

Budget participation and informational asymmetry: a study in a multinational company

Carlos Eduardo Facin Lavarda[†]
Regional University of Blumenau – FURB

Dalci Mendes Almeida^Ω
UNISUL/SC

ABSTRACT

The objective of this study is to verify the influence of budgetary participation on the reduction of information asymmetry in the budget process in a multinational company, having taken for granted that the participatory budget minimizes information asymmetry. Therefore, descriptive research was carried out, in the form of a case study and qualitative type, through interviews and direct observation. The study was applied in a business unit of a multinational company that has the consolidated budget practice. The results of the research show that the company has a participatory budget, for all sectors and managers are directly involved in its preparation. Moreover, several meetings are held to discuss and define the budget targets. However, in this study this condition did not minimize information asymmetry, as most responses focused on a single item, indicating that the sub-manager/subordinate has more information than his superior.

Keywords: Budgetary participation; informational asymmetry; agency theory.

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*** Corresponding Author:**

[†] PhD in Accounting from the Faculty of Economics at University at de Valencia, Spain.

Affiliation: Professor at PPGCC at Regional University of Blumenau (FURB).

Address: Antônio da Veiga, nº.140/Sala D-202, Blumenau – SC – Brazil

E-mail: clavarda@furb.br

Telephone: (47)3221-0938

^Ω Msc. in Accounting from Universidade Regional de Blumenau (FURB), Brazil

Affiliation: Professor at UNISUL / SC

Address: Antônio da Veiga, nº140/Sala D-202, Blumenau – SC – Brazil

E-mail: dalcialmeida@unisul.br

Telephone: (47)3221-0938

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1 INTRODUCTION

The budget process requires clear, objective, timely and reliable information among all those involved in its preparation and execution. Adequate information and communication between the agents provide conditions for achieving good results (FREZATTI, 2004).

This situation is founded on the agency theory, which highlights the agency conflict, i.e., each party (the agent and the principal) has particular interests in the business environment. According to Martins and Lopes (2007, p. 35), "shareholders' interests are quite different from the interests of the directors of the company and other classes of participants. Each group of stakeholders in the company possesses a distinct class of aspirations."

In the budget process, the goals can be both individual and team, and behavioral problems may arise if the goal is too high (unattainable), if it is too easy (too vague) or if it generates conflicts between the company and the employees' goals (goal conflict) according to Warren, Reeve and Fess (2003).

It is observed that informational asymmetry can be highly present in the budgeting process; as the planning, execution and control of the business objectives depend on the action of the subordinate managers, and they may have more information, especially when the goals are assigned by superiors without participation of all involved. Therefore, the following issue arises: What is the influence of budgetary participation in the reduction of informational asymmetry in the budget process?

The budgeting process and its involvement with the participation and/or informational asymmetry, also linked to other variables, were studied by Milani (1975), Shields and Young (1993), Dunk (1993), Shields and Shields (1998), Fisher, Frederickson and Peffer (2002) Tan *et al.* (2003), Kyj and Parker (2008), Zainuddin *et al.* (2008), Silva (2009).

Given this, this research aims to verify the influence of budgetary participation in the reduction of informational asymmetry in the budgeting process of a multinational company. Hendriksen and Van Breda (1999) highlighted that there is informational asymmetry when not all conditions are known to both parties and, therefore, certain consequences are not considered by them.

It has been assumed that the participatory budget minimizes information asymmetry. Faria *et al.* (2010) mention that "the action of seeking an agreement between the targets

(financial or non-financial) in the process of budgeting through negotiation may be a positive indication of minimizing the existence of information asymmetry."

The motivation of the research is justified because the studies on the subject of budget are not conclusive, especially when related to budgetary participation and informational asymmetry. Faria *et al.* (2010) verified the main characteristics of scientific literature on the influence of information asymmetry on budgeting in international journals in the period between 2005 and 2009. The results show that the volume of publications is still low, and only eight articles were found.

In Brazil, there is little academic research related to the budget. Junqueira, Oyadomari and Moraes (2007) mention that the theme is not explored by researchers. In a survey conducted between 2002 and 2006, in the Annals of the USP Congress of Controllershship and Accounting and ENANPAD, in Accounting and Finance Magazines, RAE, RAE-electronics and RAUSP, only six studies were found. Leite *et al.* (2008) also point out that the budget theme receives very little attention within the scientific world, being more significant in theses and dissertations in higher education institutions. Moreover, it is noticed that this scenario is slowly changing because Moura, Dallabona and Lavarda (2010) identified 116 papers related to the budget theme, through a bibliometric study conducted in the USP Congress of Controllershship and Accounting, ENANPAD, in the ANPCONT Congress and in the Brazilian Congress of Costs, in the period from 2005 to 2009.

