


THE ROLE OF FINANCIAL PLANNING IN FORECASTING AND DECISION-MAKING IN ECONOMIC INSTITUTIONS FIELD STUDY ON LEBANESE INDUSTRIAL COMPANIES

*EKONOMİK KURUMLARDA TAHMİN VE KARAR VERME YAKLAŞIMI OLARAK FİNANSAL
PLANLAMA ARAÇLARI*

LÜBNAN SANAYİ ŞİRKETLERİ ÜZERİNDE SAHA ÇALIŞMASI

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ABSTRACT

This study aims to identify the role of using the financial planning tools represented by budgets and breakeven point and other related statistical methods in improving future predicting, controlling and making decisions for industrial companies in Lebanon. A questionnaire was designed and distributed to 60 employees working in Lebanese industrial companies, in administration, accounting departments and in finance administration. 54 questionnaires were collected and analyzed statistically using SPSS. The results revealed that institutions depend on the financial planning process for the future from the responders' point of view. The research sample organizations use the budget as one of the most important financial planning tools. The sample companies use scientific and other statistical methods like breakeven analysis as financial planning tools to planning for the future and the relation between financial planning tools as an approach for forecasting and decision-making is medium. Recommendations include directing more studies related to the research field (financial planning tools), upgrading the utilization of financial planning techniques, and addressing obstacles to the utilization of different financial planning instruments.

Keywords: *Financial planning, Budgets, Breakeven point, Control, Decision Making..*

ÖZ

Bu çalışma, Lübnan'daki sanayi şirketlerinde geleceği tahmin etme, kontrol etme ve karar vermede bütçeler ve başabaş noktası ve diğer ilgili statik yöntemlerin temsil ettiği finansal planlama araçlarının rolünü belirlemeyi amaçlamıştır. Lübnanlı sanayi şirketlerinin idaresinde, muhasebe departmanlarında ve finans idaresinde görev yapan 60 çalışandan oluşan örneklem için anket tasarlanmış ve dağıtılmıştır. 54 anket, SPSS kullanılarak bilgisayar tarafından istatistiksel olarak analiz edilmiştir. Sonuçlar, kurumların, yanıt verenlerin bakış açısından gelecek için finansal planlama sürecine bağlı olduğunu ortaya koydu. Araştırma örneklemini kuruluşları bütçeyi en önemli finansal planlama araçlarından biri olarak kullanmaktadır. Bu şirketler, geleceği planlamak için finansal planlama araçları olarak başabaş analizi gibi bilimsel ve diğer istatistiksel yöntemleri kullanmaktadır. Bir tahmin yaklaşımı olarak finansal planlama araçları ile karar verme arasındaki ilişki orta düzeydedir. Araştırma alanı ile ilgili daha fazla çalışmanın yapılması (finansal planlama araçları), finansal planlama tekniklerinin gelecek planlaması için kullanımının artırılması ve farklı finansal planlama araçlarının kullanılmasının önündeki engellerin kaldırılması gibi önerilerde bulunulmuştur.

Anahtar Kelimeler: *Finansal planlama, Bütçe, Başabaş noktası, Kontrol, Karar verme.*

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1. INTRODUCTION

One of the key difficulties facing organizations today is planning for the future. Concentrated and efficient planning for financial activities and utilizing budgets are vital for adapting to the constantly changing business climate. Organizations that can continuously update their plans and gauge rapid changes are in a better position to take advantage of opportunities and respond to threats (Stretch, 2009: 90). Financial planning contributes to highlighting the financial position of an institution amongst its peers, as well as maximizing the market value (Adam et al, 2017). Planning and budgeting for future changes are the most effective instruments that can assist companies in evaluating and predicting future performance, and over the long run, can ultimately enhance an organization's strategic decision-making process (Singh, 2020).

The job of the finance division is to give a monetary assessment of expected sales volumes, macro-economic and internal assumptions (Adam et al, 2017). Despite the fact that money drives the planning system, it has to originate at a strategic level through the company's mission statement.

