

LINKING ACCOUNTING INFORMATION WITH BUSINESS PLANNING IN BULGARIAN SMEs

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ABSTRACT

Observations of accountability and planning show that the best practices of leading foreign companies are poorly known and hardly used in Bulgarian small and medium-sized enterprises (SMEs). This fact is explained by the limited capacity and resources of the SMEs to conduct independent accountability in combination with an increased outsourcing of services to external specialized organizations (accounting and consulting firms). From an operational perspective this appears to be a relatively easy decision, but such a decision almost always ignores the relationship between the choice of an organizational construct of accounting and its impact on planning the cost allocation of value, the distribution of value in consistence with the life cycle of the product or service offered by a SME, the formulation of target values set by individual indicators as well as the analysis of operating costs.

Under the conditions of competitive struggle questions related to the management and research of SMEs arouse interest from theoretical and practical perspective. Therefore, the objective of this paper will be to outline the idiosyncrasy of the accountability as an information base for planning activities in SMEs. The realization of this objective requires observations of SMEs from different sectors. The surveyed companies should have passed the initial stage of survival. The analysis will try to lay stress on the fact, that SMEs need – apart from carrying out routine accounting services – ideas to solve more fundamental business tasks that are connected with financial and investment problem solving, organization of analytical reporting, cost management and price formulation.

KEYWORDS: *business planning, information provision, accounting, small and medium-sized enterprises*

JEL CLASSIFICATION: *L26, M21*

1. INTRODUCTION

Observations on planning and accountability in Bulgarian small and medium-sized enterprises (SMEs) show that the so called "best practices" stemming from leading Western companies are poorly known and rarely applied by the real business. This fact is explained by the limited capacity and resources of SMEs to keep internal accounting, so small and medium-sized companies are increasingly resorting to the services of external consulting organizations when handling accounting and tax problems (Papazov, 2014; Mihaylova, 2011; Papazov & Mihaylova, 2009; Năstase, 2009). From an organizational perspective the outsourcing of internal activities is a relatively easy procedure, but such a decision overlooks the connection between the choice of organizing the accounting process and the impact of the chosen way on the cost of planning, the allocation of cash

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flows in line with the product life cycle, the prediction of target values of individual indicators, and the performance of functional analysis on operating costs.

Under the conditions of intensifying rivalry between companies with different socio-economic orientation the questions related to the management of SMEs generate interest from both theoretical and practical point of view. The mechanical "transfer" to SMEs of approaches, methods and techniques adopted by leading large companies, is not advisable, as it will not deliver the expected results, i.e. to highlight the connection between planning and accountability. Compared with the studies on the practice in large companies to develop innovative accounting and planning solutions for adjusting to the dynamic environment, research in SMEs is insignificant and the creation of models and techniques for the needs of their planning respectively financial and management accounting is still poorly advocated. In practice, much of the analytical opportunities arise directly from the basic differences between small businesses and large corporations, as well as from the type of activity of the SMEs, including participation in strategic partnerships, etc.

According to the National Statistical Institute of Bulgaria (www.nsi.bg, 31.01.2014), over 99% of the businesses in the country are small and medium-sized companies. The SMEs cover the majority of employees (according to the Small and Medium-Sized Enterprises Act, promulgated SG № 84 of 24.09.1999, last amended SG. № 82 from 16.10.2009, the category "small and medium-sized enterprise" includes companies that have an average number of employees less than 250 people and an annual turnover not exceeding 97,5 Mio BGN and / or a value of assets not exceeding 84 Mio BGN). This indicates that the SMEs play an important role in the development of the Bulgarian economy, like in many other countries.

Despite the growing economic and social importance of the SMEs, the issues related to the provision of adequate accounting information to assist them in their planning constitute a problem that has not been studied to the necessary extent in order to find appropriate practical solutions. Some of the reasons that have to be mentioned are the limited resources of the SMEs, the specific management styles they stick to, the narrow specialization of the accountants from the external service companies in combination with the insufficient awareness of the problems concerning the accountability and planning in SMEs. In this paper, an attempt is made to analyze the specific features (idiosyncrasy) of accountability as an information base for planning in SMEs and the opportunities to adapt it to the needs of planning in them.