This article is divided into five sections, starting with the introduction. Then it presents the theoretical construct, next addressing the research methodology procedures and then a description of the data analysis. Finally, the concluding remarks of the study are made.

2 LITERATURE REVIEW

The scope of this theoretical study consists of budgetary participation, informational asymmetry, budgetary participation versus informational asymmetry and previous studies.

2.1 Budgetary Participation

The budgeting process is the way the organization conducts its budget, varying from company to company, according to its operating, capital, technology and human structure. To Frezatti (2009, p.46), the budget "contains the priorities and direction of the organization for a period and provides an opportunity to evaluate the entity's performance, its internal areas and its managers." [...] It is considered one of the pillars of management and a fundamental tool for accountability that exists in the organization (FREZATTI, 2009).

The orientation of the budget depends on the degree of involvement by top management and subordinates in the preparation, which may be of various forms such as top to bottom, bottom to top, or in a participatory manner (ZAINUDDIN *et al.* 2008). Shields and Shields (1998) define participatory budgeting as a process in which the sub-manager is involved and has influence in determining the budget. Milani (1975, p.274, author's translation) mentions that participation "is a concept used to describe the extent to which subordinates are allowed to select their own courses of action."

According to Kyj and Parker (2008, p. 423, author's translation), "[...] participation occurs for a variety of reasons, such as information sharing, coordination of interdependencies between the subunits of the organization, increasing motivation and employee satisfaction." Superiors encourage budgetary participation for several reasons, among which Kyj and Parker (2008) point out:

- a) promote open and communicative relationships with subordinates (leadership theory);
- b) have access to private information about the power of subordinates (agency theory);
- c) convey a sense of justice and fairness when budgets are used to evaluate subordinates (theory of organizational justice).

It is observed that participatory budgeting occurs when sub-managers are involved in the negotiation and the defining of the budget targets, not a budget imposed by top management. Thus, the company may have a policy of this kind of budget, due to various reasons such as: open communication, decentralized information, interaction between employees and freedom of expression.

2.2 Informational Asymmetry

Companies, in the operation of their business, make contracts generating various relationships between shareholder and management, sub-managers, government, and other stakeholders. Such relationships are explained by agency theory. The agency relationship is defined by Jensen and Meckling (1976) as a contract in which the principal employs the agent to perform some service on their behalf, involving the delegation of some decision-making authority to the agent. In this case, there is a separation of ownership and control, in which property (principal) is managed by the agent.

Due to ownership unbundling (principal/owner) and control (agent/manager) of the company, profound changes occur in the way of managing it, because managers tend to consider not only the interest of the owner, but also their own interests in decision-making; opportunistic management may occur (BIANCHI, 2005).

For Martinez (1998, p. 3), "the central problem in the analysis of Agency Theory (agency problem) is the ability of the agent to take an opportunistic behavior regarding his actions (or inactions), aiming to increase his personal satisfaction."

In this situation, there arises the possibility of informational asymmetry, in which one party may have more information than the other. "The existence of informational asymmetry allows, in a given transaction, the party that holds a greater degree of information to extract greater benefits than the other" (KLANN *et al.*, 2009, p.8).

Asymmetric information is defined by Santos *et al.* (2007, p. 459) "as the difference in a contractual relationship between agent and principal, in which one party has more information than the other; i.e. there is hidden information."

Thus, informational asymmetry will exist where one party of the contractual relationship has more information than the other, and this situation will generate conflict if information is used for self-benefit.

2.3 Budgetary Participation versus Informational Asymmetry

Budgetary participation can influence informational asymmetry, increasing or decreasing the informational differences between agent and principal. Shields and Young (1993) and Shields and Shields (1998) point out that the greater the information asymmetry between subordinates and superiors, the more likely it is that companies will promote participation in the budget for access to private information of subordinates.

Based on agency theory, managers can promote participation in the budget to access private information held by subordinates. Several researchers mention that subordinates have private information on their areas of responsibility and that participation in the budget provides opportunities for subordinates to share this information with superiors (SHIELDS and SHIELDS, 1998).

