

## **Obstacles and Challenges to Establishment of Operational Budgeting in Insurance Branches of Tehran Social Security Organization**

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### **Abstract**

*This research aims to study the obstacles to establishing and implementing operational budgeting in insurance branches of social security organization Tehran. The research is practical in terms of purpose and the statistical population in this research includes 60 people of budget managers and experts in the branches of social security organization of Tehran. The method is census and therefore, no sampling is applied. After comparing and assessing the approved budget with the performance budget in the branches of the social security organization in achieving its goals and policies, some strategies are offered to reduce the cost and increase the revenue in the studied organization.*

**Keywords:** Budget, operational budget, insurance, Social Security Organization, Tehran.

### **Introduction**

Budget is one of the most important tools for decision making and management controls and provides a large part of the information required for macro-management decisions. Since one of the main objectives of management is allocation of limited resources to programs and operations needed within the framework of macro policies, the growing closeness of resources and consumption has made the role of the optimal allocation of resources to the operations focusing the organization objectives more vital. Thus, in identifying the stakeholders in the budget, top, middle and executive managers are considered and major operations of counsel's are focused on determining management needs and identifying outcomes of the budget process.

In budgeting social security organization, revenues in the past and predicting the future events (insurance rates, inflation and wage rates) are estimated and costs are also considered as additive. This type of budget as an increasing and performance-based budgeting is the process of saving and controlling credits spending and its close relationship with governmental accounting confirms and provides the possibility of budget control. However, this method is fast and simply implementable and has the ability to determine the amount of deviation from the predicted amount. In this study it is tried to compare and assess the approved budget with the performance budget in the branches of the social security organization in achieving its goals and policies.

### **Social Security Organization (SSO)**

Social Security Organization is a social insurer organization in Iran which provides coverage of wage-earners and salaried workers as well as voluntary coverage of self-employed persons. In 1975, the Social Security Law was approved and the SSO was established<sup>1</sup>. Iran did not legislate in favor of a universal social protection, but in 1996, the Center of the Statistics of Iran estimated that more than 73% of the Iranian population was covered by social security (World Bank, June 2009). Membership in the social security system is compulsory for all employees (Rouznameh Rasmi, 1990).

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<sup>1</sup><http://www2.tamin.org.ir/web/sso-en/gi/history>

SSO is a nongovernmental organization and it is solely financed by contributions (with participation of insured (7%), employer (20-23%) and government (3%))<sup>2</sup>. Social protection is extended to the self-employed workers, who voluntarily contribute between 12% and 18% of income depending on the protection sought. SSO provides the following services<sup>3</sup>:

1. Retirement, disability and death;
2. Unemployment;
3. Old-age;
4. Helplessness, loss of caretaker and social vulnerabilities;
5. Accidents and injuries;
6. Physical, mental and psychic disability;
7. Health care and medical insurance;
8. Protecting mothers especially during the maternity period and child-rearing;
9. Protecting orphan children and unprotected women;
10. Planning particular insurance system for widows, old women and self-dependent women;
11. Poverty and inequity alleviation;
12. Assistance and rescue.

#### Overall objectives of the research

1. Comparison of the functional budget of branches of the social security organization with its approved budget
2. Identification of factors affecting the decrease of the operational budget and offering solutions to improve it in formulating the next year budget

#### Research hypothesis

1. There is a significant relationship between the obstacles and problems to the operational budgeting and executive factors in branches of Tehran Social Security Organization.
2. There is a significant relationship between the obstacles and problems to the operational budgeting and the management in branches of Tehran Social Security Organization.
3. There is a significant relationship between the obstacles and problems to the operational budgeting and legislative factors in branches of Tehran Social Security Organization.

#### Research methods (including field, survey, library, etc.):

This research is practical in terms of purpose and aims to develop knowledge to examine the obstacles and problems in implementation of the operational budget in insurance branches of the Social Security Organization.

#### Research analytical model:

Factors within the organization:

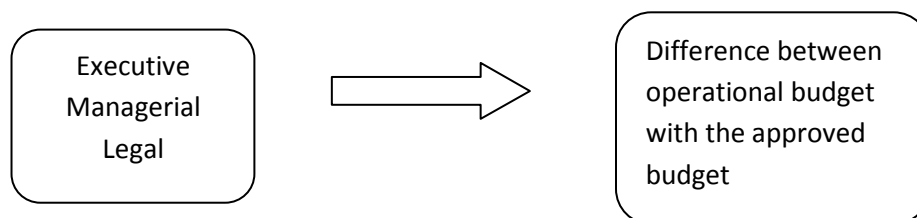


Figure 1: Research analytical model

<sup>2</sup> <http://www2.tamin.org.ir/web/sso-en/gi/history> & <http://www2.tamin.org.ir/web/sso-en/finance/resource> & <https://www.socialsecurity.gov/policy/docs/progdesc/ssptw/2004-2005/asia/iran.html>

<sup>3</sup> <https://www.socialsecurity.gov/policy/docs/progdesc/ssptw/2004-2005/asia/iran.html>

#### Operating budget

An operating budget is the annual budget of an activity stated in terms of Budget Classification Code, functional/sub-functional categories and cost accounts. It contains estimates of the total value of resources required for the performance of the operation including reimbursable work or services for others. It also includes estimates of workload in terms of total work units identified by cost accounts.

In the United States, businesses along with state and local governments divide their budgets into two types: the operating budget and capital budget. The operating budget is used to keep track of maintenance operations, salaries, and interest payments.

**The scope of research:**

Research theme: the subject of this research is the operational budgeting

Research time: this study is conducted from June 2011 to March 2012.

