

# Participative Budgeting and Participant Motivation: A Review of the Literature

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*In recent years behavioral literature has stressed the importance of participation in goal-setting by those most directly affected by those goals. The common postulate is that greater participation by employees in the various management functions, especially the planning function, will lead to improved motivation, performance, coordination, and functional behavior. The authors analyze this postulate as it relates to the budgeting process and discuss whether or not participative budgeting has a significant positive impact on the motivations of budget participants.*

Budgeting occupies a central position in the design and operation of most management accounting systems. Almost regardless of the type of organization, the nature of its problems, and the other means for influencing behavior, the preparation of a quantitative statement of expectations regarding the allocation of the organization's resources tends to be seen as an essential feature of administrative control. Nevertheless, despite its wide acceptance, budgeting remains one of the most intriguing and perplexing of management accounting procedures. With many fundamental questions remaining unsolved, it provides an ideal focus for considering some of the social and human factors which influence the operation of accounting systems in complex organizations.

Budgeting is usually viewed as encompassing the preparation and adoption of a detailed financial operating plan, the comparison of the results of actual operations with those set forth in the plan, and an analysis and evaluation of the reasons for deviations from the plan. The objective of budgeting is to successfully influence how managers plan, coordinate, and control the activities of the company so that better managerial performance may result. In other words, a budget serves to map out the movement of an organization over a given time span so that it remains within established boundaries and yields the attainment of desired goals.

The planning function associated with the budget aims to quantify and assemble relevant data so that members of the organization will have specific, activity-directed goals to guide them. Planning is facilitated because the budget-setters must be aware of the goals and objectives of the organization and of the programs of activity necessary to their attainment.<sup>1</sup> The anticipated consequences of different combinations of plans made by management and the influences of the environment are, as far as possible, reflected in the budget. The planning function is also enhanced by the degree of objectivity and formalization of forecasting necessary in preparation of the budget.

Coordination of the factors of production necessary to achieve the desired goals is improved if there are accurately developed budgets for the varying activities of the organization. The budget offers a formal statement of the planned operations of the firm and provides a basis upon which these activities can be related to each other.

Control over the operations of the organization is also enhanced as the budget provides a basis upon which the activities of the firm can be assessed. Amendments to the budget may have to be made in the light of changing situations or circumstances, but it remains a yardstick upon which management may gauge the effectiveness of operations in respect to their contribution to the predetermined objectives and goals of the firm. The control function of evaluation, comparison, analysis of deviation from plans, corrective action, and feedback depend to a significant degree on the initial formal expression of the desired levels of activity (i.e., budget).

Even though the objective of budgeting is to influence managerial behavior-how managers plan, coordinate, and control the activities of the company-our present knowledge of the mechanism through which or by which budgeting influences that behavior is, at best, incomplete. There have been very few attempts to describe budgeting in behavioral terms. Most budgeting and managerial accounting textbooks describe budgeting in terms of a relatively well-defined set of technical methods and procedures. Yet, how do these methods and procedures influence managerial behavior? In an effort to answer this question, Ronen and Livingstone have suggested that a fourth objective of budgeting exists, that of motivation.<sup>2</sup>

### **Budgeting Can Determine Motivation**

The managerial function of motivation is manipulative in nature. In this functional role, management seeks to define the environment in such a way as to ensure that subordinates do what is desired of them. In short, management desires a reasonably high level of predictive accuracy that subordinates will act in a way that leads to successful achievement of their work goals. Some of the devices that are used toward this end are job descriptions, procedures, rules, policies, persuasion, and budget. As such, management attempts to provide a series of constraints, pressures, or what otherwise might be regarded as conditions to obtain desired performance.

The term "motivation" has a different meaning psychologically. Barelson and Steiner<sup>3</sup> have defined the term as being an "inner state

[that] energizes, activates, or moves... directs or channels behavior toward goals. In short, a motive results in and hence can be inferred from purposive means-end behavior."

