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Studying the Relationship Between Accounting and Budgeting and Strategic Planning in Manufacturing Firms of Iran

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ABSTRACT

Management accounting (planning and budgeting) involves all the procedures necessary to ensure that the firms annual management accounting cycles are carried out effectively and in particular the financial information needed to support this process is provided in and efficient and timely manner .The purpose of this paper is to examines the relationship between management accounting and budgeting and strategic planning in manufacturing firms of Iran..A field research conducted among medium and large-sized firms, using a probabilistic sample from a population of 140 firms. Using analytic hierarchy process and statistical group analysis, the grouped the entities' strategic budget planning processes into five profiles, after which applied statistical tests to assess the five groups. Although treating strategic planning and budget as independent issues, this study consider these two variables together in the group analysis.The study concludes that poor or fully implemented strategic and budget-planning processes relate to the management accounting profiles of the iranian manufacturing firms studied. The results show that, at least for the sample considered, a relationship existed between the firms planning processes and the profiles of their management accounting attributes.

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INTRODUCTION

Management accounting:

Management accounting (planning and budgeting) involves all the procedures necessary to ensure that the firms annual management accounting (planning and budgeting) cycles are carried out effectively and in particular the financial information needed to support this process is provided in and efficient and timely manner. The technical competency dictionary, however, reflects the fact that the ownership of the plans and budgets ultimately rests with the departments which financial managers serve – the responsibility of the planning and budgeting(management accounting) specialist is to provide advice, support and technical and professional expertise to assist line managers in fulfilling their responsibilities.

National Association of Accountants of the United States issued its first definition in 1981 with the document entitled Defining Management Accounting, which management accounting defined as:The process of identifying, measuring, accumulation, analysis, preparation, interpretation, and communication of financial information used by management to plan, evaluate, and control organization and ensure proper use and management responsibility resources. Management Accounting also includes the preparation of financial reports for non management groups such as shareholders, creditors, regulatory agencies and tax authorities ".Therefore, managerial accounting is concerned with providing information to managers. People are within an organization, leading and controlling its operations.

The management accounting information system affects potentially on the presentation of the financial information related to pricing the products and services and other investment items to the managers to permanently make decision about the affairs, plan, control, assign and improve them. In fact, management accounting can present the information required by the objectives defined in the strategic process and performance assignment (zanini, 2007).

In order to manage the business and achieve organizational efficacy, the organization takes some elements into account, such as organizational structure, management style and the management control system that includes the management accounting system (Govindarajan,1988). Particularly the management control system is an important mechanism, responsible for the design and implementation of strategies. In terms of range and

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reliability, the provision of managerial information that feeds the planning and control processes is critical. Such a management control system consists of two dimensions: (i) information selection; and (ii) information presentation. The first relates to the selection of appropriate management accounting information. The second refers to the techniques of management control adopted by organizations, including traditional ones like strategic planning and budgeting. The relationship between these two dimensions of the management control system determines the design of the management control system (Ferreira and Otley, 2006).

Budgeting:

Abdel-Kader and Luther (2006) has defined budgeting as an important tool for forecasting and controlling the activities within an organisation and for allocating the entity's resources so as to achieve its objectives and goals. Drury *et al*. (1993) have also highlighted that there are different forms of budgeting such as activity-based budgeting (ABB) and activity-based costing (ABC).

Budgets are necessary to highlight the financial implications of plans, to define the resources required to achieve these plans and to provide a means of measuring, viewing and controlling the obtained results, in comparison with the plans. Budgeting is considered "a dynamic process that ties together goals, plans, decision making and employee performance evaluation." (Deakin & Maher, 1991)

Perhaps one of the most critical determinants of the successful implementation of a strategic plan is the extent to which it is linked to and supported by the budget and budgeting processes. One useful technique for ensuring that the costs of proposed action plans are appropriately linked to the budgeting process is to include all relevant costs within the action plans associated with each objective. A key advantage to imbedding the budgetary implications within the strategic planning process is that it enables requests for additional funding to be supported by the results of assessment and environmental scanning processes and the resulting strategic priorities of the unit and institution. Reviewing the unit strategic plan with the administration helps inform institutional planning, budgeting, and priority setting; allows the unit plan to be informed by relevant institutional priorities, constraints, and data; and provides a degree of administrative commitment to the plan.

