

Perceptions About the Creation of Budgetary Slack in a Participatory Budget Process

Abstract

Based on an empirical-descriptive research, this study is aimed at analyzing the theme budgetary slack from a rhetorical viewpoint, within an interpretive approximation approach, using a case study. It offers an alternative view to positivist research, where everything that is developed in organizations is strictly rational; in addition, it unfolds what has generically been called reserves, as if it were a “black box” in which everything is the same and should be treated as such. A large organization was chosen, including the complexities, needs and tensions that entails. Three main findings derive from this research. The first is the biased understanding of slack as something that is to be avoided, and also something essential for management, that is, when it exists, it benefits the organization. The second finding is that the negative understanding about the existence of slack is accompanied by the denial of its existence. The third finding is that the argument for the non-existence of budgetary slack is based on the structure that considers information system, targets deriving from the strategies and intensive involvement of top management, which would inhibit its constitution. Therefore, organizations need to treat the budgetary slack as something to be managed instead of simply avoided.

Key words: Management Control; Budget; Budgetary Slack; Discourse Analysis.

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1. Introduction

Corporate management demands a formal planning and control structure to permit the development of operations, performance monitoring and even executive remuneration. In that sense, strategic planning, corporate budget and the Balanced Scorecard (BSC) serve as support tools (Ferreira & Otley, 2009; Merchant & Van der Stede, 2007; Frezatti, Rocha, Nascimento, & Junqueira, 2009). In more stable environments, the budget is more appropriate than in environments marked by high volatility and risk levels (Chenhall & Morris, 1986). No literature source indicates that the budget is not used in more volatile environments, although it is acknowledged that its efficacy can vary in function of the evolution in countless variables (Chenhall & Morris, 1986; Miles & Snow, 1978).

In this respect, the literature hardly advances towards questioning the adaptations the professionals develop to use the budget. After all, this artifact is not compulsory and its concept and use are not the same. According to Jensen and Meckling (1976) and Lambert (2006), the Agency Theory demands a coordination instrument with planning goals, but the degree of formalization, range and satisfaction are legitimized by each entity's management model. Agency theory simply recognizes that instruments are demanded, but does not indicate how they should be structured or made available.

One of the most questioned elements with regard to the formalized budget in organizations is the budgetary slack, focused on from a wide range of perspectives. In that sense, budgetary slack can be seen: as a value to cover for uncertainties (Thaten, Mahlendorf, & Skiba, 2010); an ethical issue (Hobson, Mellon, & Stevens, 2011); a result of the pressure of the budgetary system (Marginson & Ogden, 2005); as a reaction to the organization's remuneration policy (Leavins, Omer, & Vilutis, 1995). By presenting a combination of different paradigms (Covaleski, Evans, Luft, & Shields, 2003) some of the criticisms of reserve budget stems of different understandings. In a simplified sense, the main criticism against the existence of budgetary slack is the loss of a performance reference framework that is accepted as appropriate in organizational performance. Although budgetary slack can be defined in different manners, in general, it corresponds to higher spending than what is "appropriate" and lower revenues than the most "appropriate" or expected.

2. Problem and Research Question

Some alternative treatments for slack are possible and one of them is to treat the theme more flexibly. That is possible through budgetary reviews (Hansen & Van der Stede, 2004). Consequently, results are altered, targets may be adjusted and the partners' expectations may have changed a lot. In doing so, the instrument loses its stability in the relation between executives and partners with regard to commitments, representing a problem for the agency process. From the executives, the partner expects compliance with his targets, even if the (internal and external) environment is volatile or even aggressive. The agent is expected to give the best of himself in the activities he was granted with and to produce the promised results.

How to deal with that if flexibility is not present? On the executive side, behavioral issues are enhanced: i) How will I be assessed? ii) If the external environment changes, how will I get resources to act? iii) Will my ability to recover be better than my peers? iv) How will my performance influence my career and evaluation?

The study by Yuen (2004) demonstrated that these tensions make executives create budgetary slack for their protection. This clearance does not allow the organization to set effectively challenging performance levels and, at the same time, grant protection for the executives to be able to maintain their targets in case of higher spending or lower revenues. Slack can be established with or without the consent of higher levels and, in the worst-case scenario, they remain unknown.

The budget has been discussed in different ways in the literature but, in general, research is highly critical of the process and questions its components. Among these elements, the budgetary slack is one of the most questioned (Hartmann & Maas, 2010; Davila & Wouters, 2005; Hewege, 2012; Merchant & Van der Stede, 2007). Most studies are concerned with showing the slack and its undesirable effects on management. The indication of solutions for problems the slack create is even scarcer though (Frezatti, Relvas, Junqueira, Nascimento, & Oyadomari, 2010).

As perceived, although the definition of reserve can be something relatively simple, in its materialization and consequent treatment, different perspectives or epistemological branches can be taken into account. These branches depend on how researchers consider the world in terms of reality, which makes the theme highly conducive to criticism and less in terms of proposed solutions. Consequently, one additional difficulty appears, as the literature is highly fragmented and not always epistemologically aligned.

That is a relevant opportunity, as the discussion about the establishment and existence of slack lacks a comprehensive theoretical construct to analyze and permit a further understanding of the phenomenon. Thus, the research question that guides the study is: *should we avoid or understand and manage the constitution of budgetary slack?*

This study intends to contribute in two ways, which are: to investigate the different types of understanding about budgetary slack or which can be produced, as well as to advance in the understanding of their antecedents. Therefore, the research will be developed as an alternative to the approach that is predominantly proposed in the literature, to the positivist approach, which considers that the budgetary slack is a problem and takes that for granted, in other words, how to avoid the problem without questioning whether it is a problem or not. To capture elements that can be considered alternative, the interpretive approach will be used.

3. Literature Review

The literature review can be divided in four elements: (i) management control, (ii) budget, (iii) budgetary slack and (iv) budgetary slack construct.

