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Internal Attributes of Corporate Governance and Strategic Management Accounting: An Analysis of Iranian Firms

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Abstract

The core purpose of the research is to investigate the relationship between the internal attributes of corporate governance and strategic management accounting. 166 companies listed in Tehran Stock Exchange (TSE) were selected to advance the research objective. Part of the data was collected through financial information published by the companies and the other via questionnaire. Multivariate correlation and regression methods were used to test the research hypotheses. Findings showed that there is a significant relationship between variables such as board independence, number of board meetings and CEO duality with usage of strategic management accounting techniques among the corporations. But no significant relationship was found between board size and the dependent variable.

Keywords: *strategic management accounting, corporate governance, board independence, board meetings, board size, board CEO duality.*

Introduction

In1989, following the problems of the board of directors of General Motors in the United States, more attention was paid to corporate governance and its structure. In that time, one of the first corporate governance issues was published. Subsequently, the collapse and problems of giant companies such as Enron, WorldCom, Xerox, Parmalat, etc., in the early new millennium created a widespread wave of corporate governance around the world. Various laws and regulations were adopted in different countries. In 2001, The collapse of Enron shocked the whole world. The worries were so great that Enronitis was spreading like a deadly virus all over the world, infecting every company and institution and individual of stockholders and shaking the financial markets (Hassas Yeganeh, 2005).With the collapse of Enron, countries around the world moved towards a deterrent reaction. In the United States in rapid response to the collapse, the Sarbanes-Oxley Act was enacted in 2002 and has been effective since 2004.Higges and Smith reports (2003) were also released in the UK to prevent similar cases.

There have been various definitions of corporate governance over the years. These definitions begin from a narrow but descriptive view of the essential role of corporate governance (Cadbury, 1992), and in the middle, it emphasizes a wholly financial perspective on the issue of relations of shareholders and management (Parkinson, 1994).Ultimately it ends with a broader definition that includes corporate accountability to stakeholders and society(Tricker, 1984). The International Federation of Accountants (IFAC-2004) has defined corporate governance as a number of responsibilities and practices employed by the Board of Directors and Managers are aimed at identifying the strategic path that ensures the achievement of goals, risk control and responsible use of resources. Among the various definitions of corporate governance, the definitions of Tricker (1984), Megginson et al.,(1994), and Robert Monks(1995), which emphasize a larger group of stakeholders, are more widely accepted by scholars. These definitions indicate that companies are responsible for the society, future generations, and natural resources. Although the Tehran Stock Exchange (TSE) was established in the early 1990s and has been partly discussed in business law on how companies are set up and managed, corporate governance has been the subject of much debate over the past few years. This issue was raised and discussed in the interviews of the officials of the Securities and Exchange Organization at the beginning of the 2000sas well as at the Research Center of Parliament of Islamic Republic of Iran. Also, a committee was formed at the Ministry of Economic Affairs and Finance to discuss corporate governance. Subsequently, the Research, Development and Islamic studies center of the Securities and Exchange Organization published the first edition of the Corporate Governance Code. The Code include definitions, duties of the board of directors, shareholders, disclosure of information and accountability and auditing. The Code was designed with respect to the ownership structure and the status of the capital market and with a view to business law and was consistent with the insider system of corporate governance.