Budget preparation is a critical moment for agency conflict. Silva (2009, p.45) states that:

In the preparation of the budget this relationship is reinforced, because the agent will submit a proposal for the application of the main resources for one or more years for investments of short and long term, the approval of which may represent a decisive role in the future of the company. This process can be influenced by the bias of the manager, to the extent that he promotes his own interest, even depending on the terms of the current contract, as contractual theory of the firm.

Studies involving budgetary slack (MERCHANT 1985; GOVINDARAJAN, 1986; CHOW et al., 1988; DUNK; PERERA, 1997, and FISHER et al., 2000) found that individuals reduce informational asymmetry when they are participating in the budget process, given that the budgets would be resulting from such participation, according to Junqueira, Oyadomari and Moraes (2007).

It is observed that there is a consensus among the authors on the relationship between budgetary participation and informational asymmetry, highlighting that the larger the budgetary share, the lower the informational asymmetry between agent and principal.

Note that the agent and principal relationship involves not only shareholders and executives, but also the company's own employees, as noted by Watts and Zimmerman (1986). Given the above, it is clear that asymmetry can happen among the employees involved, for example, executive and subordinate.

2.4 Previous Studies

Research on the budget of companies is still little explored in the Brazilian scientific community. Leite *et al.* (2008) reveal that the fact that the budget is a subject little explored by the scientific community may be due to the difficulty of access to information about companies, making it difficult to obtain data for the development of the empirical part of the research. A few previous studies involving national and international budgetary participation and/or informational asymmetry that were used as the basis for this study are discussed below.

Milani (1975) dealt with the participation in decision making with special emphasis on participation in the budget. Three behavioral variables were explored in detail: (1) performance, (2) attitude towards the job, and (3) attitude towards the company. The findings of the research show that the relationship between performance and participation in the budget were statistically significant; however there was a lack of significant relationship between the variables of attitude and performance.

Shields and Young (1993) explained the antecedents and consequences of budgetary participation by developing and testing a model that has asymmetric information as its antecedent, and incentives based on budget and performance as consequences. The tests provided empirical support for the model, but most of the variations in the use of participatory budgeting remained unexplained. The results indicated that issues regarding incentives based on performance and budget across the company were of a sensitive nature and, probably, with a limited response rate.

Dunk (1993) studied the relationship between budgetary emphasis, asymmetry of information, participation and budgetary slack, by applying research to the managers of 79 Australian industries. He concluded that the budgetary emphasis and information asymmetry affect the relationship between participation and budgetary slack, and the reduction of slack resulting from participation except when the budgetary emphasis is low.

Shields and Shields (1998), in their study, analyzed 47 studies published on participatory budgeting and identified that these studies focus on the effects of participatory budgeting, not on its antecedents, and collected information on these antecedents, discussing the results of a survey which identified the reasons managers participate in setting their budgets. They pointed to reasons associated to four theoretical antecedents: environmental and tasks uncertainty, tasks interdependency and information asymmetry between superior and subordinate. The results indicate that participatory budgeting is more important for planning and control, specifically for vertical information sharing and coordination of interdependence, and participatory budgeting correlated with three of the antecedents previously mentioned.

Fisher, Frederickson and Peffer (2002) conducted an experimental study with 104 undergraduate students exploring three questions: (1) the effect of information asymmetry on the budget negotiation process, (2) the effect of information asymmetry on budgetary slack, and (3) the budget negotiation between superiors and subordinates, so that there is an agreement between the parties. They concluded that minor differences in negotiating positions do not indicate a greater likelihood of agreement when the initial differences are due to information asymmetry. Furthermore, information asymmetry affects the relationship between bargaining agreement and budgetary slack. Finally, when superiors impose a budget after a negotiation, not making considerations of justice or fairness, this may discourage subordinates.

Fisher *et al.* (2000) found that the use of budgets to allocate scarce resources, or to

provide information about coworkers, reduces budgetary slack and increases the performance of the subordinate. The results of the research show that the budgets used for both resource allocation and performance evaluation not only eliminate budgetary slack, but also increase the effort of subordinates in the performance of tasks. Another result reached was that an internal information system that provides information on the performance of subordinates and coworkers reduces budgetary slack when superiors do not use budgets as a basis for resource allocation. Finally, the findings showed that to reduce the information asymmetry among sub-managers, the company can increase its incentives, which will lead to the provision of more accurate budgets.

