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The Effect of Manager–Subordinate Context on Budgetary Slack

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Abstract

To avoid penalties for failing to meet budget targets, managers sometimes attempt to increase the percentage of budget targets met by creating budgetary slack. Budgetary slack is defined as the "intentional underestimation of revenues and productive capabilities and/or overestimation of costs and resources required to complete a budgeted task" (Dunk & Nouri, 1998, p. 73). However, companies want to avoid excessive budgetary slack as much as possible because this leads to a waste of organizational resources. Hence, how can the budgetary slack created by managers be reduced? In this study, we investigated two factors that reduce budgetary slack by focusing on the relationship between managers and their subordinates: 1) whether the manager shares budgetary-slack benefits with subordinates, and 2) the gender of the manager and subordinates. We conducted a 2 × 2 × 2 online experiment under the following three conditions: shared budgetary-slack profits (profit sharing), the gender of the department manager and subordinates (gender diversity), and the gender ratio in the workplace (workplace gender ratio). Participants were asked to indicate the budget for the next fiscal year based on the scenarios ($N = 260$). The ANOVA results indicated a significant interaction between profit sharing and workplace gender ratio ($p < .05$). Furthermore, male managers in male-dominated workplaces create more budgetary slack when they share profits with female subordinates ($p < .1$). Considering these conditions, female employees, being a minority, find it difficult to inform. Therefore, managers' perceptions of a low risk of exposure lead to excessive budget-slack creation.

Keywords
budgetary slack, profit sharing, gender diversity and workplace gender ratio

Biographies
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Hirohisa Hirai is a professor at the Department of Industrial Engineering and Management at Kanagawa University, Japan. He earned his PhD in Engineering at Osaka University. His research is an empirical study of management accounting, firm analysis, and applied statistics, particularly firm valuations. He has received awards from several academic societies in accounting and management.