The industrial sector in Lebanon is important for economic and social development in terms of its contribution to improving the country's trade balance. Lebanon is currently working on developing the industrial company's sector by attracting many projects, which contributes to raising the rate of employment and reducing immigration. However, these goals face great challenges in order to achieve them, the most important of which is the economic losses that have been achieved over the past years due to poor profits resulting from mismanagement of industrial sector projects. The researcher posits that one of the most important reasons is the weak management of industrial sector projects and the failure to use financial planning methods that enable correct decision-making, reducing losses and achieving profits. Hence, this study aimed to identify the extent to which the Lebanese industrial sector companies use various financial planning methods, enabling them to plan and make sound decisions. Additionally, this research study examined the impact of financial planning methods on the decision-making process and planning for the future, which contribute to raising the level of performance for these companies. A set of recommendations were put forth based on the results of the field study that may encourage companies to invest in financial planning methods and thus increase their performance. An intensive reading into the literature reveals that no study has addressed this problem in the Lebanese industrial sector.

Hence, this study came to determine the role of financial planning by management and decision-making in the economic institution.

2. PROBLEM STATEMENT AND STUDY QUESTIONS

Weak management of industrial sector projects and the failure to use financial planning methods that enable making correct decision to reduce losses and achieving profits, is considered the main reason for the losses that have been incurred over the last 10 years (Loutfi, 2018). Most of the Lebanese industrial firms use traditional methods of financial planning, such as budgets, which considered time consuming without adding any value to the company. The main issue is that companies are not benefiting from the data provided throughout utilizing the

various modern techniques of financial planning. Hence, assessing whether organizations are using their financial planning tools in future financial planning as a strategic tool in the overall decision-making process is very important.

3. RESEARCH QUESTIONS

La What is the contribution of financial planning to making rational financial decisions in the research sample institutions?

Based on the problem, the following sub-questions were formulated:

1. Do the research sample institutions depend on the financial planning process for future planning?
2. What are the approaches used by the research sample institutions in the financial planning process?
3. Are scientific and statistical methods (like breakeven point analysis) other than traditional budgets used as financial planning in the research sample institutions?
4. What is the relationship between using financial planning and decision-making for the companies in the sample?

4. LITERATURE REVIEW

Gupta et al. (2021) endeavoured in their paper to discuss and analyse the tools of financial planning of singular investors, and different variables influencing establishment plan and its impact on their strategic decisions. Agarwal et al. (2015) looked at the connection between financial planning tools and investment decisions for individuals over the year of 2015. They additionally utilized a multivariate examination to track down his outcome and found that the likelihood of finding genuine solutions concerning financial planning was higher for male respondents compared to female. Ramakrishnan (2012) researched the connection between financial planning tools and individual speculation decisions over the year of 2012. He additionally utilized multivariate investigation to track down his outcome. He inferred that financial planning is fundamental for individuals, as well as for organizations and the economy. The paper authored by Azarenkova et al. (2017) explored issues concerning financial plan preparation, including techniques and models of concerning such preparation. The study concluded that effective financial planning was an essential tool for achieving the main goals of organizations regarding profit maximization. Furthermore, the rising unpredictability of the financial climate required administrative elements to speed navigation and direct budget preparations to decrease the effect of external and internal factors on the financial activities of organizations.

Dow (2009) examined the connection between financial decision-making & individual investment over the period of 2009. Utilizing information from a questionnaire, he likewise utilized a multivariate investigation to track down his outcome. He identified which variables made a difference in determining financial planning. The researchers concluded that 140 socioeconomic variables were significant for financial decision-making.



The present study distinguishes itself from previous research in that it was applied to companies in the industrial sector of Lebanon. There are no similar studies that studies these issues in the same context in Lebanon.

