting reports are provided if and when requested by the directors: Always/Sometimes/Rarely/Never/I don't know

- iv. No need for management accounting: issues are discussed as they come in the meetings: Always/Sometimes/Rarely/Never/I don't know

The responses were as presented in the Figure 5.5.

Figure 5.5 How Directors Get Supporting Information for Review of the Strategy



This was a critical question which established that most of the respondents indeed utilised management accounting information in their boards and relied upon it to discuss board issues. The first suggestion that management accounting reports are sent along with the notice and agenda for the meeting received a 90% affirmative response though divided equally into ‘always’ and ‘sometimes’. Only 10% responded that they rarely got management accounting reports along with notices. Although the responses are divided between ‘always’ and ‘sometimes’, it may suggest that at least the preparers of the documents forwarded to the directors are aware of the importance of management accounting information in decision making and therefore they provide such information to the board.

The second suggestion that management accounting reports are presented during the discussions at the time of the meeting got a 45% response as ‘always’ while the rest, i.e. 55%, responded that such reports are only presented sometimes. This response may suggest that the management accounting information provided along with the notice of meeting may be sufficient for the board to discuss the strategy and only sometimes when there is a need for clarification may the board call for presentation.

As to the suggestion that management accounting reports are provided if and when requested by the directors, respondents were distributed as follows: 28% responded that it is rare, 34% responded that it is done sometimes, while 38% responded that it is always the case. This response may suggest that directors do not fully appreciate the importance of management

accounting in decision making. It may also mean that the directors are not eager to utilise the management accounting information to facilitate their decisions in governing the organisation or they would rather leave such details to the senior management.

Suggestion five that there is no need for management accounting, as issues are discussed as they come in the meetings got the biggest negative response of 57% while 39% responded that this happened rarely. However 4% responded in affirmative. This just emphasises that the importance of management accounting in providing information is acknowledged by the majority of respondent boards of directors. Although the majority of the respondents had a negative response to this suggestion, the practice in a large percentage of the respondent organisations (39%+4%) may suggest that they do not seem to appreciate the need for management accounting information at the board level.

Item1.6: Reports on the following aspects are presented to boards of directors.

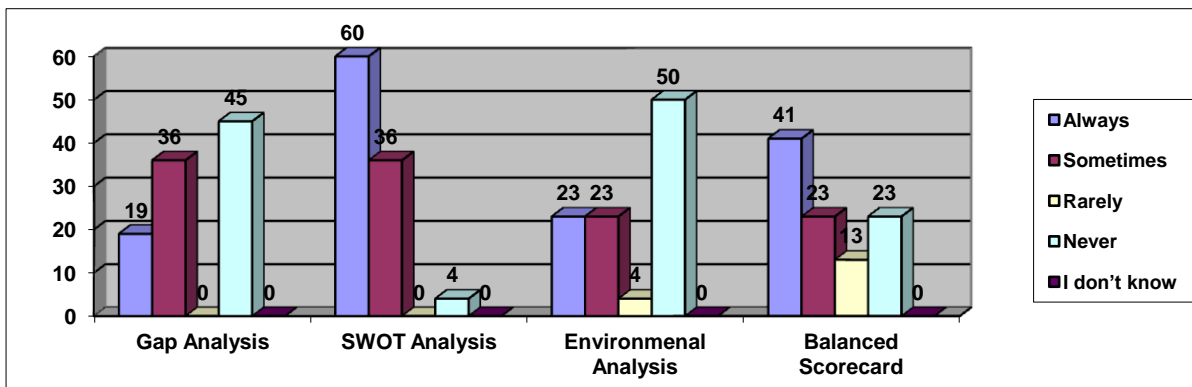
A couple of management accounting tools were suggested and respondents were requested to state whether such tools are presented to their boards of directors.

The tools suggested were:

- i. Gap analysis: Always/Sometimes/Rarely/Never/I don't know
- ii. SWOT analysis: Always/Sometimes/Rarely/Never/I don't know
- iii. Environmental analysis: Always/Sometimes/Rarely/Never/I don't know
- iv. Balanced scorecard: Always/Sometimes/Rarely/Never/I don't know

The responses are presented in Figure 5.6.

Figure 5.6 Use of a Few Management Accounting Tools



Only 19% of the respondents always used gap analysis while 36% used it sometimes. The majority (45%) of the respondent organisations admitted that they had never used gap analysis. SWOT analysis proved to be a favourite, as 60% responded that they use it regularly, while 36% at least used it sometimes. Here only 4% responded that they never used it.

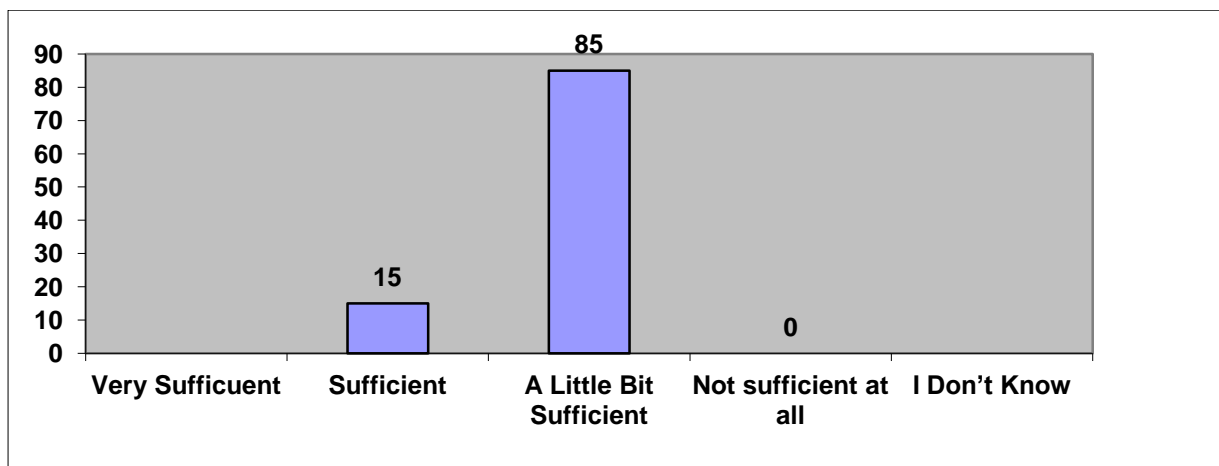
Fifty percent of the respondents had never been presented with environmental analysis reports at their board meetings. 23% used it regularly while 23% only saw it sometimes and 4% rarely saw it. The balanced scorecard was always used by 41% of the respondents while 23% sometimes used it and 13% rarely used it. However a substantial percentage of the respondents (23%) never used balanced scorecard reports at the board meetings.

The responses to the above question suggest that the boards of directors may not be fully employing management accounting information to facilitate their decision making. This may also suggest that management accounting personnel within the organisations may not be applying themselves to their tasks of providing comprehensive management accounting information to the board.

Item 1.7: The knowledge the board of directors has about your organisation and its management is: Very sufficient/Sufficient/A little bit sufficient/Not sufficient at all/I don't know

The responses were as presented in Figure 5.7.

Figure 5.7 Knowledge the Directors have of their Organisations and their Management



The majority (85%) of the respondents answered that the knowledge the directors have is only a little bit sufficient. Only 15% believed that their boards of directors had sufficient knowledge of their organisations and their management. The responses emphasise the

suggestions above, management accounting personnel within the organisations may not be applying themselves to their tasks of providing comprehensive management accounting information to the board. This may be the reason why most directors' knowledge of their organisation is only a *little bit sufficient*.

This item also appeared in the few occasions that the researcher had to personally interview the respondents. Most of the respondents were in agreement that many of the directors did not have sufficient knowledge of the organisations where they were appointed.

Item1.8: Should management accounting reports be presented to directors prior to coming to meetings? Yes/No

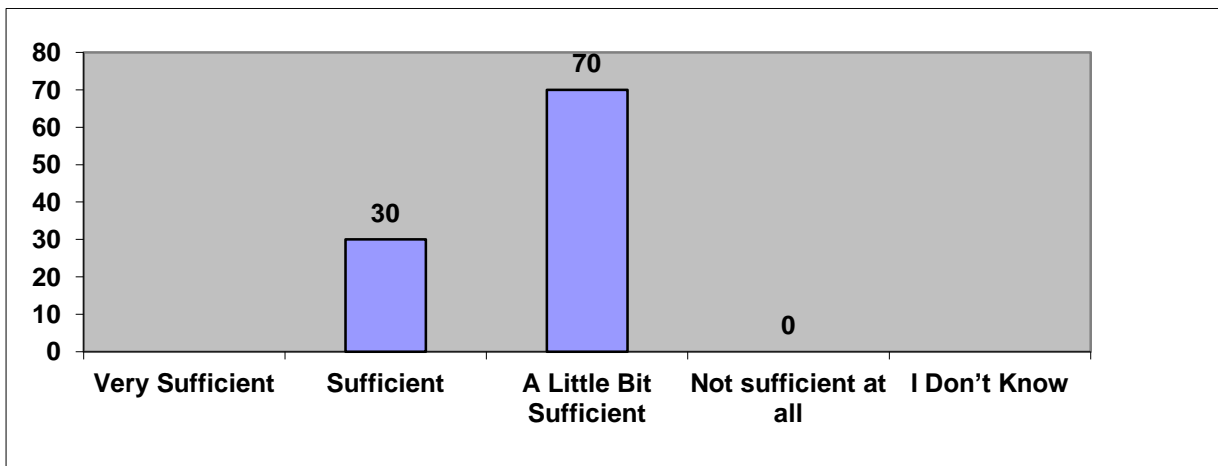
All the respondents (100%) replied in the affirmative. The response came as no surprise as any reasonable person would expect to have some information upon which to base a decision. It would have been embarrassing for any respondent to answer in the negative. Whether the information provided is actually utilised has already been analysed in the questions above.

This question was also raised in the personal interviews and most of the respondents felt that the directors seemed not to read the reports provided before coming to the meeting as their knowledge of the organisation was still insufficient.

Item1.9: The contribution of directors on your board to the strategy debates is:Very sufficient/Sufficient/A little bit sufficient/Not sufficient at all/I don't know

The responses were as presented in Figure 5.8.

Figure 5.8 Extent of the Contributions Directors Made to the Strategy Debates



The majority of the respondents (70%) disclosed that the contributions made by the directors were just a little bit sufficient. The rest (30%) thought that the contributions were sufficient.

The same question was raised in the personal interviews. All the respondents were of the view that, in most cases, the directors tended more to agree with the presentations of the CEOs than to debate the issues.

Without the use of management accounting information as analysed above it is to be expected that the contribution by most directors to the strategic debates are not sufficient. Before making meaningful contributions to strategic debates directors should understand which critical variables are changing, the pace at which these changes are occurring and their likely impact on their organisations (Hulbert and Fitzroy, 2004). They may therefore need management accounting information to assist them in executing this task.

5.3.1 Concluding Remarks for Section One

Regarding strategy approval and monitoring, it was observed that, although the various organisations have what they referred to as a management accounting department, and that they receive some management accounting information (as reflected in Question 5), their insufficient use of management accounting tools (as reflected in Question 6) and the fact that their knowledge of their organisation and management is only *a little bit sufficient* (as reflected in Question 7) points to the realisation that they were not getting sufficient management accounting information.

It was further noted, through the personal interviews and the questionnaire, that the directors' contributions in debates about the formulation and monitoring of organisational strategy are *less than sufficient*. The realisation that the company strategy is only discussed every 12 months in the majority of the organisations is evidence that the boards of directors are not employing management accounting information to its full potential.

