RATE YOUR FIRM'S BUDGETING LEADERSHIP

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INTRODUCTION

In the past number of years there has been considerable emphasis placed on the behavioral aspects of accounting, particularly budgeting. As a result of this interest, managers and accountants have come to realize that accounting numbers, such as those reported in budgets, are more than psychologically neutral economic data. Rather, these numbers are known to behaviorally influence people and can be used to stimulate good (or bad) performance and attitudes.[1] Hopefully, budgetary processes will stimulate a positive budgetary attitude where those subject to budgets will strive diligently to achieve budgetary goals. Also, one would hope that negative budgetary attitudes (lack of support or effort) would be minimized. And in this regard, one wonders if there is a style of leadership that would be most helpful in creating positive attitudes toward the budget and subsequent high performance?

The purpose of this manuscript is to relate the findings of a recent research project that studies the issues of leadership styles and budgeting and to provide the reader with a means of conducting a self-assessment of their organization.[2]

THE RESEARCH PROJECT

After conducting a fairly intensive pilot study of 83 managers in a medium-sized restaurant chain, it was decided to study the issues of leadership and budgeting on a nationwide basis. In doing so, we prepared a questionnaire for completion by mid-level managers in all parts of the United States. In total 303 members of the National Manage-

ment Association returned completed questionnaires, a response rate of 21%. The questionnaire itself was composed of standard psychological test questions and was pretested additionally by the managerial and budgeting staff of a multinational energy company.[3] The purpose of this pretest was to ensure that the right questions were being asked and that they were being asked and that they were being asked in an understandable manner.

A PROFILE OF THE RESPONDENTS

The average manager who responded in this survey was 48 years old, had at least some college education, was a mid-level manager, and had been with their firm for 17 years. While the average manager tended to have a fairly positive attitude toward their budget, there were significant exceptions, a matter we will deal with later.

LEADERSHIP STYLES

Though there are a number of different ways to view leadership, one of the more prominent and promising approaches is the operant conditioning approach.[4] In this approach, a manager or leader is seen to use a combination of three leadership styles--positive, advancement, punitive. With the positive style, the manager is seen to be supportive of his subordinates, offering encouragement and praise. In the advancement style, the manager is seen as rewarding good performance by providing subordinates with promotion opportunities. Conversely, in the punitive style, the manager tends to use punishment--reprimands, terminations,

paycuts, etc.-- as a stimulus for good performance.

In our study, the evidence clearly pointed to the beneficial effects of the positive style. As can be seen in Exhibit 1, we found that there was a significant positive correlation between this style and a positive budgetary attitude ($r = .12$) and a negative correlation with a negative budgetary attitude ($r = -.14$).^[5]

Thus, one would expect a manager

using the positive leadership style to have subordinates that more often than not have a positive attitude toward the budget and seldom a negative attitude. Also, the manager's boss (leader) was seen as being more influential. The advancement leadership style also has some potential to enhance budgetary attitude since it also was positively correlated with positive budgetary attitude ($r = .18$). Importantly, a strong positive correlation existed between his boss thinking the budget is important and the manager receiving recognition

EXHIBIT 1 CORRELATIONS AMONG ATTITUDES

	1	2	3	4	5	6	7	8	9	10	11
1. Positive budget attitude	1.00										
2. Negative budget attitude	-.06	1.00									
3. Positive leadership	.12 ¹	-.14 ¹	1.00								
4. Advancement leadership	.18 ²	-.02	.65 ³	1.00							
5. Punitive leadership	.29 ³	-.01	.19 ²	.45 ³	1.00						
6. Role conflict	.11	.37 ³	-.22 ³	.09	.13 ¹	1.00					
7. Role ambiguity	-.15 ²	.35 ³	-.41 ³	-.24 ³	-.14 ¹	.38 ³	1.00				
8. Receive recognition budget performance	.26 ³	-.18 ²	.51 ³	.46 ³	.22 ³	-.18 ²	-.39 ³	1.00			
9. Bosses think budget is important	.25 ³	.01	.30 ³	.37 ³	.43 ³	.05	-.31 ³	.41 ³	1.00		
10. Bosses are influential in budgetary matters	.20 ²	-.07	.16 ²	.10	.10	-.12	-.21 ²	-.22 ³	.26 ³	1.00	
11. Manager gets what he wants for budgetary objectives	.09	-.28 ³	.26 ³	.10	.01	-.45 ³	-.33 ³	.38 ³	.11	.28 ³	1.00

¹ Significance level .050

² Significance level .025

³ Significance level .001

for budget performance ($r=.41$). Finally, the punitive leadership style as also correlated with positive budgetary attitude ($r=.29$). Thus, the view emerges that while ALL of all leadership styles may have some beneficial effects, the good effects of the positive style are more far-reaching. But, in addition to the effects of these leadership styles on budgetary attitudes, we found that they were significantly related to the amount of psychological stress in the organization.