Strategic planning:

Nowadays, strategic planning has become one of the most popular tools to adjust the goals and mission for the success of a business plan especially in established businesses. However, for startups the case is different: despite the large numbers of research performed on strategic planning, only a small portion of them focuses on tailoring strategic planning for startups. This might be because there is not a clear method to conduct the internal analyses in a startup. Planning is one of the key and major tasks of the management accounting is to focus on the future events. In many firms, historical information can be used to evaluate the changes of the basic operations and direct the strategic operations. Management accounting plays an important role to provide the conditions of planning for supplying minor activities in the quantitative objectives

Many firms turn to strategic planning when they are in trouble, when growth is flat or falling and expenses are on the rise. This may be the worst time to begin the process. In crisis situations, money, staffing, everything is tight, so it's hard to find the resources needed to support new projects. Change cannot happen overnight. Markets explain the importance of strategic planning and provide specific steps to help media companies develop meaningful plans for their businesses. The business environment has become increasingly volatile and unpredictable in recent decades, and business management has become correspondingly more complex. In particular, increased competition has become a threat to the survival of businesses in more vulnerable sectors. In this environment, strategic planning with a view to achieving organizational efficacy is critical (Porter, 1985)

The success of strategic planning thus depends on control and evaluation on the basis of management accounting tools (which include budgeting and budgetary control). Adequate management accounting can offer the support that is necessary to the planning process as a whole. However, as Welsch *et al*. (1988) observe, the budget (which is the managers' tactical instrument) has to contain all relevant assumptions, marketing plans, production plans, supplies and inventories, human resource plans, investment plans, and financial statement projections.

Steiner (1979) considers that the strategic planning concept has the following characteristics: (i) related to the future consequences of current decisions; (ii) a process that begins by setting organizational objectives, then defines the strategies and policies to reach them, and, finally, develops detailed plans to guarantee that the strategies are implemented; (iii) an attitude—that is, strategic planning is more than an intellectual exercise; and (iv) responsible for the links among longterm strategic plans, medium-term programs, short-term budgets, and operational plans. The budget is the tool that enables the strategic plan to meet its objectives.

The present study examines how the attributes of the information produced by the management accounting system affect the selection of management control techniques (Ferreira and Otley, 2006). The premise of this study is that the nature of the planning process, which includes strategic planning and budget, varies in accordance with the accounting profile tools that firms implement. Some firms implement all tools according to the conceptual framework, whereas others present less-developed profiles in terms of these tools (Frezatti, 2005). This study intends to add to the literature the qualitative discussion of the planning process in a more ambitious dimension than to simply identify whether the process exists or not, perceiving if different planning process profiles require peculiarities in terms of the attributes of the management accounting system. Consequently, the development itself and demand of management accounting can be understood in a broader way on the basis of this associative analysis.

1. Methodology:

1.1. Previous Research:

Strategic planning literature usually predicts that the use of a strategic planning process positively affects profitability, and this positive effect has been its major objective since at least the 1960s (Pearce *et al*., 1987).

Various studies have reached differing conclusions from analyses of the relationship between strategic planning and performance. According to Brock and Barry (2003), this divergence results from: (i) inconsistencies in putting plans into action; (ii) ignoring contextual influences; and (iii) invalid measuring techniques. The last item includes weaknesses in accounting data. In this regard, Peel and Bridge (1998) suggest that the use of accounting-based measures, such as revenue, is one reason for the divergence. As Bracker and Pearson (1986) observe, this lack of convergence occurs because accounting-based performance measures have two inherent weaknesses: (i) a lack of homogeneity in accounting data; and (ii) non-availability of data for small firms.

O'Regan and Ghobadian (2002) identify some barriers to the implementation of formal strategic planning—including a lack of relevant and adequate information, which is central to the strategic planning process for companies that use this process formally.

As Andersen (2000, p. 184) observes, a relation normally exists between a failure to show a positive association between strategic planning and performance and “a tendency not to emphasize the role of strategic planning.” Management accounting can thus contribute to poor strategic planning—either because information is inadequate or absent, or because information has been badly used.

Oliveira (1985) categorizes the most common strategic planning flaws as occurring: (i) before the start of the elaboration (of planning); (ii) during the elaboration; and (iii) during the implementation. Among the flaws in the first category, Oliveira (1985,p. 35) refers to not preparing the ground for strategic planning inside the company [and] not scheduling the system for the control and evaluation of strategic planning. Establishing the criteria and parameters, as well as the necessary information system for the adequate control and evaluation of strategic planning, is fundamental for the executive.

According to Shank and Govindarajan (1997), “... accounting exists in administration mainly to facilitate the development and implementation of business strategy.” They considered administration to be a cyclical process that involves four phases: (i) the formulation of strategies; (ii) the communication of these strategies throughout the organization; (iii) the development of tactics, and putting these tactics into practice to implement the strategies throughout the entire organization; and (iv) the development of controls to monitor the implementation steps and to assess success in reaching strategic goals.

