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NATURE OF A BUDGET, CONTINGENCY BUDGETS, BEHAVIORAL ASPECTS AND BUDGET PREPARATION PROCESS

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Abstract. This study aims to analyze the process of preparing the budget from the perspective of the nature of the budget, contingency budgeting and behavioral aspects. The method used in this research is descriptive qualitative method. This research uses qualitative methods. Qualitative methods are related to data analysis that does not use statistical calculations, but in the form of words. The data source is the research subject from which the data was obtained. The data sources for this research were previous journals which were used as references in the study.

Keywords : Contingency Budgets, Behavioral Aspect, Budget Preparation

JEL Codes : G31, H61

1. Introduction

Much of basic budgeting research can be considered behavioral in the sense of the limited rationality and satisfaction that often leads to the budget decision processes we observe. Additional budgets can be seen as a choice between a marginal increase or decrease in the budget for services and very few major budget changes. (Syah et al., 2021) This is in stark contrast to the perfect public finance rationality that Simon discussed in his Nobel lecture in which budgets were determined based on the marginal utility of individual items in the choice set. (Zachary Mohr, 2021) Related to the budget trade-off experiment is research on the importance of performance information on spending preferences, a person's attitude that influences the organization in making decisions, not only attitudes that also influence financial managers in their budgeting. In the real world, there are differences between theory and practice, which are mainly due to impractical managerial attitudes towards investment decisions, ignoring information barriers and the inability of other employees to take part in organizational decision-making. In accounting, budgeting experiments have tended to focus on enterprise-level budgeting issues such as budget honesty and leniency; whereas political science budgeting experiments tend to focus on broader public policy issues related to government budgets. In the context of capital budgeting, the term "risk" refers to the variability of the cash flows that a project will generate in the future. which is mainly caused by an impractical managerial attitude towards investment decisions, neglect of information barriers and the inability of other employees to take part in organizational decision-making. In accounting, budgeting experiments have tended to focus on enterprise-level budgeting issues such as budget honesty and leniency; whereas political science budgeting experiments tend to focus on broader public policy issues related to government budgets. In the context of capital budgeting, the term "risk" refers to the variability of the cash flows

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The problem with principal-agent theory in the budgeting process is related to the phenomenon of budgetary slack which is often referred to as budget padding. Budgetary slack is the tendency of agency managers when given the opportunity to participate in preparing the budget, underestimating income or overstating expenses. This is done because the budget as a basis for evaluating the performance of agent managers so as to expedite the level of achievement they will carry out budgetary slack, (Govindarajan, 1988) implies that the relationship between budgetary participation and budgetary slack can be resolved through a contingency approach, namely by including other variables that can be mediate the relationship between budgetary participation, information asymmetry, environmental uncertainty and budgetary slack. Contingency theory explains where the contingency approach in organizational behavior is that different environments lead to different behaviors. Contingency theory motivates analysis of situations before action is taken and eliminates usual behavior based on assumptions about behavior. Thus, contingency theory can be used for all current knowledge about organizations in the most appropriate way, because appropriate actions depend on situational variables (Frihatni & Abbas, 2020). Contingency theory motivates analysis of situations before action is taken and eliminates usual behavior based on assumptions about behavior. Thus, contingency theory can be used for all current knowledge about organizations in the most appropriate way, because appropriate actions depend on situational variables (Frihatni & Abbas, 2020). Contingency theory motivates analysis of situations before action is taken and eliminates usual behavior based on assumptions about behavior. Thus, contingency theory can be used for all current knowledge about organizations in the most appropriate way, because appropriate actions depend on situational variables (Frihatni & Abbas, 2020).

This aspect of the budgeting process is very important in organizations. one of the material aspects and personal interests: (Juwita & Murti, 2020) The aspect of wanting to get more material than the salary or work benefits that have been obtained by the budget maker is the most discussed aspect in human studies of dysfunctional behavior in the budgeting process. Research conducted by (Michelle & Thalib, 2017) links motivation, incentives with employee performance, where in the research

discussion it is stated that employees are motivated to achieve budgets with incentives, which are tools that motivate them. Incentives can be monetary and/or non-monetary. The motivation budget can extend the actual performance to reach the budget performance limit. When the budget performance limit is reached, there is no point in increasing the amount of incentives. It doesn't motivate employees anymore, because budgets become unattainable and unattainable. Vonorova found that the participation of all parties in the budget team motivates the budget team.

