

# Political Games in the Budgeting Process of Government Manufacturing Enterprises in Indonesia: a Qualitative Approach

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## Abstract

This study investigates the political games of managers on the budgeting process within the fertiliser manufacturing industry in Indonesia. Prior budgeting studies have focussed mainly on one of the following theoretical frameworks—economic, psychological, and social. This study expands the research corpus by assessing the effect of politics on aspects of the budgeting process. More specifically it focuses on the influence of political games of managers on the process of budgetary control. Based on a critical review of the US literature on the role of politics in resource allocation within public sector entities, a number of hypotheses are generated. These propositions concern the political behaviour of managers on the process of budgetary control, the effect of sub-unit's power and individual qualification of management on the process of budgetary control. Four out of five fertiliser-manufacturing enterprises in Indonesia form the sample companies. Interviews were conducted to forty middle managers with budget responsibilities. Respondents were chosen from a variety of functional areas including accounting marketing, operation, engineering corporate secretariat, research and development and internal control. The results supported the basic proposition that managers play political games in controlling the budget.

**Keyword :** Budget, Control, Power and Politics

RECENT studies in budgeting have tended to view the budgeting process in the particular patterns of organisational visibility (e.g. Hopwood, 1976; Covalesky and Dirsmith, 1986). Many accounting studies indicate that budget information is often ignored, manipulated, and falsified by those to whom it is provided. For example, Mintzberg (1975), Hopwood (1972), and Yelton (1976) reveal that dysfunctional behaviour frequently stems from the fact that the information provided by the budget system does not adequately match

the complexity of the underlying organisational and economic events; but it is also evident that distortion of information can occur even when the budgeting system itself is technically adequate. Such distortion is a consequence of the divergence of individuals' goals, purposes, aspirations and beliefs (Hopwood, 1976; Pfeffer, 1981) from those of the organisation, and most commonly manifests itself in attempts to make budget reports reflect more favourably on an individual's performance instead of on overall organisational performance.

Other studies have argued that the process of budgeting is recognised as a cohesive mechanism of social management rather than a purely technical phenomenon (Burchell, Clubb, Hopwood,

Hughes, and Nahapiet, 1980; and Burchell, Clubb and Hopwood, 1985; Covalesky and Dirsmith, 1986; and Miller, 1994) and it manifests as a product of the creation of a particular pattern of political power (Sisaye, 1998; Dirsmith, 1998; Hopwood, 1976; Bariff and Galbraith, 1978). The budgeting process is not the outcome of a rational process of the theory of budgeting. Rather, it is characterised by a multitude of rationalities at play, in which the allocation of budget is compounded in many areas by an absence of any "right" measure of budget assumptions and budget outputs; also, budget decisions result from lack of knowledge and information of how means are related to ends in input/output transformation.

## Literature Review

Pfeffer (1981) and Wildavsky (1968, 1975, 1979) have emphatically stated that the budgeting processes are a product of politics. Politics refers to efforts of budgetary control to mobilize support for or against the budget decisions in which the outcome of budget will have some effect on them. Individuals within the organisation act to meet specific goals for their individual units, and then they spend much time and effort on the attainment of specific goals rather than being concerned with how to achieve the overall organisational objectives. As a result, managers tend to be reluctant to use budget information and develop networking to seek other information from various resources either from their own individual unit's reports (Covalesky and Dirsmith, 1986; Marginson, 1999) or from informal information (Mintzberg, 1973; Bruns and McKinnon, 1993).

Baiman (1982, 1990) said that sub-

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ordinate has better information than the superior; a participation-based management control system allows the subordinate to reveal or communicate some of his own private information which may then be incorporated into the standard or budget against which his actual performance is evaluated. In practice, although the budgeting process will allow the subordinate's information to be incorporated into his performance evaluation system, one important difficulty with this process is that the subordinate may not communicate all of his information to the superior or may not communicate it honestly in favour of "budget function" (Baiman and Evans, 1983).

