



ISSN: 2230-9926

Available online at <http://www.journalijdr.com>

IJDR

International Journal of Development Research
Vol. 07, Issue, 10, pp.16318-16322, October, 2017



ORIGINAL RESEARCH ARTICLE

OPEN ACCESS

BEHAVIORAL ASPECTS OF BUDGETING

Tan Caili Michelle and Ameen Talib

Singapore 669471

ARTICLE INFO

Article History:

Received 19th July, 2017
Received in revised form
04th August, 2017
Accepted 07th September, 2017
Published online 10th October, 2017

Keywords:

Budgeting,
Behavioral,
Survey.

ABSTRACT

Budget is an essential controlling tool. It can help to plan, implement, execute and manage the strategic plan for the organization. There are behavioral issues relating to budgets such as dysfunctional behaviors of manager and budgetary slack. These behavioral issues become more obvious when their actual performance is to be compared with and evaluated against budget performance. The outcome of the comparison and evaluation can have a direct relation to the amount of incentives (monetary and non-monetary) they can receive. This paper discusses the purposes of budgets, the approaches towards budgets as well as the behavior aspects of budget. There is a survey conducted on 20 employees. This survey is on how budget is viewed in their organization. There are 10 questions, with multiple-choice answers. All surveys are completed in full. There is a discussion on alternative budgeting methods for example Balanced Scorecard. It is a combination of financial and non-financial measures, which organization can consider adopting. There are 4 perspectives of Balanced Scorecard: Customer perspective, Internal Business Processes perspective, Innovative and Learning perspective, and Financial Perspective. The use of Balanced Scorecard can help to overcome the behavioral aspects of budgeting.

Corresponding author

Copyright ©2017, Tan Caili Michelle and Ameen Talib. This is an open access article distributed under the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

Citation: Tan Caili Michelle and Ameen Talib, 2017. "Behavioral aspects of budgeting", *International Journal of Development Research*, 7, (10), 16318-16322.

INTRODUCTION

Every organization has its mission and vision. A mission statement explains the reason of existence for the organization. It describes the organization, what it does, and its overall intention. A vision statement describes what the organization aims to be in the future, and it is usually inspirational and aspirational. To achieve the mission and vision, organizations need to develop its own strategic planning. It is a combination of long-term strategies and short-term strategies. Short-term strategies can be implemented into its budget. Upon achieving the budget, it means the short-term strategies are successful. With the success of short-term strategies, it helps to contribute to the success of long-term strategies. When the long-term strategies are achieved, it will lead the organization towards its mission and vision. Budget is the most commonly used, essential and important tool for controlling and planning. Many organizations use budgets to assist the implementation and execution of its short-term strategies. The organization can develop short-term targets from its short-term strategies, which are included in the budget. When the budget is achieved, the targets are met and the success of short-term strategies.

Literature Review

Budget

Motivation: Budget represents targets, which are set by the organizations. It can be used as a motivating tool for employee to aim for it. When the targets are set too low, employee may perform badly due to lack of motivation. However when the targets are set too high, they may perform badly as well. It can be the employees have given up on achieving the targets, as it has been perceived as unattainable and unachievable. The budget set needs to be perceived as possible targets, which will thus motivate employee towards achieving them. The budget difficulty and actual performance is correlated. When the budget is set very easy, actual performance can be low. The employee' demands can be low due to lack of motivational force. When the budget is set too difficult, actual performance is low. The employee may give up as they see the budget as unattainable and achievable. They do not want to waste time and efforts at all. However, when the budget is set at the expected level (i.e. the level which actual performance is expected to be), employee will perform as expected. Below is the diagram to illustrate:

Performance Measurement

Since budget is regarded as targets set by the organization, evaluations need to be carried out on the actual performance. A simple form of evaluation can be comparison of actual with the budget performance.

There are many difficulties in the evaluation process of actual against budget performance. Some of the difficulties are mentioned as below:

- There is a possibility that budget may have been set inaccurately from the beginning, thus making it unachievable for the employee.
- The budget may become unachievable, as the time period progresses.
- There may be interferences between departments' performance. One department perform well will lead to another performing badly.

The evaluation results will have an adverse impact on the department and the employee. When the actual performance does not meet the budget, it will impact on them. If there are incentives for meeting the budget, they will not get it. At a worse scenario, they can even get penalties for not meeting the budget.