2. Literature Reviews

2.1 Nature of a Budget

To help management monitor the effectiveness of various activities used to produce products and services, managers need an information system that is able to reflect the consumption of resources in various activities. One effort that can be done by the company is to create a management control system so that the company can continue to operate efficiently and effectively. Budgets are important tools for effective short-term planning and control in organizations. An operating budget usually covers a year and states planned revenues and expenses for that year (Anthony and Govindarajan, 2007). The budget is the main component of the management control system and carries out several crucial functions, including serving as a framework for evaluating organizational performance and serving as the basis for evaluating employee performance and rewards, as well as coordinating and controlling organizational activities (Kaveesha et al, 2020).

Both strategic planning and budget preparation involve planning, but the types of planning activities differ in the two processes. The budgeting process focuses on one year, whereas strategic planning focuses on activities that span several years (Anthony and Govindarajan, 2007). The focus of the budget and planning process is often based on sales, profit, and cost drivers, relying on historical performance and demand data to estimate future monetary requirements (Lee et al, 2005). Budgeting, strategy, and strategic management share an orientation toward improving business performance, as each is used to set the organization on the right path to success and guide the decisions and activities of its managers. Strategic performance reflects the execution of a company's operational objectives, which may include acquiring new customers, introducing new products and services, or increasing efficiency. Financial performance considers money-based outcomes, such as revenue growth, margins and return on investment (Tim Blumentritt, 2006).

2.2 Contingency Budget

A budget is a plan that is arranged systematically which includes all company activities expressed in monetary units or units that apply for a certain period of time (Izzati & Mulyana, 2019). Some companies routinely prepare emergency budgets that identify management actions to be taken in the event of a significant reduction in sales volume from what was anticipated at the time of developing the budget (Anthony and Govindarajan, 2007). Based on contingency theory, building a contingency budget during times of high market uncertainty, where the likelihood of variance is greater, can be seen as a sensible risk management practice (Moataz et al, 2011 and Siboro et al., 2018). Contingency theory suggests that there is no one best way to design a management control

system. highly committed managers who tend to strive for organizational goals react better to high budget emphasis in high budget participation environments; however, highly committed managers also react better to low budget emphasis when the organizational environment is low budget participation (Zhihong et al, 2015).

2.3 Behavioral Aspects

The budget is a tool that helps planning, coordinating and evaluating performance within the company. Budget preparation can be done in a participatory manner. Participatory budgeting by involving managers will certainly result in various aspects of behavior, both positive and negative. Brown (1995) found that negative behavior can be reduced through setting difficult but achievable goals, and broad participation in the budget process. Jones (2006) and Haktanir (2006) also found that budgets can be used as a positive motivational tool (Emmet et al, 2009).

The behavioral aspect of budgeting refers to the human behavior that arises in budgeting and the human behavior that is encouraged when trying to live by a budget. An understanding of how employee behavior is affected by organizational controls such as budgeting, performance evaluation, and budget participation is important because ultimately organizational effectiveness and goals can only be achieved through employees. Because the results show the importance of procedural justice in influencing employee behavior, organizations should pay more attention to the extent to which their procedures can increase employees' perceptions of higher procedural justice (Chong et al, 2012).

Garrison et al (2008), stated that participatory budgeting has several advantages over forced budgeting, such as motivation and commitment from the participants. Such participatory budgets, however, must be reviewed by a higher level of management to avoid budget gaps (Emmet et al, 2009). Budgetary slack can be influenced by many things, namely budget participation, budget pressure, locus of control, information asymmetry, and organizational commitment. Budget participation is a work unit process, both superiors and subordinates who are involved and have influence in determining budget targets (Apriantini et al, 2014).

Adams (2006) discusses several behavioral issues related to the budgeting process, (1) the length of time it takes to finalize or review a budget; (2) the main supporting document used to prepare the budget (3) the entity that reviews the property budget (4) the presentation format of the budget (5) the technology used to complete and submit the budget to the head office; and (6) guidelines for increasing the standardization or decentralization level budget (Emmet al, 2009). According to Koger (2013), the Behavioral Aspect in public sector budgeting is that budgets can influence the behavior of leaders and employees who act as executors of the budget. Aspects of behavior in the budget can affect budget performance.