Unit managers participate in the budgeting process by communicating information regarding their local environment purposes to their superiors. Thus, each unit manager can focus entirely on activities within his unit without concern for how his decisions affect to other units or entirely organisation (Christensen, 1982; Kanodia, 1993). As a result, managers tend to obtain information from other reports as a basis for communication with their superiors, to control their activities, and to evaluate their managerial performance. Therefore they refute the influence of organisational control mechanisms on the basis of budget reports.

In a study of nationalised jute mills of Bangladesh, Mia (1988) conducted a questionnaire survey of managers and a series of interviews with key personnel of the organisation. Mia attempted to explore how the managers were involved in the budgeting process within their organisation. He indicated that managers were highly dissatisfied with various aspects of the budget reports such as flexibility, timeliness, usefulness, and motivation. He also found that most managers pay little attention to budget as a control instrument in the organisation. However, even though managers do not recognise the role of budgeting, they still need some parts of the budget reports to obtain information about available resources in their budget (Preston, 1986).

Otley and Berry (1980) have mentioned the influence of political power in the process of budgetary control, saying that individuals exercise their political power in maintaining their own individual aspirations, purposes, and beliefs during the process of budget control, both in the vertical interaction between superior and subordinate or vice versa and in the horizontal interaction among superiors or subordinates. Apart from the process of budget setting, the fact that the political process also appears in the process of budgetary control has been mentioned

by some studies.

Marginson (1999) pointed out that managers appeared to treat budget information as one part of an information jigsaw. He said managers did not view budget information as an instrument for controlling their own activities or for coordinating with others (1999). Instead, they tended to reflect their needs and purposes by looking for "fresh information".

Covaleski and Dirsmith (1986) conclude that Managers act on the basis of the influence being exerted by social (politics) rather than administrative control (budget) for monitoring subordinates' performances. They conducted extensive research on the budgeting process. They investigated the relationship between this process and managerial roles by interviewing fifty nursing managers (hereafter, NMs) who are responsible for budgets in six hospitals. They found that NMs have no political gain by relying on budgets when they perform controlling activities, because they lack knowledge, skills, and information to analyse and interpret their units' budget variance reports. Therefore, they prefer to use reports based on their units' operation because they have strong knowledge and skills to support their arguments in controlling their units' activities. Thus, they gain power by using those reports rather than the budget report.

Amey (1979) has mentioned inconsistencies in the objectives of budgetary control. Amey indicates that the objective of budget control, based on accounting literature, is to equalise deviations (variances) from internal norms (budget targets, standards) which are not the results of an optimisation (as a product of politics see Pfeffer and Salancik, 1974; Pfeffer and Moore, 1980; and Hackman, 1985), either by taking corrective action on mismatch information or, where this is not feasible or impossible, by adapting the norms (revising the budget). More precisely, the aim is to keep deviations within a certain range. In practice, the objective of budgetary control is often less systematic than this. For instance, deviations on revenue items are seldom analysed, and the investigation of cost deviations is often asymmetric,



Political process also appears in the process of budgetary control

being confined to adverse deviations.

Kanodia (1993) posits that participative budgets emerge endogenously as an optimal co-ordination mechanism when unit managers share their private information about their operating environments with the superior in order to have an optimal budget allocation. Such participative budgets can contribute to internal task understanding, help co-ordinate functional activities and provide a benchmark for skill and knowledge, against which subsequent performance can be evaluated. However, Kanodia's findings contradict the view that co-ordination activity is best achieved by rewarding each unit manager on the basis of achievement of budget targets.

