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## IMPACT OF BUDGETARY SLACK ON ORGANIZATIONAL GOALS

*This study intends to examine the issue of budgetary slack activities impact on organizational goals and performance. The research framework is established to analyze whether ownership and empowerment have certain relationship to a budgetary slack. Firstly, the study examines the correlation between the managerial behavioral outcomes and the choices of organizational resources allocation patterns. Secondly, the study examines the mediating role of managerial biases that influences the budgeting process, in particular, the company practices and norms, the insecurity of managers and the reward system. This research framework indicates that behavioral outcomes by employees arising from the organizational and economic goals significantly affect the level of business performance.*

*Keywords: budgetary slack, ownership, empowerment, employees behavioral outcome.*

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## ВПЛИВ ВИКРИВЛЕНОГО БЮДЖЕТНОГО ПРОГНОЗУ НА ОРГАНІЗАЦІЙНІ ЦІЛІ

*У статті показано, яким чином навмисні викривлення бюджетних прогнозів впливають на цілі організації та показники її роботи. Проаналізовано взаємозв'язок між структурою власності та повноваженнями менеджерів, з одного боку, і викривленнями бюджетного прогнозу – з іншого. Спочатку досліджено взаємозв'язок між результатами поведінки менеджерів і варіантами розпорядження ресурсами організації. Потім встановлено вплив управлінських суперечностей на бюджетний процес, зокрема, на практики та норми компанії. Особливу увагу приділено незахищеності менеджерів та заохочувальній системі. Головний висновок дослідження: результати поведінки менеджерів, мотивовані їх організаційними та економічними цілями, суттєво впливають на ефективність бізнесу.*

*Ключові слова: викривлення бюджетного прогнозу, власність, повноваження, результати поведінки менеджерів.*

*Рис. 1. Літ. 21.*

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## ВЛИЯНИЕ ИСКАЖЕННОГО БЮДЖЕТНОГО ПРОГНОЗА НА ОРГАНИЗАЦИОННЫЕ ЦЕЛИ

*В статье показано, каким образом намеренные искажения бюджетных прогнозов влияют на цели организации и показатели её работы. Проанализирована взаимосвязь между структурой собственности и полномочиями менеджеров, с одной стороны, и искажениями бюджетного прогноза – с другой. Вначале исследована взаимосвязь между результатами поведения менеджеров и вариантами распоряжения ресурсами организации. Затем установлено влияние управленческих противоречий на бюджетный процесс, в частности, на практики и нормы компании. Особое внимание уделено незащищённости менеджеров и системе поощрений. Главный вывод исследования: результаты поведения менеджеров, мотивированные их организационными и экономическими целями, существенно влияют на эффективность бизнеса.*

*Ключевые слова: искажение бюджетного прогноза, собственность, полномочия, результаты поведения менеджеров.*

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## **Introduction**

This paper is focused on the issue of budgetary slacks. Budgetary slack activities have always been the major issue affecting the efficiency of revenue and costs in attaining organizational effectiveness as errors in budget-setting, whether done intentionally or unintentionally, have implications on cost controls. Thus, efforts among both researchers and practitioners were invested into identifying the root causes of budgetary slack and the ways to minimize its effects. In this perspective the given study will investigate whether ownership and empowerment have any correlation with the budgetary slack.

Thus, it is important to know how the cognitive processes of employees influence their behavioral outcomes – positive or negative, especially when they are given ownership rights and formal authority to express their opinion and perform their functions and responsibilities. Some insights to industry practitioners, for both profit or non-profit organizations, to reduce slack-building budgeting activities are also offered.

## **Budgetary Slack**

Despite its shortcomings (Hansen et al., 2003), budgeting has been widely used by organizational personnel as a mechanism to plan, coordinate and control managerial activities. Its primary objective is not only "to increase a long-run profit at the fastest possible rate" (Stedry, 1960), but also to facilitate the coordination of organizational functions with accurate forecasts of future results (Dunbar, 1971).

Although the term "slack" was initially applicable only to organizational levels (Cyert, March, 1963), Schiff and Lewin (1970) argued that "for most corporations this (slack) environment is embodied in the budget document and it therefore should not be surprising if managers attempted to influence the budget process and bargain for slack budgets. Stated differently, managers will create slacks in budgets through the process of understating revenues and overstating costs." It implies that employees' reactions towards slack may be considered as a dysfunctional behavior which may significantly impact the actual outcome of proposed budgetary activities. Despite its claim as a negative slack, other researchers presented a positive result that was brought about by budgetary slack stating that it facilitates the long- and short-term organizational objectives particularly at the stage of new product innovation and experimentation (Davila, Wouters, 2005). This research focuses on examining the budgetary slack as a dysfunctional behavior, as the latter is non-accounting related.

## **Theory development and hypotheses**

This section describes the formation of variables of interest into the development of hypotheses which was built upon the extensive empirical literature review.