Behavioral Aspects in Budgeting

How the budget is administrated will affect their effectiveness and efficiency in achieving the organization's goals. Besides using budget to forecast the organization's coming year's performance, it also serves another purpose. It can be used as a performance evaluation on the managers' actual performance against the budgeted performance. By doing so, the organization is trying to use budget as a tool for control. When the performance evaluation is linked with any form of rewards and penalty system, there are possibilities that the managers will distort any information and data passed to upper level of management (i.e. their superiors). The managers may underestimate the revenue, over-estimate the costs required. It can have an effect on their job performance, which will be reflected on their annual appraisals. All these will affect their salary increment, annual bonus, chances of promotion etc. The manager's behavior towards the budget will be influenced as the actual performance of budget will either have a favorable or adverse effect on his job appraisal.

Below are the behavioral aspects of budgeting, which will arise:

Dysfunctional Behavior

When the budget's goals are the same as managers' goals, the actual performance will meet the expected level of performance or even exceed the expectations. This is called goal congruence. It refers to the alignment and consistency of individual's goals (in this instance, it is the manager) with the organizations' goals. The managers will be motivated to aim for the goals of the organization, as this will also lead them towards their individual goals. In the case of goal incongruence, the managers are not motivated at all. They may put in minimum efforts (in worse case scenario, no efforts from the managers) towards the budget, thus affecting the actual performance.

In the situations whereby the budget shows unrealistic targets from the management and/ or the budget is implemented badly, the employee may react adversely to the budget. This will cause an impact on the actual performance. Usually it does not meet the expected level of performance, and it will affect the organization's goals (short term and long term) and objectives. The display of managers' behaviors, which conflicts with the organization's goals and objectives, is dysfunctional behavior.

Participative Budgeting

Budget is usually prepared either top down or bottom up. Under the top down budget method, top management prepares the budget and pass on the information to the employee as what they need to do in the budget. There is no involvement and communication from other employee. When there is participation from the employee, they become involved in the budgeting process. They form part of the budget. It gives them a sense of commitments and they also foster a sense of belongings toward the budget. When they feel committed, they will be motivated aiming for the targets. By encouraging participation from the employee, it helps to increase motivation levels and reduce resistance level to the budget as well as reduce possible conflict within organization. It also increases employee' initiatives, performance level and their morale on their jobs. By allowing participation from employee, it is likely the budget's targets will become the employee' goals. They contribute to the development of the budget. This type of budgeting allows both top management and its employee to have a better understanding on each other's roles and areas of concerns where budget is concerned. For example, the top management will know whether the targets set is reasonable and realistic when they hear from employee, and employee will know the dilemma the management needs to consider when they need to make decision between two or more choices.

Budgetary Slack

The difference between the allocated resources and the actual required resources is the budgetary slack. The managers introduce the budgetary slack, also known as padding the budget, during the budget preparation process. They will underestimate the revenues and overestimate the costs and expenses. In this way, they can request for more allocation of resources from the organization. There is a tendency for the managers to do in almost all organizations, across industries. The managers will have past experiences when preparing the budget. The actual amount of expenditure allocated to them is lesser than what they have requested for inside the budget. They will tend to add in a mark-up percentage of what they have estimated for. In this way, even if the actual amount of expenditure get reduced, the amount allocated to them does not differ much from what they have planned for. Managers will also built a budgetary slack by underestimating the amount of revenue and overestimating the costs. When the actual performance exceeds the budget performance, it appears that the managers have performed above the expectations of budget. There is high chance that the manger has taken advantage of the budgetary slack. The actual performance may not have been met if not for the budgetary slack. When the actual performance has a direct link to the incentives, the manager has a higher possibility of building a budgetary slack.

MATERIALS AND METHODS

This paper methodology is a 10 questions survey conducted in which 20 employees participated.

Results of Survey

To find out how budget is viewed and handled in organizations, a survey of 10 questions with multiple choice answers are conducted. Surveys, with similar questions, have been conducted in previous studies on budget. This survey is pilot tested with 20 employees. There is no specific industry, nor specific positions for this survey. All questions are answered in full.

The survey, consisting 10 questions, is as follows:

Q1. Are you of a managerial position in your organization?

There are 20 employees whom have participated in the survey. Out of the survey group, there are 13 who hold managerial position and 7 who do not hold managerial position.

Q2. Are you aware of the budget prepared by your organization?

The rest of the 19 employees (95%) are aware of budget. There is only 1 employee (5%) who is not aware of the budget in the organization. Most of the employees know the existence of budget, except for one. It implies that organizations put in efforts to ensure their employees are informed.

There is a possibility that the employee may have just joined the organization, hence he/ she does not know the existence of budget. There is no information on the employee's date of joining the organization.

Q3. How often the budget meetings are conducted?