Although a host of intuitively appealing theories of motivation exist in the behavioral literature, the one possessing the best combination of intuitive appeal, empirical support, and ease of application to the budgetary process is "expectancy theory." The basic tenet of expectancy theory is that an individual chooses his behavior on the basis of his expectations that the behavior will result in a specific outcome, and the sum of valences (i.e., personal utilities or satisfaction) that he derives from the outcome. Several forms of expectancy theory have appeared in the literature; however, particularly applicable to the budgeting area is House's Path-Goal model,<sup>4</sup> which has enjoyed substantial empirical support in general<sup>5</sup> and in the budgeting area in particular.<sup>6</sup> The model takes the following form:

$$M = IV_b + P_1 [IV_a + \sum_{i=1}^n (P_{2i} EV_i)] \quad (i = 1, 2, \dots, n)$$

where: M = motivation to work

IV<sub>b</sub> = intrinsic valence associated with goal-directed behavior

IV<sub>a</sub> = intrinsic valence associated with work goal accomplishment

EV<sub>i</sub> = extrinsic valences associated with work goal accomplishment

P<sub>1</sub> = path instrumentality of behavior for work goal attainment

P<sub>2i</sub> = path instrumentality of work goal for extrinsic valences

Intrinsic rewards are those that are mediated within the individual, such as feelings of satisfaction or competence. On the other hand, extrinsic rewards are those that are mediated outside of the individual, such as pay, promotion, or peer recognition.

There are actually two levels of outcomes which are important in the theory. First level outcomes are the direct result of an individual engaging in a certain behavior, and amount to specific levels of output or performance, such as achieving a certain budgeted level of profits. The perceived level of probability of a certain behavior resulting in a certain first level outcome is represented by P<sub>1</sub> in the model.

Second level outcomes are those that depend to some extent on the occurrence of specific first level outcomes, such as receiving a bonus or promotion due to meeting the budgeted profit level. The value of these outcomes to the individual is represented by EV<sub>2</sub> in the model. The perceived probability that a specific first level outcome will be followed by a specific second level outcome is represented by P<sub>2</sub> in the model. It is interesting to note that the achievement of first level outcomes is direct-

ly rewarding only to the extent that goal accomplishment is found to be rewarding. A manager places no direct value other than positive internal satisfactions on the achievement of the budgeted profit goal. The manager is really after those second level outcomes that he values and that are dependent in some part on the achievement of a first level outcome—whether he will receive them or not.

Individuals may, however, find working toward budgeted ends rewarding in itself ( $IV_b$  in the model); they may also find that budgeted goal attainment is rewarding in itself ( $IV_a$  in the model). As internal valences, these are not associated with external rewards, but are related to such internal factors as feelings of self-worth and esteem. Positive feelings of achievement and competence may follow the achievement of goals. Budget holders also may believe that the achievement of first level outcomes will improve their chances of receiving valued second level outcomes, such as bonuses or pay raises.

According to the model, then, individuals engage in budget-directed behavior because they gain some satisfaction from the behavior itself, experience rewarding feelings following the act of attaining the budget, and/or improve their chances of being recipients of second level outcomes.

### **Shift Occurs in Budgetary Philosophy**

One of the first behavioral scientists to express an interest in the nature and consequences of the budget process was Argyris.<sup>7</sup> In an investigation conducted more than 30 years ago, he studied the budgeting practices of several industrial firms. Argyris' primary concern was to determine the effects on line supervisors of the manufacturing budgets which were used to control and evaluate their performance. His conclusions may be summarized as follows:

- Budget staff viewed their role as essentially one of criticism. They considered themselves "watchdogs" whose principal function was to constantly search for budget deviations to report to top management.
- Line supervisors were evaluated on the basis of reports that included only results without explanations. Unfavorable variances were highlighted, but no attempt was made to explain whether the causes of the variances were avoidable or unavoidable.
- Accountants were considered inflexible. They were reluctant to change budget standards as conditions changed.
- Budget staff was viewed as never satisfied and constantly applying pressure for ever increasing goals.
- The budgets were unrealistic. They were purposely kept so high that they were impossible to meet.

In analyzing the behavioral relationships observed in the firms under study, Argyris states that the core of the problem was undue pressure caused by the opinion of both top management and the accounting staff that the employees were inherently lazy. As a consequence of budget practices that reflected their opinion, the accounting system was looked upon

with great suspicion and distrust, and there was a general feeling of hostility, and conflict between line supervisors and accountants. Furthermore, production employees banded together in groups to find ways of protecting themselves from the accounting system. A substantial amount of effort was spent in attempts to fix blame, and everyone was concerned with making a good showing by meeting budgets regardless of what this meant in terms of the best interests of the firm. Finally, due to the nature of the situation, the accountants were placed in a position where their success depended on discovering failure in others.

