

Research on the Causes and Prevention of Enterprise's Budget Slack

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Abstract— Enterprise budget management plays an important role in modern enterprise management. It has the functions of planning, coordination, communication, and control, and the occurrence of budgetary slack has weakened the role of budget, which has caused the management of the company to deviate from the realistic estimation of income and cost, harming the overall interests of the enterprise, and bringing long-term development to the enterprise. Here comes the serious impact. This article is trying to put forward some preventive suggestions for the problem of enterprise budget slack. Based on the analysis of the causes of enterprise budget slack, this article puts forward some countermeasures and suggestions to deal with the problem of budget slack.

Keywords— cause of budget slack, budget slack prevention.

I. INTRODUCTION

As a set of systematic systems and management tools, budget management has been used and developed in many enterprises. Since the 1990s, China has been implementing this system on a large scale from state-owned enterprises, and has gained important experience. It has the functions of planning, coordination, communication and control, which greatly facilitates the management's decision-making and control. However, while the budget management system promotes the standardization of enterprise management, it also has design difficulties and defects in the enterprise system. There are problems that plague the enterprise. Budget slack is one of them. The existence of budgetary slack provides managers with a flexible space to cover mistakes, which affects the correct analysis of budget differences and the objectivity of performance evaluation. The performance evaluation and incentive model based on budget slack will force the responsible department to hide the real information to some extent, which not only affects the effectiveness of the group's budget management, but also fundamentally enables the group to make business decisions and long-term development. The strategy lacks a

solid and reliable foundation. In addition, a large amount of budget slack will also encourage employees to dishonest behaviors. The phenomenon of "paying for the liar" has made it easier for those who deliberately understate the budget to get rewards, but honest and hardworking employees can't get rewards. This kind of dishonest behavior will directly destroy the foundation of integrity within the organization and threaten the long-term development of the company. How to solve the problem of budget slack faced by enterprises, the author believes that it is necessary to analyze the causes of budget slack first, and take appropriate measures according to the causes of budget slack to find a solution.

II. THE CONCEPT OF SLACK BUDGET

Different scholars have explained the definition of budget slack from different angles. Schiff and Lewin pointed out that if the compensation of the budget owner increases as the pre-difficulty decreases, the budget owner may use budget participation to distort the communication information with the boss and determine the budget at a level that is easier to achieve, thus Budget slack appears,

and the budget is determined to be within its expected capacity. It can be seen that in Schiff and Lewin's view, budget slack exists only in budget preparation, which refers specifically to the self-interest behavior in the budget preparation process. In order to get more remuneration, the person in charge of the budget should try to determine the budget number at a lower level. Merchant defines budget slack as the portion of a budget whose budget exceeds its actual needs. This is the budget slack defined from the perspective of investment and expense budget. Young's explanation of budget slack is put forward from the perspective of performance evaluation. His definition is: when employees have the opportunity to choose their performance evaluation standards, employees underestimate the part of their capacity. Lukka believes that the so-called slack budget is a budget phenomenon relative to honest budget estimates. Dunk and Nouri combined the above definitions and defined budget slack as: intentionally underestimating income or capacity, overestimating costs or resources when completing a certain budget task. This definition has a more comprehensive summary of the budget slack content, and it is clearly what happened when a certain budget task was completed. In addition to analyzing the slack in budget preparation, Chow, Cooper and Waller also analyzed the two behaviors of the budget owner in budget execution. First, when the budget can be completed, do it according to the budget, not exceeding the budget; second, when the budget cannot be completed, it is not to find a way to maximize performance, but to let it go. These two behaviors are not all efforts in budget execution, which can be called slack in budget execution. Of course, the premise of these two behaviors is that there is no appropriate incentive plan to match the budget. When the incentive plan design does not consider the coordination with the budget, in the case that the current budget can be completed, if the current period greatly exceeds the budget, then it may mean that the budget for the next period will be overweight, so the best choice for the budget owner is to just complete the budget for the current period; in the case where the budget for the current period cannot be completed, if the incentive plan is not appropriate, only the completion of the budget is considered, not considered. When the budget is completed, the person in charge of the budget will not find a way to improve performance as much as possible, but just

let it go. This may strive for a goal that is easier to achieve when the budget is determined for the next period. It can be seen that budget slack includes slack during budget preparation and slack during budget execution. This article refers to the former as preparation slack and the latter as execution slack.

This article only studies slack budgeting. And mainly referring to the definition of budget slack made by Dunk and Nouri, it is believed that budget slack refers to the deliberate underestimation of revenue and production capacity and the overestimation of the cost and resources of completing the budget when preparing the budget.

III. THE CAUSES OF BUDGET SLACK

(1) Budget slack makes budget executors profitable

There are two conditions for making the budget slack and profitable: one is information asymmetry, and the other is budget participation. The modern enterprise system requires many contracts to participate. The budget is actually an agreement negotiated and compromised between the upper and lower levels of the enterprise. The core part of this agreement is the input of resources and the reward for completing the contract.

From the perspective of resource input, one of the purposes of enterprise budgeting is to better use and allocate internal resources of the enterprise and achieve the maximum utility of resources. Having more resources than other departments or achieving budget goals can make performance goals easier to achieve, and on the other hand, it can bring huge control rights benefits for managers. The superiors have less information on the amount of resources to complete the budget than the budget executors. There is information asymmetry between the upper and lower levels. When the budget executors participate in budget preparation, there will be Preemption of resources. They regard enterprise resources as free resources, and benefit more, especially those enterprises that do not incorporate the indicator of resource consumption into the performance evaluation system, not to mention that some resources are difficult to measure and control, such as human resources. In order to occupy as many scarce resources as possible, enterprises create budgetary slack in the preparation of budgets and exaggerate the demand for resources.

