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## **THE INVESTIGATION OF OBSTACLES IN THE IMPLEMENTATION OF OPERATIONAL BUDGETING (CASE STUDY: ISLAMIC REPUBLIC OF IRAN CUSTOMS, TEHRAN)**

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### **ABSTRACT**

Operational budgeting seeks to make the link between performance indexes and allocation of resources. So it turns around two things, "the relationship between budget and the result" and "the relationship between performance index and evaluation". This article examines the difficulties of implementing operational budgeting in Islamic Republic of Iran Customs "in Tehran", and also presents solutions in this regard. These barriers are due to the literature studies as well as experts opinions have been stated in budgeting and experts, "managing factors" and these factors are categorized into three groups: environmental, technical, procedural and humanistic. This research is correlative survey and to test hypotheses, the required information through questionnaires distributed among the entire population (95 experts) of the Customs of the Islamic Republic of Iran (managers and assistants) were measured. The results of this study showed that there is a significant relationship between implementation of operational budgeting and management factors and implementation problems of operational budgeting are stated as the following indexes 1) the technical and procedural factors 2) humanistic factors 3) environmental factors (important factor) are associated with management factors.

**Keywords:** *Budget, Operational Budgeting, Budget Implementation Problems, the Islamic Republic of Iran Customs*

### **INTRODUCTION**

Budget is a document that determines the government's revenues and expenses during the financial year and plays crucial role in the development of the country's economy. Paying attention to weaknesses in budgeting and restoration systems (reform of the budget) contributed to the economy of the country. Nowadays the most important target of the communities and countries is to develop comprehensively and this objective cannot be achieved without the correct use of material resources and use it to improve the living conditions of the population (Valikhani *et al.*, 2012).

Budgeting system seeks to establish a link between performance indicators and allocation of resources. Although such links are often weak, it can facilitate budgetary policy and increase supervision of legislators on results and achievements related to public spending. As well as equipping the decision-makers with better information about the results of every program and the entire programs of government used to achieve certain targets, increases their ability to assess different budget requests of executive systems and it will lead to enhance public accountability, manage to have better performance and improve the way of allocation of resources.

In general, this system requires clear indexes of performance, performance assessment systems, incentive system and accountability and the development of management information systems (Hassanabadi-Najjar, 2007). In general, operational budgeting process seeks to answer the questions: Where is our current position? Where do we want to be? How do we achieve these goals? How should we measure our progress?

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This study tries to examine the most important indexes related to the management factors and have created barriers to the implementation of Performance Budgeting in the Islamic Republic of Iran Customs and the most important of these obstacles are as follow (Talebnia *et al.*, 2006):

- *Environmental Indicators*

- Political factors
- Support of the government from budget through creating legal requirements
- Accountability of organizations in the community
- Technical and procedural indicators
- Strategic planning
- determining indexes of budgeting
- Index validity in budgeting
- Appropriate Change in the accounting and reporting system
- Management information System

- *Humanistic Factors*

- Education
- Conditions of jobs both in education and empirically
- Appropriate system salaries and benefits
- Appropriate reward and punishment system

The budget is a plan, a forecast; a license and it can be a criterion of cost and a measuring criterion of efficiency (Alavi, 1995). According to the definition of International Monetary Fund, operational budgeting is defined as follows: operational budgeting is a procedure or mechanism that seeks to strengthen the relationship between funding and results - the resulting output through the use of performance information in making decisions about allocating resources (Robinson and Brumby, 2003). Accounting Office of the US «GAO» defined operating budget as the style of the budget that relates performance information to budget (Klein, 1997).

Operational budgeting is an ongoing process in which all managers are responsible at all levels. This type of participation requires feedback loops within the organizations so that the senior managers can have more and better information to take accurate decisions and better manage their own organization. Budget planning or operational budgeting ultimately leads to allocate more efficient resources within organizations and enables administrators to exploit the resources allocated to their organizations more efficiently in order to achieve the objectives and results that planners and policy-makers have considered (Panahi, 2007). In every country, the preparation, approval and implementation of the general budget represents a challenge to the priority or the right combination of the following four main objectives (Aschyk, 1980):

- Political objectives;
- Financial accountability purposes;
- Management objectives;
- Economic goals.

These objectives reflect the controversy about the use of funds for short-term goals against long-term objectives. Politicians are more concerned about the short-term consequences of public funds than experts and managers. In contrast, specialists and managers consider funds in most cases from the long-term perspective.

However, in the evolution of budget systems, budget process has been transformed as a tool to prevent corruption and increasing government's efficiency.