Several aspects of behavior in public sector budgeting include: Budget participation, involvement of senior managers, budgetary slack (Rakhmini et al, 2019). High budget participation can reduce budget gaps, because when managers feel needed and trusted by superiors, these managers

will work as much as possible for the progress and development of the company. Many previous empirical studies have investigated the effects of participatory budgeting on mental states and individual performance and argue that budgetary participation can increase employee acceptance and commitment to budget goals (Zhihong et al, 2015). Human interaction is required at every step of the budgeting process,

2.4 The Budget Preparation Process

The budgeting process can be a vehicle for turning a company's strategic plans into measurable standards. The preparation of the operational budget has four main objectives: (1) to improve the strategic plan; (2) help coordinate the activities of several parts of the organization; (3) to assign responsibilities to managers, to authorize the amounts they are permitted to spend, and to inform them of the performance expected of them; and (4) to obtain commitment which is the basis for evaluating a manager's actual performance (Anthony and Govindarajan, 2007).

The three main stages in the budget preparation process are (Rakhmini et al, 2019):

1) Setting goals, The process begins with the dissemination of guidelines approved by senior management. Using these guidelines, each responsibility center manager prepares a proposed budget, which is reviewed with his or her supervisor, and an agreed position is negotiated. When these individual parts reach the top of a business unit or the entire organization, analysts review them for consistency and adherence to overall company goals (Anthony and Govindarajan, 2007).

2) Implementation. In the budget implementation stage, the most important thing that must be considered by the financial manager is to have an accounting (information) system and a management control system. The financial manager in this case is responsible for creating an adequate and reliable accounting system for planning and controlling the agreed budget, even reliable for the next budget preparation stage. A good accounting system includes an adequate internal control system.

- Budget communication : Large organizations usually mandate that unit managers attend budget meetings and exchange budget reports with their direct superiors and budget staff to promote the flow of budget-relevant information up and down the organizational hierarchy and thereby improve budget communication within the organization (Laura et al, 2004). In a large, diversified company, the budget committee may meet only with senior operating executives to review the budget for a business unit or group of business units. However, in some companies, each business unit manager meets with the budget committee and presents its budget proposal. Typically, the budget committee must approve major budget revisions made during the year (Anthony and Govindarajan, 2007).

- Cooperation and communication : Budgets have traditionally been seen as financial plans prepared for a certain period of time. It is very important for a variety of purposes and various functions are defined for it in the accounting literature. Although different sources use different labels and categories, these generally include operational planning, performance evaluation and motivation, strategy formulation and goal communication, strategy implementation and resource allocation, control, coordination and information sharing (Elena, 2016).

3) Performance evaluation and control. Performance evaluation and rewards are important because they are key elements to motivate individuals in organizations. It is therefore not surprising that there was a great deal of management accounting interest in the behavioral consequences associated with budgeting and performance evaluation during the 1980s (Chong et al. , 2012). The success of the strategy depends on his health. The performance measurement system is simply a mechanism that increases the probability that an organization will implement its strategy successfully (Anthony and Govindarajan, 2007).

3. Method

This study uses a qualitative approach. Process and meaning (subject perspective) are emphasized in qualitative research. The descriptive approach in this study was adopted through a review of previous literature regarding the nature of budgets, contingency budgets, behavioral aspects and budgeting processes.

4. Results

This paper explains the importance of people, work culture, and budgeting as contingency factors in companies, and how they relate to the nature of budgets, contingency budgeting, behavioral aspects and the budgeting process. This study found that work culture and budgeting in a company greatly affect the way employees work. Baiman (1982) examined the relationship between budgetary support and budgetary slack from the perspective of agency theory and found that interest in budgeting would empower subordinates to help superiors by providing data so that budgets prepared could be more precise. If the subordinates (agents) included in the cooperation budget have certain data regarding the immediate conditions, they can report this data to their superiors (principals). In other words,

Budgeting is a way to plan, coordinate and evaluate how well a company is performing. This can be done in a participatory way, which means that everyone involved has the right to determine the budget. This can reduce the amount of negative behavior within a company. Like Brown (1995) we find that negative behavior can be reduced through setting difficult but achievable goals, and broad participation in the budget process. The study found that if people don't try hard to fulfill their obligations, they may not have a good predictor for the future. This is because their view of themselves will be very low, which will affect their budgeting.