There is no way of determining the extent to which budget practices described by Argyris were in general use at the time of his study. Nor is there any reliable evidence concerning the degree of such practices today. There can be little doubt, however, that the blatant attempts to use budgets as coercive pressure devices, as well as "watchdog" attitudes on the part of accountants, have severely declined. The dramatic shift in managerial philosophy over the past 30 years from that of a Theory X to Theory Y orientation has no doubt had profound impacts on budgetary practices. One notable reflection of this shift has been the adoption by many firms of participative management techniques, in particular, participative budgeting.

### **Participative Budgeting Affects Motivation**

Mitchell<sup>8</sup> has described four ways in which participative decision making would impact upon subordinate motivation as predicted by expectancy theory. First, a participative climate would increase the clarity of organizational contingencies. Through participation in decision making, subordinates would gain an increased understanding of the relationship between behaviors and outcomes. Second, subordinates would select goals they highly value. It is logical that if one participates in decisions about various goals, this individual would select goals he or she wants. Third, because participation increases the control one has over valued outcomes, greater instrumentalities will be assigned to those outcomes. Finally, when people participate in the decision process, they become more ego-involved; the decisions made are in some part their own. This increases the intrinsic valences associated with both goal-directed behavior and work goal accomplishment. Participative strategies are therefore consistent with House's Path-Goal formulation of the expectancy model.

As applied to budgeting, participation means allowing individuals who will be responsible for performance under a budget to participate in the decisions by which the budget is established. Argyris<sup>9</sup> has cautioned, however, that for participative budgeting to be effective, it must be genuine. The individuals involved must be allowed to be spontaneous and free in their discussion, and not feel pressured to simply sanction management's plans.

According to Caplan<sup>10</sup>, the advantages to be derived from participative budgeting are that it helps provide operating managers with a sense of challenge and responsibility, and increases the probability that the goals of the budget will be "internalized" by those involved; that is, that they will accept budget goals as their own. To these may be added

the presumed benefit that budgeted figures are more likely to reflect reality since they are generated by those who are knowledgeable of unit operations.

Becker and Green<sup>11</sup> were some of the first to address the participation issue as it relates to budgeting. Their approach to participation was in terms of its effects on group dynamics. In this regard they speak of two dimensions of group behavior that determine the ultimate effect of a participative budgeting strategy, process, and content. Process is defined as the act of participating, along with the attendant consequences of that act; content is the "discussion topic" toward which are generated the positive or negative attitudes. According to Becker and Green, the act of participation enables the participants within the budgeted group (i.e., a division, responsibility center, or other budgetary unit) to interact and communicate with one another, thereby creating a high degree of group cohesiveness. This cohesiveness, if coupled with group norms favorable to the organization (favorable group content), is conducive to higher levels of performance.

These particular effects of participation can be accommodated within the expectancy model framework. A group is cohesive when the individual members value their acceptance within the group. Participation in the context of a cohesive group would be a process of reaching consensus within the group on desirable standards of performance for the group. Once such a consensus has been reached as a result of the group's participation, it would be viewed by the individual members as reflecting the group's own norm. Striving to attain the agreed-upon goal (budget) would, therefore, increase the individual's likelihood of maintaining his acceptance in the group. In terms of the Path-Goal Model, the existence of a cohesive group of which the subordinate is a member enhances the extrinsic valence associated with work-goal accomplishment. With the attainment of the budget, the individual achieves not only the extrinsic and intrinsic valences that exist in the absence of a group context but, in addition, he maintains his acceptance in a cohesive group that can be regarded as an extrinsic valence dissociated with work goal accomplishment.

It can be seen, then, both in terms of Becker and Green's arguments and in terms of the expectancy model, that participation is likely to increase motivation to achieve the budget only when groups are cohesive and group content is supportive of the organization.

### **Is Participation a Panacea?**

The general debate on participation is one of the most significant and contentious debates of our time. The increasing number who are stressing the need for further participation are vitally concerned with greater human welfare, and are generally interested in internally generated change over externally imposed change. Others, however, severely question the wisdom of such an approach, pointing out that participation, though perhaps conducive to greater human development and fulfillment, does not necessarily lead to the attainment of outcomes in the best interest of the organization.