There are 9 employees (45%) whose organizations hold budget meeting monthly, and 5 employees (25%) having budget meeting quarterly, and 6 employees (30%) having it yearly. There is no employee whose organization that did not have any budget meeting at all.

Q4. How often is information sent to the employee?

The passing of information to the employee is the same as the frequency of budget meeting. It implies that once the budget meeting is concluded, the information will be passed onto the employee almost immediately. There is no delay in passing of information to the employee. The frequency of the budget meeting held and the passing of information to the employee are as shown on the bar chart below.

Q5. Are financial targets are set up in the meetings?

There are 19 employees (95%) stating that financial targets are set up in the budget meeting. There is one employee who states that there is no financial target being set up. He/ she is the one who is not aware of the budget in the organization. As mentioned in Q2, there is a possibility that he/ she is a new employee. Since he/ she is not aware of the budget, he will not know if financial targets are set up in the meetings.

Q6. Are budgetary responsibilities established for different sections during the meetings?

18 employee (90%) state budgetary responsibilities are established in the budget meeting. Only 2 employees state there is no establishment of budgetary responsibilities during the meeting.

Q7. Are employees aware of their responsibilities in the Budget?

There are 17 employee (85%) states that they are aware of their responsibilities in the Budget. However, there are also 3 employees (15%) who are not aware of their responsibilities. From the bar graph below, there is a majority of the employees (85% based on the bar graph) whom are aware of financial targets set up in the budget meeting. They also know their responsibilities in the budget, as it has been established in the meeting. Most of the employee's organizations do set financial targets in the budget meeting. The budget responsibilities are also communicated clearly to the employee so that they are aware of them. Those who choose No as their answer, it may be the newcomer mentioned in Q2 and Q5, or they do not understand the budget completely. Even if they are in the budget meeting, they have some miscommunications and misunderstanding on the budget and the responsibilities they need to take on.

Q8. Who reviews each budget?

Out of the 20 employees, all of them (i.e. 100%) indicate that the senior manager does the reviewing of budget in their organizations. This shows that organization only allows senior manager to review the Budget. There is no review of Budget done by junior manager and non-executive employee. It may indicate organizations still prefer traditional way of reviewing budget to be performed by senior managers. It could be that the experience of the senior managers, and they may be able evaluate the budget by looking at it from different angle.

Q9. Does the organization adhere to its timetable for the preparation and release of the Budget?

There are 16 employees (80%) indicating their organization does adhere to the timetable for the preparation and the release of the budget. 4 employees (20%) indicates their organization does not adhere to the timetable. It will pose a problem on the adhering the timetable of preparation and release of the Budget. There are 4 employees (20%) whom have indicated their organization does not adhere. With all budget being reviewed only by senior managers, there is a high chance of the delay in the overall budget preparation and release of budget on a timely basis. On the other hand, most organizations can still follow the timetable, even though reviews are done by senior managers. It could be due to the level of difficulty of the budget to be reviewed (for instance the budget is easy and review does not require much time and efforts from the senior manager) or the experience of senior managers (they are able to review complicated budget within the time frame as they are experienced in this type of budget).

Q10. Are there incentives for achieving the budget?

When the budget is achieved, there are 18 employees (90%) whom will get incentives. There are 2 employees (10%) who do not get any incentives for achieving the budget.

There are incentives given to most employees (18 out of 20 surveyed), when they achieve the budget. It shows that giving incentives is an essential and important motivating tool for the employee. As for the 2 employees who do not receive any incentives, there is no further information on their job scope and remuneration. It could be they do not participate in the budget, so they do not receive incentives when budget is achieved. There is also possibility that their remuneration package have included the terms of the employment: they are required to achieve budget and there is no additional incentives for achieving it.

Conclusion

Budget is an essential and important tool use for controlling and planning, which almost every organization adopts. This allows them to develop and implement strategic plans, either long-term or short-term. Budget can be used to forecast organization's performance for the next financial year. This forecast is utilized by the organization during the strategic planning stage. When the budget is developed, the information is communicated to the employees. It also acts as a motivating tool for the employees, especially when they participate in the budgeting process. The employees' actual performance is evaluated against the budget performance. It affects their job appraisals, which have a direct link to any form of incentives, which may be given to them when budget is achieved. This is the traditional budgeting, which many organizations adopt. The organization uses traditional financial measures, which only focuses on one perspective of performance. They measure the consequences of the performance, and not finding out what causes the performance. The behavior aspects of budgeting can be solved by some of the recommendations as mentioned: feedback on budget, use of monetary and non-monetary incentives.