The relationship between factors that can affect how much the government spends and how much money is available for it can be resolved through the use of a contingency approach. This approach includes factors such as organizational commitment, which can help reduce the influence of other factors that can affect how much the government spends and how much money is available. In the results of this study, the contingency approach includes organizational commitment and does not work to influence the relationship between budgetary participation, information asymmetry, and environmental uncertainty on budgetary slack.

5. Discussions

This study tries to explain the relationship between the nature of the budget, budget contingencies, factors of budget behavior and the budget preparation process. According to Nkundabanyanga (2022), the budget preparation process has a relationship with the nature of the budget and budget contingencies. The budget is prepared based on the nature of the budget, which is prepared in a realistic and sustainable manner (Uddin, 2019). Kenno (2018), Nguyen (2019) argue that the nature of the budget and behavioral aspects have a relationship with the budget preparation process. The process of preparing the budget is adjusted to the objectives of the budgeting, benefits and evaluation of the previous period.

The process of preparing the budget is inseparable from the contingency budget, this is due to factors that were not previously anticipated but have value benefits to be implemented. This shows that the budget preparation process has a relationship with the contingency budget (Ortiz-González, 2018). According to Ayub (2019) the relationship between the budget preparation process and the contingency budget is strongly influenced by existing conditions and pressures. Within the scope of contingencies there are still many factors that have a relationship with the preparation of budgeting in companies, this becomes a consideration for companies in adjusting budgets in managing company finances.

Budget planning has attracted a lot of attention for researchers, participatory budgeting is expected to improve company performance. Setyoko (2022) budgeting needs to pay attention to the behavioral aspects of the budget, this is in accordance with human behavior which must prepare various aspects, both positive and negative aspects. Pretner (2021) suggests that the behavioral aspect of the budget consists of positive and negative aspects. Budgeting based on positive aspects is easier to accept and implement, but negative behavioral aspects will bring injustice and need to be corrected in deciding the allocation.

6. Conclusion

The conclusions from the results of the discussion above are as follows:

1. One effort that can be done by the company is to create a management control system so that the company can continue to operate efficiently and effectively. Budgets are an important tool for effective short-term planning and control in organizations. Operating budgets usually cover a year and state the income and expenses planned for that year (Anthony and Govindarajan, 2007).
2. This aspect of the budgeting process is very important in organizations. one of the material aspects and personal interests: (Juwita & Murti, 2020) The aspect of wanting to get more material than the salary or work benefits that have been obtained by the budget maker is the most discussed aspect in human studies of dysfunctional behavior in the budgeting process. Research conducted by (Michelle & Thalib, 2017) links motivation, incentives with employee performance, where in the research discussion it is stated that employees are motivated to achieve budgets with incentives, which are tools that motivate them. Incentives can be monetary and/or non-monetary. The motivation budget can extend the actual performance to

reach the budget performance limit. When the budget performance limit is reached, there is no point in increasing the amount of incentives. It doesn't motivate employees anymore, because budgets become unattainable and unattainable.

3. Contingency theory suggests that there is no one best way to design a management control system. highly committed managers who tend to strive for organizational goals react better to high budget emphasis in high budget participation environments; however, highly committed managers also react better to low budget emphasis when the organizational environment is low budget participation (Zhihong et al, 2015).
4. The behavioral aspect of budgeting refers to the human behavior that arises in budgeting and the human behavior that is encouraged when trying to live by a budget. An understanding of how employee behavior is affected by organizational controls such as budgeting, performance evaluation, and budget participation is important because ultimately organizational effectiveness and goals can only be achieved through employees. Because the results show the importance of procedural justice in influencing employee behavior, organizations should pay more attention to the extent to which their procedures can increase employees' perceptions of higher procedural justice (Chong et al, 2012)
5. The budgeting process can be a vehicle for turning a company's strategic plans into measurable standards. The preparation of the operational budget has four main objectives: (1) to improve the strategic plan; (2) help coordinate the activities of several parts of the organization; (3) to assign responsibilities to managers, to authorize the amounts they are permitted to spend, and to inform them of the performance expected of them; and (4) to obtain commitment which is the basis for evaluating a manager's actual performance (Anthony and Govindarajan, 2007).
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