

# An Analysis On Introduction Of Participation In The Field Of Budgeting

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## Executive summary

Management studies, learn and analyse past data, experiences and makes decisions. These decisions would affect future operations. However, preparation of budget is part of organizational functions and it must be updated after regular period. A comprehensive budgetary system offers such yardsticks by which actual performance is measured against predetermined plan/targets and variances are identified for revision of future plans or taking corrective action, as the case may be. The study analyses the introduction and impact of participative budget system on employee's behaviour and human relations in budgeting system. The Paper Contains 4 sections. Section I Includes Introduction and Objectives. Section II Covers Structure of Budgeting. Section III Contains Introduction of Participation in Budgeting Process, Participation and Budget Cycle, and Impact of Human Relations in Budgeting System. Section IV contains Conclusion.

**Keywords:** Participation, Types of Budgets, Elements of Participation

## Section I

### 1.1 Introduction

Budget is a control tool. Control is the process by which management attempt to conform actual performance with the budgeted performance. Control requires a yardstick or standards for measuring the actual performance. For the management the most important technique of preparing a budget requires the prediction of the future from past experiences. Managements learn from past. Based on these learnings, they use different techniques and methods for formulating future plans and consequential decisions. These decisions would affect future operations. However, a budget is prepared but it is continuous organizational activity and it should be revised and updated after regular period.

Many companies compare current results with results of last month or with result for the same period a year ago and so on. The management control process involves human beings, start from the lowest responsibility centre in the organizational hierarchy up to and include each member of top management.

Accumulation and controlling of costs of producing a particular product is useful for the organisation as a whole. Middle managers' attitude towards budgets is largely dependent on the attitude of top management. In order to obtain maximum benefit the top-level executives must offer wholehearted support to the lower levels executives from budgeting process.

Top-level executives often compare actual results with the budget in evaluating performance of subordinates. Some individuals do not react positively to this technique of the company to analyse their performance. Their view is that budget is used only point out their failings. For example, budgets generally tend to be unpopular, if there only use is to request and authorize funding.

To avoid negative attitude towards budgets, accountants and top management must realize that budgets help each manager in achieving better performance. The supreme importance of the human relations aspects in budgeting cannot be over emphasized. Many a time, the top management and its accountants are greatly concerned with the mechanics of

budgets rather than its effectiveness. Budgets, formulated with the active participation of the persons who have to implement them, generally have been found more effective than those budgets, which are simply imposed by top authorities.

### 1.2 Objectives of the Study

1. To study the tool for measuring the actual performance.
2. To study the human relations in budgeting system.

### 1.3 Scope and Methodology of the study

Secondary data has been used to study the objectives of research paper.

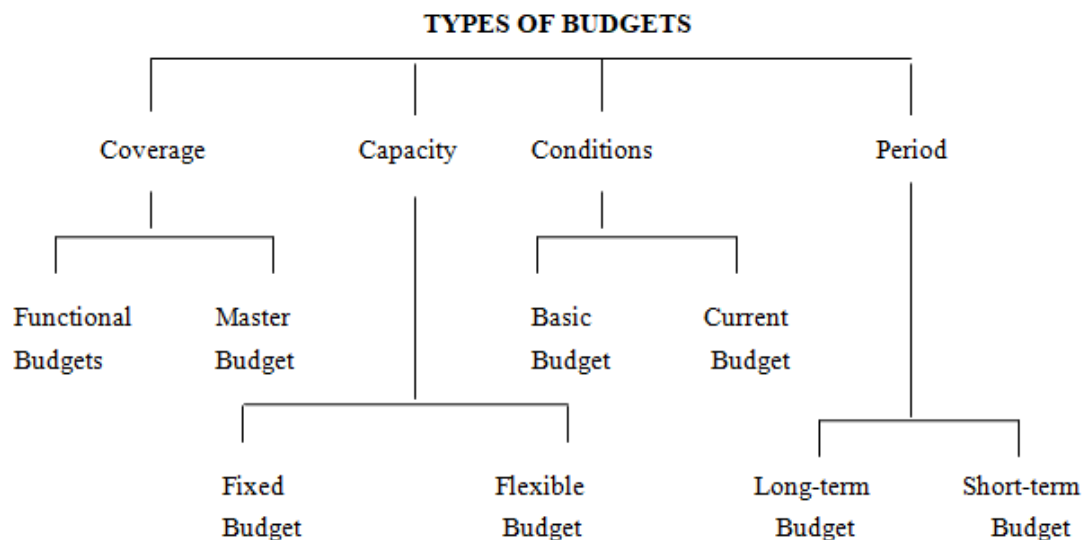
## Section II

### 2.1 Structure of Budgeting

In the case of an organization, particularly commercial organization, all its activities such as production, sales, inventories, purchases, and funds requirement their utilization may be covered by budgetary control system through the use of common denominator of money. Ultimately, all the activities of the organization may be summarized in a single statement. .