Studies show that each country has its own corporate governance system (Hassas Yeganehand Nataj,2007) that is, there is a corporate governance system as much as any other country in the world.The corporate governance system of a company is defined by a number of internal factors such as corporate ownership structure, economic status, legal system, government and cultural policies. External factors, such as the amount of capital flow from abroad, the status of the global economy, the offering of stock market in other countries, and cross-border institutional investors have an impact on a country's corporate governance system (Hassas Yeganeh, 2006).One of the best efforts that is most popular among experts is the well-known classification of insider and outsider systems of corporate governance (Franks and Mayer, 1994; Short et al. 1998).They argue that most corporate governance systems fall between the two and share some of their characteristics. In fact, this dichotomy of corporate governance is due to differences between cultures and legal systems. An insider corporate governance is a system in which a country's listed companies are controlled by a small number of major shareholders (Abdullahi et al., 2018).They may be members of the founding family or a small group of shareholders, such as credit banks, other corporations, or the government. The popularity of this type of system, which has been used in countries such as Germany and Japan, has been the subject of much debate in scholarly literature that has been criticized in the current context. Although there is less agency problem in the insider system of corporate governance due to the close relationships between owners and managers, other serious problems arise. Due to the low level of ownership and control (management) separation in many countries, for example, because of family ownership, power may be abused. In this case, minority shareholders cannot properly inform the company's operations(Chen and Zhanf, 2015).There will be less transparency and abuse is likely(Hassas Yeganeh, 2006).Financial transactions are vague and opaque(Vasudha, 2004), and increased misuse of financial resources are examples of abuse in such systems. Many studies have criticized the insider system of corporate governance system in many East Asian countries because of the extreme concentration of ownership structures and the weaknesses of corporate governance because of the severity of the financial crisis in 1997 (Prowse, 1992; Zingales, 1998; Johnson et al., 2000).Johnson et al., (2000) emphasized the importance of East Asian legal systems in the crisis and proved that the weaknesses of the corporate governance system had a significant impact on the stock market downturn.

Outsider systems are versus insider systems of corporate governance. The term outsider refers to corporate finance and governance systems. In this system, large corporations are controlled by managers and owned by outside shareholders. This situation leads to the separation of ownership from control (Berle and Means, 1932).In such a system, although the company is directly controlled by the managers, but it is indirectly controlled by the external members. In the US and the UK, large institutional investors that are characterized by an outsider system have a significant impact on corporate managers.

In 2004, IFAC presented a framework of “enterprise governance” that provides a tool for the success of corporate performance and value creation. The IFAC framework extends strategic governance through strategic management accounting tools that play an important role in supporting management in strategic and control aspects. In IFAC framework, strategic management accounting is designed to support corporate governance.

However, there is little empirical evidence on the prevalence and success of corporate management accounting practices. Therefore, the main purpose of this study is to provide an empirical insight into the prevalence and effectiveness of management accounting practices. While companies are interested in using traditional management accounting practices, some research points to the potential usefulness of modern management accounting practices in achieving improved corporate governance (Haron at al., 2013).This study investigates the effectiveness of management accounting practices with a focus on strategic management accounting techniques and their impact on internal corporate governance characteristics.

The application of traditional management accounting practices limits the ability of organizations to make changes and move to the present level (Arunruangsirilert and Chonglerttham, 2017).On the other hand, the application of modern management accounting techniques helps organizations by introducing plans that enhance the value added activities or eliminate the non-value added activities. Such plans may prompt organizations to make appropriate changes to their structure, systems, target markets and to better rendering services (Mohamed and Jones,2014).The use of modern management accounting techniques can help organizations to manage costs effectively and improve the efficiency and effectiveness of their operations (Pavlatos, 2015).The other purpose of this study is to investigate the relationship between the use of strategic management accounting practices and internal corporate governance attributes in companies.

Conceptual framework and hypothesis development

In the past, the role of traditional management accountants was limited to providing useful information for decision making. But recent studies show that contemporary management accountants are an integral part of the strategic decision-making process (Aver and Cadez, 2009).A review of management accounting practices has produced a variety of new techniques in the areas of costing, decision making, competitor and customer evaluation (Arunruangsirilert and Chonglerttham, 2017).Due to the development of the level of unique management accounting techniques, the term "strategic management accounting" has been introduced (Ebrahimi Kahrizsangi and Bekhradi Nasab, 2020).