Much is heard of Theory X versus Theory Y, people versus organiza-

tion, democratic versus autocratic style, and now, participation versus imposed control.<sup>12</sup> Arguments for the first comparative are often accepted as welcomed relief to the "Tayloristic" organizations of old, and, given the picture presented by Argyris' 1952 study, it would seem that such arguments are indeed valid, that they will result in more productive organizations that are more enjoyable places to work. If management were only to participate in making organizational decisions, their satisfaction and sense of autonomy would increase. They would see the decisions as their decisions. They would feel involved in the organization and their involvement would be translated into renewed enthusiasm and heightened motivation to be productive. Everyone, in other words, would be in the best of all possible worlds.

Unfortunately, the transition from the aforementioned *a priori* arguments to empirical research results is not easily made. It is an even bigger step to make that transition with respect to participative budgeting. Much of the problem stems from the definition of the dependent variable(s) to be studied. We would like, of course, to understand the causal relationship between participative budgeting and the promotion of organizational objectives, the latter usually considered embracing the productive behavior of organization members. Unfortunately, because there are so many variables in addition to participation that bear upon and moderate performance (e.g., abilities, perceptions, and environmental constraints), it becomes a practical difficulty to empirically test for such direct relationships. Instead, most research deals with the effects of participation on participant attitudes, such as work motivation, satisfaction, and involvement. This point is extremely important when considering research results. The key, yet perhaps invalid, assumption behind positive findings in these studies is that there is a positive causal link between participant attitudes and organizational objectives. It is precisely this point on which many base their arguments against participation schemes.

Hopwood<sup>13</sup> for example, has stressed that participative techniques may in fact lead to dysfunctional behavior. Paraphrasing his arguments, participative budgeting is akin to handing participants a "blank check" with which they will satisfy their self-serving interests at the expense of the organization. Stedry<sup>14</sup> cites several studies that lend support to such a proposition. For example, he notes a study done by Leavitt<sup>15</sup> suggested that in a variety of situations leaders who remain distant and aloof from their subordinates are more successful than their counterparts who form close personal ties with their work groups. Morse and Reimer<sup>16</sup> found that participation groups experience higher levels of satisfaction and job involvement, but do not necessarily translate those feelings into concomitant increases in productivity.

These studies simply point to the need to address the participation issue with closer scrutiny. Inconsistencies in the literature are extensive, suggesting that it is extremely dangerous to generalize the results of one of a few studies to all situations. The practical problem becomes one of identifying which conditional factors determine the wider impact of a particular type of participative management program. In considering

the review of research which follows, this point should be borne in mind. The results are certainly not universally applicable, nor should they be construed as constituting evidence in support of one general argument over another.

### **Research Seeks to Understand Motivation**

It was noted earlier that the primary objectives of most profit-directed organizations relate to performance and productivity. It was also mentioned that due to methodological problems associated with measuring performance variables (especially in the ranks of management generally responsible for meeting budgets), management attitudes are frequently studied instead. There are, of course, other reasons for studying attitudes, such as a genuine concern for employee social welfare. However, it is safe to assume that the primary concern in a budgeting context is to gain an understanding of the attitudinal effects on productive behavior.

A postulate of much behavioral research is that productive behavior is determined in large part by the internal (attitudinal) force, motivation. Because surrogates for motivation are relatively easy to measure,<sup>17</sup> and because of motivation's presumed effect on observed behavior, it is frequently studied as a dependent variable in the budgeting research. It was therefore deemed appropriate to concentrate on motivation in the research review in order to gain as much understanding as possible about the more exclusive qualitative variable of performance, and keep the review to a manageable size. Also considered are studies that attempted to measure performance directly.

One of the most significant studies dealing with the relationship between participative budgeting and motivation was done by Stedry.<sup>18</sup> It is of interest both because of its findings and because it represents one of the earliest attempts to apply the methodology of laboratory experimentation to research in accounting.<sup>19</sup> The experiment involved approximately 100 university students performing problem-solving tasks. These students were divided into four groups based on the difficulty of the budget that they were given: low budget, medium budget, high budget, and implicit budget (no specific budget standard given). Stedry found that budget difficulty appeared to influence motivation, the highest motivation corresponding to the students with the implicit budget, followed by the medium, high, and low budget groups, in that order.