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Today, public budgeting is considered as a main tool for enhancing the efficiency and at the same time as the retraining of governments. Now at this point, a fundamental question arises: for which organizations does the operational budgeting system have establishment? To answer this question, fifteen questions should be asked from the organization in fifteen substantive stages, and only if the answer to this question is positive or it is possible to do in a short time, operational budgeting system can be proposed to Islamic Republic of Iran Customs, "Tehran" as a convenient method of budgeting.

Questions include (Azar *et al.*, 2011):

1. Do the different parts of the organization in the allocation of resources can be addressed?
2. Do the organization and existing systems make it possible to measure the performance of various sectors and to hire competent employees?
3. Are the administrative and financial structures eligible for classification of task?
4. Do the system and organization allow an alternative budget is provided?
5. Is the senior manager's creativity considered in the budget?
6. Are there demands for transparency and accountability?

The research of Stephen and Wim (2004) examined four potential reasons for the organization's budget (operational planning, performance evaluation, objectives relationship, and strategy formation), these reasons affect the performance of budget potentially.

Jordan and Hark (2005) showed that responsibility of program accountability is effective in the establishment of performance-based budgeting system instead of allocating more budgets. In this study, the models of performance-based budgeting recommended by Administration and the State Council are studied and the results showed that the estimated variables coefficient was negative in both models, in other words, operational budgeting makes expenses reduce.

Mohammad *et al.*, (2008) used the model of “shah” to identify barriers to the implementation of performance budgeting in Tehran University and the got the nine factors affecting the performance based budgeting and these factors include: Ability to evaluate performance, technical capacity, human potential, organizational authority, jurisdiction, procedural authority, political acceptance, adoption management acceptance and motivational acceptance.

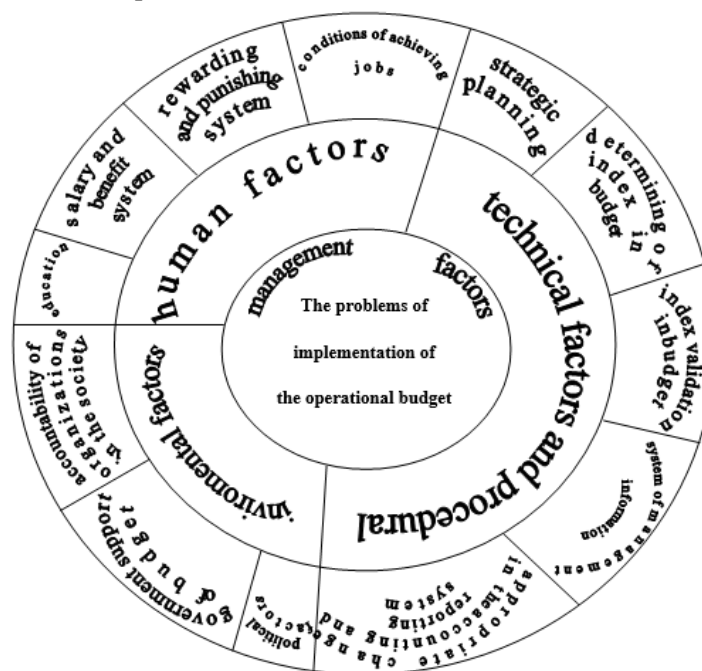


Figure 1: Conceptual model of the study

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In this study, the status quo of these factors was examined at Tehran University with a survey of university managers and factors having bad status were identified as barriers to the operating budget at Tehran University.

According to Babajani and Mehdi (2011) obstacles and problems in the establishment of the operational budget of the executive systems were identified and three categories of behavioral, environmental, structural factors are effective in the lack of operational budgeting system and behavioral factors play the most important role.

One of the most important causes accredited by experts that challenge the execution and implementation of operational budgeting system is motiveless managers and employees of organizations and public agencies and this is due to the fact that they are not sharing in the benefits of proper implementation of this method of budgeting and the lack of incentive tools for them.

Rahim *et al.*, (2013) investigated the barriers of operational budgeting at the Khatam University of Behbahan showed that six areas of human resources, financial management, financial information systems, organizational structure, performance evaluation system and legal requirements lead to create obstacles to the operating budget.

## **MATERIALS AND METHODS**

### **Research Methodology**

This study is applied from the perspective of the purpose and it is descriptive – survey in terms of doing work and the researcher wants to investigate the implementation challenges of operational budget in the Islamic Republic of Iran Customs “in Tehran” through his own assessment tools.

In this research, primary information and materials related to literature study were achieved through library method (using documents) by taking notes from books, reviewing magazines and information existed on the websites and then in order to achieve the results, main objectives and provide answers to hypotheses based on predetermined modal, final information are gathered from the research community and analyzed.

