

THE IMPACT OF BUSINESS STRATEGY ON BUDGETARY EVALUATION IN MOROCCAN FIRMS: AN EMPRICAL STUDY

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Abstract

Since Hopwood's (1972) paper, budgetary evaluation or RAPM (Reliance on Accounting Performance Measures) has provided a rich vein for several studies in management control, largely based on contingency approaches. These studies have been conducted in developed countries (USA, UK, Australia, etc.). However, this type of works is still absent in many developing countries like the Arab area for example. Using data from 62 Moroccan firms, this article attempts to highlight the impact of the business strategy on the budgetary evaluation. The results using simple linear regression and Chi Square Test of Independence indicate that the business strategy has not a significant influence on the budgetary evaluation.

KEYWORDS: Budgetary evaluation - Contingency approach – Business strategy.

INTRODUCTION

Certainly, over the last four decades, the use of budgets in organizations has been the subject of several studies. An early study by Argyris (1952) can be considered a first attempt to describe the effects of using budgets on the behavior of employees. In the 1970s, Hopwood (1972) and Otley (1978) have studied the effects of using budgetary information to evaluate the performance of subordinate managers. These two researchers found conflicting results. This situation provided an important stimulus to other researchers to adopt contingency perspectives in studying the Reliance on Accounting Performance Measures (RAPM). Among these researchers, we cite especially: Merchant, 1981; Brownell, 1982; Govindarajan, 1984; Govindarajan and Gupta, 1985; Brownell and Hirst, 1986; Ezzamel, 1990; Chenhall and Langfield-Smith, 1998; Elhamma, 2011, 2012; etc. These works were done in the developed countries, especially in the Anglo-Saxon World (UAS, UK, Australia, etc.). However, this type of researches is still absent in the Arab countries like Morocco for example.

The Reliance on Accounting Performance Measures (RAPM) is an important area of management control research, which seeks to investigate the effects of the use of accounting data for evaluating managerial performance. Harrison (1993: 319), considers RAPM to be "...the extent to which superiors rely on, and emphasize those performance criteria which are quantified in accounting and financial terms, and which are pre-specified as budget targets". According to Hopwood (1972), three styles of evaluation performance which make distinctly

different use of the accounting data: “budget constrained style (BC)”; “profit Conscious style (PC)” and “non Accounting style (NA)”.

In this context, we must answer the following question: what is the impact of business strategy on budgetary evaluation in Moroccan firms?

This paper is organized as follows: section 1 shows the impact of business strategy on budgetary evaluation. Section 2 presents the methodology for this study. Results of this research are shown in section 3.

1. IMPACT OF BUSINESS STRATEGY ON BUDGETARY EVALUATION

To explain the diversity of the budgetary evaluation systems by the business strategy, it seems necessary to use the contingency theory. According to Hartmann and Moers (1999: 292), “contingency theories of accounting are the opposites of universal theories of accounting in that they link the effects or the optimality of accounting systems to the environment and context in which these systems operate”. Also, Fisher (1995: 32) demonstrates that “... the contingent control literature is based on the premise that a correct match between contingent factors and a firm’s control package will result in desired outcomes”. The main contingency factors affecting organizational design would be environment, technology, age & size of organization, business strategy, etc. in this article; we will use the last contingency factor.

Strategy is a word with many meanings. In management control, Anthony (1965) defined strategy as “the pattern of objectives, purposes or goals and major policies and plans for achieving these goals stated in such a way as to define what business the company is or is to be in and the kind of company it is or is to be”. Several typologies of strategic behavior compartments are invented. The Miles & Snow’s (1978) typology involves four strategic types:

- Defenders are organisations which have narrow product-market domains;
- Prospectors are organisations that almost continually search for market opportunities, and they regularly experiment with potential responses to emerging environmental trends;
- Analyzers are organisations that operate in two types of product-market domains, one relatively stable, the other changing; and
- Reactors are organisations in which top managers frequently perceive change and uncertainty occurring in their organisational environments but are unable to respond effectively.