2. IDIOSYNCRASY OF ACCOUNTABILITY AS INFORMATION BASE FOR PLANNING IN SMEs

The specificities of accountability and planning are related to the characteristics of SMEs that distinguish them from larger organizations. It is difficult to cover all of aspects, but the essential ones can be represented as follows:

- SMEs have a limited impact on the market, respectively a small market share.
- SMEs generally cover a smaller number of customers.
- The capital of SMEs is generally concentrated in the hands of a small group of owners.
- SMEs have limited resources and smaller investment opportunities than large companies.
- In SMEs the average manager or employee executes more than one function.
- The planning horizon in SMEs is much shorter compared to large enterprises. SMEs are more susceptible to failureⁱ.
- For SMEs, the degree of diversification is less than in large companiesⁱⁱ.

The disclosed characteristics of the SMEs are a prerequisite to look for a specific way of accountability these enterprises normally apply (Scarborough & Zimmerer, 2006). The most important features of such accountability can be summarized in the following areas:

- Simple nature. Because one person is required to fulfill several functions in SMEs (including owners or managers), complex decisions are often taken in a short period of time. In this regard, the simplified nature of information providing solutions is essential.
- Reliable and easy to analyze. The way information is presented should facilitate its analysis and applicability for different purposes in the enterprise.
- Precision. The analytical and planning activities are effective only when based on accurate accounting information and especially on data concerning sales revenues, operating costs, cash-ins and cash-outs.
- Consistent. In terms of content and structure the information provision planning should allow for tracking and implementation of a plan based on individual indicators and their dynamics.
- Providing timely information. Given the temporal horizon of the planning in SMEs, managers need on-time information to be able to take their decisions accurately.

To meet today's realities, small business managers should receive daily and weekly information about the financial status of their companies (Bagautdinova et al., 2013). However, studies show that the business in Bulgaria substantially ignores this requirement, mainly due to the non-compliance of the organization of the accountability with the management requirements of SMEs.

Another important reason is the fact that the majority of the Bulgarian small business owners does not have the knowledge and cannot assess the importance of the accounting information for planning their business. A similar problem exists in other countries. For example, a study conducted in the US investigating the reasons leading to failures of SMEs shows as most important the problems coping with reporting of sales volumes as well as planning and control of receivables in different time periods (Scarborough & Zimmerer, 2006). Similar studies undertaken in European countries led to similar results (for details, see also Bumberova & Korab, 2013; Cioană, 2009). As a major drawback the fact stands out that SMEs do not consider accountability as a prerequisite for good planning, but rather as an activity associated with registration of past events.

In Bulgaria there are many cases showing how good business ideas fail due to poor financial management. A sound financial planning requires above all creating a reliable accountability that accurately reflects business processes in the company. The accountability for SMEs should include at least the following areas of collection, processing and analyzing of financial information (Todorov et al., 2002, p. 238):

- synthetic and analytic reporting of the receivables of the company;
- synthetic and analytic reporting of the liabilities of the company;
- synthetic and analytic reporting of the inventories of the company;
- maintenance of the payrolls of the company;
- synthetic and analytic reporting of the cash receipts and payments of the company;
- synthetic and analytic reporting of revenues and costs of the company;
- synthetic and analytic reporting of other assets of the company.

Depending on the nature of the business, the logic requires an identification of other important areas of accountability for planning purposes. For example, the information provision planning which is of higher importance for the development of a SME can be bound to the dynamics of the environment and the life cycle of the product, because in the different stages of the product development the levels of income / costs, respectively cash-outs / cash-ins is variable. For example, in the launch phase a SME needs cash, but with the development of the company and the increasing competitive pressure cash proceeds can be deferred in time.