3.1 Management control

Based on the definition by Anthony (1970), the management control process valued management accounting, as it started to be considered as part of “a set of activities developed to guarantee the achievement of management plans” (Anthony & Govindarajan, 2008). In this perspective, the company strategies are valued and a given structure, set of artifacts, routines and procedures are developed in an organization. The set of artifacts can vary and aims to attend to relevant functions of the organizational management model, but the most mentioned are strategic planning, BSC, budget and budgetary control (Frezatti et al., 2009). The development of these artifacts in the organizations follows a hierarchy and order and their structure is related to how managers develop their activities.

The relation among the artifacts, hierarchy and order is expected to provide some level of alignment that permits efficient and effective organizational management. This set of artifacts, according to Malmi and Brown (2008), can be seen as packages and relate the organizations’ different (cybernetic, administrative and socio-ideological) control systems, so that remuneration and acknowledgement derive from these elements. This relation, which can vary in terms of the existence of artifacts, range and even the way they are used, at the same time provokes and balances the organizations’ different tensions in the execution of their activities.

3.2 Budget

Recognized based on its combinations as the organizations' financial plan, the budget derives from the strategic planning, is related to the BSC when it exists in the organizations, and is followed through the budgetary control (Frezatti, 2007). It can be used for different goals and in a combined manner, such as activity planning, coordination and organization, resource allocation, employee motivation and expressing compliance with social standards (Covaleski et al., 2003). In turn, the following motives can be found for the presence of a budget in organizations. Hansen and Van der Stede (2004) mention: operational plan, element for performance assessment, instrument to communicate objectives and strategy formation. In other words, an instrument with many nuances and potential conflicts over time, in the hierarchy and even in the direction. After all, if the instrument points towards the future, considering the strategies and, at the same time, demands the setting of targets to be used to assess the performance of areas and people, the potential conflict exists at the origin. The tensions and interests need to be treated, managed for the instrument to be used in organizations' internal conflicts. Hence, when people put a strategy in practice in a target, there is nothing more natural, in case of any doubt in view of uncertainties, than to choose a target that does not impair them.

The participation in the elaboration and charge for budgetary results is the starting point, given that, without participation, if it is developed top-down, the discussion about slack makes no sense. Anyway, participation is not a theme that can be developed in a binary sense, that is, either it exists or does not exist (Kenis, 1979), influencing the planning process. In view of the participation perspective, to some extent, various conflicts arise when targets are set which, once approved, need to be pursued, achieved and rewarded (Covaleski et al., 2003). The tool itself entails the expectation of control, which some call the illusion of control, due to the fact that the artifact itself does not provide control, but creates this perception (Rosanas & Velilla, 2005).

The expectation of rational activity, aligned with the agency theory, in a participatory planning environment, is that the targets contain challenges and are achievable (Welsch, 1986). This way of looking at the relationship between people and things is highly relevant for the organizational perspective and its causal relations. As the construction of the budget is a combination and one of the perspectives is to have an artifact that pursues increased efficiency, having a budgetary slack may mean a loss of information that represents the optimization of results. On the other hand, identifying a reserve is not an easy task when living in an environment of change and uncertainty.

3.3 Budgetary slack

The way a company gets structured, plans, allocates and uses its resources to achieve its objectives is discussed in Management Accounting literature from different foci and perspectives, with a predominance of the positivist approach. Research on resource slack is highlighted, as discussed in the studies by Mohamed (1973), Bourgeois (1981), Merchant (1985), Cheng and Kesner (1997), Tan and Peng (2003) and Chen and Huang (2010).

Departing from the economic model, Mohamed (1973, p. 535) defines resource slack as "the difference between the total resources a company has at its disposal and the total needed to maintain the organizational coalition". In this sense, Merchant (1985) highlights the budgetary slack as an important reserve modality. Understanding the definition of this reserve modality spans the fact that its emergence is directly related with the organizational process of resource allocation, specifically its imperfections (Mohamed, 1973).

According to Covaleski, Evans, Luft and Shields (2003), one of the many goals of the budget is resource allocation, together with the planning and coordination of organizational activities, the motivation of employees and the establishment of social standards. Thus, the budgetary process, its aspects, particularities

and configurations, represent a broad research area on this phenomenon, ranging from the characteristics and motives to create budgetary slack to the applications and specific relations of this practice, indicating academic and organizational interest and concerns (Merchant, 1985; Yuen, 2004; Davila & Wouters, 2005).

Departing from this retrospective, in Figure 1, the definitions of budgetary slack surveyed in the literature are presented, aiming to establish the concept and then outline the theoretical and empirical perspectives verified in the literature review.

Definition	Author(s)
"Budgetary slack is defined as the amount by which a subordinate understates his productive capability when given a chance to select a work standard against which his performance will be evaluated."	Young (1985, p. 831, our italics)
"Budgetary slack-which can be defined as the excess of the amount budgeted in an area over that which is necessary."	Merchant (1985, p. 201, our italics)
"Budgetary bias is defined as a deliberately created difference between the budgeting actor's forecast about the future (" honest budget estimate"), and his or her submitted budget figure (budget proposal)."	Lukka (1988, p. 282, our italics)
"Slack may be defined as the intentional underestimation of revenues and productive capabilities and/or overestimation of costs and resources required to complete a budgeted task."	Dunk and Nouri (1998, p. 73, our italics)
"Slack involves the consumption of organizational resources by employees in excess of what is required, that is, consumption of resources by employees that cannot be justified easily in terms of its contribution to organizational objectives."	Merchant and Van der Stede (2007, p.185, our italics)
"Budgetary slack is created when a subordinate understates their capabilities or the capabilities of a business unit in their budget."	Hobson, Mellon and Stevens (2011, p. 88, our italics)
"Defined as the difference between the budgeted resources and the resources required to efficiently achieve goals."	Kilfoyle and Richardson (2011, p. 186, our italics)

Figure 1. Definitions of Budgetary Slack

Source: Developed based on the reviewed literature.