The current study, although similar to previous studies in terms of examining the role of financial planning in making financial decisions, researched different variables, in a different context (Lebanon), and used the statistical program SPSS to analyse the questionnaire findings, contrary to many previous studies that used the EXCEL program which will enable the researcher investigating the role Financial Planning in Forecasting and Decision-Making in Economic Institutions by using the correlation an regression tests and analysis.

4.1. RESEARCH METHODOLOGY

There are two main types of research methods: qualitative and quantitative. According to Saunders, (1997) qualitative research methods focus on discovering and understanding the experiences, perspectives and thoughts of participants; that is, qualitative research explores meaning, purpose or reality. Qualitative research is usually described as allowing a detailed exploration of a topic of interest in which information is collected by a researcher through case studies, ethnographic work, interviews and so on, (Harwell, 2004).

Based on Saunders, (1997), the differences and similarities between qualitative and quantitative research methods are illustrated in the following table:

Table 1 : Research Methodology

Quantitative	Qualitative
Reality is objective, singular & separate from the researcher.	Reality is subjective and multiple as seen by participants in a study.
Researcher is independent from that being researched.	Researcher interacts with that being researched.
Formal, based on set definitions, impersonal voice.	Informal, evolving decision, personal voice.
Deductive process; cause and effect; static design categories isolated before study; generalizations leading to prediction; explanation and understanding are accurate and reliable through validity and reliability.	Inductive process; mutual simultaneous shaping of factors; merging design categories identified during research process; context bound, pattern, theories developed for understanding that are accurate and reliable through verification.

Source: Saunders, (2007)

The quantitative research method was chosen for this study. The researcher follows the quantitative approaches based on the nature of the subject, and in order to answer the problem and try to test the hypotheses.

One of the reasons to use survey that the survey technique is so widely used is that it not only allows businesses to gather vast amounts of relevant and actionable data, but it also allows them to collect quantitative data that can then be analysed numerically using descriptive and inferential statistics. Surveys are a popular business approach for a variety of reasons (Vukojević, 2016).

4.2. RESEARCH HYPHOTHESIS

To answer the study problem and the sub-questions, the following hypotheses were formulated:

H₀¹: Institutions in Lebanon do not depend on the process of financial planning for the future.

H₀²: Institutions in Lebanon do not use budgeting as one of the most important financial planning tools.

H₀³: Scientific and other statistical methods like breakeven analysis are not adopted as financial planning tools in future planning by institutions in Lebanon.

H₀⁴: There is no role for financial planning tools utilized in Lebanese firms in decision making.

4.3. RESEARCH IMPORTANCE

The current study's importance comes from revealing the nature of the relationship between the study variables represented in many theoretical and applied considerations, as follows:

- Determining effective contribution of financial planning tools to produce sound financial decisions taken by institutions.
- Determining how important the use of financial planning tools is in making effective administrative decisions.
- Providing recommendations that help managers in addressing the variances using financial planning tools.

4.4. RESEARCH OBJECTIVES

The fundamental goal of the article is to evaluate organizations' utilization of financial planning tools for future forecasting as a strategic tool to make decisions and investigating the factors affecting the success of companies in providing quality financial plans and budgets.

The following objectives are stated to achieve the main objective:

1. To examine organizations' current status regarding planning, forecasting and financial plan preparation.
2. To examine the different variables affecting financial planning and future forecasting.



3. To study the role and effect of financial planning data and tools in the essential decision-making of enterprises.

4.5. MEASURING INSTRUMENTS

The study used a 5-point Likert scale questionnaire to collect primary data from the study sample. A questionnaire was designed and distributed personally to the sample group, which consisted of 60 employees working in the accounting and finance departments in Lebanese industrial companies. 54 questionnaires were restored and analysed statistically using the SPSS software. The questionnaire is divided into two sections; the first includes questions about the biographic information of respondents (age, job titles, experience, qualifications). The second section includes questions formulated to test the study hypotheses.