Previous studies have mentioned the gap between theory and practice in budget implementation. Based on the prior studies, it appears that the reasons for this gap might be categorised as follows: first, the budgeting system is not well matched to operational activities. The budget focuses only on financial results and further, it does not necessarily pay sufficient attention to means of controlling current internal unit performance. Some aspects of performance which are believed by unit managers to be key indicators may not be obtained from the budget, the level of measurement available in the budget is inadequate or distorts the attainment of operational targets being measured (Otley, 1999; Vaivio, 1999). Second, unit managers and superiors are not convinced of the advantages of using the budget to control their activities and performance. They tend to strive for their own particular purposes, aspirations, and goals based on their preferred reports (Hopwood, 1976; Pfeffer, 1981; Covaleski and Dirsmith, 1986; Otley, 1999). Furthermore, they may find the budget too technically complex to utilise, since they lack the required knowledge and training (Comerford and Abernethy, 1999; Covaleski and Dirsmith, 1986). Finally, unit managers frequently do not understand each other's job requirements and targets, thus the budget cannot apply as a mechanism of control in respect to organisational objectives.

Achievement of budget targets may

play an important role in budgetary control, because the budget represents standards of both effectiveness and efficiency. A budget represents a standard of effectiveness insofar as it specifies a set of desired outputs and a standard of efficiency to the extent that it details the inputs deemed necessary to produce the specified output. Data on the budget's actual performance may then be used as a yardstick for comparison with the budget standard to evaluate certain dimensions of managerial performance. The fact is that a budgetary system may not be designed primarily as a means of performance evaluation (Hopwood, 1972; Preston, 1986; Anderson, 1984; Daft and Macintosh, 1984) even though there is evidence to suggest that it is often used for that purpose, whether formally sanctioned or not (Hopwood, 1976; Hofstede, 1968). Due to the fact that information from budget performance provides only quantitative information that is used as a basis for performance evaluation, it is likely that the effects of such use will predominate in determining how a manager responds to the budget performance (Lukka, 1988; Otley and Berry, 1980).

Hayes (1977) examined the accuracy and importance of the role of financial data in performance evaluation in production, research and development and marketing units. He concluded that budgets might be relatively poor indicators of performance evaluation effectiveness, especially in marketing units, because financial measures are poor surrogates for entire set of particular interest factors which influence unit performance.

Organisations tend to emphasise non-budget indicators to evaluate unit performance. In a study of the operation of management control systems in a large nationalised jute mill in Bangladesh, Hoque and Hopper (1994) found that mill managers did not use the budget as important vehicle in controlling their activities. The mill managers used a variety of social/informal control mechanisms to cope with the complexity and uncertainty around their operations, but budget data was not a dominant mode of control in the organisation.

Hoque and Hopper also found that there are no bonuses tied to the manager's achievement of budget targets and no retribution was taken against any manager who failed to achieve the budget targets. Moreover, promotion of managers was not related to their record in budget achievement.

As Meyer (1982) pointed out that the organisations develop the performance indicators based on internal value and external value. Internal value is characterised by efficiency such as profit, cash flow, customer satisfaction, and quality satisfaction. Economic indicators characterise external value, for example stability of distribution, price, social contribution, and specific tasks. Meyer (1982:53) found "hospitals whose members liken their organisations to human beings appear more consistent to outsiders than hospitals whose members liken their organisations to businesses or machines".

Other studies indicate that top executive management prefers to use external, rather than internal, measurement indicators to serve their own interests. For example, Kurunmaki (1999) found that top executives reject the use of budgetary control as a main measure of the level of efficiency for evaluating the competition base of health care organisations. She conducted extensive interviews and observations in one university hospital and two central hospitals in Finland. She saw that hospital representatives were showing little motivation to set up competition between hospital institutions based solely on economic incentives. In the word of Kurunmaki:

..... a competition-based reallocation of resources between central hospitals the strong influence of local politics on health care decision making. The municipal politicians, in their dual roles of purchase agents and owners of health care organisations, were seen as having little motivation to set up competition between hospital institutions based solely on economic incentives. Contrary to the basic idea of market based resource redistribution, it was thought that local decision-makers never fully accepted the idea of health care institu-

tions as independent accounting entities which would be assessed on the basis of their financial efficiency. Instead, wider concerns relating to *regional politics* (such as the economic influence of transferring the labour-intensive health industry to other areas, and the subsequent loss of local tax income) as well as various kinds of *non-financial issues* (pp.108-109).