Tan *et al.* (2003) compared individualist and collectivist behavioral aspects that favor or not information asymmetry. It was also found that individualism versus collectivism can impact on the organizational climate and asymmetry of information in a situation in which bad news should be reported. The results revealed that individualism has a negative impact on the organizational climate, increasing the incidence of asymmetry, while collectivism seemed to minimize the incidence of informational asymmetry.

Kyj and Parker (2008) studied the causes or antecedents of participation in the budget. The study focused on the reasons why the superiors encourage the participation of their subordinates in the budget based on theories such as leadership theory, agency theory and organizational justice. The research findings showed that the relationship between information asymmetry and participation in the budget is not supported.

Zainuddin *et al.* (2008), adopting a contingency approach, studied information asymmetry; they perceived environmental uncertainty and uncertainty of labor as key factors for participation in the budget, applying a questionnaire to 77 sub-managers. Through a multiple regression analysis, the results indicated that the variety of tasks is strongly associated with participation. However information asymmetry, uncertainty of tasks (analyzability) and perceived uncertainty of the environment are not significantly related to participation in the budget.

In Brazil, Silva (2009) studied the budgeting practices that are used by companies belonging to the Camaçari Industrial Development Committee (COFIC) having as one of the specific objectives the analysis of the possible existence of informational asymmetries in the conduct of budgetary practices. The results did not show the existence of informational asymmetries in the conduct of budgetary practices.

3 METHODOLOGICAL RESEARCH PROCEDURES

As to the objectives, the research is descriptive, because the facts are analyzed without manipulation. Andrade (2002, p.124) states that "In this kind of research, facts are observed, recorded, analyzed, classified and interpreted without the researcher interfering in them. This means that the phenomena of the physical and human world are studied, but not manipulated by the researcher."

With regard to procedures, it is characterized as a case study. Raupp and Beuren (2009, p. 84) mention that "a research case study is mainly characterized by concentrated study of a single case." "[...] It is performed in a more intensive manner, due to the efforts of researchers to focus on a particular object of study." Yin (2005) points out that the case study is an empirical inquiry that investigates a phenomenon within its real-life context, especially when this phenomenon and context are not well defined.

As to how to approach the problem, the research is qualitative. Raupp and Beuren (2009, p. 92) state that "in qualitative research, deeper analyses regarding the phenomenon being studied are conceived. The qualitative approach aims to highlight unobserved characteristics by means of a quantitative study, given the shallowness of the latter."

The study took place at the business unit of a multinational company in the metal industry in southern Brazil, which currently has 500 employees. Its choice was made according to the characteristics of the market and the availability of information necessary to achieve the set objective.

The research instruments used were: structured interviews with eight questions, four questions adapted from the work of Milani (1975) to evaluate budgetary participation, and four questions from Dunk (1993) for evaluation of informational asymmetry. The interviews were conducted in a structured manner, the focal type. For Yin (2005), focal interview means that they are performed in a short period of time, with the character of informal conversation, following a set of questions prepared in advance.

According to Yin (2005), case studies need not be limited to a single source of evidence; most of the best studies are based on various sources. Direct observation was also used through the visits to carry out the interviews; thus it was possible to know the work environment of the managers, allowing a better assessment in behavioral terms with respect to knowledge, certainty and clarity of responses. Yin (2005, p. 120) affirms this instrument stating that "in a more informal way, direct observations can be made during the field visit,

including those occasions during which other evidence is being collected, such as evidence from interviews. "

Yin (2005) highlights several sources of evidence for the case study; however, he considers the interviews as one of the most important sources of information, in which the researcher has two tasks: following a proper line of inquiry and making the questions in an unbiased manner. Table 01 presents the questions used in the interviews.

Table 1: Questions asked in the interviews.

Block A: Participatory Budgeting (Milani, 1975)	Alternatives
1. Is there participation of all sectors in budgeting?	<input type="checkbox"/> Yes <input type="checkbox"/> No If yes, how is the participation? (a) Occasionally, through meetings. (b) Often, through meetings. (c) Another form of participation: _____. comments:
2. Is there participation of sub-managers in preparation of the budget?	<input type="checkbox"/> Yes <input type="checkbox"/> No If yes, how is the form of participation? (a) Occasionally, through meetings. (b) Often, through meetings. (c) Another form of participation: _____. comments:
3. What is the importance of your contribution to the preparation of the budget?	(a) Much importance. (b) Little importance. (c) Average importance. comments:
4. How often is discussion related to the budget initiated by your superior, when budgets are being set?	(a) My superior is the one who always takes the initiative for discussions of the budget. (b) Sometimes my superior takes the initiative for discussions of the budget. (c) My superior never takes the initiative for discussions of the budget. comments:

Block B: Informational Asymmetry (Dunk, 1993)	Alternatives
1. Compared to your superior, who has better information about the activities in your area of responsibility?	(a) My superior has better information. (b) We have the same information. (c) I have better information. comments:
2. Compared to your superior, who is more able to assess the potential impact of external factors on activities in your area of responsibility?	(a) My superior is much more capable. (b) We are equally capable. (c) I am more capable. comments:
3. Compared to your superior, who has a better understanding of the performance potential of your area of responsibility?	(a) My superior has a better understanding. (b) We have the same understanding. (c) I have a better understanding. comments:
4. Compared to your superior, who is technically more familiar with the work of your area of responsibility?	(a) My superior is more familiar. (b) We are equally familiar (c) I am much more familiar. comments:

Source: the Authors, based on Milani (1975) and Dunk (1993).

Participation in the budgeting process in the company happens vertically between managers and their subordinates, directly involving a total of 11 people, ten subordinates and a unit manager. Thus we have, in this situation, as the main figure the manager and as the agent figure the subordinates.

Eight subordinates were interviewed, responsible for the following sectors: 1) Health, Safety, Environment and Sustainability, 2) Quality and Processes, 3) Engineering and Maintenance, 4) Production 5) Anodizing, Planning and Production Control (PPC), 6) Packing, Shipping, Distribution Center, Special Cuts and Patio Metals, 7) Manufacturing and Internal Consulting, and 8) Comptroller. It is worth mentioning that the interview occurred only with subordinates and not with their superiors, since in the evaluation of informational asymmetry, the questions assess the relation between agent (managers/subordinates) and

principal (manager/superior), analyzing the informational asymmetry only in the unit being studied; the top manager of the unit belongs to another unit, the corporate BU.

The interviews were scheduled through e-mails and phone calls, which occurred during the month of September 2010, being held individually, lasting on average 30 minutes each, and mostly in the company's own facilities, all being recorded. Only two subordinates, those responsible for the human resources and industry tooling sectors, did not participate in the survey.

After compiling the results, the controller was asked to conduct a reading of the results. Yin (2005) considers that the review of the case study by participants and informants of the objective case study is one of the procedures that guarantee the validity of the data.

4 DATA DESCRIPTION AND ANALYSIS

To reach the goal of this research – analyze the relationship between budgetary participation and informational asymmetry –, the data will be analyzed in two stages. The first stage is the analysis of budgetary participation through questions adapted from Milani (1975), and the second stage is the analysis of informational asymmetry through the questions of Dunk (1993). After the performance of the analysis of each stage, it was found that budgetary participation minimizes informational asymmetry, confronting the analysis of the two stages.

Currently, the budgets developed in the business unit are: Production Budget, Budget of Costs and Expenses (Operating Budget) and Investment Budget (Capital Budget). The Budgets of the Sales and Market Segments are developed only in the Corporate business unit (BU) and other parts of the budget, such as Cash Budget and Projected Statements, in the Central Comptroller. The levels regarding units through which the budgets pass are presented in Figure 1.

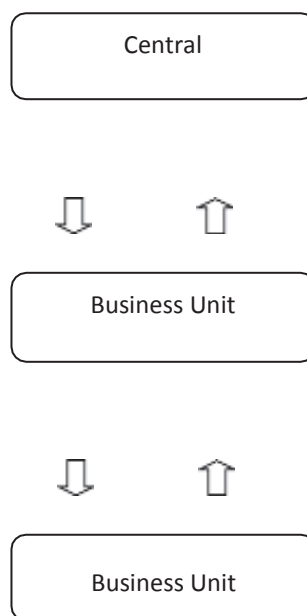


Figure 1: Units through which the budgets pass.
Source: Research data.

4.1 Budgetary Contributions

In the first question, which assesses **whether there is participation of all sectors in the preparation of the budget**, the response was unanimous; all eight subordinates interviewed responded that there is participation of all sectors in the preparation of the budget and that this participation happens often by subordinates in each sector; being scheduled, on average, four meetings regarding preparation. One respondent noted that he considers the number of meetings to discuss the plan to be too few, considering that a plan is for 12 months. The unit is divided into ten major sectors, each sector has one or more cost center that needs to be supplied by its subordinate. The composition of the budget takes place between the months of August to December.