Shank and Govindarajan (1997) also note that accounting has a role to play in each of these phases. In the first phase, accounting information constitutes the basis for financial analysis by facilitating the identification of financially practicable strategies. In the second phase, the accounting reports represent an important tool for communicating the basic aspects of the strategy. In the third phase, accounting information facilitates the identification of the most efficient tactical program to reach the company's goals. Finally, accounting has an important role to play in monitoring the performance of managers and business units—in terms of standard costs, expense budgets, and annual profit plans.

The selection and utilization of management control techniques determine the profile of the management information system (Ferreira and Otley, 2006). The attributes of the information generated by the system depend especially on the techniques employed for strategic planning and budget. Ferreira and Otley (2006) demonstrate the presence of a relationship between conventional management control techniques, such as strategic planning and budget, and traditional management control information.

Altaani and Khasharmeh (2004) examined the level of using the management accounting methods in public universities of Jordan and identified the barriers to use these methods. The authors regarded not knowing the importance of using these methods by the financial governments, the government's resistance to change and the absence of an efficient human cadre able to use these methods as the most important barriers. At the end of the research, the authors suggest using the management accounting methods to control and evaluate the efficiency and to improve the productivity of the human resources, especially in terms of accounting and finance.

Ioana-Diana bufan(2013) examined Many managers from small Romanian companies don’t use budgets at all. This is because even though management accounting is mandatory in our country, the Romanian law doesn’t specify the penalties involved if a company doesn’t have an accounting system for internal use. Furthermore, some managers don’t understand the importance of using budgets in the management process fordecision-making. Just like in the case study, using flexible budgets can help a small company’s managers to minimize the deviation between what was planned and what is achieved. If the manager uses only a static budget, or if he doesn't use budgets at all, he may not be able to control the production costs. This may lead to serious problems in the future for the company's profitability. Budgeting and budget controlling serve two of the management's functions and that is why these activities are so important. Even in a small company, planning and control are essential in the management process.

One of Mintzberg's (1994) harshest criticisms of strategic planners is that they are distant from the day-to-day details of operations in formulating strategy—because they assume that information systems can fully inform them. This criticism becomes even more pertinent if the business does not ensure that managers receive the daily factual information that only management accounting can provide. Thus, even authors who criticize strategic planning—such as Mintzberg (1994)—refer to the need for information to assist in the formation of strategies and to assess their viability after implementation.

Horngren and Foster (1997) note that accounting "… facilitates planning, control and decision-making through budgets and other financial standards, without the systematic recording of its current results and its role in performance evaluation." These authors have also noted that a management accounting system can be efficient only when this system is consistent with the organization's goals and strategies.

1.2 Hypotheses:

Regarding the research elements, research hypotheses are presented as follows:

H0**:**There is not a relationship between the firms planning and budgeting processes and the management accounting attributes

H1:There is a relationship between the firms planning and budgeting processes and the management accounting attributes

1.3. Research Method:

This research has a field research. All questions were close-ended. Moreover 5-point Likert Scale is used in some questions and all were quite relevant to the study. A field research conducted among medium and large-sized firms, using a probabilistic sample from a population of 140 firms. Using analytic hierarchy process and statistical group multivariate analysis, the grouped the entities' strategic budget planning processes into five profiles, after which applied statistical tests to assess the five groups. Mann–Whitney test applied to analyze the distinct groups and to test the hypotheses with a 95% significance level. Because the theoretical model included 26 variables, the determination of an acceptable significance level considered the transformation of 0.05. The data analysis compared each group with the sum of all the other groups.

1.4. Research Variables:

Strategic planning variables: vision, mission, scenarios ,strategies and long-term objectives, and long term operational plans

Budgeting Variables: assumptions , marketing plan ,production/services plan, supplies, inventories , human resource plan , capital budget , and projected financial statements.

Management accounting variables: selection and information presentation

1.5. Validity and reliability of measurement tools:

We have used Cronbach's alpha test to verify the reliability of the survey questionnaire and to test its validity using confirmatory factor analysis. Cronbach alpha for management accounting and budgeting and Strategic Planning were 0.96, 0.841and 0.91, respectively and an overall Cronbach alpha was 0.90. As we see, Cronbach's alpha values of all variables are greater than 0.7, which validates our results. On the other hand, all load management accounting and budgeting and Strategic Planning relationship factors were greater than 0.5 and based on the results we can conclude that the questionnaire has good reliability and validity.