In general, strategic management accounting is the process of identifying, collecting, selecting, and analyzing accounting data to help the management team make strategic decisions and evaluate organizational effectiveness (Hoque, 2001).Strategic management accounting systems are techniques and approaches that have recently been proposed as a means of overcoming the limitations of traditional management accounting methods in dealing with strategic issues (Korravee and Phapruke, 2010).In order to realize the use of strategic management accounting techniques, two conditions of the strategic concept must be met. First, the long-term and futuristic time-frame, and second, the centralized external perspective (Guilding et al., 2000). Arunruangsirilert and Chonglerttham (2017) classify the usage of strategic management accounting techniques into five groups as follows:

Table 1: strategic management accounting techniques categories

Categories	Strategic management accounting techniques	Strategic management accounting approaches
a. Costing	1. Attribute costing	Competitive strategy Operations strategy
	2. Life-cycle costing	Competitive strategy
	3. Quality costing	Operations strategy
	4. Target costing	Operations strategy
	5. Value-chain costing	Competitive strategy Operations strategy
b. Planning, control, and performance measurement	6. Benchmarking	Corporate strategy Competitive strategy Operations strategy

	7. Integrated performance measurement	Corporate strategy
c. Strategic decision making	8. Strategic costing (strategic cost management)	Competitive strategy
	9. Strategic pricing	Competitive strategy
	10. Brand Valuation	Competitive strategy
d. Competitor accounting	11. Competitor cost assessment	Competitive strategy
	12. Competitive position monitoring	Competitive strategy
	13. Competitor performance appraisal	Competitive strategy
f. Customer accounting	14. Customer profitability analysis	Competitive strategy
	15. Lifetime customer profitability analysis	Competitive strategy
	16. Valuation of customers as assets	Competitive strategy
Source: Cadez and Guilding (2008) and Arunruangsirilert and Chonglerttham (2017)		

Within the governance system, corporate governance is represented by the characteristics and activities of the board of directors and executive directors in corporate governance-as strategic governance- supported by the strategic management accounting techniques (Ebrahimi Kahrizsangi and Bekhradi Nasab, 2020).This system demonstrates that corporate governance and strategic management accounting interact better with high performance compliance and business management (IFAC, 2004).According to the board, the most important features of corporate governance are the independence of the board of directors and the audit committee, institutional owners, and active board of directors.

Abdullah et al., (2010) showed that board independence is one of the important characteristics of its effectiveness. Because the board independence reduces the likelihood of fraud. The appointment of a non-executive chairman of the board ensures that important issues related to shareholder interests are fully covered in board meetings (Mossavi et al., 2016). Agency theory (Jensen and Mackling, 1976) and stewardship theory (Donaldson and Davis, 1991) also suggest that when a company usage strategic management accounting, the independence of the board and the characteristics of the corporate governance are more active and the CEO dualityis less important (Efendi et al., 2004).Non-executive managers with understanding of the role of their governance controlling in a way that promotes the financial health of the firm and avoids conflicts of interest among the players in the corporate governance system (Bekhradi Nasab and Zhola Nezhad, 2018).Teerachai and Supasith (2016) believe that non-executive members of the board use strategic management accounting techniques more than other corporate governance mechanisms. Since strategic management accounting techniques have a significant impact on board integrity and affect the reputation of independent directors, it is expected that board independence is significantly associated with corporate strategic decision-making.

H1: There is a significant relationship between the independence of the board of directors and the usage of strategic management accounting techniques.

If the board of directors can set a reasonable number for holding board meetings, it indicates a high level of activity of board members (Teerachai and Supasith, 2016).Depending on the environment and circumstances of the company, these meetings can gain economic benefits with respect to the agency theory in the future. Adams et al., (2004)state that the value of the company increases as the board holds more meetings. Vafeas (1999)claimed that an increase in the number of board meetings following the company's poor performance would make the reversal of the poor performance faster. Teerachai and Supersite (2016)believe that the active board of directors is using a more strategic management accounting technique. Therefore, this is expected to be a significant relationship between the number of board meetings and strategic management accounting.

H2: *There is a significant relationship between the number of the board meetings and the usage of strategic management accounting techniques.*

The size of the board of directors is an important element in its characteristics. The optimal number of directors should be determined to ensure that there are sufficient members to meet the duties and perform the various responsibilities and functions of the board (Hassas Yeganeh et al., , 2009).Experimental evidence suggests that there is no consensus on the optimal size of the board. Green (2005) believes that the number of board members should be limited in order to allow discussion of the company's issues and problems. Goodstein et al., (1994) found that smaller board of directors (between four and six members) could be more effective because they were able to make strategic decisions more quickly by being small.