In the second question, which examines **whether there is participation of all subordinates in budgeting**, all respondents answered yes, meaning that all subordinates participate often in budgeting, in which everyone participates, discussing the goals of their area and other areas.

The BU Corporate forwards the general premises (Budget Sales / Market Share) to the business units. After the general premises are disclosed and installed, the subordinates and the manager, through various meetings, define the assumptions for the unit, establishing production capacity and, consequently, the cost and expense budgets and capital expenditures for the following year.

At the meetings are discussed: the productive capacity, the number of employees for each sector, salary upgrade expectations, salary benefits, promotions, layoffs, training, file material, depreciation, leasing, maintenance expenses, amongst others.

Importantly, when the BU Corporate defines the general premises, at certain times, it comes into contact with the unit subordinates to discuss these assumptions. For example, if a certain business unit can or cannot meet the production of a particular item that is carried out in a press.

In addition to the Operating Budget, the Capital Budget is also discussed, using the expression Capital Expenditure (CAPEX) and if the unit needs to accomplish fixed investment, a project evaluating the return on investment is conducted, as well as the time required to recover the capital invested, and sent to BU corporate for review. This project is also discussed and evaluated between sub-managers and the manager. If various investments are needed, and the resource released by BU corporate is not enough, the priority will be defined by the sub-managers.

When the premises are defined by the sub-managers and the manager of the unit, they are forwarded to the comptroller of BU corporate, which analyzes and, if necessary, requests changes; for example, "we need to reduce the budget by 10%", "an item was submitted that is not feasible." This suggestion is again discussed and analyzed between sub-managers and the manager, who check the area where costs can be reduced. After discussions and definition of goals, the system called Budget Management System (BMS) is opened by the BU corporate for the sub-managers to supply to their cost center.

In addition to participating in budgeting, respondents highlighted that there is strong participation in control between the budgeted and the realized, in which each sub-manager monitors, even daily, the results of his cost center, in which case, the meetings are more frequent. Sub-managers receive daily from the comptroller the results of all cost centers and can track the performance of the other areas, which allows greater control of the results.

On the third question, which was how the respondent considers the **importance of his contribution to the preparation of the budget**, all responded that they consider their participation in the budget process to be very important. Below, some excerpts from the interview that demonstrate such importance are highlighted:

Participant 1 mentions: *I'm vital in disclosing the premises, in charge of the schedule, in clarifying the accounting rules, in compiling and verifying set budget pieces.*

Participant 5 reports: *My contribution is very important, as all the sub-managers, because if a sub-manager creates a budget that does not match the reality, the factory will have a problem in the future, and therefore we will not achieve the results, and planning well done means ease of control over the current year.*

In my case in particular, I am in the area of Health, Safety, Environment and Sustainability, and my contribution is to identify what needs to improve in terms of equipment and working conditions in all areas, to achieve the goal of zero incidents, and this needs to undergo a preliminary analysis of spending and investment needed. Another contribution is to define the development of people working in our area because we will have expenses that need to be budgeted. One of the main values of the company is to maintain the integrity of the people, through health, safety, environment and sustainability.

Participant 6 highlights: *My importance is very great in the preparation of the budget process, although my area is an area of support (quality) and has a low impact on the cost. There is a democracy at the time of preparing the operational plan. In my opinion, I have as much weight as the supervisor of the production area, it is an open meeting, I can opine, for example, what can be done to reduce electricity consumption. We all end up being measured by a single indicator/outcome.*

Participant 7 mentions: *I'm very important for budgeting, because I am responsible for five cost centers that have a large consumption of operating supplies, mainly packaging supplies. Any strategy to reduce costs that I realize will generate a significant impact on the outcome of the unit.*

And finally, the last question of this block, which analyzes **the frequency of discussion related to the budget, started by his superior, when budgets are being set**, two of the eight sub-managers mentioned that sometimes the superior (manager) takes the initiative for discussions of the budget, and the other answered that the superior is the one that always takes the initiative for discussions of the budget. Here are some excerpts from the interviews:

Participant 1: *Sometimes, the initiative for meeting comes from the director, since the budgetary practices have become a culture in the company. The functions and terms are well defined between those responsible; maybe if it was a new practice in the organization, he would schedule more meetings. But of course, conversation is held to define all assumptions, and what can and cannot be serviced.*

