Chapter 02: Section 02

Alternative Budgeting Approaches

Section 02: Behavioural and Ethical Considerations of Budgeting

1. BEHAVIOURAL CHALLENGES IN BUDGETING

1. Psychological and Social Dynamics

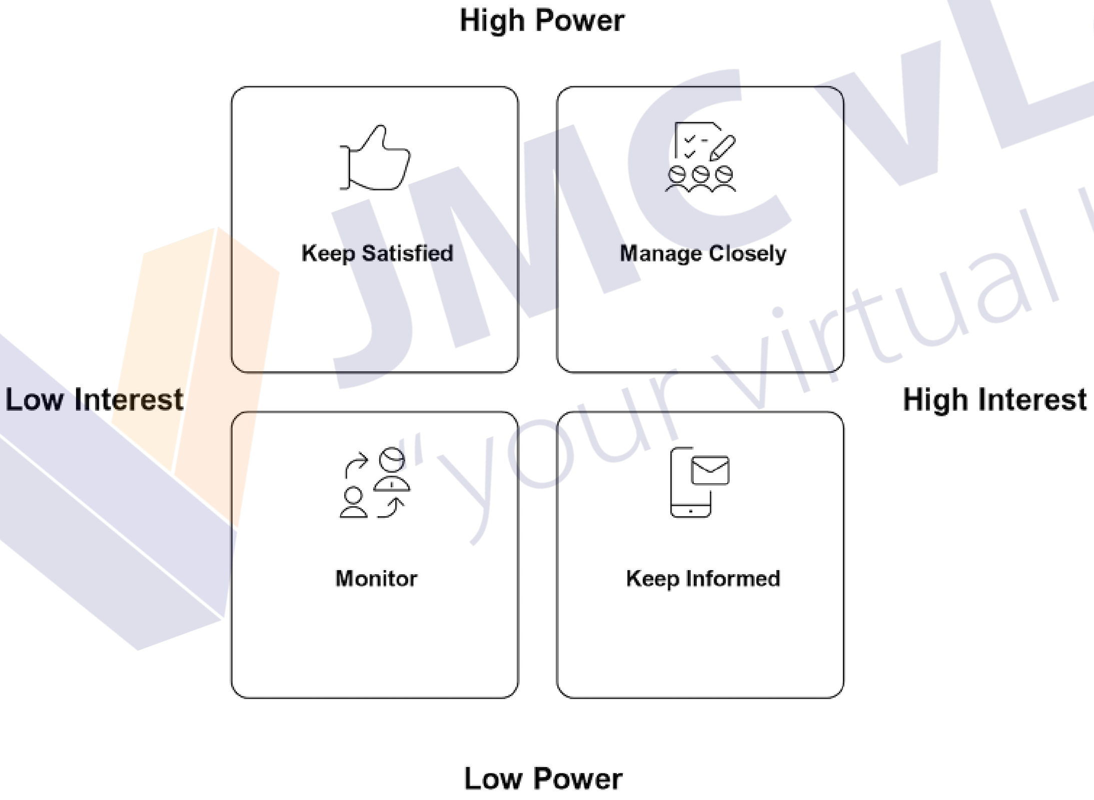
Understand and manage human factors that involved in budgeting.

1. Should foster goal congruence: Align individual and departmental goals with organizational objectives.
    1. Goal-setting theory, expectancy theory, equity theory
    2. Participatory budgeting – Budgetary slack and budget gaming will be a disadvantage

1. BEHAVIOURAL CHALLENGES IN BUDGETING

1. **Psychological and Social Dynamics**
2. Organizational Politics and Power Dynamics

   Stakeholder analysis, understand power structures, manage budget negotiations, moderate resource competition