According to Porter’s typology, a business can maximize performance either by striving to be the low cost producer in an industry or by differentiating its line of products or services from those of other businesses.

Many management control practices may provide benefits to organizations emphasizing either product differentiation (similar to the prospective strategy) or low-cost strategies (similar to the strategy of defenders). According to Shank (1989), different managerial mind sets underlying differentiation and low-cost strategies may influence preferences for particular management control methods.

Therefore, the strategy is considered as an important contingency factor in management control literature (Chapman, 1997). The impact of the strategy on the budgetary evaluation has been the subject of some research papers. According to Govindarajan and Gupta (1985), RAPM would be less appropriate for businesses following a build strategy than for those adopting a harvest strategy. Also, Simons (1987), Govindarajan (1988) and Gupta (1987) note that firms having good results – and following a defender, cost leader or harvest strategy- give bonus according to the achievement of budgetary targets.

In the same vein, Langfield-Smith (1997: 219) underlined that “the research findings are consistent: objective performance evaluation and reward systems have been found to support defender-like strategies”. Van der Stede (2001) found that the prospectors and companies following a differentiation strategy emphasize less on the achievement of the budgets that defenders and cost leaders. The following hypothesis is proposed.

Hypothesis of the research: There is a significant negative relationship between prospective strategy and budgetary evaluation.

2. METHODOLOGY: SAMPLE AND MEASUREMENT OF VARIABLES

The study was based on data collected using questionnaires sent to enterprises based in morocco. The questionnaires were completed by 18 CFOs (29%), 23 management controllers (37%), 17 accountants (27%) and 4 other managers (6%). The sample consists of 48 industrial enterprises (77%), 6 firms of building and public works (10%), 6 enterprises of services (10%) and 2 commercial enterprises (3%). Regarding the firms size, 48% of this sample consists of SMEs and 52% of large firms.

Two variables were measured in this research: budgetary evaluation and business strategy. To operationalize the budgetary evaluation in this research, we selected four items. A scale with five points (ranging for “1: not agree at all” to “5: totally agree”) allows respondents to indicate their agreement with each of these situations: “the evaluation of the manager is based on its ability to realize the budget targets”; “you grant bonuses for responsible coming to realize the budget targets”; “you decide promotions for responsible coming to realize the budget targets” and “you punish responsible not coming to realize the budget targets”. A high total score means a tight budgetary evaluation (budgetary evaluation system based especially on the achievement of the budget targets) and vice versa.

To operationalize the business strategy in this research, we had chosen the Miles and Snow’s typology. We have established seven items for the identification of strategic behaviors of the surveyed companies. Each item consists of two opposite strategies (defenders vs. Prospectors) (table 1).

Table 1. Items relating to the identification of the strategy pursued

Defenders.....	Prospectors	
The company focuses on product standardization to achieve low costs.	0.....1.....2.....3.....4.....5	The company focuses on product differentiation to satisfy a wider clientele.
Growth was achieved mainly by extension of existing products to existing customers.	0.....1.....2.....3.....4.....5	Growth was achieved mainly by developing new products to new customers.
The main concern in the firm is the protection of a stable product line within clearly defined markets.	0.....1.....2.....3.....4.....5	The main concern in the firm is to identify and satisfy new customers with new products.
In the enterprise, the main concern is to keep the current products or services.	0.....1.....2.....3.....4.....5	In the enterprise, the main concern is the development of new products or services.
In the company, the preference is marked for risk-free investments with a moderate returns.	0.....1.....2.....3.....4.....5	In the company, the preference is marked for risk investments with a high returns.
The strategy is based on the actions of competitors.	0.....1.....2.....3.....4.....5	The strategy is to take the initiative of the action.
The company is rarely the first to introduce new production processes.	0.....1.....2.....3.....4.....5	The company is usually the first to introduce new production processes.