STRESS

Psychological stress can be studied along several dimensions. In this study we chose to view a particular type of psychological stress, role stress.[6] In organizations we all have work roles to carry out where the work role may be defined as the expectations held for the proper manner of doing one's job. If there is significant disagreement about how the work role is to be specified a state called role conflict results. Further, if the work role is not distinctly defined and not clearly understood, then we have the condition of role ambiguity. While previous research has found that role conflict and ambiguity are psychologically uncomfortable, we found that they are significantly related not only to leadership styles, but perhaps more importantly, to budgetary attitude. Specifically, we found that role conflict was significantly positively correlated with a negative budgetary attitude ($r= .37$) was role ambiguity as ($r= .35$). Additionally, we found that ambiguity was negatively correlated with positive budgetary attitude ($r=-.15$) and with the boss's influence ($r = -.21$). Regarding leadership styles, we found that conflict was negatively correlated with the positive style ($r = -.22$) and positively correlated with the punitive leadership style ($r = .13$). As noted above, role ambiguity was negatively correlated with positive budgetary attitude ($r=.35$), and interestingly enough was negatively correlated with all three leadership styles (positive

style, $r= -.41$; advancement style, $r = .24$, and punitive style ($r= -.14$). Further, there is a significant negative correlation between ambiguity and the influence of the boss ($r = -.21$). Also, ambiguity was negatively correlated with the likelihood that a manager would receive recognition for budgetary performance ($r= -.39$), whether the boss thinks the budget is important ($r= -.31$), and the probability that manager would get what he wants for budgetary objectives. Thus, the summary view one may draw is:

With high role conflict one should expect . . . (1) Greater frequency of negative budgetary attitudes. (2) Less likelihood that positive leadership is being used. (3) Greater likelihood that punitive leadership is being used.

With high role ambiguity one should expect . . . (1) Lower positive and higher negative budgetary attitudes. (2) A probability that the manager is NOT using a definite leadership style. (3) The boss will be perceived as less influential. (4) Budget performance is NOT emphasized either by managers or subordinates.

SOME ADDITIONAL FINDINGS

In addition to the central issues raised earlier, we also sought information about general budgeting considerations. Specifically we wondered under what circumstances would a person likely receive recognition for good budgetary performance? We found that a person tended to receive recognition when they had a positive budgetary attitude, when their boss had a definite leadership style (regardless of which style is used by the boss), and when there was little role conflict and ambiguity. We also wondered what factors related to a boss thinking that the budget and budgeting processes were important? As we mentioned earlier, we found that when the boss tended to think the budget was important, the manager tended to have a positive

budgetary attitude. Further, when the boss had a definite leadership style, there was low role ambiguity, and the person tended to receive recognition for good budgetary performance. Finally, we wondered when would a manager most likely get what he wants for budgetary goals? We found that when he did, he tended to have a positive budgetary attitude, low role conflict and ambiguity, his boss used a positive leadership style, and the manager tended to receive recognition for budgetary performance, and the boss is influential in budgetary matters. But, do these results provide any guidance in determining where your organization stands?

RATING YOUR ORGANIZATION

As mentioned previously, budgets tend to have psychological overtones, particularly regarding the budgetary attitudes people have towards their own budgets. One then wonders, "How psychologically effective is the budget in my firm? Are we using the proper leadership style to get the best motivation out of our budget?". Based on our research, we have provided the rating checklist depicted on Exhibit 2.

To use this checklist recall the psychological climate of your firm. What type of leadership style is prevalent?