The organization can implement frequent and timely feedback on the budget. This allows them to adjust and align budget when there are changes (internal and external), which will affect the performance. This is reflected in question 3 and 4 of the survey. There are 14 employees whose organization does hold budget meeting at regular interval (9 of them has monthly budget meeting, where 5 has quarterly meeting). The information of budget is also passed onto the employees, same time as the budget meeting is held. Another recommendation is the use of incentives. In the survey question 10, there are 18 employees whom are given incentives for achieving the budget. It can reduce the possibility of dysfunctional behavior and budgetary slack. When there are incentives for achieving the budget, the employees are motivated. There is goal congruence between organization's goals and their personal goals. They will work hard towards the organization's goals, just like it is their goal. Incentives can be in the form of monetary and/ or non-monetary. Monetary incentives can be in the form of salary increment, performance bonus, chance of promotion. The non-monetary incentives include job enrichment (for example, workshop or conference relating to the current job scope), more responsibility given, recognition awards. The difficulty of budget is related to the actual performance. When the budget is set easy, the actual performance is low. This could be due to lack of motivation of employees when they are given an easy budget. Likewise, when the budget is set very difficult, the actual performance is low. The employees know the budget is unattainable, thus give up achieving it.

Manager needs to prepare the budget, considering the expected level of performance. When the budget is set within the expected level of performance, the employees will be able to perform well. The employees will perform under expectations budget, until they reach the limits of the budget performance. The actual performance will start to decline. The actual performance can be extended with the introduction of motivational budget. The motivational budget refers to budget prepared with incentives to be given to employees when budget is achieved. The budget is set at higher level than the expectations budget. The employees are motivated to reach the budget with the presence of incentives, which is a motivating tool for them. The incentives, as mentioned in earlier paragraph, can be monetary and/ or non-monetary. The motivational budget can extend the actual performance until it reached the limits of budget performance. When it reaches the limit of the budget performance, there is no use of increasing the amount of incentives. It does not motivate the employees anymore, as the budget becomes unachievable and unattainable.

Limitations

Due to time constraints, there is limitation on the survey conducted. The target audience is 20 employees only. There is not enough data collected to reflect the behavior aspects of budget in organization. There is data showing the employee does have regular budget meetings and the information is passed to the employees. There is no mention of what information is passed on. It can be full information on budget or partial information. There are 18 employees whom have indicated they receive incentives for achieving the budget. There is no indication the type of incentives they receive, and if the incentives received is what they have expected. All these unanswered questions can be discussed further in the future study of budget, with a larger target audience.

REFERENCE

- Bar-Haim Aviad 2002. Participation Programs in Work Organizations: past, present and scenarios for the future, 1st edition, Greenwood Publishing Group Inc., Westport, Connecticut.
- Bonner E. Sarah. 2008. Judgment and Decision Making in Accounting, Pearson Education Inc., Upper Saddle River, New Jersey.
- Boon O.K., Arumugam V., Safa M.S., and Baker N.A. 2007. "HRM and TQM: association with job involvement". Personnel Review. Vol. 36 No. 6 (2007), pp. 939-962.
- Boxall Peter and Purcell John, 2008, Strategy and Human Resource Management, 2nd edition, Palgrave Macmillan, New York.
- Bratton John, and Gold Jeff, 2007. Human Resource Management: Theory and Practice, fourth edition, Palgrave Macmillan, New York.
- Hope, J & Fraser, R. 2001. "Figures of Hate" Financial Management February. 22-25
- Jr. Bierman Harold, 2010. An Introduction to Accounting and Managerial Finance: A merger of equals, World Scientific Publishing Co. Pte. Ltd., Singapore.
- Kaplan, R & Norton, D. 2001. "The Strategy Focussed Organization" Harvard Business School Press.
- Kennedy, Dugdale. 1999. "Getting the most from budgeting" Management Accounting. 22-24

- Keys, D. Azamhuzjaev, M. and Mackey J. 1999. " EVA" CMA Management, 31-33.
- Libby, T. & Lindsay, M. 2003. "Budgeting- an unnecessary evil" CMA Management (March 2003)
- Miller J. Gerald, Hildreth Bartley W., and Rabin Jack, 2001. Performance-Based Budgeting, Westview Press, Colorado.
- Morris David, Bakan Ismail, and Wood Geoff, 2006. "Employee financial participation: evidence from a major UK retailer". Employee Relations. Vol. 28 No. 4 (2006), pp. 326-341.
- Peter Boxall, John Purcell, 2011. "Strategy and Human Resource Management: Third Edition (Management, Work and Organizations)" 3rd Edition.