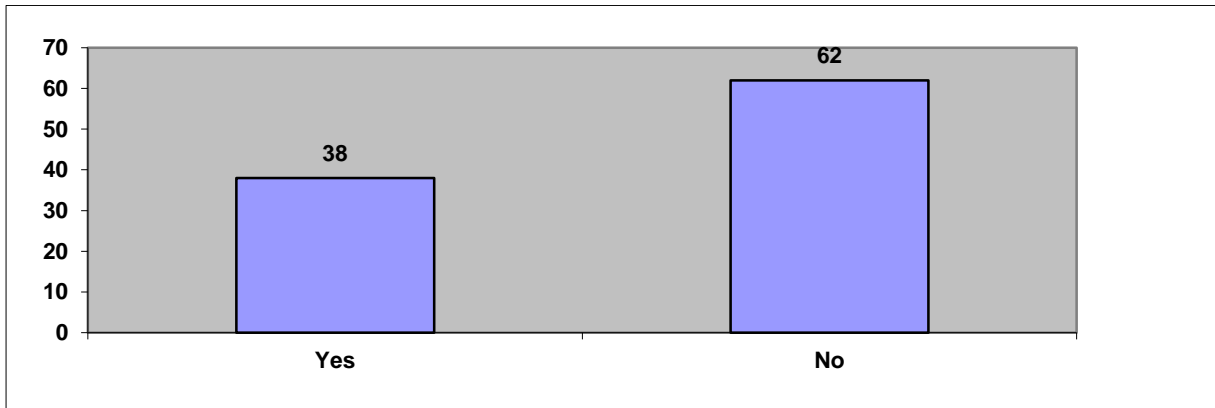
5.4 Section Two - Approval of Major Financial Decisions

The objective under this section was to investigate whether the boards of directors use management accounting information in the approval of major financial decisions. This section contained five questions. Each question is stated, followed by a graph representing the responses and a short analysis of the responses.

Item2.1: Does the board have an audit committee?Yes/No

The responses were as presented in Figure5.9.

Figure 5.9 Existence of Audit Committees in Organisations



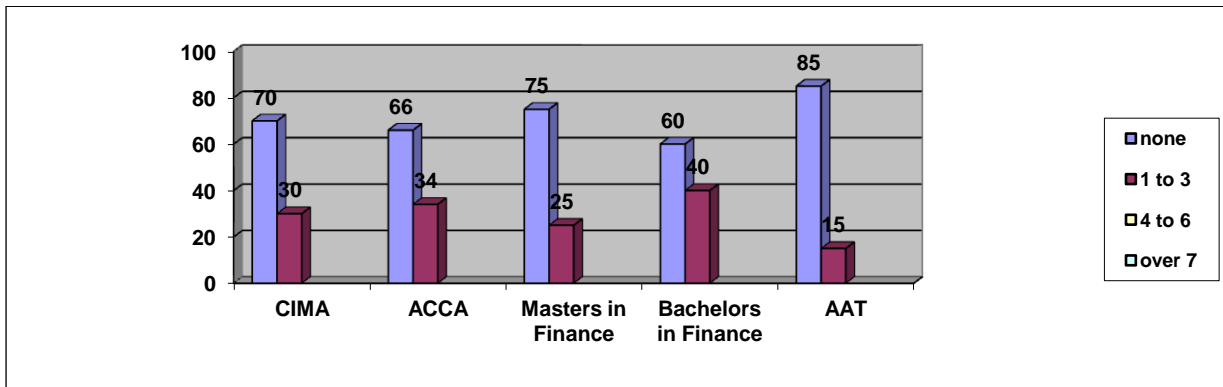
The Majority of the respondents (62%) responded that they had audit committees while 38% did not have dedicated audit committees. These responses may suggest that most of the organisations comply with the recommendations for good corporate governance by the King III report (2009),the UKCC (FRC, 2010)and Sarbanes-Oxley act (2002).

Item2.2: How many members of your board of directors have the following financial qualifications?

- CIMA: None/1-3/4-6/over 7
- ACCA : None/1-3/4-6/over 7
- Masters in Finance : None/1-3/4-6/over 7
- Bachelors in finance: None/1-3/4-6/over 7
- AAT: None/1-3/4-6/over 7

The responses were as presented in Figure 5.10.

Figure 5.10 Qualifications of Board Members



Thirty percent of the respondents had between one and three CIMA (Chartered Institute of Management Accountants) professionals while 70% did not have this qualification. 34% of the respondents had between one and three ACCA (Association of Certified Chartered Accountants) while 66% did not have this qualification. 25% of the respondent companies had between one and three people with a master's degree in finance while 75% did not have this qualification. 40% of the boards had between one and three people with a bachelor's degree in finance while 60% did not have this qualification. 15% of the organisations had between one and three people with AAT (accounting technician) qualification while 85% did not have this qualification.

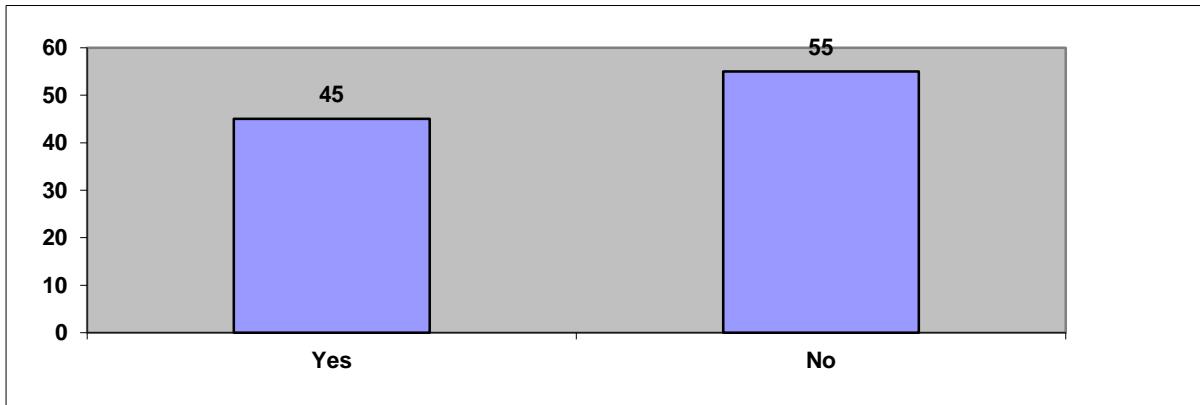
The researcher also looked at public documents like the annual reports, where names and qualifications of the directors were provided, to confirm the above responses.

The above analysis shows that most of the boards do not have enough financially qualified directors who may be able to serve effectively on their audit committees. Hence they may rely more on senior management in the execution of the audit function. This may also mean that the directors are not able to utilise the management accounting information which may be presented to them. This may weaken the board's ability to review the company's internal financial controls and to monitor the integrity of the financial statements on the company's financial performance (FRC, 2010).

Item 2.3 (a): Are there specific financial issues reserved for the board's exclusive consideration e.g. large financial commitment capital asset procurement? Yes/No

The responses were as presented in Figure 5.11.

Figure 5.11 Existence of Financial Issues Reserved for the Board's Exclusive Consideration

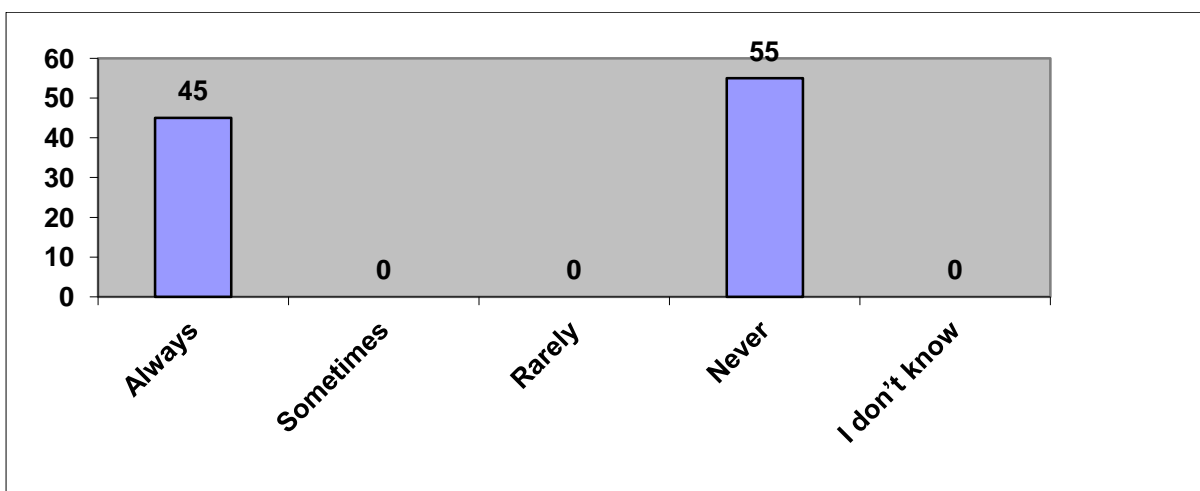


The majority of the respondents (55%) responded that there were no specific financial issues reserved for the board's exclusive consideration. Only 45% of the respondents actually had such a practice. These responses seem to agree with the suggestion that most of the directors may be abdicating their responsibilities to review the company's internal financial controls and to monitor the company's financial performance (FRC, 2010). This may be because of their inability to utilise management accounting information.

Item 2.3 (b): Issues related to large financial commitment are reserved for the board's exclusive consideration: Always/Sometimes/Rarely/Never/I don't know

The responses were as presented in Figure 5.12.

Figure 5.12 Reservation of Issues Related to Large Financial Commitment for the Board's Exclusive Consideration

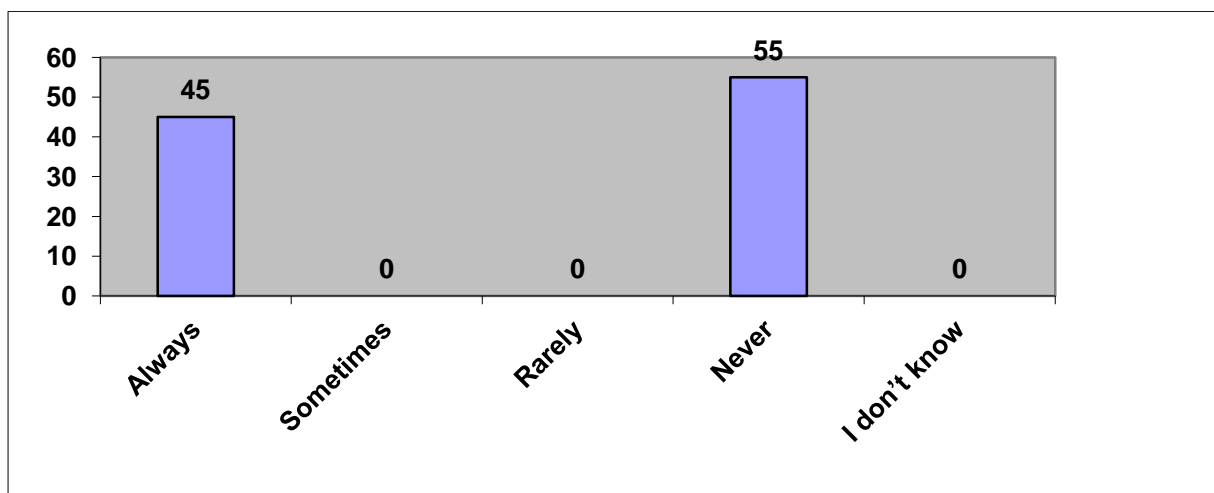


The respondents' answers confirmed the response to the general question above in that (55%) responded that they never reserved such issues while 45% responded that they always did. This may have been an automatic answer from the respondents to match the response from Question 2.3(a) above. The response may also emphasise the suggestion that most of the directors may be abdicating their responsibilities to review the company's internal financial controls and to monitor the company's financial performance (FRC, 2010) because of their inability to utilise management accounting information.