### Theoretical Development

The process of budgetary control bears a political process in which unit managers do not view budget information as an instrument of control for evaluating their activities and rewarding their performance. Unit managers develop criteria in favour of their own units where these criteria tend to be inconsistent with the budget objectives. They select the parameters of performance criteria that will support the achievement of their unit objectives. Basically, the performance criteria for each unit are not the same because each unit builds performance criteria based on its interests and preferences (Marginson, 1999; Newman, Logan & Hegarty, 1989; Pfeffer, 1981; and Mintzberg, 1972) in which it tends to be deviant to each other. Therefore divergent of performance criteria is inevitable within an organisation. For example, the specific goals pursued by the various units are different, with marketing unit is interested in sales maximising, whereas finance unit is interested in increasing profit and cash flow. In evaluating and rewarding their units performance, managers expect to emphasise their own criteria based on the technical side of their units operations.

As a result, the attainment of budget targets does not relate to the performance evaluation and reward system because unit managers view that the budget contains financial measurement only without sufficient consideration of their unit operational objectives. Consequently, their aim is to acquire more power by using other performance criteria instead of the criteria from the budget variance reports (Covaleski and Dirmsmith, 1986).

On the basis of the above discussions, it is concluded that managers of

necessity have to resort to political means in the budgeting process to maintain their own criteria in evaluating and rewarding for their units.

### Propositions Development

The process of budgetary control is a political process, in which managers do not view budget information as a control instrument for their own activities or for co-ordinating with others. They have no political gain in using the budget variance reports. Instead they tend to look to other reports that reflect their needs and purposes in attaining the unit's operational targets. However, individual managers still need the budget reports to maintain information about their legitimate resources that might be available in the budget. The budget deviates from the ideology of efficiency because each individual struggles to use all budget resources, whether they really need to use them or not. Furthermore, the attainment of budget target does not relate to the performance evaluation and reward system, because the budget focuses only on financial measurement without sufficient emphasis on unit operation.

In the context of state owned enterprises of Indonesia, when managers control their activities, they do not base it on an in-depth analysis of the budget variance reports. Managers and superiors still need the budget variance reports but treat them merely as formalities. They tend to use information from the operating reports of their units because they understand those better. This also leads to a lack of emphasis on the budget variance reports in controlling the overall organisational goals. In addition, the budgeting system as management control device could not be applied since the Board of Directors often changes the organisational targets (Bachtiar, 1999). As a result, the budget plan has to be revised as well. On the other hand, the fertiliser manufacturing industry is in the public sector of Indonesia where evaluation of performance and reward are not based on budget achievement (Bachtiar, 1999). Managers tend to be forced to use measurement indicators based on their unit's operations rather than budget performance for evaluating subunit's

performance and subordinates' reward. In addition, superiors use measurement indicators based on their purposes and intentions instead of budget performance. However, managers and superiors still need the budgeting report merely to maintain information about budget resources available for them.

The above discussion is the basis for the following proposition:

**H1: In controlling the budget performance, the managers are not concerned to pursue the objectives of budget because they tend to play politics to achieve their unit interests rather than budget interests.**

Further, a critical factor in creating power within an organisation is the role of resource dependence. Every department requires a continuing availability of resources to maintain its activities. A department may enjoy extra political power when it has the ability to bring in critical resources which might influence the operations of another department, or when it is in a position to make decisions that would affect other departments (Brass and Burkhardt, 1993; Ibarra, 1993; and Pfeffer and Salancik, 1974). In the case of the fertiliser companies under study, it is suspected that the managers of operating and engineering departments will have more political power to the budgeting process relative to other departments such as personnel, accounting or public affairs. Based on this argument, the following proposition is proposed:

**H2: In performing the budget control, political games in the process of budget control depends on unit's structural power.**