### **The link between formal ownership and employees' propensity to create a budgetary slack**

Formal ownership is operationalized as a set of multidimensional variables that consists of equity, private information and influence (participation) in decision-making (Pierce, Rubenfeld, Morgan, 1991). These are the 3 basic and yet exclusive rights that individuals possess as members of organizations. Employees should have the right to some share of the owned object's physical being or financial value or both. They should possess the right to private information about the status of what is owned. And finally, they should also possess the right to exercise influence (participation) over the owned objects.

In ownership, possession of resources is one of the intentions for employees to gain slack in budgeting (Lukka, 1988). It is an employee's desire to seek control of excessive amount of resources through slacking and such resources may not necessarily be economically rational or at least when it is based on anticipated change. Moreover, private information is considered to be an important resource possessed by employees while influencing (participating) in decision-making it is seen as a power to control the desired outcomes (Lukka, 1998). These observations suggest the following hypothesis *H1*: The greater the right for formal ownership is, the greater is the employees' propensity to create budgetary slacks.

**The link between formal ownership, psychological ownership, and employees' propensity to create a budgetary slack**

Since this study is examining the psychological effect of budgetary slack, it is proposed that when employees are given the right to possess such scarce resources, they may experience a psychological state of ownership and it has a significant effect in mitigating a budgetary slack. Basing on this argument, we posit the hypothesis *H2*: Psychological ownership partially mediates the effect of formal ownership on employees' propensity to create a budgetary slack.

**The link between structural and psychological empowerment and employees' propensity to create a budgetary slack**

Empowered employees are able to perform their work effectively through the feeling of autonomy, a greater sense of responsibility, and an ability to demonstrate greater extra-role behavior. These outcomes are sourced from an empowered working environment that allows employees feel empowered about their roles and responsibilities which in turn contributes favorably to positive behavioral outcomes (Manojlovich, Laschinger, 2002). In other words, employees, who perceive they have greater access to information, support, resources and opportunities aligned with their formal and informal powers, feel more psychologically empowered in their work roles and thus promote positive work attitudes and organizational behavior. In summary, they experience a greater sense of self-determination, meaningfulness, self-efficacy and this impacts their work roles (Lucas, Laschinger, Wong, 2008). Hence, it is proposed that the more empowered the employees are, the greater is their self-fulfillment, and thus employees are more likely to be psychologically disposed to produce positive behavioral outcomes. Based on these arguments, we posit the hypothesis *H3*: Psychological empowerment partially mediates the effect of structural empowerment on employees' propensity to create a budgetary slack.

**The link between employees' voice, formal ownership and psychological ownership**

As this study is examining the influence of employees' voices in relation to budgetary slack, it is proposed that when employees have the right to voice options and opinions, they perceive themselves as responsible in recommending constructive suggestions in seeking organisational resources. Hence, they tend to cultivate a strong sense of belonging, efficacy, and self-identity within their organisation. Basing on these arguments, we posit the hypothesis *H4*: Employees' voice moderates the influence of formal ownership on psychological ownership.

**The link between employees' voice, structural empowerment and psychological empowerment**

As this study is examining the influence of employees' voices in relation to budgetary slack, it is proposed that when employees are empowered to voice options

and opinions, they perceive themselves as autonomous in bringing constructive suggestions to improve their work roles. Hence, they tend to demonstrate higher levels of meaning, competence, self-determination and impact in their work roles. Based on this premise, we posit the hypothesis **H5**: Employees' voice moderates the relationship between structural empowerment and psychological empowerment

**Conceptual model**

The justification of the model development (Figure 1) and its presumed relationship with other constructs has been provided. The model is developed to illustrate the links between the constructs. The model comprises the 4 key elements: psychological ownership, structural empowerment, psychological empowerment, and employees' voice.

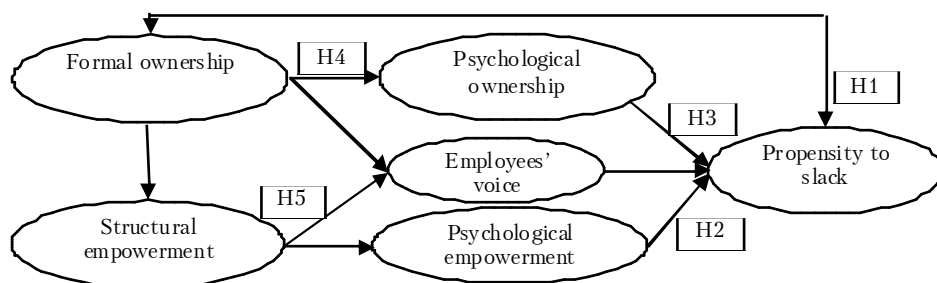


Figure 1. The effect of ownership and empowerment on budgetary slack: a cognitive perspective (developed by the authors)

**Discussions**

**Psychological ownership**

Psychological ownership measures the degree of feeling of possession as reflected in people's everyday associations with property and possession, such as "That idea is MINE," and "This is MY office". It is measured using a seven-item seven-point semantic differential scale developed by Van Dyne & Pierce (2004). This instrument has been widely used in many psychological ownership empirical studies (Sieger, Bernhard, Frey, 2011). The sample question from Van Dyne & Pierce (2004) is shown as "This is MY organisation".