Each of the four groups was further divided into three subgroups. In one subgroup, the subjects were given the budget and then asked to indicate what they hoped to accomplish, in effect to set their aspiration levels. As per Becker and Green, aspiration level has been defined in the psychological literature as a goal that when just barely achieved has associated with it subjective feelings of success, when not achieved, subjective feelings of failure. Note, then, that aspiration refers to goals, whereas motivation is the attitudinal force that drives one toward goal attainment. In another subgroup, the students were requested to indicate their aspiration levels before they were given the budget. The third subgroup was not asked to establish aspiration levels at all. The results suggest that a significant interrelationship exists between budget levels,

aspiration levels, and motivation. For example, the highest motivation was in the high budget group that set its aspiration levels after receiving the budget. However, the high budget group that set its levels before receiving the budget showed the poorest performance of all the groups. One possible interpretation of these findings is that when the subjects established their aspiration levels after receiving their budgets, the aspiration levels tended to reflect the performance objectives contained in the budget. In other words, when aspiration levels were set first, the budget goals represented a separate and conflicting level which the subjects were unwilling to accept.

Several specific points are worth noting about this important study. First, low budgets were usually associated with very low motivation; second, implicit budgets were in general associated with high motivation; and, third, the influence of aspiration levels on motivation varied depending on budget difficulty and on whether the aspiration levels were established before or after the budget was received. The participation schema is therefore strongly supported by Stedry's results.

Bryan and Locke<sup>20</sup> approached the study of participation and motivation from a different standpoint. Instead of taking subjects initially similar in motivation level and then manipulating them to create differences, they selected subjects initially different in motivation level and employed experimental procedures directed toward making them similar. Their finding was that groups initially low in motivation performed better when given specific goals rather than allowed to participate in goal setting. This is contrary to Stedry's results which suggest that all individuals be allowed to participate, regardless of initial motivation levels. Thus, even though participation may increase motivation levels of all motivation types, the marginal increase in motivation for groups initially low in motivation may be greater if goals are imposed by the participatory process.

### **Job Performance Is Not Affected**

Other studies supporting the hypothesized relationship between participative budgeting and motivation include Hofstede,<sup>21</sup> Searfoss and Monczka,<sup>22</sup> and Swieringa and Moncur.<sup>23</sup> Two other studies found that participation is positively associated with higher levels of motivation to meet the budget and with budget achievement.<sup>24</sup> However, although participation tended to improve budgetary performance, it was unrelated to overall job performance. This finding leads to an intriguing issue in the area of performance measurement utilizing budget information. The issue is of concern because of its possible consequences on managerial motivations when their performance is evaluated on the basis of budget deviations.

Otley<sup>25</sup> investigated the relationship between performance and the manner in which budget information is used to evaluate performance. He found that when a degree of variation from budget was used to assess performance, budgets were closely met (i.e., budgetary performance was favorable). However, when performance evaluation was based on qualitative factors other than budgeted standards, the degree of budget variation was considerable. On considering this issue, Otley hypothesized

that the major reason for performance being closer to budget when budgetary means of evaluation are stressed is not so much that performance improves, but that the budget is set at more realistic levels. Further examination of this suspicion yielded the following interesting conclusion: Where a unit was thought likely to achieve a level of profit that would be acceptable to senior management, its budget was set at that level; however, where the level of profit expected for a unit was perceived to be unacceptable to senior management, its budget was biased in an optimistic direction so as to yield a more acceptable profit budget and thereby pacify senior management. In the latter situation, collusion took place between the budget holders and their immediate superiors. An implicit agreement existed that superiors would evaluate budget holders on the basis of qualitative factors rather than on quantitative budget information.

### **Motivations Influenced by Self-Interest**

The implication of this finding is that motivations will be directed toward that which furthers individual self-interest. This is consistent with what is suggested by the Path-Goal Model. If individuals are evaluated on the basis of budget variances (a second-level outcome with negative valence), they will be motivated toward biasing budget information in an effort to reduce the probability of unfavorable variances taking place. If individuals are allowed to participate in setting their own budget goals, this biasing is readily facilitated.