From the point of view of remuneration for contract completion, if an important condition for budgetary subordinates to obtain contractual remuneration is to complete budget performance evaluation standards, then budgetary subordinates have an incentive to generate budgetary slack to achieve more remuneration and good budget credibility. In the case of information asymmetry (actually due to the difference in the scope of professional knowledge and business familiarity between the upper and lower levels and the lack of transparency of information, the situation of information asymmetry is widespread), lower budgets have more than management. The richer budget information is the catalyst for budgetary slack based on this motivation. In companies that participate in the budget system and use budget results as the evaluation criteria, the budget executor provides information to participate in budget preparation, and this and the higher standards determine the performance evaluation criteria of the budget executor in turn. Obviously, the remuneration of the lower-level budget will decrease as the budget target and budget difficulty increase. At this time, the executor will determine the performance that can be completed according to his own strength, and provide information on the budget target lower than the actual performance; if the budget target is lower than The real potential of the executive department, then the budget executive department can exceed the budget goal, get management's approval, get more reputation and promotion opportunities, and the most important thing is to get a higher incentive reward. In other words, through this budget slack, it can bring higher utility to budget executives.

(2) The budget executor needs to deal with uncertain risks

This uncertainty risk is mainly manifested in two aspects, one is the uncertainty of the future operating environment. On the other hand, the budget examination and approval department improves the business objectives and reduces the resources.

1. The need to deal with the uncertainty of the future operating environment

The preparation of the budget is a subjective grasp made by the budget preparation department based on the performance of the enterprise in the past operating period and the estimation of future risks and benefits. However, the accuracy of risk measurement in the actual preparation

process will decrease or even be unpredictable with the diversification and complexity of business operations and the changes in the situation during the estimation process, so if the enterprise accepts the results of the existing budget preparation, it will bear certain Risk, the lack of flexibility of the budget system of our country's enterprises has also exacerbated this risk. In the face of future risks and uncertainties, in order to avoid possible events affecting the effectiveness of budget executors, on the premise of budget executors participating in budget preparation, relaxing the budget slack has become an objective of their participation in the budget. A slack

Of the budget can distribute the direct risks faced by the budget executor to other departments or minimize the budget responsibility as much as possible, and the greater slack can also leave room for the execution of the budget to offset the changing effects of the objective environment, thereby Avoid over budget risks caused by uncertainty.

2. Respond to the needs of the budget approval department for the improvement of business objectives and the reduction of resources

The budget information provided by the budget subordinates and the referenced budget operation target does not mean that the budget target has been established, and the establishment of the budget target requires the review of the budget responsibility center. In order to cope with the possible improvement of business objectives or reduction of resources by budget review agencies, budget subordinates will have the motivation to reduce various budget indicators based on the expected budget difficulty.

If this kind of motivation is used by budget review agencies as a consideration for reviewing whether budget targets are reasonable, then stricter budget cuts and increased difficulty in implementation may occur, eventually leading to a vicious cycle of budget slack.

IV. PREVENTIVE MEASURES FOR BUDGET SLACK

(1) Strengthen budget information sharing and corporate senior participation

Regardless of what causes the budget slack, asymmetric

information is an important condition for budget slack, and strengthens the smooth flow of information within the enterprise (between upper and lower, between departments). An effective budget information system can reduce the intensity of information asymmetry between the upper and lower levels in budget execution. Through the application of information network technology, an effective budget information system can be established in the enterprise budget management to achieve the maximum degree of information sharing, providing as many as possible, detailed, and same budget information to the executives at all levels of the enterprise, weakening Operational drawbacks due to information asymmetry. The participation of all employees of the enterprise in the formulation of the budget is the biggest feature of participatory budget management. However, in the budget preparation process of the enterprise, the most senior managers do not participate in a real sense. They have a sudden impact on the cost, price, market supply and demand of products. The possibility and severity of the situation, the various preferences of the executors, etc. did not personally participate in the investigation and understanding, so while strengthening information sharing, superior budget makers should actively participate in, by grasping more information, to make the unfavorable budget Relaxation is minimized.

(2) Enhance the rationality of performance evaluation standards

If the single evaluation criterion is whether the budget target is reached or not, it will often induce enterprises to form budget slack. If the enterprise uses the result of slack budget determination as an important evaluation criterion for a long time, it will encourage the vested interests to support the existing budget determination method, thus allowing slack Has not changed its budget. Therefore, in the performance evaluation of an enterprise, not only the completion of budget goals should be used as the performance evaluation standard, but more methods and indicators should be adopted, and various methods and indicators should be organically combined and rationally used to construct an objective, fair, Perfect performance appraisal system, thus weakening budget executives' motivation to prepare slack budgets.

(3) Adopt the joint cardinal number determination

method to prepare the budget

The joint determination of the cardinality method means that the superior and the budget executor each report a target cardinality according to their own target function, and then determine the target cardinality by a weighted average of certain weights. If the actual operating results of the budget executor are greater than those proposed by the budget executor The goal is to appropriately punish the underreported part. If the budget executor overstates, it will not be rewarded; if the budget executor's actual operating results exceed the target base set by both parties, the excess part of the profit shall be rewarded. The final reward and punishment result is determined by the algebraic sum of reward and punishment. To a certain extent, it inhibits the incentive of budget executors to understate the budget, and promotes the budget value to be more realistic.

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