Item 2.3(c): Issues related to capital asset procurement are reserved to the board's exclusive consideration: Always/Sometimes/Rarely/Never/I don't know

The responses were as presented in Figure 5.13.

Figure 5.13 Reservation of Issues Related to Capital Asset Procurement for the Board's Exclusive Consideration



The respondents' were still in tandem with the response to the general question above in that (55%) responded that they never reserved such issues while 45% responded that they always did. This confirmed that the respondents were consistent in their response and confirmed that the majority of the organisations did not have specific financial issues reserved for the board's exclusive consideration which may suggest that many of the directors are not eager to utilise management accounting information to direct and control their organisations.

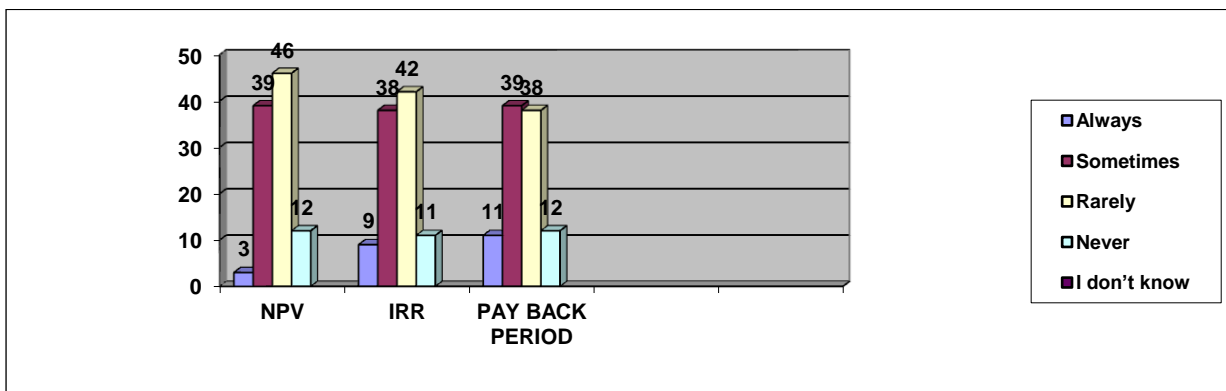
Item2.4: Reports on the following aspects are presented to the board of directors during financial discussions.

Three common management accounting tools were suggested by the researcher:

- Net Present Value(NPV): Always/Sometimes/Rarely/Never/I don't know
- Internal Rate of Return(IRR): Always/Sometimes/Rarely/Never/I don't know
- Payback Period: Always/Sometimes/Rarely/Never/I don't know

The responses were as presented in Figure 5.14.

Figure 5.14 Use of Common Management Accounting Tools

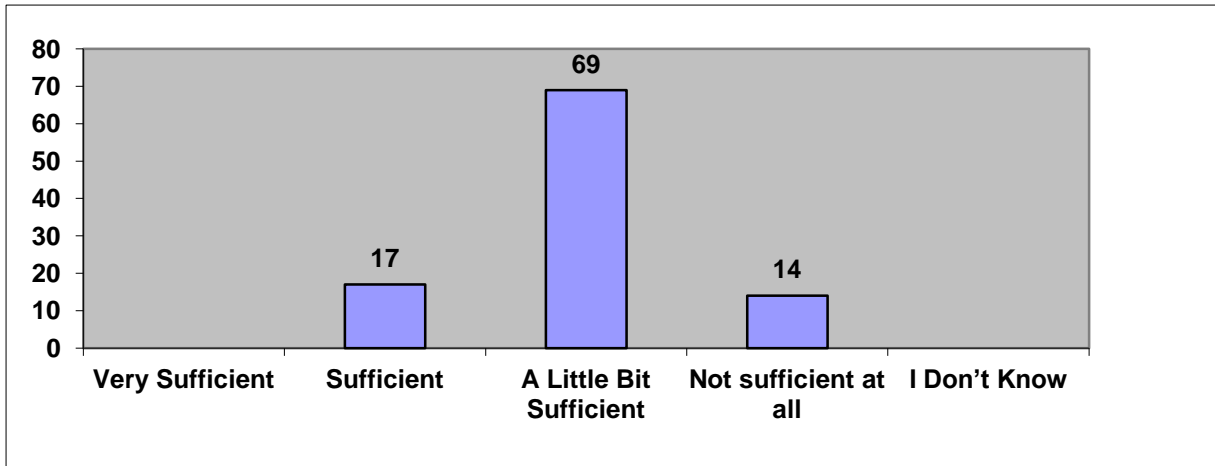


Thirty eight percent of the respondents answered that they always used all the tools mentioned in the question. In total 42% (including the 38%) responded that they always used the NPV tool in their financial discussions. While 49%(including the 38%) responded that they always used the payback period tool. 39% of the respondents answered that they had used both the NPV and payback period sometimes,while 11% had never used the tools mentioned. The responses to this question suggest there is not enough management accounting information provided at the board level.This may be because the boards leave such details to the senior management or the management accounting departments feel that such information is not for board considerations.

Item2.5: The constructiveness of the debate by the board of directors before making major financial decisions is: Very sufficient/Sufficient/A little bit sufficient/Not sufficient at all/I don't know

The responses were as presented in Figure 5.15.

Figure 5.15 Constructiveness of Financial Debates by the Board of Directors before Making Major Financial Decisions



The majority of the respondents (69%) disclosed that the contributions made by the directors were just a little bit sufficient. While 14% thought that the contributions were not sufficient at all. Only (17%) thought that the contributions were sufficient. These responses were not unexpected given the sequence of responses in the preceding questions. The blame however may not be entirely on the directors as seen in Question 2.4 above. The management accountants may not have provided enough information to enable the directors to make sufficient contributions to the debates.

This item again appeared in the personal interviews. Many of the respondents agreed that the constructiveness of the financial debates was not sufficient. Their response of a 'little bit sufficient' may have been more of a polite way of providing a negative response.

5.4.1 Concluding Remarks on Section Two

On the responsibility of approval of major financial decisions, the research found that:

- The majority of the respondents have audit committees and at least 40% of the organisations have members of the board who have got specific financial qualifications. However, most companies (55%) have no specific financial issues

reserved for the boards' exclusive consideration. A substantial percentage of boards of directors don't use simple management accounting tools on their boards, implying that management accounting reports are not adequately presented to the board during financial discussions. Hence the board's debate before making major financial decisions is only *a little bit sufficient* in most companies (in 69% of the respondents).

- The researcher noted, from both the personal interview and the questionnaire, that even when some boards are able to receive management accounting information the directors in those organisations rarely take enough time to utilise the information hence tending towards rubber stamping the decisions already made by senior management.

5.5 Conclusion

The first two sections of the questionnaire covered the two major responsibilities of the board of directors in delivering effective corporate governance i.e. strategy approval and monitoring; and approval of major financial decisions. The above analysis indicated that both the boards of directors and the management accountants may be responsible for the failure of recognition of the value of management accounting as a tool which may be employed to deliver effective corporate governance.

The analysis shows that there may be insufficient use of management accounting tools which in turn may imply that management accounting reports may not be adequately presented to the boards to enable them to make sufficient and informed deliberations. It was also noted that the directors may not yet be appreciating the need for management accounting information at the board level. Although they agree that such information needs to be provided, they may not be taking enough time to utilise the provided information to understand their organisations. This is indicated by their insufficient knowledge of their organisations leading to their insufficient contributions during strategic and financial debates.

The next chapter continues with the analysis and discussion of the findings presenting the other three sections of the questionnaire. It will cover the other three responsibilities of the board of directors, namely: evaluation of CEO and senior executives; evaluation of CEO and senior executives; and ensuring compliance.

CHAPTER 6

DATA ANALYSIS AND FINDINGS: EVALUATION, COMPLIANCE, COUNSELLING AND SUPPORT

6.1 Introduction

This will cover the presentation of data, its analysis and a discussion of the findings from the last three Sections of the questionnaire. This includes:

- **Section three:** Evaluation of CEO and senior executives
- **Section four:** Provision of counsel and support to the CEO
- **Section five:** Ensuring Compliance

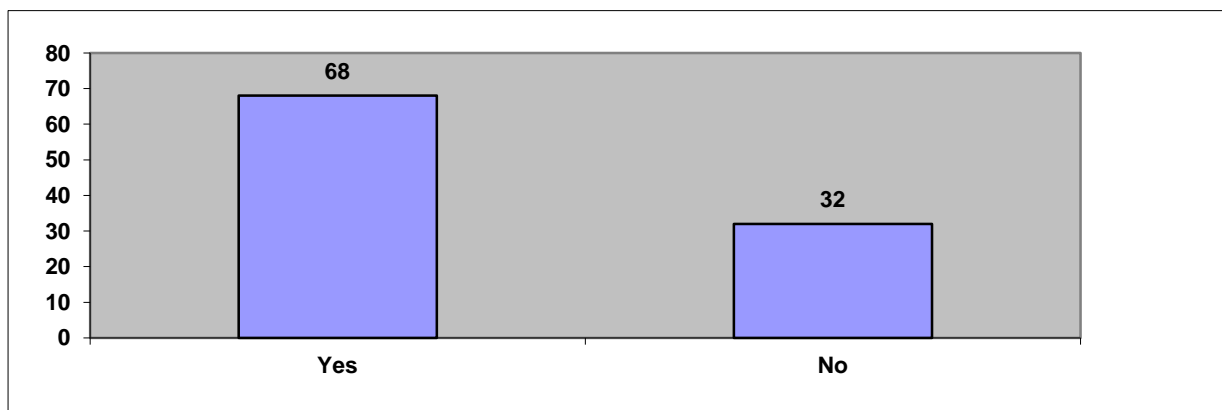
6.2 Section three - Evaluation of CEO and senior executives

Under this section the objective was to investigate if the board uses management accounting information in the evaluation of the CEO and senior executives. It contained four items. Each item of the questionnaire is stated, followed by a graph representing the responses and a short analysis of the responses.

Item3.1a: Does the board have a recruitment sub-committee? Yes/No

The responses were as presented in Figure 6.1.

Figure 6.1 Existence of Recruitment Committees



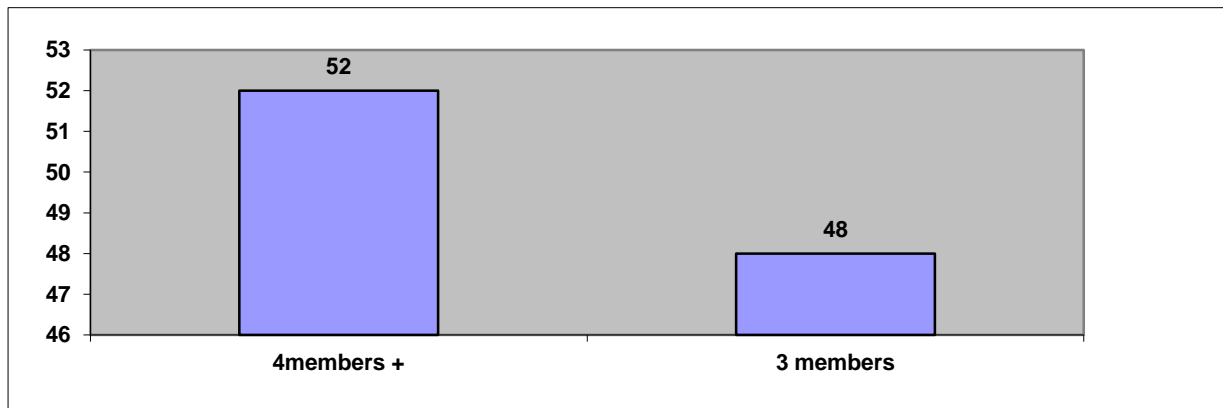
To this question 68% of the respondents answered in the affirmative while 32% did not have recruitment committees. This was more of a compliance question. The responses here may

suggest that most of the organisations comply with the recommendations for good corporate governance by The King III report (2009), the UKCC (FRC, 2010) and Sarbanes-Oxley act (2002).