The success of the entrepreneurial activity requires an adequate financial control and the use of appropriate planning methods to ensure liquidity at every stage of the business development (Papazov & Mihaylova, 2102; Titko & Lace, 2013; Burduş, 2010). However, many entrepreneurs do not pay due attention to cash flows. Among other things, the rapidly changing business

environment attains a much more complex character, which manifests itself in the following tendencies:

- The product diversity increases.
- The expenditure planning orients itself to activities (products).
- The importance of non-financial indicators grows.
- The number of enterprises in the service sector increases.
- The importance of financial literacy grows.

These and many other features require improved accountability as information basis for planning in SMEs.

The construction of an accounting system for SMEs is strongly influenced by entrepreneur-owner. There are studies that reveal the relationship between the characteristics of entrepreneurs and the specifics of accountability. Pohl and Rehkugler even state that the application of management accounting is more pronounced in organizations led by managers who are not owners, while in SMEs run by their owners the use of such techniques, models and approaches is negligible (Flacke & Segbers, 2005).

Such a conclusion is logical, since not all developers have the necessary accounting expertise to assess the role of accounting information in management. For this reason, many SMEs, for reasons of convenience or to save costs, have resorted to the use of external accounting services. But there are still open questions: "Do the businesses get the required information?", "Is the information structured according to the specific needs of the SMEs?", and „Is the information bound to the needs of the planning process, incl. the use of specific models and techniques?".

3. STUDY ON THE ROLE OF ACCOUNTABILITY FOR PLANNING ACTIVITIES IN SMEs IN BULGARIA

Studies on various aspects of the accountability in SMEs have been conducted in the UK, USA, Australia, Germany, and other countries with developed market economies. In Bulgaria the need of management accountability in SMEs and its role for planning of these businesses have not yet been studied sufficiently. Such a finding constitutes a stimulus to conduct an empirical analysis on these issues.

The research has been carried out on the basis of a pre-established organizational plan, which specifies the units, the time and the place of observation, the method of recording and reporting of data, the forms of organization, the opportunities for mistakes, etc. The sample consists of SMEs from different sectors located in the region of Rousse, Northeastern Bulgaria. In view of the specific research, the units of observation are 60 SMEs and the period of observation is from August to October 2013. The surveyed companies should have had at least three years of business experience to be sure that they have already passed the initial stage of survival.

Before conducting the survey, a pilot study on the subject in 15 SMEs from different sectors of the economy has been undertaken. The forms of organization used are introspection (interview) and the correspondence form. Data have been collected within the specified period of time using a questionnaire. The preparation of the questionnaire is consistent with a number of general and specific requirements, including the provision of preventive check for errors.

The completion of the questionnaire has been carried out by the entrepreneur-manager and only exceptionally by a person who is well-aware of the activities of the company. Some of the questions have been related to the organization of the accountability, i.e. the process of providing, processing and storage of accounting information to back the information needs of management. Other questions have affected the information provision for the planning purposes. A pre-agreement with representatives of firms has declared the survey anonymous. In formulating the questions the experience of other organizations has been used.

In the following an attempt is made to present the most important questions put to the management of the SMEs and to summarize the responses received by them:

- How has the company's accountability been organized now? In posing this question the intention has been to determine the extent to which external accounting services have been used. Approximately 80% of respondents say that their accounting has been entrusted to external consultants, who mostly keep records in accordance with the current legislation and compile annual reports required by law. It has also been added as a note that the companies most often receive only limited mandatory reporting information and do not spend additional money to have internal company records needed for management purposes.
- What has been the duration of the reported periods now? 70% of respondents indicated that they are working with accounting information, summarized on a quarterly or yearly basis. Such a finding is slightly intimidating, because this percentage comprises also SMEs characterized as dynamic, growth-oriented, adding value or capable of adapting to environmental conditions (Sychrova & Simberova, 2012). Some of their specific characteristics are also associated with an increase in sales, structuring of internal accounting-oriented profit centers, preparation of monthly or weekly reports on revenues / costs and balance sheets, focusing on planning of cash flow plans and monthly plans, as well as key parameters for analyzing the activities (Ray & Hutchinson, 1993).
- Is the choice of strategy bound to the reported information? The study shows that the strategic choices dwell upon information mainly from the annual financial statements, as well as from the synthetic accounts reporting revenues and expenditures in the enterprise. Analytical reporting and developed accounting policies for the most of the SMEs are not consistent with the management needs, but are rather of formal nature. There are no clear rules developed for the flow of information, the avoidance of duplications and for introduction of various strategic and tactical models. Findings from a study conducted in 2002 have described similar tendencies: Among the main weaknesses in the development of business plans in SMEs, the lack of correspondence between the financial information and the other parts of the business plan, the poor tracking performance and comparisons, the overestimation of sales or the underestimation of projected costs have been outlined.
- What are the main reasons for neglecting the role of the management accounting? The results show that the majority of owners or managers (approximately 60%) believe that they would like to dispose of a good-structured management reporting and information system, but this would require the allocation of additional fees to the accounting firm serving them. Another important reason is that the owners or managers do not fully realize the role and importance of the detailed management accounting. It has also been noted (by 32% of respondents) that the accounting consultants have not been trained sufficiently to offer a full range of business services to SMEs, although in Bulgaria the managers seek an outside technical assistance on strategic planning mainly among their accountants (Papazov & Mihaylova, 2010).
- Are non-financial indicators used in planning? A positive answer has been given by 69% of the surveyed SMEs. The respondents have expressed the opinion that only financial indicators cannot adequately reflect the strengths and weaknesses of their firms, while in some cases non-financial indicators are much more important and relevant for the small and medium-sized businesses (like for example the product quality, expressed by the number of warranty claims or by the quantity of the returned products, or the clients' satisfaction expressed by the number of complaints or by the repeat orders). However, about 45% of the SMEs have indicated the problem that it is not possible to involve non-financial indicators into a single measurement system and even more so to bound them with financial or accounting indicators.

- Does the way the information is presented in the management of an SME facilitate the analysis and its applicability for different purposes? On this question, 67% of respondents gave a positive answer, but make an important point: The accounting information is relatively easy to understand, but in order to be used for different purposes (incl. planning) further considerable processing, regrouping and analysis of data are required, and this is associated with significant expenditure of time.
- Is additional training of the owners or managers of the SMEs on accountability needed? 76% of the respondents indicated that they would like to have such a targeted training, because they cannot acquire specialized knowledge of the issues related to the accounting problematic and its dynamics on their own. The provision of such training will contribute to the improvement and the process of structuring the economic information according to the specifics of the concrete SME and its commitment to planning backed by specific models and techniques.

4. CONCLUSIONS

The analysis of different aspects of the accountability and planning activities of SMEs is hampered by the heterogeneous nature of the latter, including size and availability of managerial and financial resources. A representative survey of Bulgarian SMEs from Rousse region shows that the role of the accountability for planning and management purposes in SMEs is not estimated to the necessary full extent.

Most SMEs use external accounting firms that focus primarily on issues related to the requirements of the external accounting. This creates a pattern of accountability that corresponds to the requirements of state bodies such as the National revenue agency or National statistical institute, establishing no commitment to the accounting or planning activities in SMEs. Such a practice is incompatible with the requirements of a sound management.

Although the conclusions of the study are derived on the basis of observations and analysis of only 60 Bulgarian SMEs from a concrete (though large) region, with a great dose of confidence could be stated that the results have a bearing on the other SMEs in Bulgaria.

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ⁱ Therefore, the timely disposal of information is essential for making management decisions.

ⁱⁱ Only just in the event of the financial crisis 2008 smaller and normally undiversified companies began to engage in other activities, usually close to or associated with their main business. For details, (see. Papazov & Mihaylova, 2011; Nasir, 2005).