4.6. SAMPLES OF THE RESEARCH

The study is limited to Lebanese employees in the firms in the industry sector, whereby the results can be used to infer similar conclusions for companies in other sectors.

5. EMPIRICAL FINDINGS AND PRESENTATION OF RESULTS

In this section, the results of the statistical tests related to each of the descriptive statistics of the demographic variables and the results of testing the study hypotheses will be presented.

5.1. GENDER

Table 2 shows the distribution of respondents in terms of gender. 53.7% of the respondents were male and 46.3% were female.

Table 2: Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Female	25	46.3	46.3	46.3
Male	29	53.7	53.7	100.0
Total	54	100.0	100.0	

5.2. AGE

Table 3 shows the distribution of respondents as per their present age in years. The majority of the respondents were in the 25-39 years age bracket (44.4%), while the least number of respondents were aged 50 years or above (7.4%).

Table 3: Age

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 25 to 39 years	24	44.4	44.4	44.4
40 to 49 years	18	33.3	33.3	77.8
50 years and above	4	7.4	7.4	85.2
Under 25 years	8	14.8	14.8	100.0
Total	54	100.0	100.0	

5.3. EDUCATION / ACADEMIC QUALIFICATION

The following Table 4 shows the distribution of the samples' academic qualifications. 68.5% of respondents held a bachelor's degree and 31.5% held a Master degree.

Table 4: Education

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Bachelor degree	37	68.5	68.5	68.5
Master Degree	17	31.5	31.5	100.0
Total	54	100.0	100.0	

5.4. EXPERIENCE

The following Table 5 shows the number of years of experience in business for the respondents. 51.9% of respondents had under 5 years experience, 33.3% had between 15 to 24 years of experience, 7.4% had 5 to 14 years experience, and those with 25 years and over were also 7.4% of the respondents.

Table 5: Experience

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 15 to 24 years	18	33.3	33.3	33.3
25 years and over	4	7.4	7.4	40.7
5 to 14 years	4	7.4	7.4	48.1
Under 5 years	28	51.9	51.9	100.0
Total	54	100.0	100.0	



5.5. CRONBACH'S ALPHA

Table 6: Reliability

	Cronbach's Alpha	N of Items
H ¹	.737	6
H ²	0.758	6
H ³	0.836	6
TOTAL	0.912	18

Table 6 shows that the value for each paragraph of the survey and for the survey as a whole was greater than 0.60 which means that the study tool represented by the questionnaire is reliable.

Hypothesis H₀¹: Institutions in Lebanon do not depend on the process of financial planning for the future.

Table 7: Results of the questions related to the first hypothesis:

No.	Questions	Mean	Standard deviations
Q1.1	The financial planning methods used by the company help in forecasting the future needs for funds or resources needed to achieve goals.	3.858	0.762
Q2.1	The financial planning methods used by the company's management help in setting goals of Company for the next period.	3.944	0.919
Q3.1	The financial planning methods used help in expressing the company's goals to measurable data.	3.925	0.609
Q4.1	The financial planning methods used help the company's management in avoiding the problems and difficulties that the company may face during the financial period	3.907	0.916
Q5.1	Financial planning methods distribute available resources and funds efficiently between different departments and divisions within the company.	4.000	0.777
Q6.1	The company utilizes a special software application for developing financial plan and analysis it?	4.144	0.665
Average		3.966	0.515

Table 8: One-Sample Test

	Test Value = 3					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
H ¹	13.775	53	.000	.96605	.8254	1.1067

Since the calculated T-value was greater than 1.96, the null hypothesis was rejected. The mean value of the answers was 3.966 which is more than the standard mean of 3, indicating that the institutions depend on the financial planning process for the future. Furthermore, since the sig. value reached (0.000) of the test was less than 0.05, the test was significant.

Hypothesis H₀²: Institutions in Lebanon do not use budgeting as one of the most important financial planning tools.