Research territory: This research was conducted in the insurance branches of Tehran Social Security Organization.

**Research statistical population**

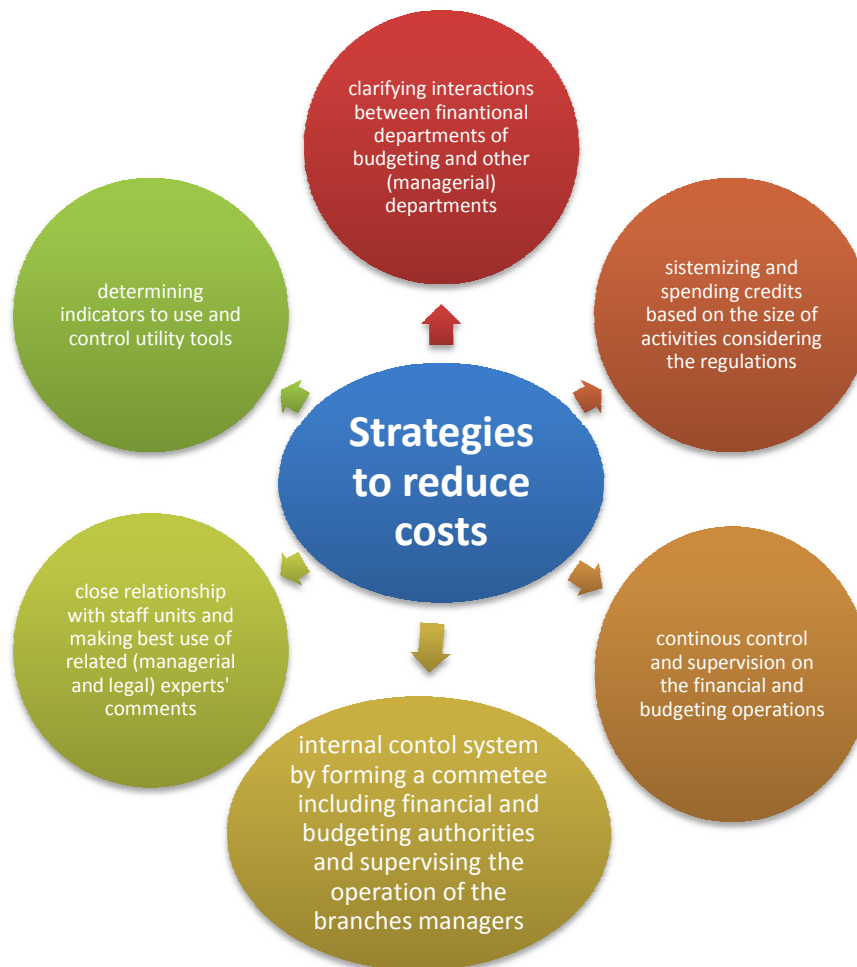
Statistical population in this research includes 60 people of budget managers and experts in the branches of social security organization of Tehran. The method is census and therefore, no sampling is applied.

**Effective Factors Ranking**

Table 1: Ranking effective factors in the operating budget in the insurance branches of social security organizations of Tehran in terms of deterrence

variable	priority	Average grade
Managerial factors	1 <sup>st</sup>	2.81
Legal factors	2 <sup>nd</sup>	1.69
Executive factors	3 <sup>rd</sup>	1.50

**Strategies to reduce costs and increase revenues**



**Figure 2: Strategies to reduce costs and increase revenues**

## Conclusion

Following conclusions were drawn from this study.

- 1) There is not sufficient communication between departments to facilitate the decision making to implement a comprehensive budget
- 2) The branch does not monitor the implementation of the budget and spending plan
- 3) Granting authority to executive managers does not undermined budget control system.
- 4) Lack of coordination between staff units controlling budgetary and administrative units affect the budget deviations in the branches.
- 5) Lack of experts in insurance branches to identify and set priorities of plans are of a number of reasons for the budget diversion.
- 6) Lack of relevant experts and officials in the performance of budget provides funding unconstitutional.
- 7) Experts in budget do not have authority needed to implement the operational budget in insurance branches.
- 8) The training has been provided for staff in relation to the acquisition of knowledge and skills necessary to implement the operational budget.
- 9) Budget experts in the insurance branches are well aware of the Department's policies and programs.
- 10) Specialists and experts try to maintain the database in insurance branches.
- 11) When conflict occurs between budget control units and executive units, financial manager shall not exceed the approved budget.
- 12) In forming the proposed budget of branches, the management system has no commitment to implement the budget.
- 13) In budgeting in the branches, activities will not be shown in budgeting format.
- 14) In regulating the proposed budget of the branches, the management does not consider the effectiveness and efficiency.
- 15) Financial director and budget expert do not have an effective role in formulation of budget for branches of the organization.
- 16) **Budgeting** managers' and experts' opinions and will is ineffective in budget implementation.
- 17) Information from financial and budgeting performance assessment is not accurate and reliable.
- 18) Performance freedom is not granted to the insurance branches in terms of budget requests and cost allocation based on their own priorities.
- 19) Top managers in Tehran Insurance Branches do not include the information gained from financial and budgeting performance assessment in their decisions.
- 20) Proposed incentive and punitive plans are not anticipated toward the operating budget implementation.
- 21) The ability of in time analysis and understanding of statistics and information could be effective when adjusting the proposed budget.
- 22) Budgeting managers' and experts' opinion and will is ineffective in budget implementation.

## References

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- <sup>^</sup> <http://www2.tamin.org.ir/web/sso-en/gi/comprehens>
- <sup>^ a b</sup> <http://www2.tamin.org.ir/web/sso-en/gi/gs>