Limpan and Limpan (2006), on the other hand, believe that the size of the board should be large enough to include a range of different people's skills and experiences. Research by Zahra and Pearce (1989) also suggests that more board members increase the ability to oversee senior management activities. Therefore, it is expected that there will be a significant relationship between the number of board members and the use of strategic management accounting techniques.

H3: *There is a significant relationship between the number of the board members and the usage of strategic management accounting techniques.*

The duality of the role of CEO refers to a position where the CEO of a company is also the chairman of the board (Yang and Zhao, 2014).If the CEO is also the chairman of the board, then the CEO potentially has more authority. The dual structure also allows the CEO to effectively control the information available to other board members. The role of the board is to oversee the CEO. The Chairman has the power to control the agenda of meetings and to direct the meetings of the Board. If the interests of the CEO differ from those of the shareholder, then the influence of the CEO becomes difficult. In addition, under the agency theory, the board of directors is seen as the forefront of the company in addressing management incompetence (Weisbach, 1988).

If the Chairman of the board is also the CEO, the initial oversight and control over the CEO's actions will be reduced. This will result in the CEO having more ability to control the disclosure of the company as well as the accumulation of bad news (Chen and Zhanf, 2015).

H4: *There is a significant relationship between the CEO duality and the usage of strategic management accounting techniques*.

Research Method

The core purpose of the research is to investigate the relationship between the internal attributes of corporate governance and strategic management accounting. For this purpose, 166 companies were selected from the companies listed on the Tehran Stock Exchange (TSE) during a period of 2014 to 2019 years*i.e.*, 830 year-firm. In order to measure the dependent variable, *i.e.*, usage of strategic management accounting techniques following Guilding et al.,(2000), strategic management accounting techniques were divided into five groups. The groups include costing, planning, strategic decision making, competitor accounting, and customer accounting. Companies were then asked through the questionnaire to what extent they had used these techniques over the period of the study. The questionnaire was designed as a five-point Likert scale.

The following model was used to examine the relationship between the internal attributes of corporate governance and strategic management accounting.

$$Smau_{it} = \beta_0 + \beta_1 BRD\_IND_{it} + \beta_2 BRD\_MEET_{it} + \beta_3 BRD\_SIZE_{it} + \beta_4 BRD\_CEOdua_{it} + \beta_5 ROA_{it} + \beta_6 SIZE_{it} + \beta_7 AUDIT\_TYPE_{it} + \beta_8 LOOS_{it} + \beta_9 LEV_{it} + \varepsilon_{it}$$

Table 2: variables definition

Variables	Definition
Depend variable	

$Smau_{it}$	The usage of strategic management accounting techniques for firm *i* in year *t*. This variable score comes from average score of each type of the management accounting techniques including costing (SmauCos), planning (SmauPla), strategic decision making (SmauStr), competitor accounting (SmauCom), and customer accounting (SmauCus) following Guilding et al., (2000).
Independent variable	
BRD_IND_{it}	Ratio of the number of non-executive members in the composition of the Board of Directors to the total number of board members.
BRD_MEET_{it}	A natural logarithm of the number of meetings held by the board of directors for firm *i* in year *t*.
BRD_SIZE_{it}	A natural logarithm of the number of board members for firm *i* in year *t*.
BRD_CEOdua_{it}	An indicator variable equal to 1 if the CEO is not a chairman of board of directors for firm *i* in year *t* and 0 otherwise.
Control variable	
ROA_{it}	Return on Assets = Net income / total assets at the beginning of the year for firm *i* in year *t*.
$SIZE_{it}$	A natural logarithm of total assets at the beginning of the year for firm *i* in year *t*.
$AUDIT\_TYPE_{it}$	An indicator variable equal to 1 if the auditing firm is Audit Organization and 0 otherwise.
$LOOS_{it}$	An indicator variable equal to 1 if firm *i* has loss in year *t* and 0 otherwise.
LEV_{it}	Total debt divided by total assets at the beginning of the year for firm *i* in year *t*.