Table 9: Results of the questions related to the second hypothesis

No.	Questions	Mean	Standard deviations
Q1.2	The company prepares an annual budget.	4.074	0.820
Q2.2	The company completes and approves the annual budget on time.	3.833	0.863
Q3.2	All required and important areas are involved in the annual budgeting process.	4.074	0.609
Q4.2	There are specialized departments in the organization that are participating in the annual budgeting process.	3.981	0.879
Q5.2	The organization re-estimates or updates the yearly budget, in view of most recent actuals and updated expectations.	4.018	0.788
Q6.2	The results of the estimated budgets considered as one of the financial planning tools in making financial decisions.	4.129	0.674
Average		4.018	0.523

Table No. 10: One-Sample Test

	Test Value = 3					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
H ²	11.097	53	.000	.80988	.6635	.9563

From the above Table, it is clear that calculated T-value (11.097) was greater than 1.96, which means the null hypothesis was rejected. The mean value of the answers was 4.018 which is greater than the standard mean of 3, indicating that the organizations use budgeting as one of their most important financial planning tools therefore the alternative hypothesis is accepted, and null hypothesis is rejected. The p-value (0.000) was less than 0.05, meaning the result was significant.

Hypothesis H₀³: Scientific and other statistical methods like breakeven analysis are not adopted as financial planning tools in future planning by institutions in Lebanon

Table 11: Results of the questions related to the third hypothesis

No.	Questions	Mean	Standard deviations
Q1.3	The company calculating the Breakeven point for each period.	3.703	0.717
Q2.3	The organization utilizes the Breakeven point analysis and other statistical methods in estimating the future sales.	3.611	0.637
Q3.3	All required and important data are involved in the Breakeven point analysis.	3.944	0.737
Q4.3	There are specialized staff in your organization who are qualified to make Breakeven point analysis.	3.840	0.791
Q5.3	The company re-forecast or updates the annual coats and sales, based on latest Breakeven point analysis.	3.653	0.855
Q6.3	The results of the calculating and analysis of Breakeven point analysis as one of the financial planning tools in making financial decisions.	4.092	0.622
Average		3.809	0.536

Table No.12: One-Sample Test

	Test Value = 3					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
H ³	14.291	53	.000	1.01852	.8756	1.1615

As can be seen from the table above, the T-value was greater than 1.96, hence we can reject the null hypothesis. The mean of the answers was 3.809 which is more than the standard mean of 3, indicating that from the point of view of the responders, their companies were using scientific and other statistical methods like breakeven analysis as financial planning tools in planning for the future. This test was significant, as the p-value was less than 0.05.

Hypothesis H₀⁴: There is no role for financial planning tools utilized in Lebanese firms in decision making.

Table 13: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.682	.465	.455	.387

The independent variable is H4.

Table 14: ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	6.762	1	6.762	45.222	.000
Residual	7.775	52	.150		
Total	14.537	53			