What is noteworthy in all references is that the manager is awareness and rationally able to **perceive** that an under- or overestimated amount has been considered in the budgetary process. This can be verified by the use of the words: "underestimate", "surplus to what is necessary", "deliberately created", "intentionally created", etc. The logic of the rationality that is considered takes into account that managers establish the reserve consciously and could not do this. That is a relevant discussion: would he have the chance not to do it? Without an approach that permits contact with the managers, any advance in this discussion becomes limited. That is the motivation to seek a paradigmatic alternative that provides a different look from what is offered by the positivist rational perspective.

3.4 Budgetary slack construct

The definitions of budgetary slack cited in the previous item strengthen the development of the theme in the accounting literature and its intrinsic association with motivations for the creation of this slack, showing to be a key point in the discussion. As perceived, four dimensions should be considered in the discussion of the slack and are supported by the literature:

- **The existence of the slack:** underestimate revenues and overestimate gains;
- **Intentionality of the action:** was deliberately produced, independently of the benefits it creates;
- **Reasons for the creation of the slack;** and
- **Benefit of the action:** it can exist or not.

The first element, the existence of slack, can be discussed *a priori*, although under- or overestimating a given target would have to be oriented by some reference (Young, 1985; Lukka, 1988; Dunk & Nouri, 1998; Hobson et al., 2011). What and where would that reference be? In the past, present, future? Would it be internally or externally available? If in the past, it dismisses the whole perspective of the planning definition itself, characterized as an “anticipated decision” (Welsch, 1986). If the future simply repeats the past, which is not the most characteristic, it can be a plausible alternative; if not, this should not be the comparative perspective. Anyway, the power of the past, historical reference is undeniable, due to the fact that it is understood as “objective”, that is, something that has already happened. It is or was part of the reality the organization experienced and is recognized as such. Hearing the manager to understand if he believes that slack exists is relevant, because it is the first step to analyze the creation is intentional, why the slack is made and also the impacts generated.

The second element, deriving from the first, is difficult to treat because it is extremely subjective (Young, 1985; Lukka, 1988; Dunk & Nouri, 1998). How can we know if the managers intentionally under- or overestimated targets? Hence, the premise is accepted that, if a benefit exists, the reserve was consequently intentional. The fact that a remuneration system exists that remunerates those executives who achieve certain targets makes the intentional be seen as latent, as possible. The acceptance of the intention presupposes that conditions exist: a clear understanding about the construction of the targets, availability of information, information systems, clear conceptual and practical knowledge, besides an appropriate planning structure in terms of timetable, training and organizational structure (Frezatti, Nascimento, Junqueira, & Relvas, 2011). If these conditions are not met, one may say that it was unintentional, but due to ignorance, lack of the minimal time needed to get better information, etc.

Anyway, some of the authors cited do not worry about the lack of conditions, given their ontological position: the fact that under- or overestimation exists should not occur, independently of possible causes. It would be something similar to saying that what is planned “has to happen”, as if the environment experienced were perfectly predictable, as if communication were more than appropriate and as if the managers’ level of knowledge were as high as possible. It is no wonder that this branch is unable to advance in the knowledge about the establishment of slack, as it is not concerned with causes beyond the purest rationality. The research by Covaleski et al. (2003) has contributed to a better understanding of existing tensions in this environment, combining rationality (economic perspective), motivational issues (psychological approach) and power (sociologic approach). This set permits understanding that the different approaches come with mutual influences inside the organization.

The third element, the reasons to develop a reserve, can offer several possible responses, such as: (i) the pressure deriving from top management to achieve the growth of the annual earnings in the budget (Mohamed, 1973); (ii) as a hedge against the uncertainty (Mohamed, 1973; Merchant, 1985; Nouri, 1994; Leavins, Omer, & Vilutis, 1995; Davis, Dezoort, & Kopp, 2006); (iii) organizational structure and budgetary control, participation in the budget and information asymmetry among stakeholders, discussed, for example, in the studies by Bruns and Waterhouse (1975), Kenis (1979), Merchant (1985), Young (1985), Brownell and McInnes (1986), Lukka (1988), Chow, Cooper and Waller (1988), Dunk (1993), Leavins, Omer and Vilutis (1995), Yuen (2004); (iv) the information asymmetry, on the other hand, is seen as a variable that directly influences the creation and proportion of this slack (Dunk, 1993; Yuen, 2004), (v) the decentralization level of an organization (Leavins et al., 1995); and (vi) inappropriate communication (Yuen, 2004, p. 520). A range of motivations is indicated for developing slack, deeply related to the organizational configurations and arrangements.

The fourth element, the benefit of the slack, is intrinsically related to the managers’ remuneration (Mohamed, 1973; Leavins et al., 1995), although it is not the only type of benefit. Thus, the literature indicates that, when the budgetary performance is linked to the organization’s reward system, the managers (agents) are motivated to create slack in response to the expectation of a reward for the achievement of their targets, that is, with a view to improving their remuneration perspective (Brownell & McInnes, 1986; Dunk, 1993; Leavins, Omer, & Vilutis, 1995; Yuen, 2004; Church, Hannan, & Kuang, 2012). The manager’s opinion about the possible benefits or not of the budgetary slack.

4. Method

Rhetoric is the base of this research's methodological structure and the understanding of the organizational discourse based on its argumentative configuration is the form used to capture the information needed for the analysis (Giddens, 1979; Fairclough, 1992; Torfing, 1999; Dittrich, 2008; Kakkuriknuuttila, Lukka & Kuorikoski, 2008; Carrieri et al., 2009; Moizer, 2009).

As the background to structure the analysis, the rhetoric of the organizational discourse is used, focusing on the technical, emotive and representational arguments (Dittrich, 2008). In Figure 2, the intended dimensions are delimited, their respective descriptions based on the literature review and the example of their characterization in the analysis.