The study population consisted of comptroller, budget experts and financial experts and financial administrative assistant, and the total number equals 95 participants. The present study sample is the kind of non-probability and optional.

However, only those samples of managers and experts were accepted as members of sample that had whether direct or indirect relationship with the budget and budgeting.

Since there was no standard questionnaire in order to respond to hypotheses; a questionnaire was designed in accordance with the objectives and theoretical foundations of the study to gather the required information.

The questionnaire contains 27 questions with five options (strongly disagree to strongly agree) and Cronbach's alpha coefficient was calculated as 0.92 through SPSS software. So we can say that the questionnaire is reliable enough.

## **RESULTS AND DISCUSSION**

### **Discussion**

Descriptive findings showed that out of 95 samples studied, 64 (67.4%) people were female and 31 (32.6%) people were male and also in terms of academic achievement, 4 persons (4.1%) had associate degree, 59 persons (62%) had license, 30 persons (31.6%) had master's degree and 2 persons (2.3%) had PhD degree.

In terms of the staffs' post, 66 persons (69.5 percent) were expert, 15 (15.8%) persons were assistants and 14 (14.7%) persons were the manager. Descriptive investigation of environmental, technical, procedural and humanistic barriers and relevant question as one of the main obstacles of operational budgeting system showed that:

Statistical criteria of environmental, technical, procedural and humanistic barriers of operational budgeting system

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**Table 1**

questions	mean	Standard deviation
1 Having delay in sending instructions and approvals related to the government's financial criteria	3.96	0.87
2 Lack of complete allocation of foreseen funds in the financial year	3.96	1.07
3 Lack of sufficient resources to meet the goals of the operational budget	4.04	0.97
4 Culture of traditional surveillance is dominant on expenditure of amounts through regulatory bodies	3.08	1.05
5 Lack of appropriate standards for performance evaluation and performance measurement of budget	3.46	0.85
6 lack of theoretical supports and insufficient researches on the operational budget planning	3.02	0.89
7 Lack of adequate support of relevant organizations on the allocating funding in accordance with the needs	3.60	0.98
8 Lack of support from influential people in providing finance	3.42	0.87
9 The absence of other source of income to meet the part of the costs of operating budget planning	3.44	1.12
Sum Total (environmental barriers)	3.55	0.66
10 Budget allocation to activities, regardless of priorities	3.60	1.13
11 little infrastructure capacity needed to run the operating budget	3.42	0.71
12 Lack of accounting and reporting system suitable for use in future policies	3.01	0.91
13 Instability in the activities and tasks of system in allocating cash grants to each sector	3.40	0.96
14 Shortage of manpower in the area of operational budget planning	3.15	0.88
15 Lack of financial information systems in accordance with the approved objectives and plans	3.40	0.79
16 Lack of appropriate indicators to measure the achievement of objectives	3.17	0.91
17 Lack of organizational strategies in operational budgeting process	3.31	0.83
18 Lack of appropriate management information system in the process of operational budget planning	3.31	0.69
19 Lack of proper accountability in the allocation of funds to cover the basic needs of people	3.56	0.99
20 Low levels of delegation of authority from managers to workers in the budget sector	3.44	1.01
21 Lack of explicit policy or policies in the operational budget planning	3.27	0.92
Sum total (technical and procedural barriers)	3.33	0.56
22 Lack of familiarity of managers and experts with the budgeting system	3.13	0.70
23 Negligence of enforcers toward laws and regulations governing the operational budget process	3.23	0.86
24 Avoiding the use of experts' opinions in the design and development of the operational budget planning	3.27	0.89
25 Lack of the necessary training to managers and experts in the operational budgeting	3.50	0.92
26 No expertise intervention of the managers in the allocation of funds of operational budget	3.62	1.02
27 Resistance of managers and experts against the acts of operational budgeting and an emphasis on traditional methods	3.44	0.87
Sum total (human barriers)		



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The mean and standard deviation of index components of environmental, technical, procedural and humanistic barriers and relevant question as one of the main obstacles of operational budgeting system has been calculated and presented in the above table. The greatest mean (environmental factor) is related to component of the "lack of adequate resources to meet the objectives of operational budgeting" and the lowest mean is related to the component the absence of theoretical support and insufficient researches on the operational budget planning ". The greatest mean (technical and procedural factor) is related to the component of budget allocation to activities, regardless of priorities "and the lowest mean is related to the component of" lack of suitable accounting and reporting systems for use in future policies ". The greatest mean (human factor) is related to the element "non- expertise interference of managers in credit allocation of fund " and the lowest mean is related to the element "lack of familiarity of managers and experts with the budgeting system".