Item3.1b: If yes how many people sit on the committee?

The responses were as presented in Figure 6.2.

Figure 6.2 Existence of Recruitment Committees



About 52% of the respondents had four members on the recruitment committee the rest (48%) were three members only. None of the respondents who had answered in the affirmative had any number below three. This was a follow up question to confirm Question 3.1(b). The responses confirm the suggestion that most of the organisations comply with the recommendations for good corporate governance by the King III report (2009), the UKCC (FRC, 2010) and the Sarbanes-Oxley act (2002).

Item3.2: How many members of your current board were put in office in the following way?

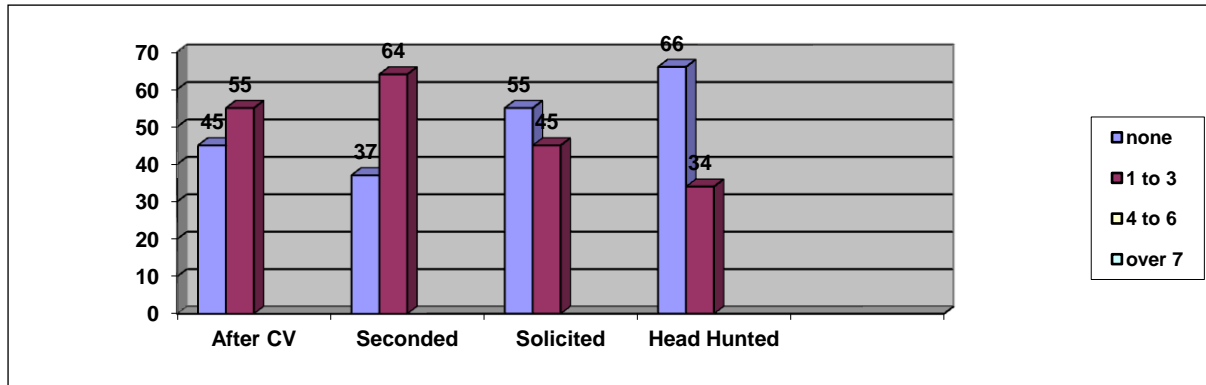
The question suggested four ways in which directors could be appointed to the boards:

1. After scrutinizing their CVs by the recruitment sub-committee: None/1-3/4-6/over 7
2. They were seconded to the board by the major share holders (e.g. government):None/1-3/4-6/over 7
3. They were solicited from other boards: None/1-3/4-6/over 7
4. They were head hunted by recruitment agencies: None/1-3/4-6/over 7

Respondents were asked to state how many members of the boards came through such methods.

The responses were as presented in Figure 6.3.

Figure 6.3 Qualifications of Board Members



Fifty five percent of the respondents answered that they had between one and threemembers who were appointed after scrutinising their CVs while 45% did not have any director who was appointed using that method. The majority of the respondents (64%) had between one and threemembers of their boards seconded by major shareholders while 37% did not have any member using this route. 45% of the respondents had between one and threemembers solicited from other boards while 55% respondent never did that. 34% of the respondent organisations had between one and threedirectors who had been head hunted by recruitment agencies while 66% didit themselves.

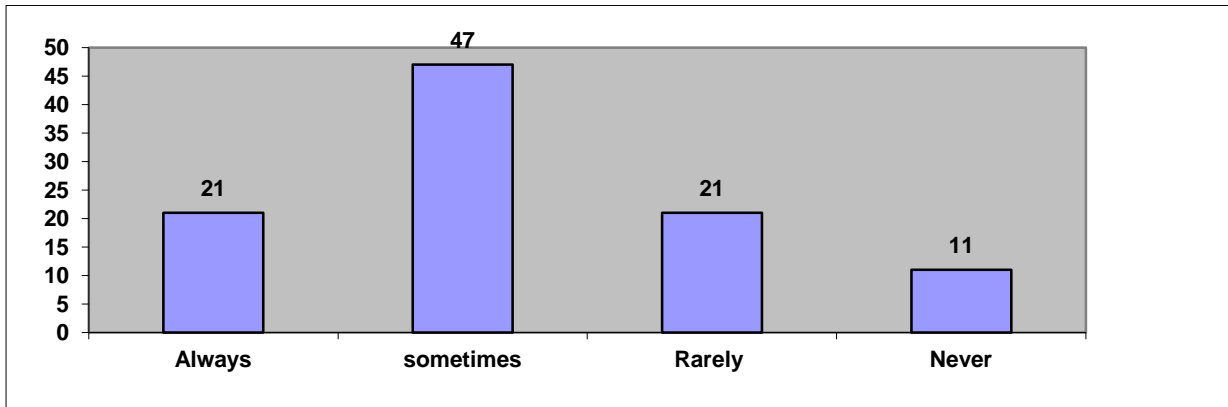
This Item had a similar follow up question in the personal interviews. The respondents were mostly referred to a good number of the members seconded to their boards as having been imposed on them by the major shareholders.

The above responses showed that a good percentage of the directors, (over 45%), on the boards were appointed to the boards on other grounds, other than their own merit. At 64%, secondment was the most popular way of getting into the boards. This may imply that the directors appointed in this way may be subjected to the influence of the few stakeholders who seconded them to the boards.

Item3.3: Individual performance reports of directors and senior executives are presented to the board prior to the meeting renewing their contracts: Always/Sometimes/rarely/Never/I don't know

The responses were as presented in Figure 6.4.

Figure 6.4 Frequency of Individual Performance Reports to the Board



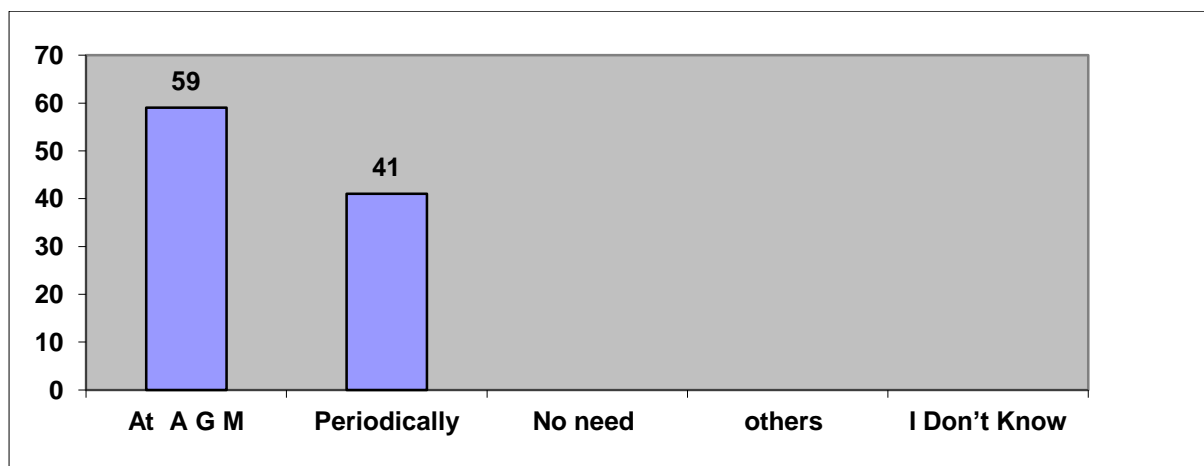
Only 21% of the respondents responded that individual performance reports were always presented to the board prior to the meeting renewing their contracts. Forty seven percent said such reports were only presented sometimes. 21% said it was rare for these reports to be presented prior to the meeting renewing the directors' contracts. While 11% never had individual directors performance reports presented to the board prior to the meeting renewing their contracts.

This suggests that to most of the boards, the individual directors' performance reviews may not be relevant since most directors are subject to their masters who seconded them to the boards as shown in Question 6.3 above. This may also imply that the boards may not be utilising the management accounting information for performance appraisals. Failure to utilise such information may render the boards ineffective and unable to undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors as recommended by the UKCC (FRC, 2010), and the King III Report (2009).

Item3.4: How does the board review its own performance? (You may select more than one if applicable): At AGM/Periodically/ No need/Others/Idon't know

The responses were as presented in Figure 6.5.

Figure 6.5 How does the Board Review its Own Performance?



The majority of the organisations (59%) stated that the directors' reviews were only carried out at the end of the year before the AGM. Only 41% of the respondents undertook directors' reviews periodically. The responses here suggest that the boards do not utilise the monthly or quarterly management accounting information in their appraisals. They may be using the financial accounts presented before the Annual General meeting to make their evaluations. This may mean that the boards fail to achieve improved board performance and effectiveness as they do not carry out regular and timely appraisals (King III Report, 2009).

6.2.1 Concluding Remarks on Section Three

Regarding evaluation of CEO and senior executives, the research found that although most of the respondents companies have recruitment sub-committees, they may not be getting enough management accounting information to support them in the evaluation of CEOs and senior management, for instance most respondents did not receive individual director performance reports.

In the case of most of the respondents, evaluations of CEOs and the senior management officials are done annually just before the AGMs and may be based upon the financial results of the operations. It was also noted that many of the directors (64%) are seconded to the boards by shareholders, hence the periodic assessments may not affect their contracts. They

may therefore take such management accounting information, as that produced periodically, as mere detail which they may not require.

6.3 Section Four - Provision of Counsel and Support to the CEO

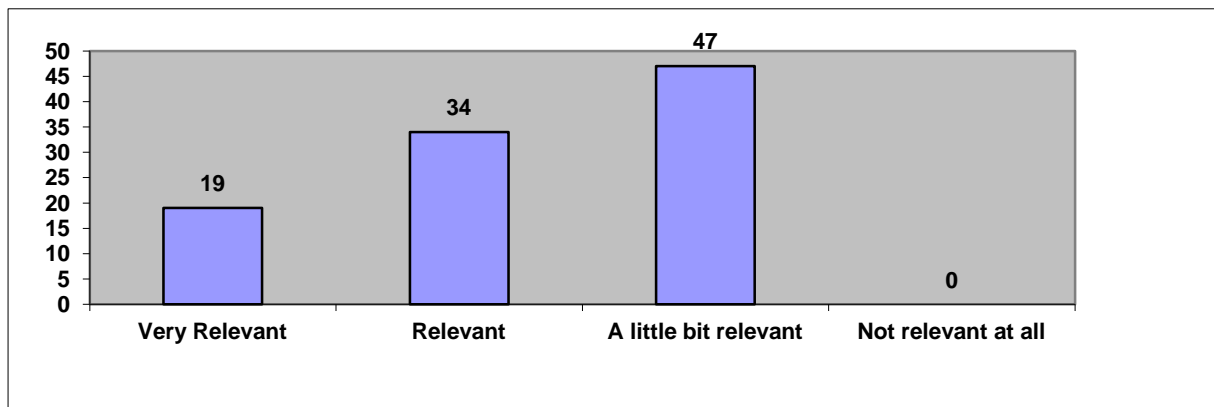
The objective of the questionnaire under this section was to investigate if the board uses management accounting information in provision of counsel and support to the CEO.

It contained seven items. Each item of the questionnaire is stated, followed by a graph representing the responses and a short analysis of the responses.