1.6 .Sample and Scope of the research:

The study population included manufacturing firms that are active in iran.Statistical population of this research included 140 firms whose capitals were more than 1000000 dollars and revenue that exceeds 100000 dollars/year and had departments of industrial accounting and management accounting. From the total of 140 firms, by systematic sampling method, 100 firms were chosen. Questionnaires were distributed among financial managers and experts of studied sample firms and as a result their comments were collected The source of firms information in defining the study population was the database developed by Tehran Stock Exchange. The sampling volume for each class, shown in table 1, is acquired by making use of classification method and proper allotment method.

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Table 1: The manner of distributing statistical samples.

Rows	Product group	number	Sampling volume
1	Chemical and petrochemical	10	8
2	Foods and drinks	48	37
3	Automobile	6	4
4	Plastic and rubber	12	5
5	Textiles	5	4
6	Paper and cellulose	10	8
7	Hygiene, cleaning and cosmetics	15	6
8	Metal industries	18	14
9	Pharmaceutical	12	10
10	Iron extraction and metallurgy	4	4
Total		140	100

Table 2: Groups and centroids distribution.

Description	group 1	group 2	group 3	group 4	group 5
Meaning	The most adherent	High budget and low SP	The least adherent	High SP and low budget	Highest budget and low SP
Strategic plan	14,3	7,1	3,8	12,6	7,7
Budgeting	18,3	11,8	2,9	5,5	18,1
Number of firms	40	18	14	12	16
% on total of sample	40	18	14	12	16

2. The Results Analysis:

Table 2 presents the arrangement of the groups according to the centroids.

Group 1: the most comprehensive group in terms of both strategic plan (14.3) and budgeting (18.3). This group included 40 firms that had both a strategic plan and a tactical plan in accordance with the conceptual framework. This configuration is likely to cope with the theoretical approach of high adherence of budget to strategic planning.

Group 2: intermediate level with more emphasis in budgeting (7.1) than strategic planning (11.8). Total of 18 firms. This group included the firms that had tactical concerns, but relatively little support for strategic planning.

Group 3: this group was the simplest group in both strategic planning (3.8) and budgeting (2.9). This group included of 14 firms.

Group 4: intermediate level with more emphasis on strategic planning (12.6) than on budgeting (5.5). This group included 12 firms. Although concerned about the strategic plan, these organizations had little support from the budget. As consequence, the expectation is that strategic planning is the main focus of process and weak tool to implement the planned actions.

Group 5: strong emphasis on budgeting (18.1), but intermediate concern for strategic planning (7.7). This group included 16 firms.

Table 3: Management accounting attributes and strategic (SP) and budget (B) planning profile groups with lower.

Attributes	groups				
Selection	1	2	3	4	5
Monthly balance sheet	0.000 (yes)				
Cash flow statement	0.001 (yes)				
Cost accounting		0.002 (no)			
Capital budget	0.000 (yes)		0.000 (no)	0.000 (no)	0.002 (no)
Long-term planning and forecasts	0.000 (yes)		0.000 (no)		
Long-term criteria for performance evaluation				0.000 (no)	
Presentation					

Based on the results, (Table3) the null hypothesis (H0) was thus rejected, and hypothesis H1 was confirmed. For this sample, the planning profile was associated with the attributes of management accounting. The results identified different groups as per considering the management account structure of attributes, in comparison with its construct, from the one that is the poorest one up to the most adherent. An important implication is the association between the most adherent profile from the planning perspective and the poorest, less adherent profile from the perspective of management accounting. The contrary is also true, the most adherent and complete is the one that has the most adherent planning structure. The results demonstrated that a size characteristic is not present due to the fact that the most adherent group is the one relatively balanced.

3. Conclusion:

In this paper, we to asses relationship between accounting and budgeting and Strategic Planning in manufacturing firms of Iran. Five groups of firms were identified, each with a different approach to a comprehensive planning process. Some placed more emphasis on strategic planning, some placed greater emphasis on budget, and others covered both. These differences reflected different approaches to coping with specific management needs. The results demonstrate that, at least for the sample considered, a relationship existed between the firms planning processes and the profiles of their management accounting attributes. The most comprehensive profile from the perspective of planning (group 1) was most in accordance with the literature from the perspective of the strategic plan and the budgeting elements predicted. At the other extreme, the profile that was least in accordance with the literature (group 3) was the poorest from the perspective of the planning process. The most significant conclusion to be drawn is that poor configuration of the planning process comes from poor configuration of the management accounting attributes. Managers are aware of their needs and the resources firms require to provide support for proposed actions. The findings of this study enable managers to understand different profiles and to make decisions regarding the appropriate profile for their needs. Although treating strategic planning and budget as independent issues, this study consider these two variables together in the group analysis.

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