Participant 3 mentions: *Sometimes my superior takes the initiative, because every sub-manager knows their responsibilities and their goals. This occurs naturally; however, at certain times, the director feels the need to call for more discussions,*

Participant 6: *My superior is always the one that takes the initiative to convene the group and initiate discussions of budgeting. He sends some assumptions, and says "now analyze with your group and polish what we will do here at a meeting in 15 days".*

Participant 8 reports: *My superior is the one that coordinates; he receives an orientation from the corporation that the process of composition of the budget is open for the ensuing period, notifying sub-managers, transferring some assumptions, such as the unit will work with the portfolio packed or will have idle capacity, we will have to work with so many costs per ton.*

4.2 Informational Asymmetry

On the first question, **in comparison with your superior, who has the best information about activities conducted in your area of responsibility**, only one of the eight respondents replied that the superior had better information, all others responded that the sub-manager (subordinate) has better information. The following are comments from sub-managers during the interview.

I have better information; however all information is available to my superior, with no inside information, highlights Participant 1.

The sub-manager is living day to day on what happens in the area, therefore, has more information, my superior receives some information, what he needs he will ask for the sub-manager, mentions Participant 3.

Participant 5 reports: *I have better information, for sure, because if I, the person responsible for the area do not have the information, I do not know what I'm doing here, imagine my superior, who is responsible for all areas, if he has to go deep into each one, he would not need a supervisor, I have this requirement in the management level.*

Participant 6: *I have better information, but he has access to the information. I have knowledge in detail of why. He might have free access to see what was done in my area, but most of the time, when this happens, he ends up calling me to ask for explanation of that condition he identified.*

On the second question, **in comparison with his superior, who is more able to assess the potential impact of external factors on the activities of their area of responsibility**, three sub-managers responded that they are equally capable and five responded that the superior is much more capable. Following is feedback from sub-managers.

Participant 1: *There is a whole update through quarterly meetings at BU corporate on the operational and strategic plan, on the internal and external factors affecting the company, involving marketing, business, comptroller, and factory management. It is difficult for those involved to not have knowledge. However my superior holds more information because he is more involved in this aspect, by his own function.*

Participant 2: *We are equally capable, but my manager has a lot of influence because he has access to some more information than the area sub-manager; for example, he participates in corporation level discussions and I participate only at a secondary level.*

Participant 3: *Both are equally capable, I'm mostly involved in management in our own area, he is more at the strategic part, but whether the information came from him or me, there is a shared management.*

Participant 5: *For external problems, he, with a broader view as manager, can best warn about some types of problems that will impact in my area, evaluating the impact better because he works more in the macro process.*

Participant 6: *My superior, because we end up focusing our efforts on a daily basis to make the deal happen, for external factors we end up taking knowledge through communication channels, he ends up getting that kind of communication first and sharing with us.*

On the third question, **when evaluated in comparison with his superior, who has a better understanding of the performance potential of their area of responsibility**, only one answered that they have the same understanding and seven respondents said they had a better understanding. The following are comments.

Participant 1: *My superior knows much, but I possess a better understanding of the performance potential of my area of responsibility.*

Participant 2: *I have a better understanding because I am the one who submits the plans, my superior gives some suggestions, such as "this is bit challenging." However the detail of know-how, the knowledge, the day to day work in the field, I respond to that. He does*

know all areas, but in general. I am the one who does that annually, the performance evaluation of my subordinate, if I do not evaluate him, I am unable to grant him a wage increase.

Participant 3 relates: *I have a better understanding because I am closer to the area, working day to day with people, I know what is happening; therefore, I have more conditions to make the assessment.*

Participant 5 mentions: *I have a better understanding because I have a more focused vision for my area. He has a more general view, thus I realize performance evaluation of my employees better, I have better control of what the team is doing to meet the goals and objectives.*

Participant 6: *With full conviction, my superior gives full autonomy to me to do this kind of analysis, being with the team, to understand the career opportunities, define the profile of each one, to see who can contribute more or less, to review the strategies. He demands the results, but the way it is going to be done is at our discretion; if we need resources, he is open to listen and help.*

And finally, when the question is **as compared to his superior, who is technically more familiar with the work of their area of responsibility**, only one replied that the superior is more familiar, and all other respondents say that they are more familiar than the superior. Noteworthy are the excerpts below.