Item4.1: The level of business skills of non-executive directors of your organisation is: Very relevant/Relevant/A little bit relevant/Not relevant at all/I don't know

The responses were as shown in the Figure 6.6.

Figure 6.6 Level of Relevance of Business Skills of Non-executive Directors to their Organisations



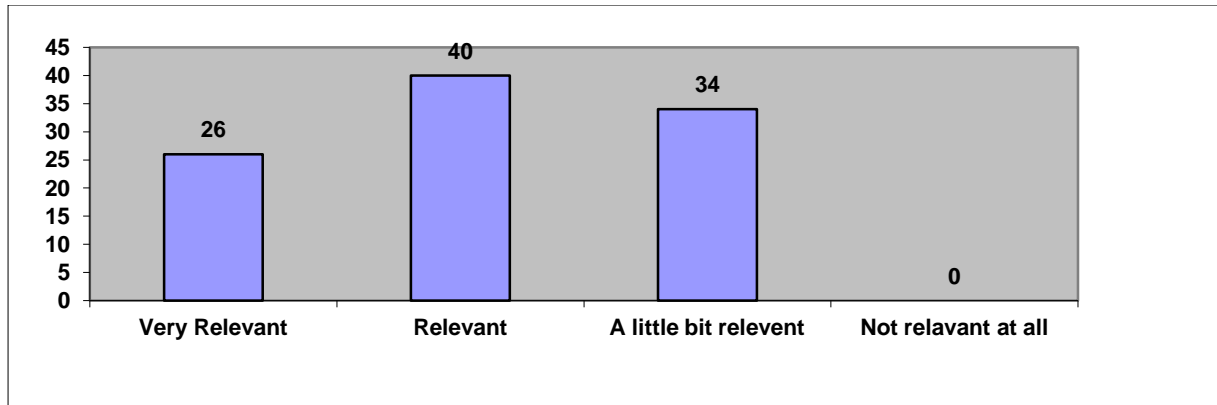
The majority of the respondents (47%) were of the opinion that the business skills of their non-executive directors were just a little bit relevant. 34% thought the skills were relevant while only 19% thought that their non-executive directors possessed business skills which were very relevant to their organisations. The realisation that only 19% of the directors had very relevant skills to their organisations may make the task of counsel to the CEO difficult. It may be difficult to take counsel from directors whose skills are not relevant to the organisation.

This may also imply that the directors may not know how to interrogate the company's knowledge base to get the required information. Hence they may not be in position to utilise the management accounting information.

Item4.2: The level of experience of nonexecutive directors in the sector of your organisation is: Very relevant/Relevant/A little bit relevant/Not relevant at all/I don't know

The responses were as shown in the Figure 6.7 below:

Figure 6.7 Relevancy of Experience of Non-executive Directors in the Sector of the Organisation



While 40% thought that the director's experience was relevant, and 26% scored them as having very relevant experience, a reasonable number of respondents(34%) were of the opinion that the experience of their non-executive directors was just a little bit relevant in the sector of their organisation.

This was a follow up question to question 6.6 above to at least establish whether the lack of skills may be compensated by experience in the field. This is because even without the professional skills individual directors may be able to contribute specific knowledge of the industry, functional and management expertise, and guidance based on the company's history and competitive position (Kaplan and Nagel, 2004).

The responses however still showed that there may still be lack of experience. This may also lead to inability to utilise the management accounting reports to give counsel and support to the CEO.

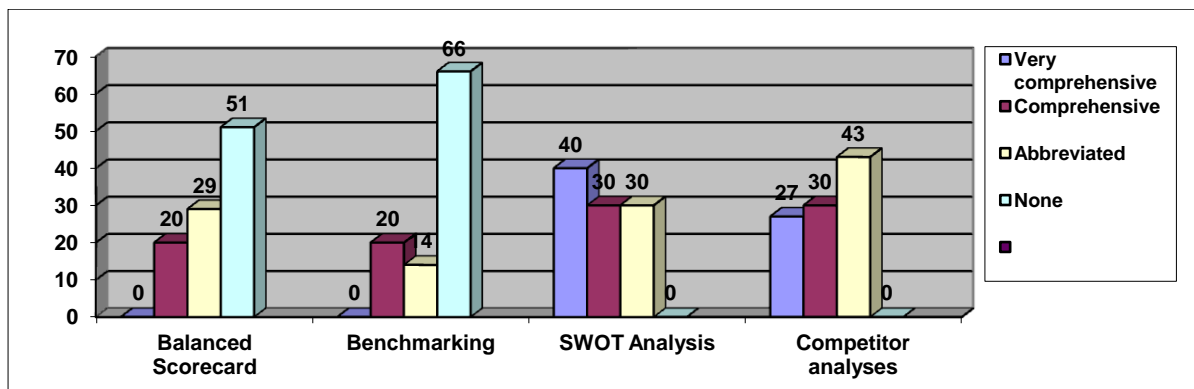
Item4.3:How comprehensive are the following reports that are presented to the boards of directors?

The tools were:

- Balanced scorecard: Very Comprehensive/Comprehensive/Abbreviated/None
- Benchmarking: Very Comprehensive/Comprehensive/Abbreviated/None
- SWOT analysis: Very Comprehensive/Comprehensive/Abbreviated/None
- Competitor analyses.: Very Comprehensive/Comprehensive/Abbreviated/None

The responses were as shown in the Figure 6.8.

Figure 6.8 Depth of Management Accounting Information



About the balanced scorecard 51% of the respondents stated that there was no such report presented to their boards. Twenty nine percent of the respondents answered that they had an abbreviated version of the balanced scorecard report while 20% were of the opinion that the balanced scorecard reports were in comprehensive form. On the benchmarking reports 66% of the respondents did not have any such reports presented to them. 14% of them thought the reports on benchmarking were there in abbreviated form while 20% stated that they had comprehensive benchmarking reports.

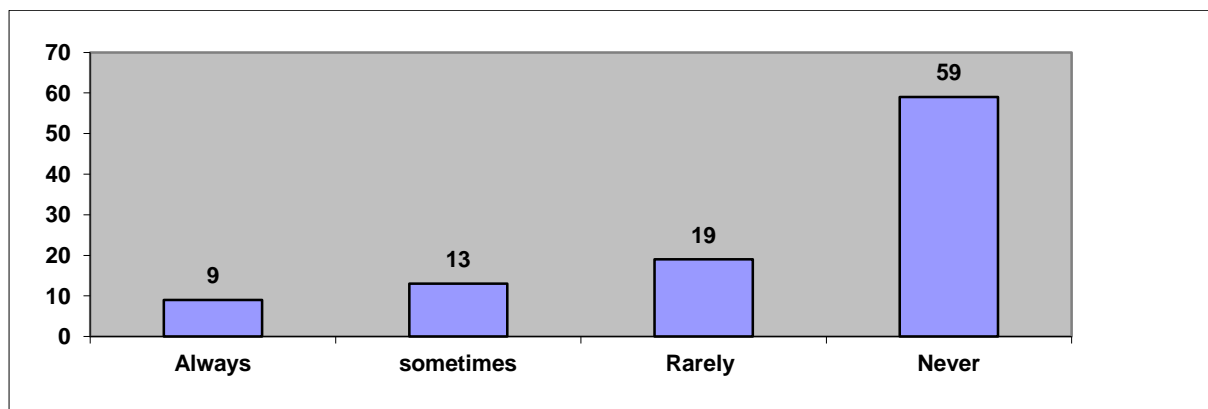
SWOT analysis reports were very comprehensive in 40% of the respondents' boards and comprehensive in 30% of the respondents while the other 30% felt that they were in abbreviated form. On competitor analysis, 43% of the respondents stated that reports to the board were abbreviated. 30% of the respondents stated that competitors' analysis reports were comprehensive while 27% scaled these reports as very comprehensive.

The responses to this question suggest that the management accounting departments or personnel may not be presenting comprehensive and user friendly information to the boards. This may be contrary to recommendations by the King III report (2009) that the board should have sufficient management information. It may also be one of the reasons which may make the directors unable to utilise them.

Item4.4: Your organisation has provisions for directors to take independent advice on certain issues affecting the company: Always/Sometimes/rarely/Never/I don't know

The responses were as shown in the Figure 6.9.

Figure 6.9 Existence of Provisions for Directors to Take Independent Advice

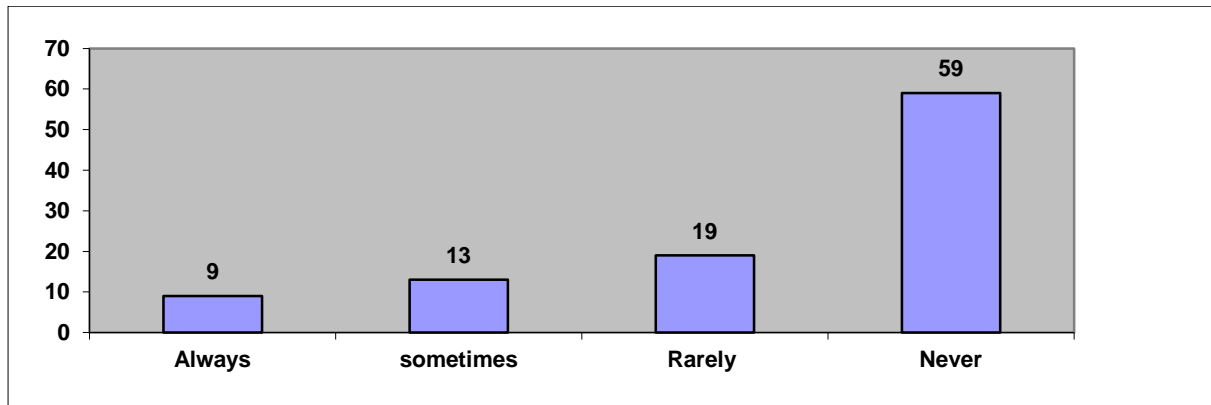


The majority of the respondents (59%) never had provisions for directors to take independent advice. Nineteen percent rarely had such provisions while 13% sometimes had them. At least 9% always had such provisions. The responses may imply that the organisations don't take the director's responsibility of counsel to the CEO seriously. This is because the directors may need an in depth analysis of the key issues in the internal and external business environment as well as with some insights on the workings of the management (Sussland, 2005) in order to provide counsel and support to their CEOs.

Item4.5: Your organisation has funds for directors to take independent advice on certain issues affecting the company: Always/Sometimes/rarely/Never/I don't know

The responses were as shown in the Figure6.10.

Figure 6.10 Existence of Funds for Directors to Take Independent Advice

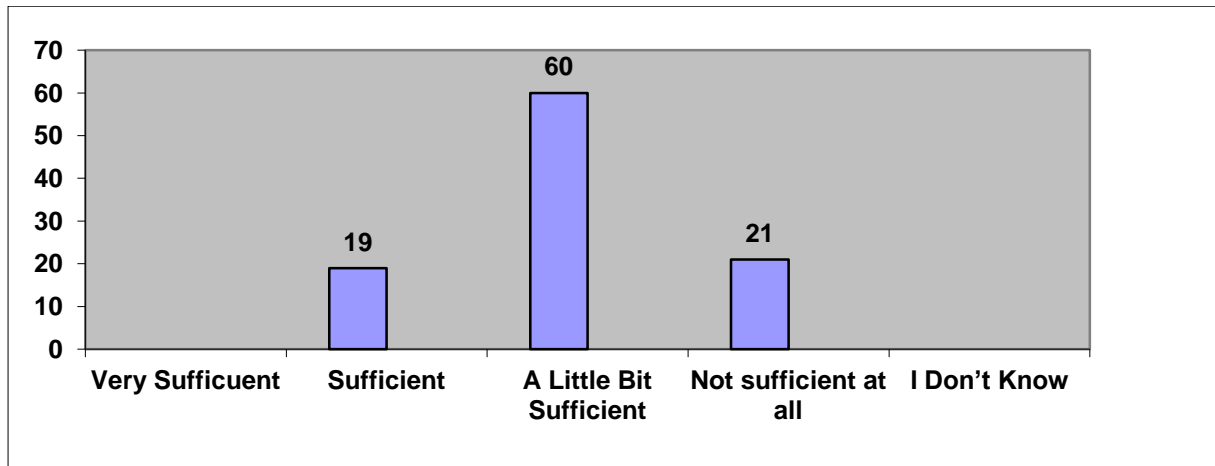


The responses were exactly in the same manner as in the fourth questions i.e. (59%) never had funds for directors to take independent advice. Nineteen percent rarely had such funds while 13% sometimes had them and 9% always had the funds for directors to take independent advice on certain issues affecting the company. The responses here show that the majority of the companies may not be complying with the recommendations for good governance by the King III report (2009) and UKCC (FRC, 2010) when they recommended that if necessary, directors should take independent professional advice at the company's expense. This may also deny the directors the opportunity to acquire the knowledge and skill of employing management accounting information in their decision making.