Dimension	Description	Characterization in the analysis
Technique (rationalizing)	Order of knowing and understanding; Technical precepts that lead to an understanding about the opinion and justifications underlying the discourse; Answers the question: why is the opinion credible?	Subject 1: "We analyze the percentage of the direct cost in relation to the net revenues, for example, and even the board of administrators, board of directors and management monitor this."
Emotive	Order of sensitizing and attracting; Evidences the reasons that make the arguments good, why it is worth it in the end to assume them, and what are the benefits of adopting them? Answers the question: why does it deserve to be adopted?	Subject 3: "The practice is tolerable in some circumstances and is recommendable so as not to take risks. Working Saturdays or Sundays to achieve a target may come with an additional cost. It is a safety margin to make advantage of father's day sales, for example, which is a higher target."
Representational	Order of believing and legitimizing; Treats the preliminary <i>ethos</i> – institutional or personal – that is, the constitution of a discourse capable of conquering the interlocutor's trust; Answers the question: why does it deserve trust?	Subject 3: "Intent to establish the slack, it is a matter of art that, depending on the level of the employee, is inadmissible".

Figure 2. Application of rhetoric as research methodology

Source: Developed based on Dittrich (2008)

According to Dittrich (2008, p. 35), in an argument "the technique is for rationalization what emotiveness is for sensitivity and representation for reliability". In this sense, through these three dimensions, the intent is to analyze the nuances of the discourse related to the budgetary slack in the company under analysis.

The methodological structure considers the general case study guidelines proposed by Yin (2005), a directional approach in terms of contribution type, discussed by Keating (1995), and structured using rhetoric and the interpretive approach discussed by Alvesson (2003).

The methodological aspects that need to be specified for the research are: (i) case study, (ii) data collection and (iii) interview structure.

4.1 Case study

As this is a complex theme that can be treated within different paradigms, involving people at different levels, the case study method is appropriate (Yin, 2005; Kakkuriknuuttila et al., 2008).

The research company, in turn, needs to possess: (i) size, (ii) complex operations, (iii) some level of participation of the executives in the non-exclusive planning and control model at the top of the pyramid, (iv) existence of planning and control artifacts for the purpose of coordination, definition of corporate objectives, operational and referential planning for performance monitoring and feedback.

4.1.1 Description of the company

The selected company has a 55-year-long history and is active in the textile sector. For the sake of further characterization, it is highlighted that the company has approximately 2,300 employees, distributed across six units in Santa Catarina, Paraná and São Paulo. What the property and control structure is concerned, the company is a closed corporation, under the control of the family that founded the business, which currently holds the family management, concentrated in the second generation.

This company was selected to investigate the budgetary slack creation phenomenon because of the maturity of the company and its management controls, specifically the use of the budget. Access to the organization is also highlighted as an extremely important factor in an in-depth study.

4.1.2 Organizational structure and location of the respondents

The company's organizational chart is presented in Figure 3, demonstrating the hierarchy of the study participants.

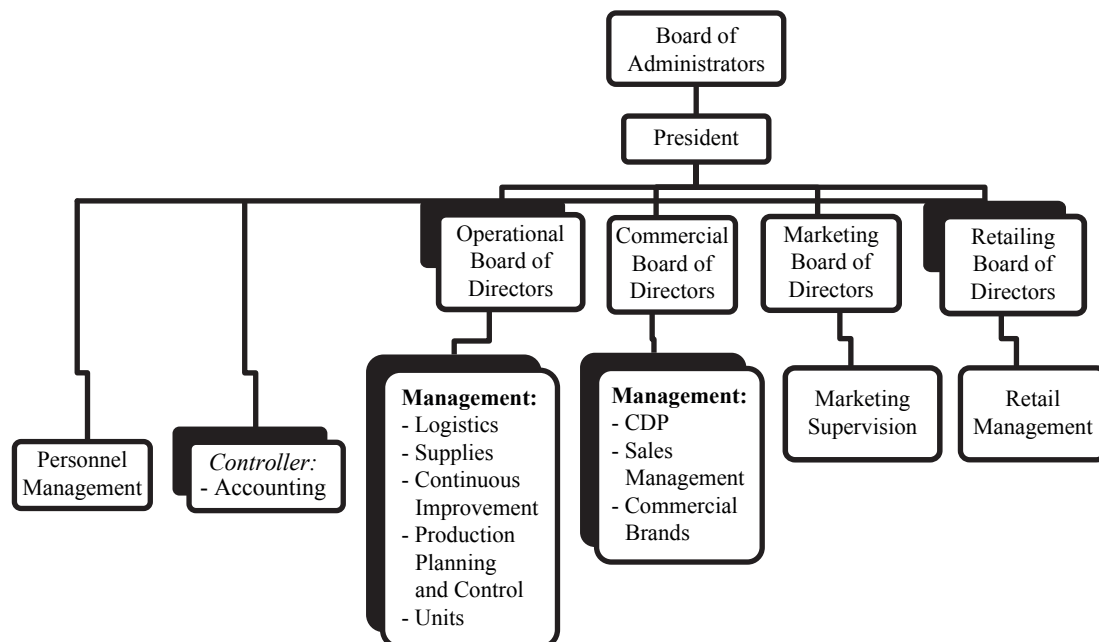


Figure 3. Formal Organizational Chart on 12/31/2011

Source: Adapted from the company's Sustainability Report 2011.

The required respondents are the executives involved in the planning process and who can influence and be influenced by the slack. The fact that there are respondents from different levels and functional areas permits understanding relevant elements of the organization, adopting the saturation approach, which validates the discourse perceived. In the company's organizational chart, these are: Board of Administrators, President, directors, managers who account to the directors, and area supervisors. Within the company perspective, the following executives were interviewed:

- Subject 1 = Director of operations;
- Subject 2 = Continuous improvement manager;
- Subject 3 = Retail director;
- Subject 4 = Controller;
- Subject 5 = Accountant;
- Subject 6 = Manager of sales management;
- Subject 7 = Product development manager (CDP).

The respondents were chosen (directors and managers) because they are linked to the strategic planning and budget artifacts. In the specific case of the managers, this is the level that elaborates the budget and discusses with the director. The levels below them do not participate in the process. On the other hand, executives from different areas were chosen in order to verify the different perceptions and behaviors related to the budget, specifically regarding the budgetary slack.