Participant 1: *Technically, I am obliged to know more than my superior.*

Participant 2: *It's hard for me to say, because I'm more in the day-to-day life and have more time in the area, maybe I have more knowledge, I do not know his level of knowledge of either. I have people in my area that technically know some processes better than me, it is the same thing with my manager; he knows some things, but I know others better than him for the details and the experience of the day-to-day life. My superior has little involvement in my area.*

Participant 5: *My superior is much more familiar; he has a very good knowledge in this area, he came from it. I am more recent, most of my time in the unit was in the technical area, I learn a lot from him.*

Participant 8 says: *I am more familiar, that is due to my longer time of working in this area in particular.*

4.3 Relationship between Budgetary Participation and Informational Asymmetry

It can be observed that there is budgetary participation in the company, since all sectors and sub-managers participate in the setting and monitoring of goals and they consider themselves to be very important for the success of the budget. Moreover, the superior always calls the sub-managers/subordinates to participate in the budget, i.e., subordinates have influence in determining the budgetary actions, including being given freedom to choose their own course of action. Such a scenario presented by the company is in line with the work by Shields and Shields (1998) and Milani (1975) for the concepts of budgetary participation.

With respect to informational asymmetry, it was observed that there is informational asymmetry in the company, as the majority of responses focused on a single item, that the sub-manager (subordinate) had better information on activities conducted in his area of responsibility, had a better understanding of the performance potential of his area of responsibility, and he is technically more familiar with the work of his area of responsibility. This shows, therefore, that the sub-manager/subordinate (agent) has more information than his superior (principle), corroborating the studies of Dunk (1993).

For Faria *et al.* (2010), the budget negotiation can be a positive indication of minimizing the existence of asymmetry of information. Tan *et al.* (2003) also emphasize that collective behavioral aspects seem to minimize informational asymmetry. However, analyzing the relationship between budgetary participation and informational asymmetry, it appears that, in this study in particular, participation in the budget did not reduce informational asymmetry, corroborating the studies of Shields and Young (1993) and Shields and Shields (1998).

5 CONCLUSION

This study attempts to verify the relationship between budgetary participation and informational asymmetry. Therefore, a case study was performed in a multinational company using research tools like interviews and direct observation, with eight sub-managers being interviewed who have direct relation to the preparation of the budget plan.

The presumption raised by the study is that budgetary participation minimizes information asymmetry, considering that the definition of the budget plan together (superior / subordinate) leads to greater integration and communication of all involved, so the exchange and dissemination of the information will be higher. However, research has shown evidence that this assumption cannot be accepted, i.e., budgetary participation in this case did not reduce informational asymmetry. Such results do not corroborate the studies of Junqueira, Oyadomari and Moraes (2007), which mention that the larger the budgetary share, the lower

the informational asymmetry between agent and principal, in studies conducted by Merchant (1985), Govindarajan (1986); Chow *et al.* (1988); Dunk and Perera (1997) and Fisher *et al.* (2000).

Nevertheless the results are consistent with those of Shields and Young (1993) and Shields and Shields (1998). They point out that the greater the information asymmetry, it is more likely that companies will promote the participation in the budget, to access information.

It was observed that the organization has a budget policy that all sub-managers participate in the discussion and defining of the goals, as well as daily monitoring of the budgeted and the realized, generating an open and communicative relationship between superior and subordinate. Imposition of goals was not identified, even in the general premises (sales/markets), starting from BU corporate, such premises are discussed with the business unit, even the final review of the budget being made by BU corporate, all suggestions are discussed and defined jointly.

However this does not lead to the minimization of informational asymmetry, because the information is more in the hands of the subordinates. Most of those interviewed responded that they have better information on activities realized in their area of responsibility, have better understanding of the performance potential of their area of responsibility and considered themselves to be technically more familiar with the work conducted than in relation to their superior.

It is important to note that the research has limitations, notably that the results are restricted to the specific case of a multinational company, being made based on the characteristics of a single organization, as well as by the fact that the research instruments adopted cannot be generalized. Therefore, the findings obtained here refer to the company under study, which may be different if the study is applied in organizational environments that have other characteristics.

Budgetary research is scarce; it is important and necessary to develop other studies. Thus, future studies will attempt to identify the relationship between budgetary participation and informational asymmetry, at a certain segment of the company through quantitative research. Another suggestion would be the analysis of conflict of interests during the budget process, using as basis the Agency Theory.

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