Item4.6: The level of the support given by your board of directors to the CEO is: Very sufficient/Sufficient/A little bit sufficient/Not sufficient at all/I don't know

The responses were as shown in the Figure 6.11.

Figure 6.11 Level of Support given by their Boards of Directors to the CEOs

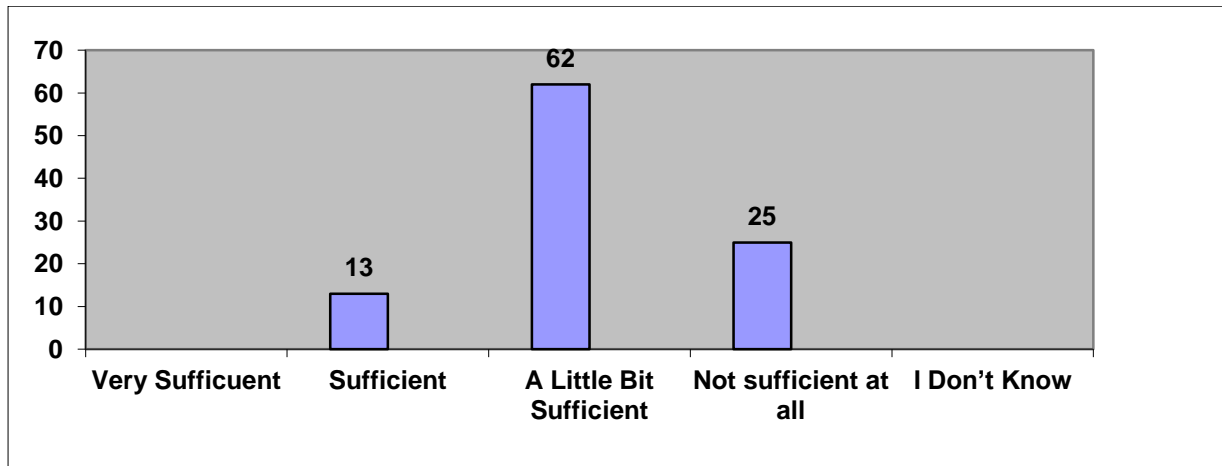


A reasonable number (21%) of the respondents disclosed that the level of support given by their boards of directors to the CEOs was not sufficient at all, while the majority of the respondents (60%) also felt that the support given by the directors was just *a little bit sufficient*. Only 19% of the respondents thought that their directors gave sufficient support to the CEOs. As the directors were not given much opportunity to acquire the skills of employing management accounting information it may not be surprising that they were not able to offer sufficient support to their CEOs.

Item4.7: The level of the counsel given by your board of directors to the CEO: Very sufficient/Sufficient/A little bit sufficient/Not sufficient at all/I don't know

The responses were even more negative than in Question 6 above as shown in Figure 6.12.

Figure 6.12 Level of Provision of Counsel given by their Board of Directors to the CEOs



Twenty five percent of the respondents disclosed that the level of counsel given by their boards of directors to the CEOs was not sufficient at all, while 62% felt that the counsel given by the directors was just a little bit sufficient. Only 13% of the respondents thought that their directors gave sufficient counsel to the CEOs. This was a follow up question to Question 6.11 above. It confirmed that the directors may not have been able to offer counsel to their CEOs because they were not able to employ management accounting information to assist them in this task.

6.3.1 Concluding Remarks on Section Four

Regarding provision of counsel and support to the CEO, the research found that the management accounting reports provided were not comprehensive enough to enable the directors to offer support and counsel to the CEOs, and many organisations did not have provisions and funds for directors to take independent advice from experts on certain issues affecting the company.

With only 19% of the respondents having very relevant skills to their organisations and only 26% having very relevant experience to their organisations, it was observed that most of the directors were neither sufficiently qualified nor experienced in the sectors of the companies where they were appointed. They could therefore only depend on the quality of management

accounting information provided, to offer support and counsel to the CEOs, which was in most cases insufficient. Hence the boards did not give sufficient support and counsel to the CEOs.

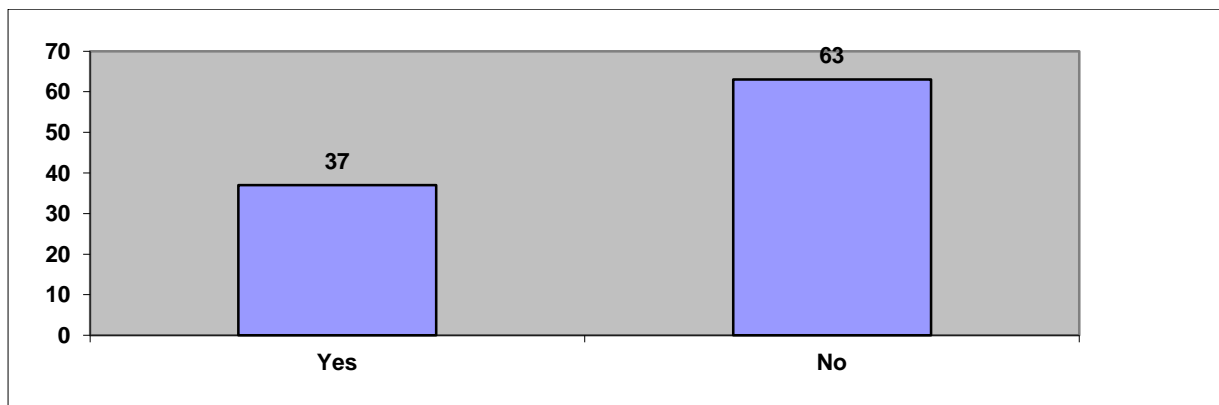
6.4 Section five - Ensuring Compliance

The objective of this section was to investigate if the board uses management accounting information in monitoring and ensuring compliance. It contained four items of the questionnaire. Each item is stated below, followed by a graph representing the responses and a short analysis of the responses.

Item 5.1: Are the operations of your organisation guided by a particular code of conduct? Yes/No

The responses were as shown in the Figure 6.13.

Figure 6.13 Existence of Code of Conduct in Organisations

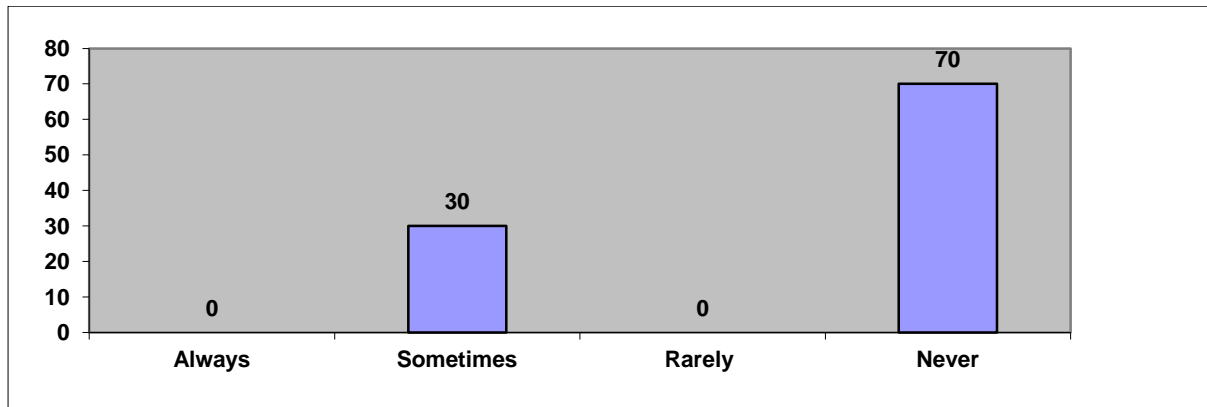


Sixty three percent of the respondents answered that they were guided by some form of a code of conduct while 47% did not feel that their organisations had any form of code of conduct. The above responses show that a good number of organisations may not be complying with this recommendation by both the King III report (2009) and the UKCC (FRC, 2010) which was also emphasised by Kaplan and Norton (2006). This may also imply that the management accountants may not be providing the expected information as custodians of ethics (Ehrhardt and Brigham, 2009) to enable the boards to recognise the importance of the codes of conduct.

Item5.2: Reports on compliance to the organisational code of conduct are presented to the board: Always/Sometimes/Rarely/Never/I don't know

The answers received were as shown in the Figure 6.14.

Figure 6.14 Provision of Reports on Compliance to the Organisational Code of Conduct

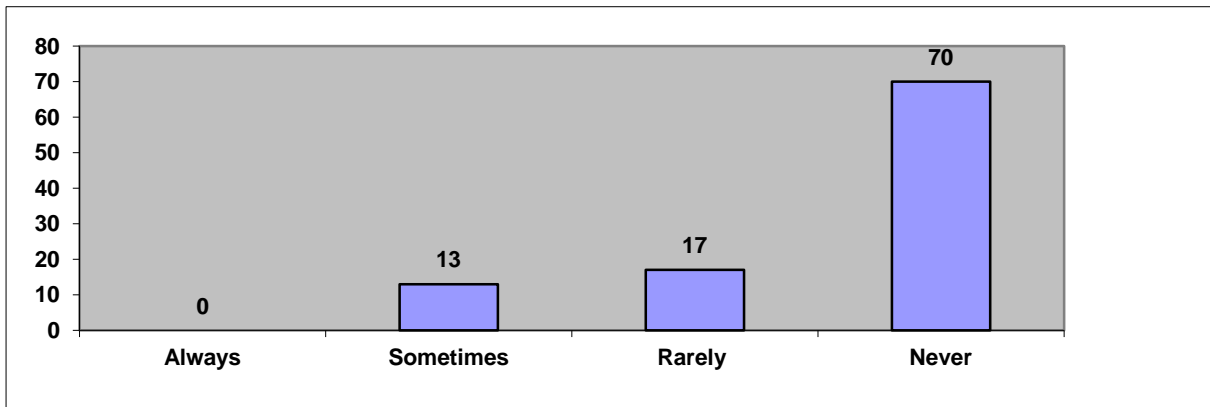


The answers received were only in two forms: sometimes and never. The majority of the respondents (70%) had not seen reports on compliance to the organisations code of conduct while 30% only saw them sometimes. These responses may emphasise the above observation that management accountants may not be providing the expected information as custodians of ethics (Ehrhardt and Brigham, 2009) to enable the boards recognise the importance of codes of conduct.

Item5.3: Reports on cost and benefit of compliance with the corporate governance guidelines of the industry are prepared: Always/Sometimes/Rarely/Never/I don't know

The responses were as shown in the Figure 6.15.