4.2 Data collection

Various data collection mechanisms were planned. The search for information through documents, media and the company website is highlighted. In addition, preliminary interviews were held, followed by specific interventions about the budgetary slack.

4.2.1 Data collected from files and website

These data relate to general information about the company, available for public access, serve for the researchers to understand the organization before a more in-depth access. The use of the sustainability reports for 2011, 2010 and 2009 is mentioned, made available by the company, as well as the media and information identified on its website.

4.2.2 Preliminary interviews

The interaction took place through non-structured interviews with four executives, the director of operations, controller, accountant and financial analyst. These interviews were aimed at understanding the backbone of the budget. Information was collected to enhance the understanding about the organizational management model, the way of working and the role of the budget in the organization. Based on the interviews, one may say that:

- The management model involves at least two levels below the presidency (Leavins, Omer, & Vilitis, 1995).
- The planning and control artifacts exist in the organization: strategic planning, budget, BSC, budgetary control, variable remuneration system (Hansen & Van der Stede, 2004).
- The functions demanded by the management model were identified and are fulfilled by the artifacts, in accordance with Figure 3 (Hansen & Van der Stede, 2004).

The company is going through a growth period in which the employees have surpassed the targets. The way planning and control are applied in the company is shown in Figure 4:

Description	Coordination	Operational plan (with company objectives)	Reference framework for monitoring and feedback	Instrument for strategy implementation
Strategic planning	Mainly commercial for the long term	-	-	-
Budget	-	Brings a unique perspective for the entire company	Takes into account the goals defined in strategic planning	Implements the decisions of the strategic planning
Investment budget	Derives from strategic planning analyses	-	Monitored monthly	-
BSC	Exists, but partially	Exists, but partially	Exists, but partially	Exists, but partially
Budgetary control	-	-	Occurs monthly	-

Figure 4. Specification of Functions Demanded by the Management Model

Source: Developed based on Hansen and Van der Stede (2004).

The interviews confirmed the existence of strategic planning, budget and monthly budgetary control. The internal jargons are very fitting and exemplified: result contract, management group, etc. The long-term horizon of three years is aligned with the five-year long-term planning instrument. It was clear that the strategic planning involves the board of directors and subordinated management, and that the budget derives from its set-up. The word integration among the elements was strongly emphasized.

Some autonomy exists at the level of the board of directors to define its budgetary expenses, primarily focusing on: (i) personnel, (ii) general spending and (iii) area investments. The spending analysis perspective takes into account (i) past events, (ii) need for spending deriving from present time (baseline) and (iii) future demand in function of growth. The budget is linked to the company's remuneration plan, considering the strategic planning targets, applied to the company as a whole, without controlling its compliance in the company departments through budgetary monitoring. They do not perceive the budget as a cast instrument, as growth has exceeded planning, but see it as an indicator, as it needs to be adopted in function of growth. It is set up through cost centers with their different accounts, through an accounting system that is crossed with the integrated system.

The budgetary analysis focus is the contribution margin per brand, containing the product groups and groups of representatives and clients. The existence of participatory and reflection mechanisms (baseline instrument for some elements) entails the perception of a logically constructed and discussed instrument, in which the perpetuity of an expense is not guaranteed.

Any budgetary changes are decided on by the management group, which monitors the events. The different interviews were consistent. The targets are unfolded into sales, with a particular projection method and industrial plan, whose method is segmented into the long, very long and short terms. It was expressed that there corporate indicators, area indicators and that the elements reach the professionals.

The management group approves the proposed targets. They take into account: it has to be specific, be relevant, timely and feasible (challenging but achievable). The board of directors level did not admit the existence of budgetary slack in the projections and the controller considers that they do exist.

4.2.3 Interviews focused on slack

These involved the directors, managers accountable to directors and other executives involved in the corporate budget process. In the conduction of the field research, the elements surveyed earlier were considered, as detailed in Figure 5.

Elements	Description of questions
Existence of Slack	How can we translate what it means for the managers to underestimate revenues and overestimate expenses? Understanding the managers' discourse implies understanding the possible parameters that are considered.
Intentionality of the action	How does the superior assess the existence of intentionality? What is his reasoning?
Reasons to create the slack	What are the main reasons to create budgetary slack? Did the respondents mention the reasons cited in the literature?
Benefit of the action	May exist or not, or what benefits can be gained from the existence of slack?

Figure 5. Conduction of interviews focused on slack

Source: Developed based on the research literature

4.3 Structure of the interviews

Some questions are due with regard to the preparation and execution of the interviews. The main preparation points for the interviews were as follows:

- Knowledge about corporate operations, considering the location, history, main activities, company messages to the external context.
- Definition of respondents and negotiation with the company. The entry door for the research team was the company presidency, based on a contact during a college lecture; the president understood and cooperated with the researchers to permit access and direct the team to the company's controllership department, which guided the forwarding of the research.
- Ethical research protocol. Was presented to the executive, who admitted further activities. The protocol was signed by the researchers and the company representative, authorizing the development of the study, access rules, commitment to keep the company and interviewees' names confidential and commitment to present feedback at the end of the study.
- Preparation regarding the jargon used. Concerns with the terminology used in terms of areas, management artifacts, gains, spending, costs, earnings, expenses, etc.
- How to conduct the specific interviews about the slack. The questions were orientations to dialogue about the managers' rationale in terms of understanding, activities and meaning for the persons. General questions were asked to discover the managers' understanding and, depending on their answers, further elaborated to enhance the understanding of the discourse.

It is highlighted that the interviews were recorded with the company executives' consent and sequentially identified (for example, r1D1, recording 1 with director 1).

5. Analysis and Discussion of the Results

The analysis took into account the structure specified in the presented construct: (i) the discourse that permeates the organization, (ii) the examples of this discourse regarding the rhetoric, in its technical, emotive and representational dimensions; and (iii) the literature that supports the analysis. Figure 6 identifies the relationship among the agents (board of administrators, board of directors and managers), the instruments used and the discourse captured in the organization, according to construct proposed.