The intentional biasing of budget information in order to promote self-interest is perhaps the greatest potential problem associated with participative budgeting. Schiff and Lewin<sup>26</sup> have suggested that the process of preparing the budget is highly instrumental in resolving conflict among the various participants regarding organizational goals and resource allocation commitment. In other words, a bargaining process is said to take place, the end result being a contracted compromise wherein dissonance between organization and personal goals is minimized. These personal goals consist of higher salaries, bonuses, and the like, which can be realized if the budget is attainable (second level outcomes with positive valence).

According to Williams,<sup>27</sup> such compromises are achievable only in an environment that acquiesces to the existence of organizational "slack." Cyert and March<sup>28</sup> define organizational slack as the difference between the total resources available to the firm and the total necessary to maintain the organization coalition. As the term is used in budgeting, slack refers to the intentional understatement of revenues and overstatement of costs. The implication is that managers consciously and intentionally bargain for slack in the budgetary process in order to achieve personal goals concurrently with organizational goals.

In a study of the behavioral variables influencing budget slack creation, Onsi<sup>29</sup> found that slack is most prevalent in organizations described as having an autocratic style of management. He stated that, if an organization expects a manager to do no more than what the organization's formal control system compels him to do (Theory X), he is most likely to use budgetary slack to fulfill personal goals not necessarily rele-

vant to the company's performance. From his findings, Onsi proposes that participation, which is a democratic process, leads to less need to create slack because there is a good likelihood that within such democratic system managers can satisfy personal goals without being underhanded with the budget. This, he suggests, is a reasonable conclusion because participation was found to result in favorable attitudes, and favorable attitudes were not associated with slack creation.

Unfortunately, such reasoning is highly tenuous. For one, Onsi's research was based on simple correlations which in and of themselves are incapable of saying anything about the direction of causality. Secondly, this proposal runs counter to Otley's appealing results which, as noted, suggest that participation is more rather than less, likely to result in budget manipulation. Although it may indeed be true that slack has greater prevalence in autocratic organizations than in democratic ones, it does not follow that participative techniques are the cause for reduced slack creation, the incentive for which is moderated by other variables. Further research is necessary in this area before more conclusive generalizations can be made.

### **Moderating Variables Broaden the Context**

Participative budgeting is used and managers are motivated in a broader context. In order to understand more fully the relationship between participative budgeting and these motivations, the analysis must be extended to include three additional variables which, when taken together, represent this broader context. These variables include the more enduring states or characteristics of the organization, the personal characteristics of the organization members, and the interpersonal relationships between them. For purposes of exposition, these variables are catalogued here as organization structure, management style, and personality attributes.

### **Organizational Structure Influences Benefits**

Although the literature is in general agreement that participative budgeting induces motivation, it is unlikely that participation tactics operate equivalently in all environments. The beneficial aspects of a participative budgeting program appear to be a function of the organizational structure within which it operates.

Although there has been only limited empirical work studying the direct relationship between organizational structure and participation, some important conclusions may be reached. Additionally, there are important ramifications concerning the fact that the environment, which can be controlled, affects the success of the participative budgeting process. Through environmental manipulation, motivation may increase due to the enhancing effect of the participative program.

There are two basic organization control structures common to business settings. The first, the decentralized structure, is characterized by an environment in which activities are specialized, formalized, and clearly defined. Areas of responsibility and authority are well established and control is essentially impersonal. The primary features of this type of control system are the degree of structured activities and the organization's regulation of intended processes.<sup>30</sup>

The alternative to this structure of control is to centralize decision authority at higher levels of the organization, thus vesting power in a few individuals in top management positions. In this environment interpersonal relationships replace structured activities as a primary means for maintaining control. Child<sup>31</sup> has shown that because the control of authority is vested in a small group of people in charge of the organization, perceived control by individuals in the lower level of the organization is reduced.

Bruns and Waterhouse<sup>32</sup> demonstrated that the psychological effect of greater organizational structure would result in an increased perception of control on the part of executives. Relating this data to participative budgeting, it was hypothesized that the structuring of activities in a decentralized organization would lead to higher levels of perceived control and would also result in greater participation in budgeting. (Note that their study addressed participation as a dependent variable rather than as an independent variable; in other words, their study was looking at how much "participation" was taking place in the participative budgeting program that existed.) The finding of their study was that perceived control was an intervening variable between organizational structure and participation. People in highly structured, decentralized organizations participated more in the budgetary process because they perceived themselves as exercising more control.