EXHIBIT 2

CHECKLIST FOR RATING YOUR ORGANIZATION

		<u>AGREE</u>						<u>DISAGREE</u>
1.	Bosses tend to treat their subordinates in a:							
a.	Positive, encouraging way.....	1	2	3	4	5	6	7
b.	Manner recognizing good performance with promotions....	1	2	3	4	5	6	7
c.	Punitive manner when things do not go well.....	1	2	3	4	5	6	7
2.	Regarding budgetary role processes:							
a.	There are infrequent disputes and other conflicts over budgetary matters.....	1	2	3	4	5	6	7
b.	People tend to know what is expected of them regarding budgetary matters.....	1	2	3	4	5	6	7
3.	People get recognition for good budgetary performance.....	1	2	3	4	5	6	7
4.	The budget is considered by the management to be important.....	1	2	3	4	5	6	7
5.	People generally are satisfied with what they get in their budgets.	1	2	3	4	5	6	7

YOUR SCORE....

Is role stress--conflict and ambiguity--present? How influential are bosses in your firm regarding budgeting? How important is the budget considered to be? Ponder these issues and others as you complete the checklist.

After completing the checklist, total your individual question scores and compute an average response value for all the questions together. If your average is greater than 4.43 (the overall average in our study), your budgeting process is above average in budgetary soundness. (Exhibit 3 provides a report of the average nationwide response.) How far the budgeting process tends in this direction depends on the certainty of your perceptions and the amount by which you exceed the average for our study. Alternately, if your overall average is considerably less than our average, you probably should have serious concern that your budgeting process is not up to par and

in a sense represents an opportunity cost to your firm. It is an opportunity cost because it is likely that you have unrealized benefits which may be gained from your budgeting process.

Additionally, you may use this checklist to highlight areas of potential improvement (in addition to noting the general tendency in your organization). For example, if you feel that your budgeting process is characterized by ambiguity (and realizing the negative budgetary impact of this condition), you may wish to take steps to specifically delineate budgetary duties and responsibilities, thus reducing ambiguity. Or as another example, if managers in your firm are not assertive in their budgetary leadership roles or in demonstrating their concern for budgetary matters, steps should be taken to get their active and definite involvement. Thus, this checklist should aid you in answering the question. . .

HOW'S YOUR FIRM'S BUDGETARY HEALTH???

EXHIBIT 3

NATIONWIDE AVERAGE RESPONSES

1.	Positive leadership style.....	4.70
2.	Achievement leadership style.....	3.77
3.	Punitive leadership style.....	4.57
4.	Role conflict.....	3.28
5.	Role ambiguity.....	5.07
6.	Recognition given for good performance.....	4.06
7.	Budget considered to be important...	5.44
8.	People get what they want in their budget.....	4.58
	NATIONWIDE AVERAGE SCORE.....	4.43

FOOTNOTES

1. For example, see Argyris, Chris, "Human Problems with Budgets," *Harvard Business Review*, January-February 1953, pp. 97-110, Collins, Frank, "The Interaction of Budget Characteristics and Personality Variables with Budgetary Response Attitudes," *The Accounting Review*, April 1978, pp. 324-335, or Collins, Frank, Munter, Paul and Finn, Don W., "The Budgeting Games People Play," *The Accounting Review*, January 1987, pp. 29-49.
2. This research project was conducted with the cooperation of the National Management Association and the cooperation and financial support of the Planning Executives Institute.
3. Questions used in this survey were developed by Johnson, R. D., "An Investigation of the Interaction Effects and Motivational Variables on Task Performance," unpublished doctoral dissertation, Indiana University, 1970; Rizzo, John R., House, Robert J., and Lirtzman, Sidney I., "Role Conflict and Ambiguity in Complex Organizations," *Administrative Science Quarterly*, 1970, pp. 150-163; and Collins (cited earlier).
4. Johnson, R. D., Ibid.
5. Correlation coefficients indicate whether there is a relationship or correlation between the occurrence of different factors, e.g., there is a strong positive correlation between rainfall and having a cloudy day. The strength of the correlation is shown by correlation coefficients which range from +1.0 to 0 to -1.0. A correlation coefficient of +1.0 would indicate that when event A occurred B always occurred while a coefficient of -1.0 indicates that when A occurs B would not occur (and vice versa). Coefficient scores between +1.0 and -1.0 indicate varying degrees of correlation.
6. For a discussion of role concepts see Katz, Daniel and Robert L. Kahn, *The Social Psychology of Organizations*, 2nd. edition, (New York, Wiley, 1978).