### 2.2 Types of Budgets

Budgets can be classified into different types of depending on (a) coverage (b) capacity (c) conditions and (d) period as shown below :-



### Imposed Budgets

Imposed budgets are the ones prepared and finalized by the top management without any participation by lower management. The imposed budgets are handed over by the management to subordinates to implement them in the organization. During the early and middle 1930's, the word "budgetary control" became popular and to view the budget both as (i) a financial plan and (ii) a control over future operations. It was generally by means of static (fixed) budgets.

### Static Budget

A fixed budget is allocated for a certain level of activity or capacity. If budgets are kept static. The static budget is not useful where production level of activity depends upon the

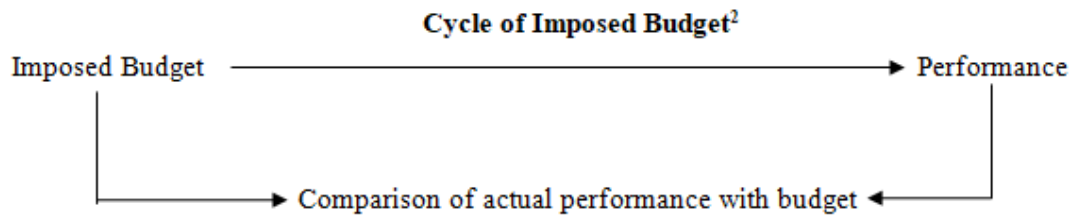
demand. Therefore, static budgets are inadequate in predicting future uncertainties and losses. The effectiveness of this control tool is not typically considered to be very good.

### Flexible Budget

To overcome the deficiencies of static budget, a flexible budget is introduced. A budget prepares for the intra-period changes in the level of sales or production level.

### Static Budget Cycle

Early, the budget recurring cycle of government and business was simple. The budgets were imposed, after a fixed period comparison of actual performance and the budget was made. This comparison was done only for the preparation of next budgets. The budget recurring cycle is as follows.



The budget period was one year. If the actual expenditure are found to be less than the budgeted expenditure, then there is a tendency to revise the subsequent expenditure budget downward. In business, the budget period was quarter or months.

### Section III

#### 3.1 Introduction of Participation in Budgeting Process

By 1930 it was realized by the management that imposed budgets in business were causing dissatisfaction among employees. Hence it was advised that budgets may be prepared in the concerned departments and budgets so prepared may be modified revised and edited in the central office.<sup>1</sup> Thus participation was introduced into the preparation of budgets. It has been emphasized by experts that the real value of participation at all levels of management aside from better planning lies in the psychological values that accrue as a result of participation. A high degree of participation results better morale and greater initiative.<sup>2</sup> However, participation should be real and effective. Chris Argyris discovered that in most cases there is only "Pseudo Participation". "The participation which looks like, but is not real participation." Participation improves budgeting by using the benefit of the knowledge

and experiences of the participants. Participation is a useful technique for dealing with the psychological problems of employee satisfaction, morale, and motivation to produce more. The participation can lead to better moral and increased initiative.

#### 3.2 What is Participation?

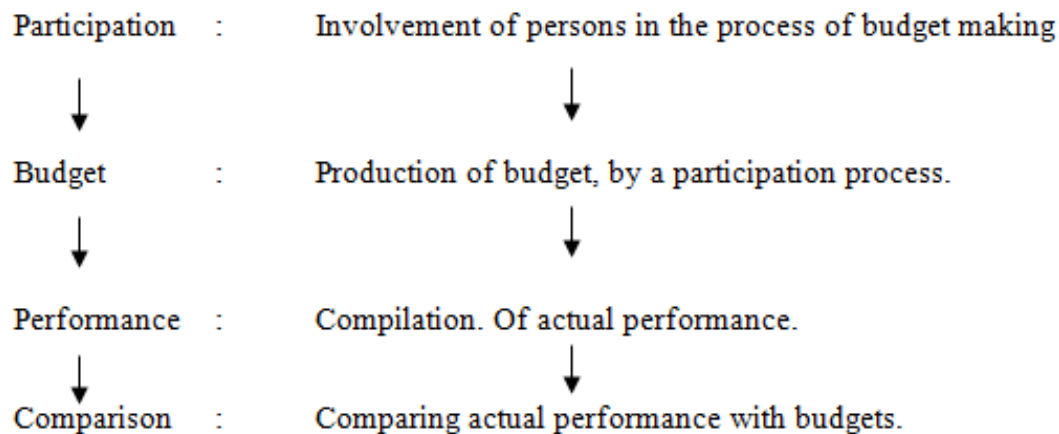
Participation refers the mental and emotional involvement of a person in a decision making process, which encourages him to contribute to group goals and share responsibility in them<sup>3</sup>.