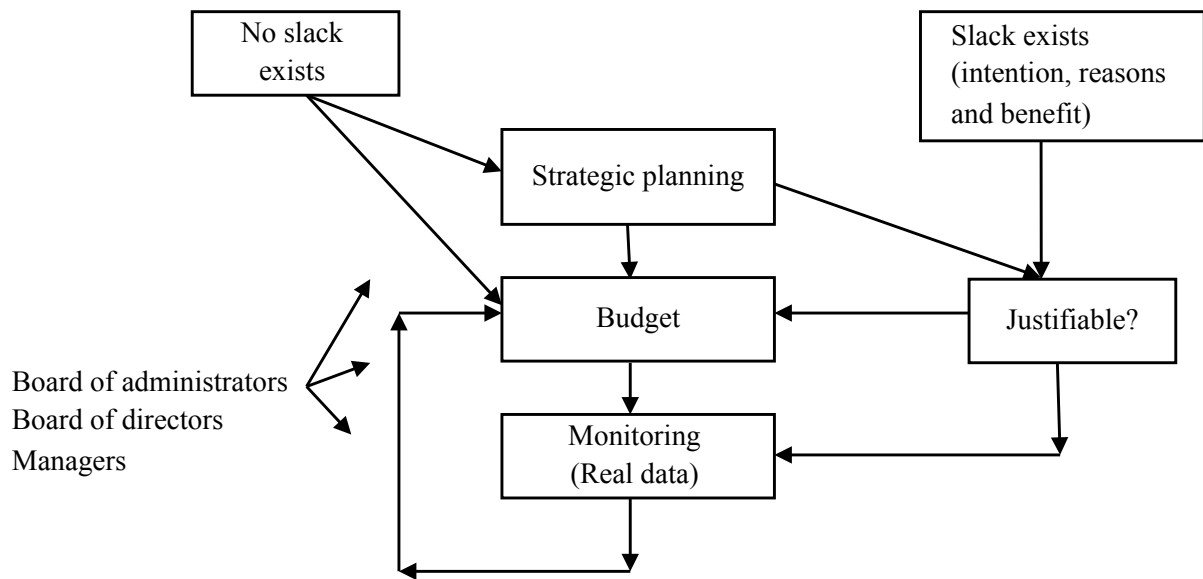


Figure 6. Summary of Elements Treated

Source: Research data.

Figure 6 serves to identify the relation between the elements captured in the discourse. In that sense, the analysis was structured to capture the reality from different views, in the four elements of the construct. Thus, the results are explored in detail.

5.1 The existence of the slack

The interviewed executives' discourse was characterized as assertive and relatively aligned, with few metaphors and metonymies. Two approaches are perceived, which coexist at the different levels: (i) non existence of simple slack, identifying projections of "realistic" targets or (ii) its existence justified as a guarantee to achieve higher organizational targets:

Subject 1: "... we try to adopt a realistic view, neither pessimistic nor optimistic when elaborating the budget."

Subject 2: "The managers do not usually put some extra into the spending"

Subject 3: "The practice is tolerable in some circumstances and is recommendable so as not to take risks. Working Saturdays or Sundays to achieve a target may come with an additional cost. It is a safety margin to make advantage of father's day sales, for example, which is a higher target."

In the discourse of the respondents who do not acknowledge the existence of budgetary slack, this belief is strongly linked with the view that it can be perceived as something objective, that executives can perceive whether a target is realistic or not. This happens by comparing it with a combination of past data and future decisions. Another view considers the perception or not of whether a budgetary slack is constituted as simply "art", analyzing it much more as a consequence of the situation risk perceived, depending on the area that deals with the budget. This metaphor indicates how difficult it is for someone to constitute it on purpose:

Subject 3: "Intent to establish the reserve, it is a matter of art that, depending on the level of the employee, is inadmissible".

Subject 4: "The targets have to be challenging as a natural sense of live... provided that they are feasible".

The existence of mechanisms legitimizes the figures of the budget. In this respect, the argumentation, the justification is fundamental to perceive the existence of the budgetary slack and its acceptance or not. There was not much interest in discussing whether the targets would be challenging or not, as the combination between what was achieved in the past and the strategies solved that matter. If the budget was approved, that is because it is appropriate and aligned with the strategies.

The perceived non-existence of slack derives from the belief in the objectivity of the organization's management model, based on: (i) the fact that the budgetary targets derive from the strategies previously defined by the management group, which legitimizes the spending, as it has been approved, (ii) the range of the budget discussions, involving the board of administrators, the board of directors and the management, that is, it is very exhausting to be caught on a slack that cannot be explained, (iii) the very strong practice of using past data for things in which the future is no different, (iv) the analysis to assess whether adequacy exists in terms of indicators, that is, if the financial mold is not appropriate, the value is not approved. The entire construction of the discourse is rational in the sense that mechanisms exist so that there is no slack. The evidences are as follows:

Subject 1: "Assesses based on the history, on the cost, on the strategic planning... the global targets give rise to the targets, which were defined in advance, and not the operational view."

Subject 1: "The transformation of the strategic targets into budgetary targets comes from management. They involve the board of directors and the board of administrators."

Subject 2: "...we are very serious in the elaboration of the budget. We are questioned by the area director, president and board. Everything has to be justified. If the director considers that there is some extra spending he orders to cut it."

Subject 2: "Establish a slack, as a trick only, because, if the budget is well done, there is no need for slack."

Subject 1: "We analyze the percentage of the direct cost in relation to the net revenues, for example, and even the board of administrators, the board of directors and the management monitor it."

Subject 3: "I use the history, the market and the innovation as a reference."

Subject 3: "To identify it, you use the evaluation of the budget, item by item, due to lack of knowledge, orientation, understanding the person makes a budget that is not appropriate. Asks more air conditioning without knowing that a machine is available somewhere else. Or the allocation of travels that can be replaced by teleconference or another form. The analysis item by item can identify opportunities."