Figure 6.15 Provision of reports on cost and benefit of compliance to the organisational code of conduct



Seventy percent of the respondents answered that they had never seen any such reports in their board meetings. 17% only saw them rarely while 13% sometimes saw these cost and benefit reports. Since these are management accounting reports, it shows that it may be the management accountants who are not performing their duties as expected.

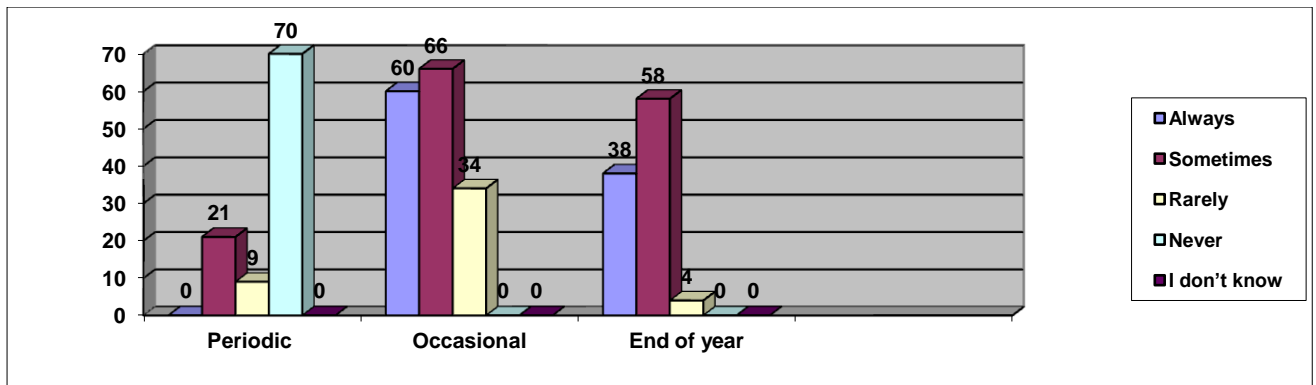
Item 5.4: What types of reports are presented to the board to monitor compliance?

Three suggestions were made as follows:

- Periodic reports on all areas of compliance: Always/Sometimes/Rarely/Never/I don't know
- Occasional reports when there is a compliance crisis: Always/Sometimes/rarely/Never/I don't know
- End of year general comments in the annual returns on compliance: Always/Sometimes/Rarely/Never/I don't know

The responses were as shown in the Figure 6.16 below:

Figure 6.16 Reports presented to the board to monitor compliance



Regarding periodic reports on all areas of compliance, 70% responded that they never had such reports. 9% responded that they rarely had them while 21% sometimes saw them. On the suggestion of occasional reports when there is a compliance crisis 66% responded that they sometimes saw such reports while 34% answered that they rarely saw them. Regarding end of year general comments in the annual returns on compliance 38% of the respondents responded that they always saw it in the annual report while 58% sometimes saw it in such returns. The rest (4%) answered that they rarely saw them even in the annual report.

The above responses imply that management accounting reports are mostly presented at the end of the year. This may be to support the annual report of the directors on compliance rather than to assist the organisation to create and sustain value for its stakeholders.

6.4.1 Concluding Remarks for Section Five

Regarding use of management accounting information in ensuring compliance the research found:

- Although the majority of the organisations had some form of code of conduct, the boards were not given enough management accounting information to assist them in ensuring compliance to their codes.
- Most of the reports on compliance were not management accounting-oriented e.g. 70% had never been presented with a cost and benefit report on compliance with the corporate governance guidelines.
- It was also realised that in many of the organisations reports on compliance are not periodically presented to the board. In such cases, the directors only read about compliance in the annual reports prepared by senior management.

6.5 General Conclusion

The objective of this study was to establish the extent to which organisations in Botswana use management accounting to facilitate the achievement of effective corporate governance, by assisting the boards to fulfil their responsibilities. The study, using the questionnaire, investigated the practices of boards of directors of companies in Botswana after establishing, through the literature review, the fact that management accounting can enable effective corporate governance. This chapter was a continuation of Chapter 5 analysing the findings of the study which had been set on the hypothesis that:

Organisations in Botswana do not utilise management accounting information at the board level to enable them to deliver effective corporate governance. This may be because:

- the organisations lack dedicated and effective management accounting systems, or
- management accounting systems don't provide sufficient and appropriate information that can assist the board and other stakeholders in their assessments and decision making, or
- the board and other stakeholders do not utilise available management accounting information, or
- the board and other stakeholders don't even know how to utilise the available management accounting information.

From the above analysis it has been established that:

1. The need for management accounting information in supporting corporate governance is undisputable.
2. On many boards directors have failed to utilise such readily available management accounting information to assist them in making meaningful contributions to the company debates and arriving at quality decisions.
3. However in some areas, especially where qualitative management information is required, management accountants have either failed or neglected to provide the information, therefore rendering the boards ineffective in such areas as they only have to rely on reports from senior management.

The next chapter will summarise the findings as analysed in Chapters 5 and 6. It will then provide recommendations, based on the literature reviews made in Chapters two and three, to the boards of directors to enable them to utilise management accounting as a tool for delivering effective corporate governance to their stakeholders.

CHAPTER 7

SUMMARY AND RECOMMENDATIONS

7.1 Introduction

This chapter summarises the research findings and makes recommendations about the hypothesis and the best way for organisations to improve corporate governance using management accounting. The objective of this study was to highlight the importance of management accounting to corporate governance. The title of the study was intended to point out that management accounting can indeed be a valuable tool for the boards of directors to achieve efficient and effective corporate governance of their organisations.

The research was premised on the hypothesis that organisations in Botswana do not utilise management accounting information at the board level to enable them to deliver effective corporate governance. Hence it set out to establish the extent to which management accounting is utilised by companies in Botswana in assisting boards to carry out their functions of ensuring corporate governance.

The research first established through the literature reviews that management accounting had various tools (which can be used in management accounting report form) to facilitate decision making at board level hence resulting in effective corporate governance. The study set out to establish whether management accounting was utilised to assist the board in delivering effective corporate governance.

Hence the objectives of the research were to investigate:

1. Whether Boards of directors take definite steps to ensure that they fulfil their responsibilities.
2. Whether the organisations have dedicated and effective management accounting systems.
3. Whether management accounting systems provide sufficient and appropriate information that can assist the board and other stakeholders in their assessments and decision making.

4. Whether the boards and other stakeholders utilise available management accounting information in making decisions that affect their corporations.
5. Which factors limit the existing management accounting systems from supporting effective application of corporate governance systems.

Data were collected by means of a questionnaire, personal interviews, and document analysis. The research findings were analysed in five sections, according to the questionnaire. The five areas of responsibilities of the boards in implementing effective corporate governance, governance provided a convenient framework for analysing questionnaire data. They were derived from Kaplan and Nagel (2004) and are as follows:

1. Approve and monitor organisation strategy.
2. Approve major financial decisions.
3. Select the CEO, evaluate the CEO and senior executive team and ensure executive succession plans.
4. Provide counsel and support to the CEO.
5. Ensure compliance.

7.2 Summary of the Findings

The research established the following in companies in Botswana:

7.2.1 Strategy Approval and Monitoring

The various organisations in the study have what they referred to as the management accounting departments which provided some management accounting information. However the study showed that there was insufficient use of management accounting tools and the knowledge the directors had of their organisations and management is not sufficient. This implied that the organisations were not supplied with sufficient management accounting information.

It was further noted that directors' contributions in debates about formulating and monitoring of organisational strategy are less than sufficient and that the company strategy is only discussed every 12 months in the majority of the organisations. This made it evident that the boards of directors are not employing management accounting information to its full potential.

7.2.2 Approval of Major Financial Decisions

The majority of the respondents have audit committees and at least 40% of the organisations have members of the board who have got specific financial qualifications. However it was observed that a big percentage of boards of directors don't use common management accounting tools on their boards. This implied that Management accounting reports are not adequately presented to the board during financial discussions.

It was also noted that the board's debate before making major financial decisions is not sufficient in most companies (in 69% of the respondents). The study concludes that even where some boards do receive management accounting information the directors in those organisations rarely take enough time to utilise the information hence tending towards rubber stamping the decisions already made by the senior management.

7.2.3 Evaluation of the CEO and Senior Executives

Most of the organisations have recruitment sub-committees. However most organisations did not get individual director's performance reports, and therefore evaluations of CEOs and senior management officials are merely done annually just before the annual general meetings, mainly from the financial results of the operations.

The study also noted that many of the directors are seconded to the board by shareholders hence the periodic assessments do not affect their contracts. This implied the need for management accounting reports as such boards may take management accounting information produced periodically, as mere detail which they may not require. Hence management accounting information, in form of the non-financial reports, is not adequately presented to the boards, to facilitate decision making, under this responsibility.

7.2.4 Provision of Counsel and Support to the CEO

Many organisations did not have provisions and funds for directors to source independent advice from experts on certain issues affecting the company. It was also observed that most of the directors were neither sufficiently qualified nor experienced in the sectors of the companies where they were appointed. They could therefore only depend on the quality of management accounting information provided, to offer support and counsel to the CEOs. Unfortunately, the management accounting reports provided were not comprehensive enough

to enable the directors to offer support and counsel to the CEOs. Thus the boards did not give sufficient support and counsel to the CEOs.

7.2.5 The Use of Management Accounting Information in Ensuring Compliance

The majority of the organisations had some form of a code of conduct. However, it was realised that, in many of the organisations, reports on compliance to the organisation's code of conduct are not periodically presented to the board. Most respondents only read about compliance in the annual reports prepared by senior management.

It was also observed that most of the reports on compliance were not management accounting oriented e.g. 70% had never been presented with a cost and benefit report on compliance with the corporate governance guidelines. The study concluded that boards of directors are not given enough management accounting information to assist them in ensuring compliance to their codes.

7.3 Recommendations

Based on the literature review the study devised a set of guidelines to enable directors utilise management accounting as a tool which can enable them deliver good corporate governance. Mephram(1980)stated that many real life problems are too complicated to be comprehended without the simplification which the use of an appropriate model gives.

The following table (Table 7.1) derived from the five responsibilities of the board, as pointed out by Kaplan and Nagel(2004) , can provide a framework of the management accounting reports needed to facilitate good corporate governance by supporting the decision making processes.

Table 7.1 Management Accounting Reporting For Corporate Governance

Directors responsibilities	Decision requirements	Management accounting reports needed
1 Approve and monitor organisation strategy	<ul style="list-style-type: none"> • Strategic choice and development 	<ul style="list-style-type: none"> • Environmental analysis • Gap analysis • SWOT analysis • Expected values of alternative strategies
2 Approve major financial decisions	<ul style="list-style-type: none"> • Investment or divestment 	<ul style="list-style-type: none"> • Investment appraisal • Project performance reports
3 Evaluate CEO and senior executive teams	<ul style="list-style-type: none"> • Performance of individual directors and senior executives • To evaluate group performance of senior executive teams or strategic geographical or business units. 	<ul style="list-style-type: none"> • Individual performance reports for directors and senior managers • Group performance reports for the board of directors, major departments or strategic geographical or business units. • Reports comparing overall company performance with industrial and economic performance.
4 Provide counsel and support to the CEO	<ul style="list-style-type: none"> • To assist CEO to avoid technical and legal traps. • To identify emerging trends in business and keep the CEO and company abreast. • To assist C E O and the company achieve global competence. 	<ul style="list-style-type: none"> • Benchmarking reports • Competitor analysis report. • Continuous periodic environmental update reports. • Balanced scorecard report on overall performance.
5 Ensure compliance	<ul style="list-style-type: none"> • To ensure that the company complies with the international corporate governance guidelines • Whether to diverge from corporate governance guidelines them and provide explanations to the stakeholders. 	<ul style="list-style-type: none"> • Continuous periodic compliance update report. • Report on costs of non-compliance (including penalties, litigation costs, capital flights etc.)