According to Argyris, "Goals are accepted if individual members are allowed to come together in a group and take part in defining the steps by which these goals will be accomplished."<sup>4</sup> Coch and French found that 'people tend to support what they help to create. They also found that participation improves morale, much lower turnover rate, fewer grievances about piece rates and less aggression against the supervisor.<sup>5</sup>

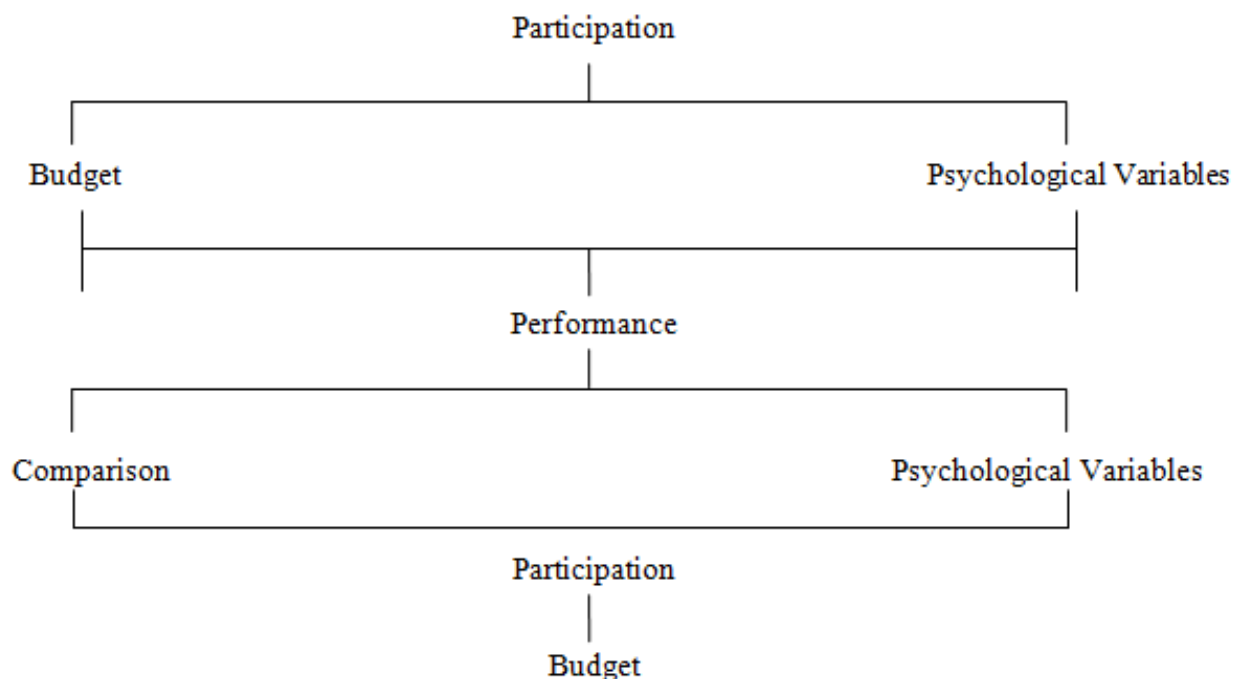
French, Israel and AS in studying participation in a Norwegian factory found that "workers" participation increases job satisfaction by satisfying the need to be valued and appreciated by others."

#### 3.3 Participation and Budget Cycle

The budget cycle chart in the context of participation is:



The above process also includes a Participation path. Participation is not a single value variable but it contains several explicit variables. The explicit variable is psychological variable. Consider the Psychological Variables; the chart in the expended form would appear as



Participation is not a magic bullet that solves all our problems. When participation is involved, the process of control undergoes a modification. It is difficult to conclude whether the increased production is the direct result of participation or participation only gave boost to morale of employees and that generated motivations results produce more.

### 3.4 Elements of Participation-Process and Content

Conceptually, Participation is divisible into process and content. Process is the act of participating. The act of participating enables

the participants to know, communicate and interact with one another. It results cohesiveness. The content should be unambiguous. The content of participation should be directed toward setting a new goal. The content discussion should be that each participant realize that the goal is acceptable to all the persons in the group. As a result, the process and content of a budget interact with one another. Further, the participation would direct the interaction and communication in such a manner that participation will enable acceptance of the organization goals as individual goals. Such interaction may generate any of following outcomes.