Subject 4: "there are parameters to know whether slack exists: history, standards or excellence. The discussion of processes: if you want to cut costs, you need to analyze processes."

Subject 6: "...look behind you but see what is necessary further ahead. The method is the baseline budget... attempt to be as realistic as possible... underestimation and overestimation will cause some problem in the production chain... we have periodical reviews."

Subject 7: "...we present the budget and there is a negotiation. Why did I establish that value? It is very difficult not to be accepted if it has been argued. Then, the document is signed by the manager and the director."

Subject 7: "What was last year's scenario like; if it is going to repeat itself, I follow the trend; if there are differences, I make adaptations."

Subject 7: "We have four or five targets that serve for all managers and, if they are not complied with, we are charged. If you did not reach the real this year, they won't let you next year."

The belief in the set of mechanisms of the management model creates the feeling that the slack does not exist. The use of the baseline budget with its discussion process probably collaborates in that direction. It is as if the "correct" figure were something fully identified, taking into account that there is a reference, which is the past. Transparency creates the perceived legitimacy of the approved figures. Otherwise, action is needed to correct the budget in case of problems with the targets and, thus, the "right" to spend what was asked. The belief that planning and making actions happen is possible is part of the discourse:

Subject 1: "...if I only need 10 employees, I cannot have 12, I'll have 10 and that is monitored the whole time."

Subject 2: "...this evolved a lot. There is a very great information exchange and the commercial part knows what happens to us and vice-versa. We know each other's difficulty, in all areas. We look for a budget that is lean and fair for the company and the unit manager."

Subject 4: "...there needs to be a method. If the market potential is 200 pieces, I need to project 200 and not 400."

Subject 5: "I believe that the lack of clear planning, market uncertainties and inflexibility to accept errors are potential reasons that can lead to the creation of slack in the budgetary targets."

Subject 6: "Overvaluing the budget due to one simple mistake. I don't like it... You can only apply it when there is no information base. I don't see how it can be applied for any other reason."

Subject 6: "... in the discussion, we present evidence of what we need to spend".

Subject 7: "The guy who knows how to make the budget will neither underestimate nor create a 'fat' budget. Saying you're gonna spend five million and spend three makes no sense...if it has been budgeted it can be spent; if it has not been budgeted you have to ask for it."

Although Merchant and Van der Stede (2007) affirm that it is improbable that they do not exist, in relation to the literature, the reference to know whether slack exists is very important and derives from the information system that grants visibility and transparency, at the different hierarchical levels (Young, 1985; Lukka, 1988; Dunk & Nouri, 1998; Hobson et al., 2011). This factor reduces, if not eliminates the information asymmetry among the hierarchical levels (Merchant & Van der Stede, 2007). As a result of this combination, what is accepted is understood as not impregnated with slack; if they exist, they are justified because they are necessary. Thus, once the strategies are known, the managers establish their targets, define resources and justify them. As a result of this top-down legitimation process, the efficiency discourse is "materialized" for a profile of managers, in the sense that there is no slack, as they feel convinced that the resources are needed at that level or that the revenues are possible at that level.

In that sense, the illusion of control, discussed by Rosanas and Velilla (2005), is present, as the availability of information about the past and the strategies defined for the future makes the managers feel safe, even if the bridge between past and future is a set of figures and arguments.

5.2 Intentionality of the action

Given that the belief that, in these conditions, the perceived need for and utility of the slack is also legitimized, justified as a way to reduce the business risk. It is considered a way to support a greater objective. According to Merchant and Van der Stede (2007), the benefits of this type of slack are the reduction of the internal tension in view of the change in the budget targets increases the chance that the managers will accept changes when they are confronted with moments of change and enables them to have resources in unexpected situations.

There is no slack because of the mechanisms of the management model. If they do exist, they will be intentional and not hidden, but shared. If they emerge beyond these conditions, there are mechanisms to detect and exclude them. The evidences are as follows:

Subject 1: "It is difficult for a subordinate to produce a slack unintentionally because the whole budget is set up based on the past and projects the future. Each director assesses the budget in his area. The historical margin permits no margin."

Subject 4: "it is natural for the human being to protect himself. In some cases due to a lack of information and, in others, to protect himself. There are questions for that, taking the processes into account. To avoid this, controllership applies its screening, the board can give orientations for a 10% cut for example".

The issue of participation in the discussion about the reserve, eliminating the alternative that it is unilateral, is dosed, as it cannot always be shared with all levels, due to some kind of tension:

Subject 1: “Some targets can be shared and other cannot be shared due to the effect on the lowest hierarchical levels”.

Capturing the intention to establish a reserve (Young, 1985; Lukka, 1988; Dunk & Nouri, 1998) was declared in some cases, but was strongly related to the world of perception and judgment. The fact that there is no link between achieved targets and rewards grants a different perspective: if there is no direct financial benefit for the executive, why establish a slack? It was mentioned that there might be benefits for the organization, which makes it easier to discuss the theme.

This case shows that the asymmetry mentioned does exist, as the employee has more information available than the hierarchical superior (Merchant & Van der Stede, 2007). On the other hand, the hierarchical superior has information that is not shared with the subordinate. This can provoke a feeling of mistrust that justifies the creation of a budgetary slack, aiming for protection against possible tensions, thus representing a security margin and/or comfort zone.

5.3 Reasons for the creation of slack

It was admitted that slack can be created in the budget in case of investments when, **so as not to lose a growth opportunity**, an investment value is put forward in relation to which there is not much certainty whether it will truly be demanded. The literature discusses this kind of action in the sense that the managers are allocating resources to optimize the company’s results (Mohamed, 1973), without any individual benefit. On the other hand, it was argued that monitoring performance would permit upward or downward adjustments as a result of the performance and that this would discourage slack. Anyway, at the directive level, this slack is not established without knowledge in the management group, which discusses and manages it:

Subject 1: “If the management group, for some reason, plans some investment that may be accepted in the future, that can be included in the budget although the spending is not certain”.