**Structural empowerment**

Structural empowerment measures the extent of employees' access to different aspects of work empowerment described by Kanter (1993) such as opportunity, support, resources, information, informal and formal power. A nineteen-item seven-point semantic differential scale developed within the "Conditions of Work Effectiveness Questionnaire-II" (CWEQ-II) by Laschinger, Finegan, Shamian and Wilk (2001) measures these aspects. It is a modified version of a fifty eight-item five-point Likert-typed scale within the "Conditions of Work Effectiveness Questionnaire-I" (CWEQ-I) derived from Kanter's (1993) original ethnographic study on work empowerment, later modified by Chandler (1986) for improvement of research quality initiatives (Finegan & Laschinger, 2001). Besides, a two-item seven-point semantic differential scale that measures global empowerment is included as a validity check for "Conditions of Work Effectiveness Questionnaire-II" (CWEQ-II) instrument.

This instrument is widely used and is validated in many existing structural empowerment empirical studies (Davies, Wong, Laschinger, 2011). A sample question from Laschinger, Finegan, Shamian & Wilk (2001) instrument is shown as "Overall, my current work environment empowers me to accomplish my work in an effective manner".

### **Psychological empowerment**

Psychological empowerment measures the degree of individual's orientation towards his or her work role manifested in meaning, competence, self-determination, and impact. It is measured using a twelve-item seven-point semantic differential scale developed by Spreitzer (1995). This instrument is also widely used and validated in many existing psychological empowerment empirical studies (Aryee, Walumbwa, Seidu, Otaye, 2012). A sample question from Spreitzer (1995) instrument is shown as "The work I do is very important to me".

### **Employees' voice**

Voice behaviour measures the extent to which employees believe they are able to voice constructive suggestions for change that is intended to improve the current situations or matters (LePine & Van Dyne, 1998). It is measured using a five-item seven-point semantic differential scale developed by Liang, Farh and Farh (2012). This instrument is validated in Liang, Farh and Farh (2012) with the coefficient alpha value assessing the reliability of employees' voice be 0.87. As suggested by them, this instrument is to be validated in this study to strengthen its reliability. Besides, the items stated in this instrument are greatly related to the ability of employees' contributing with suggestions and concerns with the intention to provide suggestions for improvement. A sample question from Liang, Farh and Farh (2012) instrument is shown as "Proactively develop and make suggestions on the issues that may influence the department".

### **Conclusions**

The contributions from this study are discussed from theoretical, methodology and practical perspectives. Theoretically, this study proposes to contribute its knowledge to the existing literature in four ways. Firstly, it is expected to provide additional insights into the existing literature on ownership and empowerment that structural empowerment and psychological ownership may be interrelated to establish a causal relationship in influencing organizational members' propensity to create a budgetary slack, instead of examining them individually (Laschinger, Finegan, Shamian and Wilk, 2001). When employees are permitted to control or exercise power, a sense of possessive feeling may be developed as they are attached with the target of ownership. This feeling of ownership may then be associated with employees' positive behavioral outcome, that is, to mitigate their propensity to create a budgetary slack.

Secondly, it provides an overview on the literature of employees' voices when it is examined from the perspective of psychological ownership. When employees are given the right to voice (i.e., an active and responsible voice), they feel they can connect their self-identity with the organization (as the target of ownership) and thereby promote positive behavioral outcome, that is, to mitigate employees' propensity to create a budgetary slack. It is possible they incorporate meaning into their "interaction" with possession (i.e., the right to voice) so that they are acknowledged by other organizational members as active participants.

Thirdly, it provides a deeper insight into the literature on the employees' voice when it is examined from the perspective of psychological empowerment. In terms of power, when employees are empowered to voice (active and responsible voice), they feel they are given autonomy in initiating or regulating possible constructive change to the existing procedures and thereby encourage positive behavioral outcome, that is to mitigate employees' propensity to create a budgetary slack. In other words, it is possible that employees proactively develop new but constructive strategies to achieve desired performance goals that benefit both organizations and individuals (Spreitzer, Kizilos & Nason, 1997)

Lastly, it is expected to add additional knowledge to the existing accounting literature by examining the issue of budgetary slack in the public sector of Malaysia. Most of the previous empirical studies examined the scenario of budgetary slack in private organizations (Hobson, Mellon & Stevens 2011), as employees take a more active role in the involvement of budgeting process to safeguard personal and group interests, which indirectly may be more inclined to create a budgetary slack. Yet, the issue of slack has never been formally addressed in such circumstances since Todd and Ramanathan's (1994) study on the New York Police Department (NYPD) in the USA.

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