High cohesiveness with positive attitudes (goal acceptance). This is a situation of maximum motivation. High cohesiveness and negative attitudes. This situation is most conducive to a production showdown. Low cohesiveness with positive attitudes. This is an unlikely but possible situation that probably would result in efficient performance.

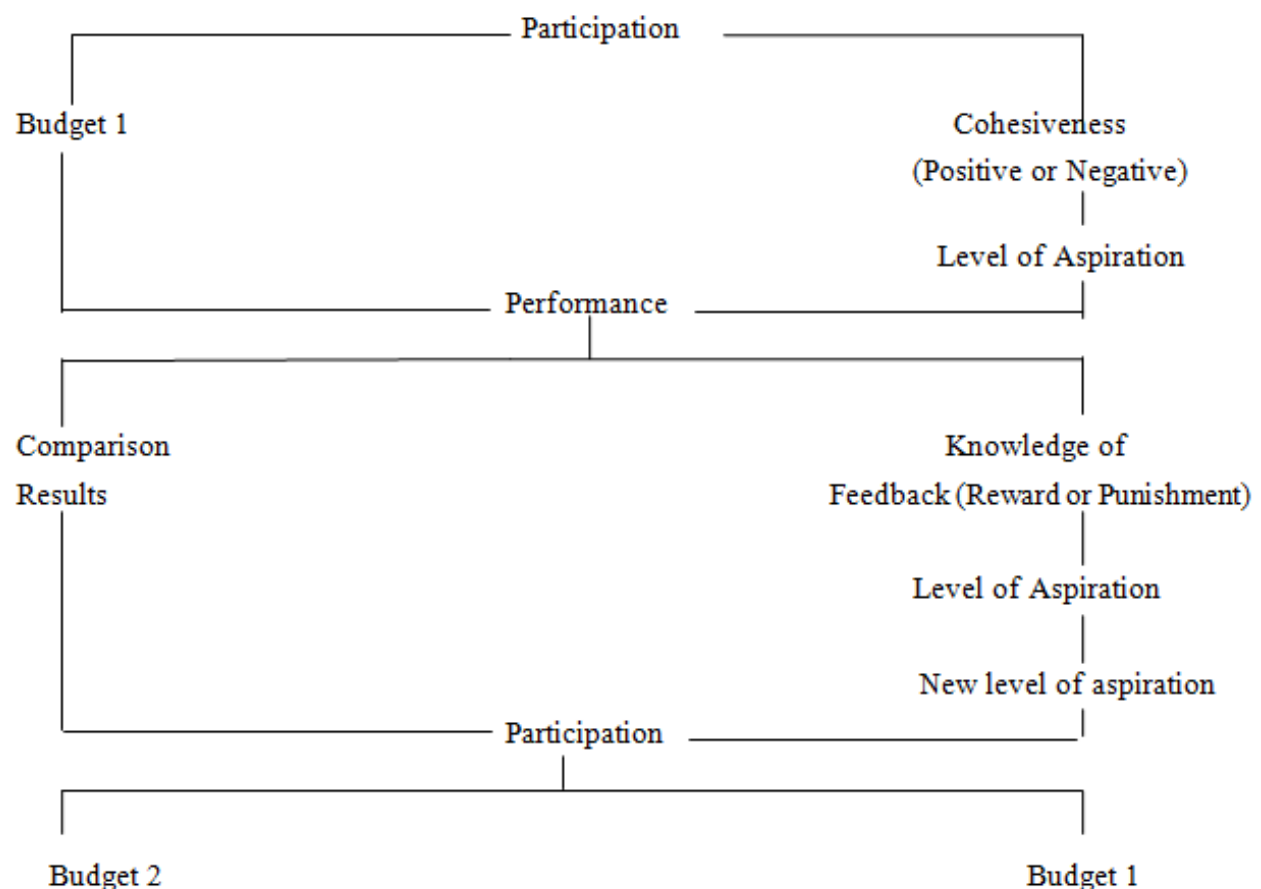
Low cohesiveness and negative attitudes. This situation result from an

unsuccessful participation. Participative budget system must contain following qualities:

1. It induces proper motivation and acceptance of specific goals.
2. It provides information to associate reward or punishment with performance.