1. BEHAVIOURAL CHALLENGES IN BUDGETING

1. Psychological and Social Dynamics

3. Management Accounting Balancing Role

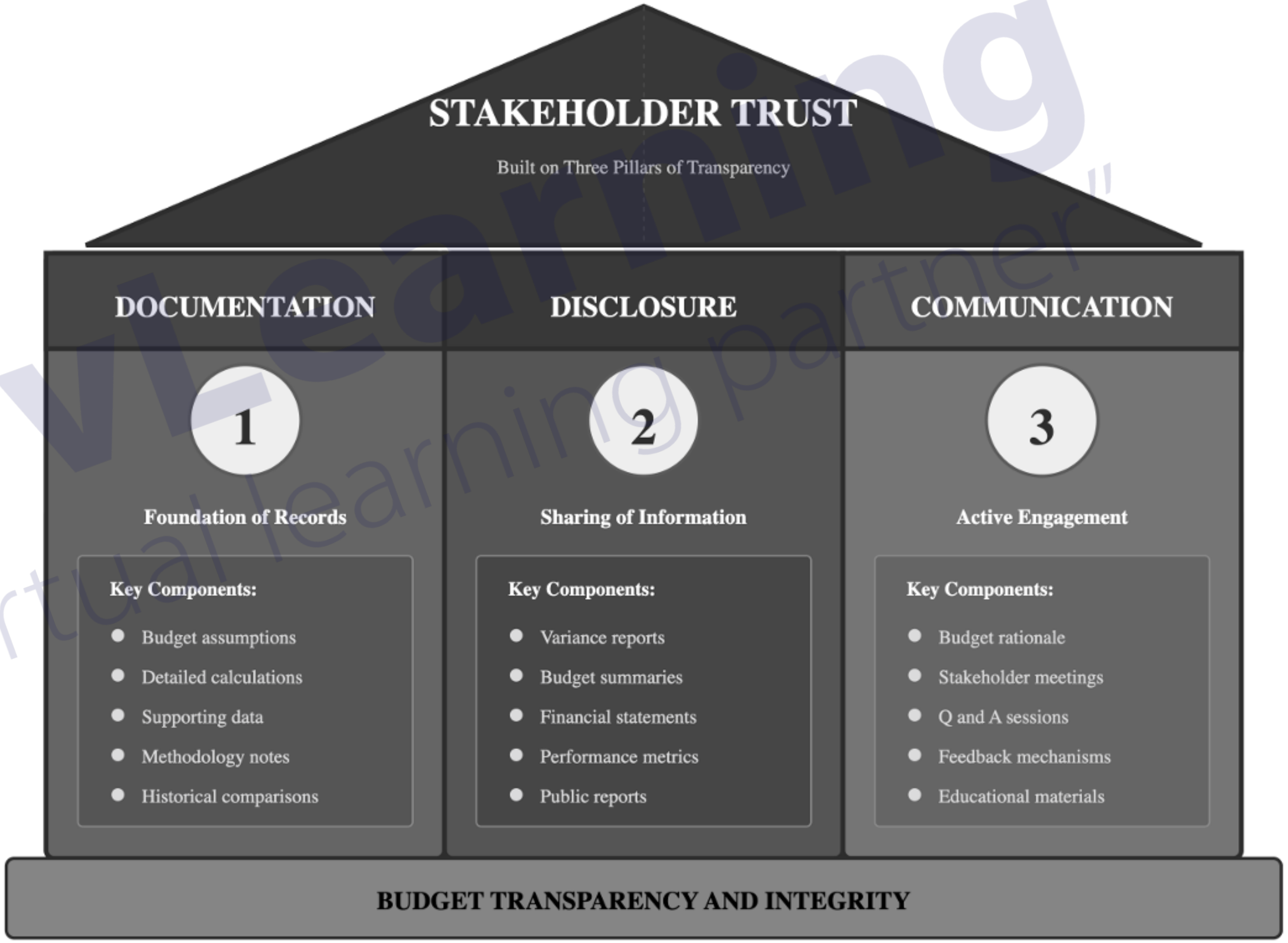
1. Design Systems for Goal Congruence

- Align incentives (reward both target achievement and forecast accuracy), structure participation, improve process (rolling budgets)
- Mitigate behavioural biases (Objective analysis, challenge assumptions)
- Facilitate fair and transparent process

1. ETHICAL CONSIDERATIONS IN BUDGETING

The main objective is to build and maintain stakeholder trust by embedding the principles of;

1. **INTEGRITY**
2. **TRANSPARENCY**
3. Accountability: Ownership
4. Fairness



1. ETHICAL CONSIDERATIONS IN BUDGETING

1. ETHICAL DECISION MAKING PROCESS

1. **Identify the Ethical Issue**
   Recognise potential ethical dilemmas, conflicts of interest, or situations requiring professional judgment
2. **Gather Facts and Identify Stakeholders**
   Collect relevant information and determine who will be affected by the decision and their interests
3. **Evaluate against Ethical Principles**
   Apply relevant ethical codes (e.g., IFAC Code of Ethics) and fundamental principles: integrity, objectivity, confidentiality, professional competence
4. **Evaluate Alternative Actions**
   Consider different courses of action and their consequences for all stakeholders; weigh benefits and risks
5. **Make a Decision and Test It**
   Choose the most ethical course of action; apply tests (e.g., transparency test, would I be comfortable if this decision were public?; reversibility test, mirror test)
6. **Document and Implement**
   Record the decision-making process and rationale; implement the decision; monitor outcomes and learn from the experience