Merchant (1984) argued that the role of the budgeting system depends on individual differences between managers, such as experience and personality factors. Regarding individual attributes, French and Raven (1959) stated that individual attributes such as experience, seniority, education, and professional activity are important sources of personal power. The finding was supported by Brass and Burkhardt (1993). They maintain that individuals clearly differ in

abilities, skills, and willingness to use those skills and abilities to acquire and exercise power. In other words, the greater the presence of these attributes in a manager, the greater the political power. Individuals with these attributes are powerful because they are acknowledged as adept at getting things done in the organisation, despite some resistance (Brass, 1984). Brass maintains that some individuals are powerful because of an ascribed trait that is reflected in convincing the quality of trust. High educational qualification is powerful source of influence, especially in task complexity. As tasks become more complex, individual with high educational qualification become more indispensable. Therefore, anyone who can develop an educational qualification that is scarce and important will have power. This study uses educational qualifications as an attribute conferring power in the Indonesian context. This is based on the cultural values of Indonesian society where respect for education gives power to the educated. The relative scarcity of highly qualified people makes it likely that people with higher education will move to positions of power. Hence, the following hypotheses:

**H3: In performing the budget control, political games in the process of budget control depends on individual qualification – individual power.**

### Research Method

The study was undertaken by way of a survey-interview of manufacturing companies in Indonesia. The sample for this study consists of four fertiliser-manufacturing enterprises in the state owned sector of Indonesia. This sample was chosen for several reasons. This sector has some of the largest companies in the country involving significant formal budgeting activities. Being a public sector industry budgeting is subject to significant political influence. A single industry sector was also chosen to enhance the respondents' receptiveness toward participation in the study and to control for some variables not being measured.

Formal proposition testing is based on survey-interviews. A total of forty

managers were personally interviewed by one of the researchers. All respondents were from the four sample companies and they represented several departments such as engineering, operation, marketing, finance, and human resource.

### Research Findings

Budgetary control, including monitoring and evaluation bring out various struggles for power amongst the participants because of their various vested interests. Budgetary monitoring is largely used to gain and hold power within a unit, rather than for the attainment of organisational objectives. Budget monitoring is not used to improve unit efficiency in line with organisational objectives; rather, each unit tries to spend their entire allocation of funds and to acquire

For evaluation purposes, production targets take precedence over budget targets. As long as the required amount of work is done and the operational targets are met, it hardly seems to matter whether or not the budgetary targets are achieved.

There is, it would seem, a negative correlation between the above activities (which can only be described as political) and the roles of managers at all levels in the attainment of organisational objectives.

### Effect of Politics on the Process of Budgetary Monitoring

The organisation monitors the budget realisation at regular intervals, such as monthly, quarterly, and annually. Reports are produced by the accounting



*Budget performance does not contribute to performance appraisal*

more funds if possible. A unit manager is likely to use budgetary monitoring to control the activities of their subordinates in line with his own ambitions for the unit. At higher levels within an organisation, the power struggles between department heads seem to have little to do with coordinating activities of the various departments in favour of setting the right budget for attaining the organisational objectives: here again, the protagonists are mainly concerned with furthering their own interests.

unit and distributed to every unit in the organisation. Based on the budget realisation report, unit managers will be able to monitor how much of their budget resources have been used and how much is still available. Every unit has been pressured by the Budget Committee not to spend more than their annual budget allocation. It follows, therefore, that every unit has the flexibility to adjust their monthly budget allocation, as long as their annual budget allocation is not exceeded.

exceeded.

The survey interviews found that most managers use politics in the process of budget monitoring. Managers do not rely on budget information to control their operational activities. They believe that budget information is not relevant as a basis of control since it only describes the financial position. Unit managers prefer to use information gathered from operational reports as control tools, because their unit and individual appraisals and rewards will be based mainly on operational target achievement. Moreover, the achievements of their budget targets are not directly relevant to the appraisal and reward systems. The findings of this study support those of prior studies, in which the effect of politics on the process of budget monitoring was seen to be substantial (Marginson, 1999; Covalleski and Dirsmith, 1986; Olley and Berry, 1980; Hoque and Hopper, 1994; see also Hayes, 1977; Amey, 1979; Preston, 1986).

