Journal of Business Research 64 (2011) 242–249

Contents lists available at ScienceDirect

Journal of Business Research

Does management accounting play role in planning process?

Fabio Frezatti [a,*], Andson B. Aguiar [a,b,1], Reinaldo Guerreiro [a,2], Maria A. Gouvea [a,2]

[a] University of Sao Paulo, School of Economics, Business Administration, and Accounting, Av. Prof. Luciano Gualberto 908, FEA3, Cidade Universitária, São Paulo City, 05508-900, State of São Paulo, Brazil
[b] Fucape Business School, Av. Fernando Ferrari, 1358, Boa Vista, Vitória-ES, 29075-505, Brazil

A R T I C L E I N F O

Article history:
Received 1 March 2009
Received in revised form 1 September 2009
Accepted 1 November 2009

Keywords:
Management accounting
Strategic planning
Budget

A B S T R A C T

This study examines the relationship between management accounting and planning profiles in Brazilian companies. The main goal is to understand the consequences of not including a fully structured management accounting scheme in the planning process. The authors conducted a field research among medium and large-sized companies, using a probabilistic sample from a population of 2281 companies. Using analytic hierarchy process (AHP) and statistical cluster analysis, the authors grouped the entities' strategic budget planning processes into five profiles, after which the authors applied statistical tests to assess the five clusters. The study concludes that poor or fully implemented strategic and budget-planning processes relate to the management accounting profiles of the Brazilian organizations studied.

1. Introduction

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). However, the formulation of effective strategies will not ensure that an entity achieves organizational efficacy unless the entity has actually implemented those strategies (Jermias and Gani, 2004; Shank and Govindarajan, 1997). This implementation requires the interposition of a particular form of strategic planning between the formulation of policies and their implementation (Mintzberg et al., 1998); moreover, the strategy implementation requires instruments that facilitate and control the effective implementation of the formulated strategies.

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 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 (Chenhall and Morris, 1986; Bouwens and Abernethy, 2000; Tillema, 2005; Gerdin, 2005). The second refers to the techniques of management control adopted by organizations, including traditional ones like strategic planning and budgeting (Gosselin, 1997; Chenhall and Langfield-Smith, 1998; Haldma and Lääts, 2002; Jermias and Gani, 2004). The relationship between these two dimensions of the management control system determines the design of the management control system (Ferreira and Otley, 2006).

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 companies implement. Some companies implement all tools according to the conceptual framework, whereas others present less-developed profiles in terms of these tools (Frezatti, 2005).

According to Scapens (1994), organizations use more recently developed accounting tools less frequently than traditional accounting tools. For the purposes of the present analysis, this research do not consider neither strategic planning nor budget as recently developed tools (Chenhall and Langfield-Smith, 1998). The study is not only concerned with *whether* they exist in an organization, but also to what *extent* they exist (in terms of complexity and usage profiles).

Examining the mutual implications of the dimensions of the management control system is relevant (Ferreira and Otley, 2006) in order to reach an understanding of the association between them. The identification of the attributes' profile can explain relevant differences

* Corresponding author. Tel.: +55 11 3091 5820; fax: +55 11 3091 5822.
E-mail addresses: frezatti@usp.br (F. Frezatti), andsonbraga@yahoo.com.br (A.B. Aguiar), reiguerr@usp.br (R. Guerreiro), mgouvea@usp.br (M.A. Gouvea).
[1] Tel.: +55 27 4009 4444.
[2] Tel.: +55 11 3091 5820.

0148-2963/$ – see front matter
doi:10.1016/j.jbusres.2009.11.008

among the entities in terms of the planning process, usage level and even satisfaction level with the use of the artifact.

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.

Considering that management accounting may have different profiles of level of structuring and that, according to these profiles management accounting may have different impacts on the strategic plan and budget, the study aims to address the following research question.

Is management accounting structure associated with the planning (strategic and budget) processes development? H1: the structure of the management accounting attributes associates with the strategic planning and budget development.

2. Literature review

This literature review focuses on the following subjects: the strategic planning process; the relationship between strategic planning and budgeting; the management accounting information system; the relationship between management accounting and the planning process; and (v) the attributes of the management accounting structure (see Fig. 1).

2.1. Strategic planning process

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). However, various studies have reached differing conclusions from analyses of the relationship between strategic planning and performance (Armstrong, 1982; Glaister and Falshaw, 1999; Andersen, 2000; Rogers and Bamford, 2002). 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. In this context, Rogers and Bamford (2002) note that the key organizational issue in the future will be information management and the strategic planning process has to emphasize the types of information that support the company's strategic orientation No process requires greater coordination and information input than an organization's planning process.

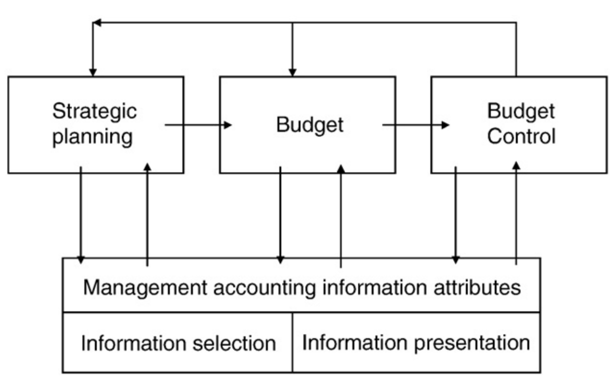

Fig. 1. Planning and management accounting attributes association.

Apparently the management team requires a great deal of internal information to support its decision-making process and that each organization has its own configuration of needs, timing, and details. The selection of the information is critical because this selection must meet the specific needs of the organization, rather than being a mandatory specification imposed from outside the firm. Most criticisms of accounting information arise from a failure to plan the information structure according to the organization's specific requirements or needs. The authors do not intend to investigate possible reasons for that, like life cycle and cost–benefit evaluation, but the availability of the information structure, captured by the attributes profile is the main point of the research.

According to Fischmann and Almeida (1993), the strategic components of the planning process are: vision, mission, long-term objectives, scenarios, and operational plans (as shown in Table 1).

2.2. Relationship between strategic planning and budgeting

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 long-term 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.

In creating the links, especially the connection between the long-term plans and the short-term budgets, the association between strategic issues and tactical issues becomes especially relevant to the development of the planning system as a whole—thus avoiding either an ethereal approach (which lacks contact with business reality) or an exclusively tactical process (which lacks consideration of the overall strategic objectives of the company). Neither of these extremes provides the process with the necessary balance.

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

Table 1
Elements of strategic planning and budget.

Strategic planning	Budget
1. Vision	1. Assumptions
2. Mission	2. Marketing plan
3. Strategies and long-term goals	3. Production and logistic plan
4. Scenarios	4. Human resources plan
5. Long-term operating plan	5. Capital budget
	6. Projected financial statements