Different circumstances were found to exist in centralized organizations. The lack of autonomy and the existence of power vested in a few resulted in individuals perceiving themselves as having more interaction with superiors and subordinates on budget-related matters; that is, subordinates were more often required to explain to their superiors their reasons for budget variances. The study also showed, however, that the lack of autonomy in a centralized organization resulted in a reduction in interaction between superiors and subordinates in budget preparation and in methods used to achieve the budget. As a result, budgets in a centralized organization appear to be a potential source of pressure.

Similar results have been found by Merchant.<sup>33</sup> He investigated how differences in corporate budgeting systems are related to corporate size, diversity, and degree of decentralization, and how different choices in system design and use are related to, among other things, manager motivation. The results indicate that larger, more diverse, decentralized firms tend to use budgeting in an administrative manner with greater importance placed on achieving budget plans, and greater middle-management participation in budget-related activities. Intrinsic motivation was found to be higher where managers participated in the budgeting process.

From these studies, it may be inferred that the characteristics of a centralized organization are not conducive to the participative process. In terms of the Path-Goal Model, the instrumentalities associated with valued outcomes are diminished due to the retention of control at upper management levels.

### **Management Styles Have an Effect**

Closely related to the above is the extent to which the management

of a company can be considered to be authoritarian. Vroom<sup>34</sup> argued that authoritarians and people with little need for independence are unaffected by the opportunity to participate in decision making. He undertook a study of first, second, and third line supervisors in a delivery company in which he investigated the effect of personal independence needs and authoritarianism upon participation and job satisfaction. The positive correlation that he found between perceived participation, job satisfaction, and job motivation was even greater for supervisors with high independence needs and few authoritarian tendencies.

Fox<sup>35</sup> has argued that employees who have been conditioned to anticipate and accept authoritarian management are likely to be somewhat disconcerted by rapid change to participation in decision making. This, he suggests, could cause them to become suspicious that management may be still simply trying to further its own ends under a new guise. Becker and Green<sup>36</sup> argue that when department heads participate in setting budgets and then find that higher management rejects their proposals, they will hold negative attitudes toward management. A further problem with participative decision making in an authoritarian company, according to Becker and Green, is the tendency to adhere to rigid status differences so that persons of higher status still retain greater influence over decisions.

Hofstede<sup>37</sup> deduced that in organizations where there are more non-authoritarians, personnel have more positive attitudes toward the budgetary system and that participation makes standards much more relevant for personnel. He further deduced that in organizations occupied by an authoritarian majority, personnel are often at first resistant to the use of standards, although this may gradually disappear if they participate in budget setting.

From these observations, it appears that personnel acclimated to an authoritarian management style will, in general, show little desire to participate in budget planning, and may, in fact, resist its introduction.

### **Personality Attributes Determine Satisfaction**

Research by Brownell<sup>38</sup> has shown that the relationship between budgetary participation and motivation is moderated by the personality variable locus of control. His findings suggest that participation is most effective, both in terms of motivation and satisfaction, for "internals" (those individuals who feel that they are in control of their own destinies). By contrast, individuals characterized as "externals" (those who attribute the results of their actions to chance, luck, or fate) are more motivated under conditions of low participation, that is, when budget goals are imposed on them. This finding may also help explain why authoritarians are content with imposed goals. It is reasonable that externals are drawn to organizations employing authoritarian practices, and therefore the effects actually captured in the above-mentioned studies would have been due to subjects possessing external personalities. This, of course, is merely a conjectural statement, and requires empirical testing.

Swieringa and Moncur<sup>39</sup> studied eight personality variables as they condition the relationship between participative budgeting and,

among other things, motivation. These variables were cautiousness, original thinking, personal relations, vigor, ascendancy, responsibility, emotional stability, and sociability. The results of their analysis revealed that emotional stability and cautiousness were the most important predictors of motivation to meet the budget. However, their conclusions also suggested that these personality variables may be important only in a context which begins with the company's organizational structure and the manner in which participative budgeting is used.

Although relatively less research has been done in the area of personality attributes and budgetary effectiveness, it is quite conceivable that this is where future research will be most effective. Characteristic differences of users of accounting information have, in large part, been ignored by the accountants who are responsible for preparing that information. The area of budgeting has been no exception.