A participative budget cycle incorporate interesting sequence of budgeting and psychological event would appear as :

### Participative Budget Cycle<sup>6</sup>



### 3.5 Procedure of Participations

Participation can be formal or informal and may entail intellectual, emotional as well as physical involvement. The actual amount of participation in making decisions ranges from one extreme of no participation, wherein the superior makes the decision and ask for no help or ideas from anyone, to the other extreme of full participation, where everyone connected with or affected by the decision is completely

involved. In practice, the degree of participation will be determined by several factors. According to Luthans, participation may have three phases; (i) initiation of ideas; (ii) carryingout the phases of decision making viz., finding alternatives, (iii) estimating consequences and making the choice; and attaching weight to the ideas received from

subordinates.<sup>7</sup> The more there is of each of these factors, the higher will be the amount of participation.

In today's organizations there is much pseudo participation. Because of popularity of participative management in the early human relations movement, many managers, have attempted to incorporate it into their decision-making processes. However, there are many other organizational behavior and participatory techniques, often remain more a fiction than a fact. Some managers lay emphasis on developing a sense of participation in their employees which leads to persuade the employees to work more enthusiastically and to perform jobs, activities which are designed and regulated exclusively by management this could be an example of Pseudo Participation. This activity generates a trend that shows how the managers make a chain of events where they make their subordinates/juniors entail in the task that need to be completed rather than in the process of decision making.

### 3.6 Forms or Methods of Participation

The following are the main forms of participation in budget making process:

1. **Suggestion Scheme:** Under this plan, each department head is asked to suggest changes to the existing budget for the upcoming fiscal year. These recommendations are recommended to the senior level management or to the pool of committee that decides the fiscal year. Suggestions, which are considered useful are accepted and incorporated in the budgets. This scheme provides an opportunity for self-expression and the initiative and creativity of participants is stimulated. They feel themselves important and the management gets innovative ideas for better administration. Budget committee get useful ideas and employee can get rewards and recognition. The fortune of a policy and ideas totally dependent on the committee on the basis of feedback and ideation that is received by the employees.
2. **Joint Consultation:** Under this form of participation, a committee of representatives of top managers,

departmental heads and subordinates may be set up. This committee may discuss the last year's budget and the budget preparing process Joint Consultation is an important means of exchanging ideas and information between superior and subordinate.

This type of joint cooperation can only lead to success when both the collaborative team works together in decision making with regard to the budget preparation and finalization leading to the ultimate goal for the organization.

### 3.7 Impact of Human Relations in Budgeting System

Human beings are involved in all the aspects of budgetary control system. Humans affect each aspect of the budget namely planning, control, co-ordination and decision-making. The human beings involved in the budgetary control system are also affected by its various aspects. If these aspects of budgetary control system give positive signals, human behaviour will also be positive resulting in positive contribution from the budgetary control system. However, when negative signals are observed, then human behaviour of concerned person will not be very positive.

When the human behavior shows negative signals, the organization may not be able to get the desired benefit from the budgetary control system. Therefore, the study of human behavior in the context of budgetary control system is very useful and essential for the success of the organization. When employees believe that the management shall always protect their interest, they will work fully together with the management, co-operate and do their best to make it a great success. Here, the participative budget makes the budgetary control system a success.

There are many positive and negative attributes of the participatory techniques of decision making. If the top executives only claims participation from subordinates is required but actually they never utilizes their suggestions, the results may be negative. Participation can be time consuming and costly. Participation may result in divided responsibility individuals may use the participation as a shield to avoid personal

responsibility for bad decisions or mistakes or accountability. In spite of participation being time-consuming, costly and having divided responsibility, it plays a vital role in budget making process. It reduces the differences of opinion and bring together of departments. Participation can also be instrumental in human development and growth. It provides the opportunity for personal development of individuals, which may not be possible otherwise.

## Section IV

### 4.1 Conclusions

The study shows that that budgetary control system in their organizations contributes to the achievement of organizational goals to a moderate degree. Budgetary control system cannot control itself everything. By preparing budget, an organisation can plan, coordinate and limit the various activities. It focuses on a set of decisions. For this purpose, each manager typically submits proposals to the higher management. Higher management then decides whether to approve these proposals as they stand or modify them in some way, or return them to the originators for revision. Participatory techniques can be applied on an individual or a group on an informal basis or as a formal design. In individual participation techniques, subordinates somehow affect the decision making of a superior. The group participation technique is consultative and democratic. Under consultative participation the superiors ask for and receive suggestions from subordinates, but they keep the right to make the decision to themselves. In the democratic form, there is total participation of all the members in the group in the decisions making process and the final decision is arrived at by consensus.

It may also be noted that the budgeting process is repetitive and iterative. This description is likely to imply that budgets are tentative proposals to be discussed and revised again and again as they move upward towards final approval. Through vertical and horizontal communication with the management group, these plans are adjusted and moderated till they are consistent with the overall goals of the organisation.

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