One of the interviewees has explained the role of budget information in the organisation, as follows:

*My unit gets budget variance reports regularly. I need this report to monitor how much of my budget resources have been used and how much resources are still available. If my available budget resources do not cover all operational activities, I have to ask my superior to give me additional budget resources. If I can't get additional budget resources, I have to adjust my unit's planned activities. I believe that most unit managers do not use the budget as a mechanism of control, especially in regard to improving their efficiency. In most cases, by the end of the day, every unit manager will use all the budget resources available to them.*

The organisation's policy is to monitor the realisation of budget at the unit level and the organisational level, monthly and quarterly. The monthly bud-

get-monitoring meeting focuses on the general picture of the budget realisation, while in-depth analysis will be conducted in the quarterly budget-monitoring meeting. The budget-monitoring meetings usually have two agendas, namely; (1) to evaluate budget realisation and (2) to develop a quarterly budget forecast<sup>1</sup>.

At the unit level, the unit manager liaises with his/her subordinates to evaluate budget realisation and to forecast budget requirements for the next three months. The budget requirements will be based on evaluation of the operational activities plan.

In the budget-monitoring meeting, unit managers have opportunities to acquire extra budget resources: adjustments to the operational activity plan can affect the availability of budget resources. If additional resources are not available, adjustments to operational activities might not be realised. In a budget-monitoring meeting, every manager has the opportunity to adjust his/her budget allocation and propose budget revision, as long as it is supported by strong arguments. All units want to achieve their targets, because the achievement of targets relates directly to performance evaluation and reward systems. Therefore, most managers view the budget monitoring meetings as an important medium for realising their aspirations, purposes, and beliefs.

Moreover, most managers seem to believe that they need to legitimate their budget through approved budget revision. As a result of adjustment of the budgets of several units, it is likely that there will be several others whose budgets will be reduced. However, extra efforts have to be made by every unit that aims to get additional resources. Managers collect all information relevant to their operational activities in order to provide arguments for proposed budget revision. Similarly, units that expect to have their budgets reduced will struggle to keep their existing budget. Managers indicated that political power play as a

dominant factor in determining the achievement of unit interests. One manager worded it thus:

*If I believe that my available budget is not sufficient to cover all unit activities, then I will propose a budget revision for my unit. However, before I make a decision to propose such a revision, I have to have enough information to support my budget revision proposal. How urgent is it to my unit? What are the benefits of the additional budget in attaining my operational target? The approval of the proposed budget will not be easily obtained, since there will be counter arguments from opposing units. I believe that many factors influence budget revision decisions. Besides the level of urgency for each unit and its implication for operational performance of the organisation as a whole, individual factors such as knowledge and skill also receive special attention from the Budget Committee.*

At the organisational level, a department head has the opportunity to propose budget revisions at a budget revision meeting. Such budget revisions are usually triggered by assumptions relevant to current environmental conditions. Based on an evaluation of internal operations, department heads may conclude that the available budget is insufficient to cover remaining operational activities. Apart from current environmental conditions, budget revision could be triggered by an absence of activity in regard to the proposed budget.

In general, budget revision will be accepted if there is a connection between the additional funds required and the operational activities of the organisation as a whole, or if there is perceived to be a possible effect on the company's image. For example, there are certain places in Indonesia where fertiliser is in short supply. Say the Marketing Unit needs extra funds to enable the shortfall to be met: in such a case, the proposed budget revision will be accepted and the required capital will be taken from the budget of other departments. Based on the interviews, it seems that department heads are unwilling to

1. If there is a proposed budget revision in the budget-monitoring meeting, the budget committee will construct a budget simulation for the coming three months. The outcome of the budget revision will be called an operational budget. The realisation of the operational budget will be one of the main issues to be discussed at the next budget-monitoring meeting. Meanwhile, an approved budget realisation will be covered and will be evaluated at the annual budget meeting.

sacrifice their budget to cover other department's budgets. Here again, department heads always concentrate on the interests of their own department rather than consolidating the interests of the organisation.