Future research may make possible the tailoring of budget goals to the unique personalities of individual budget holders. For example, it was noted earlier that individuals have different levels of aspirations when confronted with the same budgeted goal.<sup>40</sup> Consider the case where actual performance begins to deviate unfavorably from the aspired level of performance. At first, the individual will make an effort to correct actual performance. If the deviation continues to increase, however, it is likely that he will eventually reach a point of discouragement at which he will give up trying to improve the situation. Certainly it is not in the organization's best interest to permit a person to become so discouraged that he is no longer interested in correcting the problem.

This illustrates how individual personality differences may profoundly impact upon budgetary performance. Since individuals differ in their ability to withstand discouragement, it follows that they cannot all be treated in the same manner with respect to budget goals. The effective application of budgetary control, therefore, may require an intimate understanding of the unique aspiration levels, motivation structures, and other individual personality variables of the organization's budget holders. Participation may be one effective approach to incorporating these peculiarities in the system.

It has recently been stated that budgeting is not a mathematical exercise performed in a vacuum. It reflects the input of individual people with unique personalities and motives, and it affects those people. Therefore, managers must recognize the human dimensions of budgeting procedures not only to ensure that the process is as unbiased as possible but also to limit the negative consequences of administering the budgeting function ineffectively.<sup>41</sup>

This article has addressed the question of whether or not participative budgeting has a significant positive impact on the motivations of budget participants. The dependent variable under study was purposely stated simply as "participant motivations," with no expressed intention of addressing a specific motivational object. The study did not confine itself to such possibilities as "motivations to meet the budget" or "motivations to engage in productive behavior." This approach was chosen in order to afford a more comprehensive analysis of participation rights as they impact upon various motivation objects.

### **Participation Induces Motivation**

Across a broad base of empirical study, the predominant finding is that participation in setting budget goals induces participant motivations "to meet the budget." According to House's Path-Goal formulation of the expectancy model, these motivations stem from positively valued outcomes expected to result from budget goal attainment, as well as intrinsic valences associated with budget-directed behavior and achievement. Some of these valued results include promotions, bonuses, recognition, satisfaction, and feelings of autonomy.

Of particular interest is the finding that once participation enters the budgetary process, motivations to meet the budget may not be congruent with organizational objectives; that is, the motivational objects "to meet the budget" and "to serve the organization's best interests" are not necessarily equivalent concepts. It is commonly presumed that participative budgeting will lead to more realistic budget estimates. This presumption stems from the fact that participants are closer to operations and therefore possess a superior information set upon which to base forecasted amounts. The research results cited in this paper, however, indicate that this supposition is erroneous when budgets are used as control devices (i.e., where budget variances enter into performance evaluations). Moreover, based on expectancy theory, these findings are wholly logical. As long as operating managers place high positive valence on favorable performance evaluations, it is unreasonable to expect them to provide realistic budget estimates if, in so doing, their evaluations are adversely affected. The reasonable expectation is that managers will bias budgeted amounts in order to promote their own self-interests. Thus, a dysfunction exists when participative techniques are used in conjunction with budgets utilized as control devices. The prescription is as follows: If management desires to utilize budgets primarily as planning devices, participative tactics are beneficial; if their desire is to use budgets for control purposes, their participative budgeting is likely to be detrimental and should not be used.

There are a host of contingent factors that must be weighed in the decision of what amounts and forms of participation are proper in the budgetary process. In addressing these factors, this study delineated between those that relate to the more enduring states or characteristics of the organization, the personal characteristics of its members, and the interpersonal relationships between them. Participative budgeting appears to be more effective in decentralized organizations that practice a style of management not characterized as authoritarian. The ultimate success of a participative budgeting program, however, may depend entirely on the personality attributes of its participant. For example, if the majority of the budget holders are classified as having external locus of control characteristics, it is doubtful that the participative programs will be operational as a motivation device.

It is in this latter area that future research will be most effective. Behavioral theory has been moving away from models of purported general applicability toward contingency models that are suited for particular situations. It is conceivable that some time in the future, con-

tingency models will make possible the tailoring of budget strategies to individual budget holder personalities. Until that time, however, the expectancy model, if properly used, can effectively accommodate strategy design on a broader scale.

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