In those situations in which the slack is tolerated, it is considered something that can happen due to lack of knowledge, a way to cope with the risk, search for comfort, facilitation to achieve targets:

*Subject 3: “the constitution of a slack is always assessed by the condition of comfort, without risk and without challenges, without further work, any more detailed research, it is easy, simply determine the value and overestimate a target; it is a condition of **enthusiasm**, condition of accomplishment of **high risk, motivation to continue** an ongoing project, **personal expectation**. You have to know how to separate that and include it based on real data you have, include the most probable conditions. That is identified at all times.”*

Subject 4: “...the overestimation of more relevant expenses is linked with growth: the company is growing and needs more structure.”

Subject 6: “When you are going to apply in something new, another brand, there is a reference framework but, for safety reasons, due to uncertainty, a higher value is included.”

Subject 7: If a person makes a forecast and the variation is very big, that’s because he doesn’t have any notion. If the company granted conditions to spend that’s because it was appropriate, what management is that if the spending did not occur?”.

Reasons to create the slack are related to the stimuli that appear in people's life. Among the different alternatives cited in the literature, a hedge against uncertainty (Mohamed, 1973; Merchant, 1985; Nouri, 1994; Leavins, Omer, & Vilutis, 1995; Davis, Dezoort, & Kopp, 2006) was disclosed as a relevant reason. On the other hand, elements were cited in the literature (Lukka, 1988) related to enthusiasm, personal expectation, motivation for continuity, which are reasons linked with behavioral aspects.

5.4 Benefit of the action

The fear of having amounts cut was presented as an incentive for the constitution of slack, although this coexists with the belief that these do not occur:

Subject 1: "...sometimes we cut amounts due to the cash flow, although they are legitimate."

Subject 3: In case of overestimated, challenging targets, it is fair that budgetary slack be included so as not to put the planning at risk."

Subject 4: "careful when you do not spend on propaganda today for example, putting aside the structuring of an area. You have to assess the consequence in two or three years"

Subject 5: "Getting rid of the discomfort of a revenue reversal or complementary expense in the future are the two main possible benefits I believe but, as I said, this underestimation of revenues and overestimation of expenses needs to be planned consciously and with limits."

Subject 6: "I don't see any benefits. I consider that, according to the amounts, you can accommodate yourselves..."

Subject 7: "...perhaps I had funds for something that came up unexpectedly"

In the discourse, the benefits of a slack do not relate to remuneration as broadly explored in the literature (Brownell & McInnes, 1986; Dunk, 1993; Leavins et al., 1995; Yuen, 2004; Church et al., 2012). This can be said because the company does not practice individual variable remuneration linked with the budget. In other words, the traditional approach, mainly deriving from the Agency Theory, fails to simply consider that the slack is constituted upon a conscious and deliberate decision, based on the desire to be benefitted by the organizational assessment. Thus, that would not be the motivation, but others may occur, such as the benefit of not going through the hassle of new negotiations or even the executive's personal image who, by having a larger amount to spend or a smaller amount in terms of the income target to reach, will receive less pressure (Merchant & Van der Stede, 2007). These personal benefits for the executive who wants to establish a budgetary slack may be eliminated by the budget analysis model by not having an individual, but a collective benefit, related to "not putting the planning at risk". Thus, the understanding about the budgetary slack changes, as it becomes tolerated and even encouraged by some areas.

6. Conclusions

The research conclusions support several aspects found in the literature and present others not disclosed earlier. With regard to the existence of budgetary slack, the discourse is two-way: denial of the slack or justification of its existence. The denial derives from the logic of legitimizing the structure that validates the targets, so that it stops being a slack, but turn into necessary resources. This happens based on the discourse that there is no slack, as well as the discourse that they are necessary. In that sense, the overestimated amount of spending (or underestimated revenues) is not perceived as a slack, as the risk argument rescues the proponent.

The link that permits accepting that there is no slack or that it is necessary and even beneficial to the organization is the justification, the accepted arguments that the existence of a slack is only possible

given the structural conditions, that is, a strong discussion and **top-down** definition of the strategy, the existence of an **information system** that reduces or eliminates the asymmetry as an element that weakens the hierarchical superior before the subordinate and the involvement of different hierarchical levels in the validation of the **budgetary targets the managers have established in the bottom-up approach**.

An argument that differs from what is generally found in budgetary slack research departs from its definition, which already carries a bias of extreme rationalization. Examples are the definitions by Young (1985), Merchant (1985), Lukka (1988), Dunk and Nouri (1998), Merchant and Van der Stede (2007), Hobson, Mellon and Stevens (2011), Kilfoyle and Richardson (2011), in which there exists a consensus that one important indicator for the slack is the intention and, in some cases, the deliberate intention to create conditions for private benefit, to the detriment of organizational benefits, that is, targets that do not correspond to the estimate in a normal scenario, established based on available information.

The perspective adopted in this research permitted going beyond this connotation of wealth expropriation and, instead of merely looking at the search for protection or particular benefits, the intent was to understand the motivates for the creation of the slack. The organizational environment also furthered the identification that, even without being prone to the manipulation of budgeted information to achieve results and receive incentives for the achievement of these results as, in the case of the company, this item was not offered. Instead, the slack, even if its existence was denied, departed from a connotation of protection of the organizational results, a large part of which is due to the extremely volatile environment.

In sum, the discourse revealed the behaviors that could be considered extremely harmful to the organization, to the rationalizing perspective, and that, deriving from the environment of growth and confidence, they suggest that the existence of slack, in the case of this organization that is something managed inside the structure, mainly deriving from the economic environment and from active management in the company.

In this sense, as a result of the set of mechanisms that started with the definition of strategies, the information system that permits the availability of information, the discussion process, the awareness that the target of one area affects the other and not linking the achievement of the targets to the remuneration, the budgetary slack is not a problem in the organization. In conclusion, one may say that the organization, independently of the discourse found, clearly tends towards the management of the reserve in its organizational environment.

7. References

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