The bargaining process is one of the mechanisms used to resolve this problem of conflicting interests. All department heads will defend their interests by attempting to show the importance of their operational activities to the performance of the organisation as a whole. Most of the department heads stated that if their operational budgets were to be reduced, they would have difficulty in achieving their operational targets, and as a consequence, company performance as a whole would also deteriorate. One department head states:

*I will reject all suggestions of re-allocation of my department's budget resources to other departments. My department budget allocations that have been approved should not be taken away from me, since they were worked out by the Budget Committee. I will try to convince the Budget Committee that if my department budget is reduced, it will affect the achievement of my operational targets and it will de-motivate my subordinates. Moreover, it will affect the performance of the organisation as a whole.*

From the statement quoted above, it is clear that one of the functions of the budget, that of co-ordinating functional activities, has not had the desired effect of reducing information asymmetry. Harmonisation of task interdependency between sub-units or units for achieving organisational objectives is not seen as a reason for individuals to be involved in the process of budget monitoring. All individuals do not have the same perception about the budget's functions, especially with regard to performing their managerial roles to contribute to the achievement of organisational objectives. In the process of budget monitoring, all individuals tend to respond to changes in the environment by focusing on individual interests rather than the interest of the organisation as a whole.

### **Effect of Politics on the Process of Budgetary Evaluation**

It was found that the success or failure in attaining budget targets does not relate to the performance appraisal and reward systems. The organisation has its own specific formula for performance appraisal and reward. All individuals in the organisation are entitled to equal bonuses regardless of the achievement or otherwise of their budget targets. Based on the survey interviews, most managers said that there is no incentive for individuals to achieve their budget targets and there is no punishment for those who failed to do so. These findings are consistent with previous studies (Kurunmaki, 1999; Hoque and Hopper, 1994; Covaleski and Dirsmith, 1986; see also Comerford and Abernethy, 1999; Preston, 1986; Hopwood, 1976; Hopstede, 1988). Managers, superiors, subordinates, and the BOC do not appear to use budget performance information as a basis for performance evaluation and reward. Most managers believe that budget performance does not contribute to their performance appraisal. One of the managers stated:

*There is no relationship between the achievement of budget target and performance and reward measurements. The organisation has a specific model for performance and reward evaluation, based on operational indicators. There are no budget indicators in that formula. On the contrary, employees are entitled to receive equal rewards regardless of how successful or otherwise their units or departments have been in achieving their budget targets. In fact, most managers believe that it would be unfair if the organisation were to use budget achievement as a parameter for performance and reward systems. Their reasoning is that unit managers might propose budget revisions at several or all budget monitoring meetings. In addition to that, there is no disincentive towards failure of budget target achievement. In most cases, supervisors only remind their subordinates and warn them to achieve their budget target for the following period.*

The survey interviews indicated that supervisors at no level include the achievement of revenue budget targets as an evaluation indicator for their subordinates. As suggested above, supervisors will simply remind unit managers that they have failed to achieve their revenue budget target and ask them to commit to achieving subsequent budget targets. In practice, superiors are more concerned about their expense budgets and usually try to control them lightly. However, they do not try to ensure unit managers' efficiency. In the opinion of most superiors, tight control means unit managers cannot use more budget resources than they were allocated. Usually, unit managers will use all available budget resources without considering whether they really need them or not. They know that they might be able to spend more than their budget allocation, if it is accepted as important for the organisation. Attitudes towards the achievement or otherwise of the revenue budget seem to be much more flexible than towards the expense budget.