The respondent has chosen the strategic position of its enterprise. He had a choice between six responses (from “0” to “5”). The Cronbach’s alpha for business strategy is 0.798, indicating a good level of reliability. A high global score means that the prospectation strategy is dominant and vice versa.

3. RESULTS

3.1. Diversity of the budgetary evaluation

To show the diversity of the budgetary evaluation practices in the surveyed companies, we used a classificatory analysis. Using Ward’s hierarchical method of cluster analysis, we identified three main groups of budgetary evaluation (table 2).

Table 2. Main categories of budgetary evaluation practices

Group		%
GROUP 1	Strict budgetary evaluation	21 %
GROUP 2	Moderate budgetary evaluation	27.4%
GROUP 3	Lower budgetary evaluation	51.6%
Total		100%

- Group 1: 21% of surveyed enterprises adopt a system for evaluating the performance of individual managers based specifically on the achievement of budget targets (strict budgetary evaluation);
- Group 2: over 27% of the sample are using moderately the evaluation systems based on achievement of budget targets (moderate budgetary evaluation); and

- Group 3: over 51% of the sample firms don't use the achievement of budgetary targets as a criterion to evaluate the individual performance of managers (lower budgetary evaluation).

3.2. Impact of business strategy on budgetary evaluation

Using Ward's hierarchical method of cluster analysis, we identified three groups of strategic behaviors (table 3).

Table 3. Main strategic behaviors of surveyed firms

Strategic behavior	%
Prospectors	16.1
Analyzers	30.6
Defenders	53.2
Total	100

The results related to the adoption of different styles of budgetary evaluation according to the business strategy are shown in table 4.

Table 4. Association main types of budgetary evaluation/main strategic behaviors

	Strict budgetary evaluation	Moderate budgetary evaluation	Lower budgetary evaluation
Prospectors	7.7%	23.5%	15.6%
Analyzers	38.5%	35.3%	25.0%
Defenders	53.8%	41.2%	59.4%
Total	100%	100%	100%
Chi-square test statistic=2.560			

53.8% of enterprises that adopt a “strict budgetary evaluation” are defenders (and 7.7% are prospectors), and 59.4% of companies that adopt a “lower budgetary evaluation” are defenders (and 15.6% are prospectors). These rates that are very similar don’t give us a clear idea on the validation of the research hypothesis. To test statistically the association between business strategy and budgetary evaluation, we will use the Chi Square Test of Independence. The chi-square test statistic (2.560) not exceeds the critical value (4 degrees of freedom; significance level is 5%). We can conclude that there is not a significant association between business strategy and budgetary evaluation.

To test the research hypothesis, we will use the simple linear regression. The main results of this test are shown in table 5.

Table 5. Regression analysis between budgetary evaluation and business strategy

Independent Variable (business strategy)	Dependent Variable (budgetary evaluation)
β	0.023
t-statistic	0.175 ^{ns}
R ²	0.001
F-value	0.031 ^{ns}

^{ns} No Significant

The Business strategy has not a significant effect on the budgetary evaluation ($\beta=0.023$; ns). The first variable explains only 0.1% of the variation known by the second variable (R^2). The research hypothesis is rejected by our analysis. There is not a significant relationship between business strategy and budgetary evaluation.

CONCLUSION

The aim of this article was the identification of the impact of the business strategy on the budgetary evaluation systems. In this research, we demonstrated that the business strategy has not a significant effect on the budgetary evaluation in the surveyed firms.

Two major methodological limits should be highlighted: the modest size of the sample and the use of a perceptual approach to collect data. In this regard, we can have a difference between the responses collected and the real practices.

We used in this research the business strategy to explain the diversity of the budgetary evaluation. In this context, many avenues of research are considered. Others organizational variables (firm size, organizational structure, etc.) or non organizational determinants (leadership styles, the culture of leadership, legal ownership, etc.) must be also used to explain the diversity of budgetary evaluation practices.

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