**Table 2: Friedman test results**

Component	Average grade of Friedman	Friedman statistics	p
Environmental barriers	2033	9066	0.008
Technical and procedural barriers	1072		
Human barriers	1090		

Results of the above table indicate that a significant level of Friedman test is less 5% error result and therefore the impact research indexes is equal and there was no significant difference between the indexes.

**Table 3: Correlation coefficient of test hypotheses**

correlation coefficient	Total	Chi-square test		
Environmental Factor	Pearson coefficient	0.711	Coefficient of test	36.400
	Sign	0.000	Degrees of freedom	18
	Number	95	The significance level	0.000
Technical and procedural factors	Pearson coefficient	0.906	Coefficient of test	27.968
	Sign	0.000	Degrees of freedom	27
	Number	95	The significance level	0.000
human factor	Pearson coefficient	0.875	Coefficient of test	36.674
	Sign	0.000	Degrees of freedom	16
	Number	95	The significance level	0.000

*Correlation coefficient is significant at the 0.01 level.*

According to the above table and since the significant level is less than 0.05, it can be acknowledged that there is a significant relationship between the budgeting implementation problems and environmental factors. As well as political instability and the lack of agreement between legislature and the executive system, the lack of government support from the requirements of the law and lack of accountability of organizations against society creates improper implementation of operational budgeting in the Customs of Islamic Republic of Iran. According to the table, it can be said that there is also a significant relationship between the problems of implementation of the operational budget and technical-procedural factors and it

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can be stated that lack of strategic planning and absence of reliability index in budgeting, the lack of management information system and the lack of change in accounting system make improper implementation of the operational budget planning on the Islamic Republic of Iran customs.

According to the table, there is a significant relationship between difficulties of implementation of the operational budget and human factor. And it can be stated that the lack of education, lack of jobs both in empirical and in terms of education, lack of adequate pay and benefits as well as the lack of reward and punishment system may make improper implementation of the operational budget planning on the Islamic Republic of Iran customs.

### **Conclusion**

Budgeting system has been emerged to meet new needs at any stage of development. So our country (Iran) also should make clear the purpose of changing the budgeting system and know that after removing what type of need is going to change its funding system and by commitment to the requirements of the system it can achieve the desired success. It should also be understood that the structure of desired program is the foundation of funds reform in favor of new operational budgeting approach. But experience shows that it will not guarantee success alone. The program will be useful if it used in connection with other budget reforms.

On the other hand, public discontent with government performance in the provision of public goods and services as well as the demands of the people and their representatives for greater transparency in government actions, and global efforts to re-inclusive government based on the market principles and the willingness of governments to increase their acceptability provided the grounds for rising new thought of operational budgeting.

This method of budgeting is citizen-centric and customer-oriented and tries to make the public sector be more transparent, accountable. These achievements will contribute to increasing acceptance of government among citizens. The results of this study describe those factors which are effective on the lack of success in the establishment of operational budgeting in the Islamic Republic of Iran Customs "in Tehran" and determine the impact of each of these factors in this failure. Most experts have had the same opinions towards current problems and challenges and their views on the importance of each of the obstacles are close together. The results showed that there is a significant relationship between environmental factors and problems and barriers to implementation of operational budgeting in Islamic Republic of Iran Customs of "Tehran".

These findings are consistent with researches of Mashallah and Ahmad (2012) and Jafar and Mehdi (2011) and Muhammad *et al.*, (2008) and the Ghodrat and Muhammad (2008) and Ghodrat and Fatemeh (2006). The present study indicated that there is a significant relationship between technical and procedural factors and obstacles of implementing operational Budgeting in the Islamic Republic of Iran Customs "in Tehran".

These findings are consistent with researches of Babajani and Mehdi (2011) and Muhammad *et al.*, (2008) and the Ghodrat and Fatemeh (2006). The present study showed that there is a significant relationship between the human factor and the problems and barriers to implementation of operational Budgeting in the Islamic Republic of Iran Customs "in Tehran". These findings are consistent with the researches of Rahim *et al.*, (2013) and Muhammad *et al.*, (2008) and Ghodrat and Ebrahim (2008) and Ghodrat and Fatemeh (1385).

- If political conditions are more stable and coordination and agreement between the legislature and the executive system are more and the government supports the funding by legal requirements and the organizations are more accountable to the community, the implementation of operational Budgeting will be successful.

- If training courses are hold for experts as well as qualified staff is employed in terms of education, experience and expertise in the budgeting and proper system is made appropriate for staff by creating a system of reward and punishment, and proper salary is established for implementation of operational Budgeting, it will be more successful.

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