Negotiated Budgets: The Impacts of Outcome Accountability and Subordinates’ Attitudes on Budgetary Slack and Performance

This paper examines the impacts of outcome accountability and subordinates’ attitudes (e.g., subordinates’ levels of frustration, perceived fairness with the budget negotiation process and with the final budget, and subordinates’ levels of budget commitment) on budgetary slack and performance in a budget-setting process through negotiation. We tested our hypotheses by conducting a laboratory experiment with 78 undergraduate students assuming the role of a financial analyst (subordinate) whose major responsibilities include: (1) identifying and computing financial ratios from published financial statements and (2) negotiating with their supervisor for a final budget target.

The results of this study indicate that the presence of outcome accountability pressure can be used as an effective monitoring control tool to mitigate subordinates’ propensity to create budgetary slack. Specifically, the results reveal that outcome accountability exerts pressure on subordinates requiring them to be more cautious about their budget target setting decisions. The results suggest that budgetary slack is highest when outcome accountability pressure is absent under a private information condition. In addition, the results reveal that the presence of outcome accountability can be used as an effective motivating tool to influence subordinates’ performance. The results indicate that a higher performance level is experienced by subordinates when the negotiating parties (i.e., superior and subordinate) reach agreement on the final budget target. Specifically, the results suggest that a negotiated budget leads to improved subordinates’ performance in the presence of outcome accountability under a private information condition.

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