Findings

Table 3 shows the descriptive statistics of the research variables. The table contains mean, standard deviation, skewness and kurtosis coefficients for each of the research variables.

Table 3: Descriptive statistics

Variable	Mean	Std. deviation	Skewness	Kurtosis
Smau	2.73122	0.13598	0.6392	5.1284
BRD_IND	0.67452	0.42356	3.2654	-1.325
BRD_MEET	0.54236	1.23542	2.3654	4.2365
BRD_SIZE	5.32124	0.20806	-3.184	3.4511
BRD_CEOdua	0.24153	1.51725	1.7297	2.5095
ROA	0.08738	0.14759	0.3525	4.4442
SIZE	13.5246	5.32654	0.4210	3.4561
AUDIT_TYPE	0.01235	0.32905	1.3405	2.6292
LOOS	0.18509	0.38884	1.6216	3.6297
LEV	0.70444	0.32469	2.5333	5.6031

Table 4 shows the normality of the research variables using the Jarque-Bera normality test. If the P-value is more than 5%, it indicates that the variables are normal. As can be seen, all the variables are normal.

Table 4: Jarque-Bera normality test

Variable	Jarque-bera	P-value
Smau	0.52136	0.21354
BRD_IND	2.35215	0.24136
BRD_MEET	0.78252	0.74236
BRD_SIZE	0.32561	0.52134
BRD_CEOdua	0.16781	0.52315
ROA	2.35612	0.85422
SIZE	1.12421	0.63254
AUDIT_TYPE	0.11789	0.42365

LOOS	2.3564	0.32654
LEV	1.2365	0.74521

Table 5 shows the Pearson-correlation statistics. As can be seen, there is no co linearity between variables.

Table 5: Pearson correlation result

variable	*Smau*	*B_I*	*B_M*	*B_S*	*B_C*	*ROA*	*SIZE*	*AUIT*	*LOOS*	*LEV*
Smau	1									
BRD_IND	-.0407	1								
BRD_MEET	.7752	-.06	1							
BRD_SIZE	-.0296	-.05	-.031	1						
BRD_CEOdua	.5759	-.04	.6311	-.04	1					
ROA	-.0389	-.13	.0005	.086	.020	1				
SIZE	.0612	-.07	.0175	.017	.006	.056	1			
AUDIT_TYPE	-.0426	.199	-.087	.023	-.079	.196	.0568	1		
LOOS	-.0245	-.12	-.0002	.175	.018	.690	.0600	.3156	1	
LEV	-.1136	.164	-.069	-.05	-.070	-.092	.1187	-.0031	-.1136	1

Before fitting the research model, the type of model as well as the appropriate fitting model should be identified. For this purpose, the F-Limer test is used, and the results are presented in Table 6.

Table 6: F-Limer test result

F staticitc	d.f	P-value	Result
18.251	8 , 813	0.000	Panel-data method

Since the P-value is less than 5%, then the panel-data model is confirmed. Then, using the Hausman test, one of the two fixed and random effects models will be selected. The results of Hausman test are presented in Table7.

Table 7: Hausman test result

χ^2	d.f	P-value	Result
10.019	6	0.124	Random effects method

As can be seen in Table 7, the random effects model is appropriate. Tables 8 and 9 also show that there is no heteroscedastic variance and autocorrelation between the error term.

Table 8: Autocorrelation test result

F staticitc	d.f	P-value	Result
.994	8 , 813	0.528	There is no autocorrelation

Table 9: Heteroscedastic test result

χ^2	d.f	P-value	Result
3.215	1	0.073	There is no Heteroscedastic

Also, a normal quintile graph (*Q-Q Plot*) was used to test the normality of error term. Given that the points in the graph are around 45 degrees, so it can be concluded that the error term is normal.