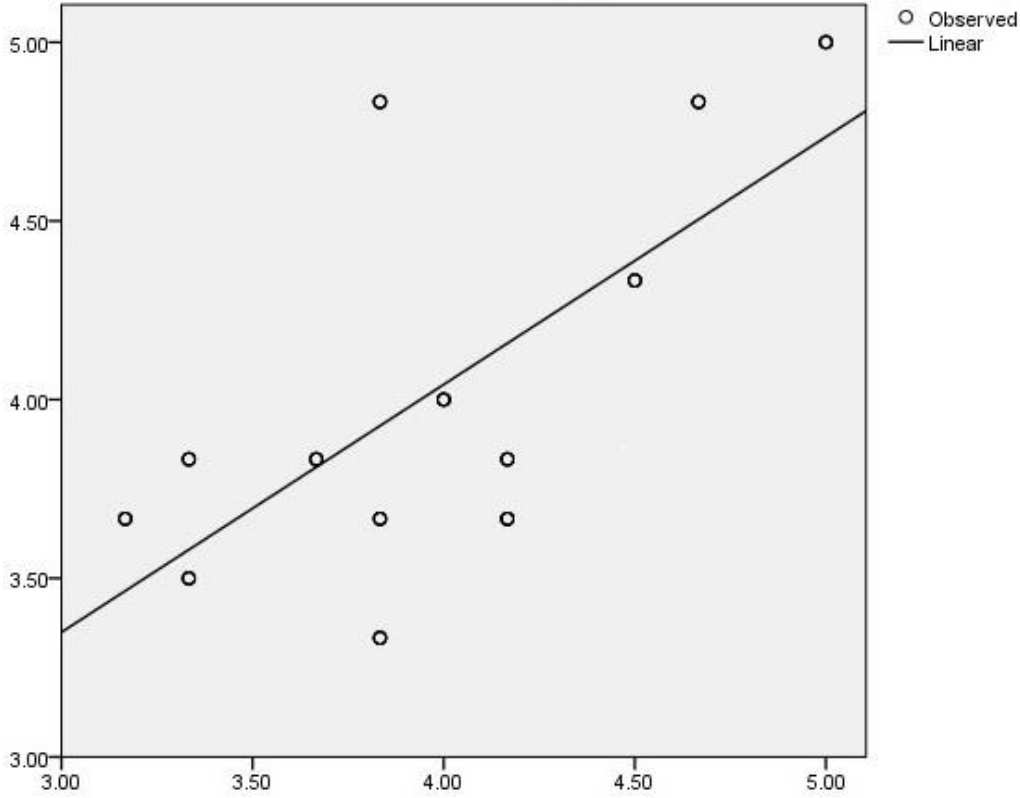
The independent variable is H4.

Table 14: Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
H ⁴	.693	.103	.682	6.725	.000
(Constant)	1.270	.412		3.081	.003



Figure 1: Regression Linear Plot



The tables above 12, 13 and 14 show that the relationship between financial planning tools as an approach for forecasting and decision-making reached 0.682, indicating a moderate positive relationship – a relationship value ranging between 0.3 to 0.7 indicates a moderate relationship. The adjusted R2 value was 0.455, showing that financial planning tools used in Lebanese firms can contribute in decision-making by 45.5%. Table 12 shows a high F-test value of 45.22, indicating a relationship between the independent variable (Financial planning tools) and dependent variable (Decision making). The simple regression equation is significant at the level of less than 0.01, where the significant value was 0.000.

6. CONCLUSION AND RECOMMENDATIONS

After conducting the necessary statistical analyses of the questionnaires, the following results were reached:

- The survey was filled out by experienced participants, where 33.3% of respondents had between 14 - 24 years business experience in the finance field.
- Lebanese institutions do depend on the financial planning process for the future
- The research sample organizations use budgeting as one of their most important financial planning tools
- Lebanese institutions use scientific and other statistical methods like breakeven analysis, as financial planning tools in preparing planning for future

- The relationship between financial planning tools as an approach for forecasting and decision-making is moderate and positive
- The decision-making process is explained by financial planning tools only by 45.5%.
- The finance department for the companies under study have an integral role in their financial planning process by preparing budgets only. However, they have a limited role in interpreting and utilizing the financial budget information in decision making and forecasts.
- Lebanese institutions don't diversify in using tools for financial planning like Breakeven point analysis and other related statistical methods because it has the lowest mean compared to the other financial planning tools.

Based on the findings, the researcher recommends the following:

- Conducting more financial and accounting research related to the topic, such as the impact of the application of the budgeting system on the performance of companies in regard to profits or sales.
- Enhancing the use of financial budgeting in planning, control and decision-making processes, which can increase the efficiency of resource distribution and achieve the company's objectives.
- Tackling obstacles to the use of various financial planning tools through the following:
 1. Holding training courses that raising awareness of the importance of financial planning, run by official bodies and professional organizations.
 2. Stakeholders and managers of companies should recognize the importance of financial planning tools for controlling and taking decisions.

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