The Board of Commissioners, as the owner's representative, does not seem concerned with the achievement of the overall of budget targets within the organisation. The BOC's main concern is only with bottom line performance - profit achievement: if the organisation fails to achieve their profit target, it will be asked by the BOC to explain it. However, the failure to achieve profit targets does not relate to performance evaluation and reward systems. The researcher found that the BOCs are more focussed on macro measurements, such as whether there are any areas of the country that have been short of fertiliser. If fertiliser shortages have been experienced by an area, the organisation concerned will get attention from external parties (e.g. President, vice President, Minister of Agriculture, Minister of Industry and Trading, Parliament, Minister of State Owned Enterprises, etc). One of the managers stated:

*In the annual budget meeting, after discussion on macro measurements, furthermore the BOC only focuses on how much profit has been earned by the organisation as a whole. If the*

profit target has been achieved, other factors will not be considered by the BOC. In practice, the BOC will not consider the achievement or otherwise of budget target by each individual unit and department, regardless of individual units being over or under budget. In contrast, if the organisation fails to achieve their target profit, an explanation for the failure will be demanded.

It might be said that the underlying explanation for "playing politics" in regard to budgeting seems to be connected to the attitude of BOCs, as outlined in this last section: viz, the fact that the BOC is only concerned with macro-targets such as dissemination of the product and overall profit. As a result, departments, units and sub-units, not being answerable for their profit budgets, have nothing to lose by over-running expenses if they can get away with it. They tend to use the expense budget as a means of gaining and holding power in relation to other departments, units and sub-units, and do not see any necessity to relate expenses to profits at departmental level and lower, because these factors are not taken into consideration in performance evaluation and rewards systems. The ingrained attitudes and behaviours connected with political power play can only be detrimental to organisational objectives.

### Conclusions, Limitations, and Future Research

**Conclusions.** This research study has investigated the role of politics in the budgetary control. The findings of interviews confirmed all propositions for which this study obtained evidence, demonstrating that the role of politics on the budgetary control is substantial. The role of politics on the budgetary control differs across the sources of power. The study indicates that operational units are in a better position for bargaining in the budgetary control than other the units. The study also indicates that individuals who have specific attributes such as strong educational qualification held advantages over others.

The results of the study contain basic



*The role of politics on the budgetary control differs across the sources of power*

validation for viewing the budgeting process from a management accounting perspective, which may include consideration of political influence. This conceptual framework contrasts with one which views the budgeting process as purely technically or economically determined.

**Limitations.** Respondent selection within the companies sampled for this study was not random, because it was determined by the company, which may have biased the sample. Bias may have resulted from the fact that companies selected the respondents for the survey-interview. Another possible source of bias is in the fact that the researcher found it was not possible to control the size of units involved in the study, resulting in a greater variation in unit size than was initially desired. Next, organizations in different industries may have different effect of politics on the budgetary control than those indicated here. However, to determine this, the use of organizations across industries would be necessary; the present study was completed within a single industry. Therefore, any generalisation about the role of politics on the budgetary control may be statistically and logically unjustifiable.

**Scope for Future Research.** Future research should be directed toward improving this study. An understanding of the effect of political behaviour of managers on the budgetary control is in the embryonic stage of development. The

conceptual process has been defined, yet there is little empirical evidence that directly supports its premises.

This study was an attempt to bring together theoretical underpinnings. The progression of the model was an explanatory process that built the concept of political effect in the process of budgetary control. Hopefully, this study will advance the thinking of scholars in this direction and create interest in replicating this method of analysis and validating the findings.

The conceptual model should also be applied to the role of politics on the budgetary control in other industries. This would provide the information needed to assess the external validity of the model. The data for this study was collected from public enterprises, future investigation should be extended to private enterprise and not-for-profit organisations to provide bases for comparison. The effect of politics in the budgetary control may display different patterns across cultural norms such as organisation type and size. This study's evaluations were based on a questionnaire survey of middle managers. A more diverse range of responses might be forthcoming in a study using managers in a wider cross-section of hierarchical positions as respondents. It is to be hoped that other scholars will take up the baton and pursue these avenues in future research. **□**



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