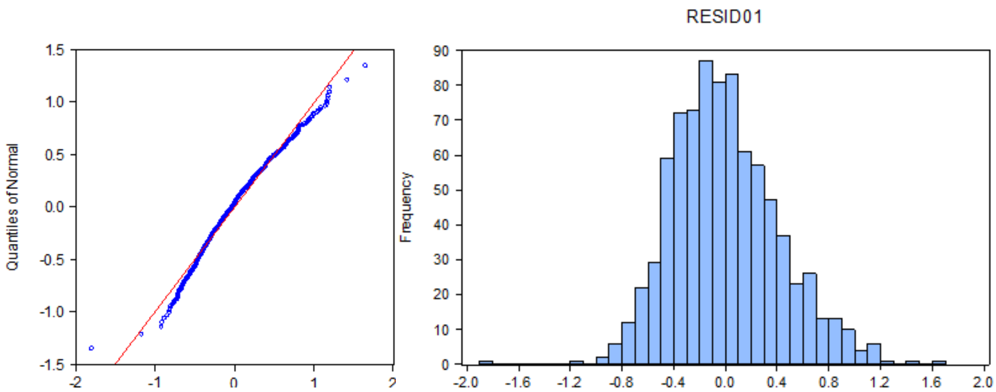

Figure 1: normal quantile graph of error term

The results of fitting the research model are presented in Table 10.

Table 10: Estimated research model result

variable	coefficient	Std. Error	t statistic	Prob.
BRD_IND	12.21289	3.799284	3.214525	0.0014
BRD_MEET	16.03991	5.442787	2.947003	0.0035
BRD_SIZE	-2.725896	2.514864	-1.083914	0.2793
BRD_CEOdual	-14.25492	6.122135	-2.328422	0.0206
ROA	-14.50828	11.69994	-1.240031	0.2159
SIZE	-46.01390	5.626154	-8.178570	0.000
AUDIT_TYPE	1.132479	16.91574	0.066948	0.9467
LOOS	-2.978063	2.552168	-1.166876	0.2442
LEV	-10.71160	6.651752	-1.610342	0.1084
C	302.5396	34.70431	8.717636	0.0000
R-squared	0.508303		F-statistic	2.809986
Adj. R-squared	0.427412		Durbin-Watson	1.919610

As can be seen in Table 10, the P-value of variable of board independence is 0.0014.It can be concluded that there is a positive and significant relationship between the independence of the board of directors and the usage of management accounting techniques. Therefore, the first hypothesis of the research is confirmed. Also, the level of significance of the variable of the number of board meetings is less than 5% which indicates that there is a significant positive relationship between this variable with usage of management accounting techniques. Therefore, the second hypothesis of the research is confirmed.

The results show that there is a significant relationship between the CEO duality with the usage of management accounting techniques. But its direction is reversed. Then the fourth hypothesis is also confirmed. On the other hand, since the P-value of variable of board size is more than 5%, it is concluded that there is no significant relationship between this variable with usage of strategic management accounting techniques.

Conclusion

In this study, the relationship between some of the internal characteristics of corporate governance and usage of strategic management accounting was investigated. In the first hypothesis, the relationship between board independence and strategic management accounting techniques was tested. This hypothesis was confirmed at the confidence level of 99 percent. The coefficient was also found to be positive. In other words, the greater the independence of the board of directors, the greater the usage of management accounting techniques in companies. The findings of this hypothesis are in line with Teerachai and Supasith (2016).Therefore, it can be concluded that the usage of strategic management accounting techniques has a significant impact on the integrity of the board and the reputation of independent directors.

Concerning the second hypothesis, the findings of the study indicate a positive significant relationship between the number of board meetings and usage of strategic management accounting. This is in line with research by Vafeas (1999) and Teerachai and Supasith (2016) who believe that more active board are used more strategic management accounting techniques.

In the last hypothesis, the relationship between CEO duality and usage of management accounting techniques was tested. In this regard, a significant negative relationship was also confirmed. This may be because the scenario of the board meetings is developed in such a way that it makes the chairman of the board in line with the goals of the CEO. In this case, there is severe of information asymmetry, and perhaps the CEO can align the opinion of the board's chairman behind the scenes.

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