7.4. Conclusion

Given the importance of corporate governance in the current times and the increased responsibilities that stakeholders place on the shoulders of directors, it would be very disturbing if directors ignore the importance of management accounting in assisting them to execute their duties efficiently and effectively. Over time management accounting has developed and perfected a number of tools that can be used in various decision making situations.

Boards of directors have unfortunately been denying themselves enjoyment of these tools by relegating management accounting to the managers and technical staff. Only in some instances, individual directors with financial qualifications, or those who have been elevated from senior management level, may use these tools and they will excel in their contributions at the board meetings.

The study recommends that for the directors to execute their duties efficiently, they have to establish strong management accounting departments and call for the management accounting reports from the senior management level up to the board level and regularly use them to facilitate their decision making processes. Because for every decision the board has to make, there is a need for management accounting information to support it.

7.5. Future Work

Management accountants may need to re-style their presentation to make them less technical without losing the required detail. At the same time the presentation need to be user friendly to board members who may not have financial back grounds. This may interest the directors to utilise the information hence make meaningful contributions to the board debates and eventually fulfil their duties of delivering effective corporate governance to their organisations.

However, well prepared reports may not be useful if the directors are not aware of their existence. Therefore it may be necessary, at the time of orientation of the directors, for management accountants to present their duties to the board, highlighting the types of reports management accountants can produce to assist the board and how they can be utilised to assist in decision making.

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Appendix A – Covering Letter

Mayanja MK

Private Bag BO 84

Gaborone

Botswana

(Mobile Number +267 72143161)

10th October 2008

The

.....
.....
.....

Dear Sir/Madam

RE: REQUEST TO PARTICIPATE IN A RESEARCH STUDY

I am a Professional Management Accountant who is interested in developing both the Accounting Profession and my capabilities through research.

I am currently pursuing a Masters Degree programme in Commerce at the University of South Africa (UNISA) which requires me to present a report on research conducted in my field.

For my research study, I am investigating the use of Management Accounting information in enabling good corporate governance of companies in Botswana. Your organisation has been selected to be part of the study.

The purpose of this communication is to kindly request you to spare some time to respond to the attached questionnaire.

For each question there are a number of options to pick. It requires ticking the most appropriate option in the adjacent box.

The information that you provide shall only be used for study purposes and shall not be shared with anyone. The highest levels of confidentiality and ethics shall be maintained. Should you be interested in the findings of the study, you may indicate your address at the bottom of the questionnaire and they shall be provided to you at the end of the study.

Looking forward to a positive response from you

.....

Yours faithfully

Mayanja MK

Appendix B – Informed consent

Informed Consent to Participate in a Research Study

Title of the Research project: Management accounting a tool for corporate Governance: a case for Botswana.

I, (name of the subject)_____ agree to participate in the research study that has the title shown above.

I understand that the purpose of the study is to investigate the use of Management Accounting information in enabling good corporate governance of companies in Botswana.

The research study is being carried out by (name of the researcher) Mr. Mohammed Kwanya Mayanja

I understand that I will be one of approximately 50 subjects participating in this study, and that my participation will involve filling up a questionnaire which takes about fifteen minutes.

My participation in this study is voluntary. I understand that participating in this study may not benefit me directly, but that the results may benefit others in the future. There are no known risks to me if I choose to participate. I understand that my participation will not cost me money, and that I will not be paid for participating.

I understand that my participation will be confidential and that I will not be identifiable by others as a participant. However, a summary of information obtained from all participants may be published and provided to relevant agencies.

I have had an opportunity to ask questions about this study and if, within the next month, I have additional questions about my participation in this study I may get further information from Mr M K Mayanja (+267 72143161), private Bag BO 84 Gaborone. I understand that after agreeing to participate, I can end my participation at any time without any prejudicial outcome to myself.

_____	_____	_____
Subject's name (print)	Subject's signature	Date

_____	_____	_____
Researcher's name (print)	Researcher's Signature	Date

Appendix C – The Questionnaire

QUESTIONNAIRE

Practices Related to the Use of Management Accounting to Facilitate Corporate Governance
in Corporations in Botswana

Dear respondent, in responding to the questionnaire your most appropriate response to the questions should be indicated by a tick against the option.

Demography of Respondents

I. What is your position in the company?

II. What is the **nature of business** your company is involved in?

Manufacturing

Services

III. What is the size of your company in terms of **the number of employees** that you have?

1 to 50 From 51 to 100 From 101 to 150 From 151 to 200 From 200 above and

IV. What was the **turnover in millions of Pula** of your company last year?

≤ 50 From 51 to 100 From 101 to 150 From 151 to 200 From 200 above and

Section A: Strategy approval and monitoring

1.1. Does the organisation have personnel in charge of management accounting? YES NO

1.2. The company has an induction programme for newly appointed directors, which covers an overview of the company's operations

Always Sometimes Rarely Never I don't know

1.3. To what extent has the board of directors discussed the current company strategy?

To a large extent To a some extent To a small extent Not discussed at all I don't know

1.4. How often does the board of directors review the company strategy?

Never Rarely Every 3 months Every 6 months Every 12 months

1.5. How do the directors get supporting information for review of the strategy?

Management accounting reports are sent along with the notice and agenda for the meeting

Always Sometimes Rarely Never I don't know

Management accounting reports are presented during the discussions at the time of the meeting?

Always Sometimes Rarely Never I don't know

Management accounting reports are provided if and when requested by the directors

Always Sometimes Rarely Never I don't know

No need for management accounting, issues are discussed as they come in the meetings

Always Sometimes Rarely Never I don't know

1.6. Reports on the following aspects are presented to boards of directors.

	Always	Sometimes	Rarely	Never	Don't know
Gap analysis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
SWOT analysis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Environmental analysis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Balanced scorecard	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Others (specify).....

1.7. The knowledge theboard of directors has about your organisation and its management is

Very sufficient Sufficient A little sufficient A little bit Not sufficient at all I don't know

1.8. Should management accounting reports be presented to directors prior to coming to meetings?

YES

NO

Give reasons for your answer.....

1.9. The contribution of directors on your board to the strategy debates is

Very sufficient

Sufficient

A little
sufficient

bit

Not sufficient at all

I don't know

Section B: Approval of major financial decisions

2.1 Does the board have an audit committee?

YES

NO

2.2 How many members of your board of directors have the following financial qualifications

None

1 -3

4-6

Over 7

CIMA

ACCA

Masters in Finance

Bachelors in finance

AAT

Others (specify).....

2.3 (a) Are there specific financial issues reserved for the board's exclusive consideration, e.g. large financial commitment, capital asset procurement.

YES NO

(b) Issues related to large financial commitment are reserved for the boards exclusive consideration

Always Sometimes Rarely Never I don't know

(c) Issues related to capital asset procurement are reserved to the boards exclusive consideration

Always Sometimes Rarely Never I don't know

2.4 Reports on the following aspects are presented to the board of directors during financial discussions

Always Sometimes Rarely Never I don't know

Net Present Value (NPV)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Internal Rate of Return (IRR)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Payback period	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Others (specify).....

2.5 The constructiveness of the debate by the board of directors before making major financial decisions is

Very sufficient	<input type="checkbox"/>	Sufficient	<input type="checkbox"/>	A little bit sufficient	<input type="checkbox"/>	Not sufficient at all	<input type="checkbox"/>	I don't know	<input type="checkbox"/>
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Section C: Evaluation of CEO, Senior Executives and Boards' performance

3.1a) Does the board have a recruitment sub-committee?

YES

NO

b) If yes how many people sit on the committee?

.....

3.2 How many members of your current board were put in office in the following way?

After scrutinising their CVs by the recruitment sub-committee

none	<input type="text"/>	1 -3	<input type="text"/>	4-6	<input type="text"/>	Over	<input type="text"/>
						7	

They were seconded to the board by the major shareholders (e.g. government).

none	<input type="text"/>	1 -3	<input type="text"/>	4-6	<input type="text"/>	Over	<input type="text"/>
						7	

They were solicited from other boards

none	<input type="text"/>	1 -3	<input type="text"/>	4-6	<input type="text"/>	Over	<input type="text"/>
						7	

They were head hunted by recruitment agencies

none	<input type="text"/>	1 -3	<input type="text"/>	4-6	<input type="text"/>	Over	<input type="text"/>
						7	

3.3 Individual performance reports of directors and senior executives are presented to the board prior to the meeting renewing their contracts

Always Sometimes Rarely Never I don't know

3.4 How does the board review its own performance?(you may select more than one if applicable)

Prepares a report at the annual general meeting.

Periodically by looking at the critical success factors

No need since the shareholders will determine that by voting

Others (specify below)

<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>

.....

Section D: Provision of Counsel and Support to CEO

4.1 The level of business skills of non-executive directors of your organisation is

Very relevant Relevant A little bit relevant Not relevant at all I don't know

4.2 The level of experience of non-executive directors in the sector of your organisation is

Very relevant Relevant A little bit relevant Not relevant at all I don't know

4.3 How comprehensive are the following reports that are presented to the boards of directors?

	Very Comprehensive	Comprehensive	Abbreviated	None is presented
Balanced scorecard	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Benchmarking	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
SWOT analysis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Competitor analyses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Any other reports presented to the board (specify).....

4.4 Your organisation has provisions for directors to take independent advice on certain issues affecting the company

Always Sometimes Rarely Never I don't know

4.5 Your organisation has funds for directors to take independent advice on certain issues affecting the company

Always Sometimes Rarely Never I don't know

4.6 The level of the support given by your board of directors to the CEO is

Very sufficient Sufficient A little bit sufficient Not sufficient at all I don't know

4.7 The level of the counsel given by your board of directors to the CEO is

Very sufficient Sufficient A little bit sufficient Not sufficient at all I don't know

Section E: Ensuring Compliance

5.1 Are the operations of your organisation guided by a particular code of conduct? YES NO

5.2 Reports on compliance to the organisational code of conduct are presented to the board

Always Sometimes Rarely Never I don't know

5.3 Reports on cost and benefit of compliance with the corporate governance guidelines of the industry are prepared

Always Sometimes Rarely Never I don't know

5.4 What types of reports are presented to the board to monitor compliance?

	Always	Sometimes	Rarely	Never
Periodic reports on all areas of compliance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Occasional reports when there is a compliance crisis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
End of year general comments in the annual returns on compliance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Any other (please specify).....				

What other issues do you wish to comment on about corporate governance and how the management accounting systems facilitate corporate governance in your organisation?

Issue 1 _____

Issue 2 _____

Issue 3

Please indicate whether you would be interested in the findings of the study and provide your address.

Appendix D – The Interview Guide

PART A: STRATEGY APPROVAL AND MONITORING

- 1- Do you feel that your board of directors have sufficient knowledge of your organization and its management?
- 2-Do you think management accounting reports should be presented to directors before they come to meetings?
- 3- Do you think most directors on your board are contributing enough to the strategy debates?

PART B: APPROVAL OF MAJOR FINANCIAL DECISIONS

- 1- Do you feel that your board of directors carries out constructive debate before making major financial decisions?

PART C: EVALUATION OF CEO AND SENIOR EXECUTIVES

- 1-How are the directors put in office?

PART D: PROVISION OF COUNSEL AND SUPPORT TO THE CEO

- 1- What types of reports are presented to the board to monitor compliance?
 - i- Periodic reports on all areas of compliance.
 - ii- occasional reports when there is a compliance crisis.
 - iii-End of year general comments in the annual returns on compliance.
 - iv-None