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Participatory Budgeting System at the Level of Economic Entities – Utility, Advantages and Disadvantages, Phasing in Implementation

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Abstract: The adoption and implementation of a participatory budgeting system can have a significant impact on the budgetary process within entities. The participation of subordinates in the elaboration of budgets influences a multitude of factors which in turn will affect the efficiency of the budget system of the economic entity. Thus, participatory budgeting influences the budgetary process by promoting the exchange of information between subordinates and superiors that leads to obtaining more realistic budgets, through the ability of the participatory system to motivate employees, to improve the degree of satisfaction felt by them, but also the level of dedication of employees towards the entity and its objectives.

Keywords: participatory budgeting; budget; employees; budget process; subordinates; degree of employee satisfaction; economic entity

JEL Classification: M41- Accounting

1. Introduction

Budgets are regarded as managerial accounting tools, primarily for internal use (Dumitru, 2005), aimed at facilitating planning, control, and decision-making processes. They encompass projections of anticipated revenues and estimated expenses over a specified period, typically one year, aligned with the organization's objectives. They can be defined as a „digital forecast of objectives and the means to achieve them, considering all functions and subunits within the entity” (Caraiani, Dascălu, Gușe & Lungu, 2010).

Within companies, budgets are used to plan operational activities, align objectives with resources, coordinate activities, communicate expenses and objectives to responsibility centers and subordinates, improve communication and coordination efficiency among subunits and motivate employees. (Băluță, 2005 ; Rusu et al., 1995; Caraiani et al., 2010; Călin et al., 2002). These tools also facilitate the delegation of authority and responsibility (Călin et al., 2002; Chadwick, 1998), enable effective control

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over activities (Dumitru, 2005; Călin et al., 2002; Băluță, 2005), aid in identifying deficiencies and weaknesses (Băluță, 2005; Chadwick, 1998) and facilitate performance evaluation (Rusu et al., 1995; Caraiani et al., 2010). It is a fact that budgets don't have a predefined format, and their content varies based on informational needs (Hansen & Van der Stede, 2004), as well as the preferences and knowledge of those responsible for their preparation.

The budget information includes forecasts or estimates generated by the entity, which must be reliable, justified, and grounded in verifiable information. Typically, estimates draw from past year's values, changes in the economic, social, and political context, shifts within the entity's specific field of activity, as well as changes in its internal environment.

After the estimates are formulated and budgets are established, they become commitments for each responsibility center (Caraiani et al., 2010). Responsibility centers can be defined as entities that delegate power to achieve objectives specific reporting structures (Badea & Dobrin, 2006, p. 29). Their goal in carrying out the activity is to reach the budgets or budget values.

Budget controls are performed periodically, depending on the need. Budgetary control is intended to achieve established objectives (Dumitru, 2005). It involves identifying and analyzing budget deviations through a comparison of actual results or recorded outcomes with those planned or outlined in the budget (Caraiani et al., 2010; Chadwick, 1998; Dumitru, 2005; Hansen et al., 2003; Călin et al. al., 2002). Early identification of emerging issues and the analysis of deviation causes enable the timely implementation of corrective measures aimed to rectifying unfavorable situations within the economic entity and achieve budget objectives (Chadwick, 1998; Dumitru, 2005). The goal of controlling entities is to identify and fix problems, not to blame people (Chadwick, 1998).

The budgeting process encompasses a range of activities concerning the creation, implementation, control, and potential revision of budgets. Regarding the concept of participatory budgeting, as applied in our study, it refers to the collaborative formulation of budgets with the active involvement of subordinates in setting budgets (Libby, 1999; Nouri & Parker, 1998; Sholihin et al., 2011).

2. Literature Review

According to specialized literature, participative budgeting contributes to employee motivation, enhances their satisfaction levels, improves employee dedication to the entity and its objectives, reduces the costs associated with monitoring subordinates, and boosts productivity (Cabrera et al., 2003). Additionally, the participation of subordinates enables the development of budgets deemed more suitable (Nouri & Parker, 1998).

By analyzing the participative budgeting process using the affective model, we find that participation facilitates the fulfillment of employees' higher-order needs. The improvement of employee satisfaction leads to their motivation and, consequently, to an increase in productivity. On the other hand, according to the cognitive model, participation enhances the flow of information between superiors and subordinates, resulting in superior performance outcomes (Cabrera et al., 2003; Chong et al., 2006).

Participatory budgeting also influences subordinates' attitudes toward budgets and the budgetary process. As specialized literature states, the negative attitudes of subordinates receiving an unfavorable budget towards their superiors diminish when they have the opportunity to participate in budget formulation (Magner et al., 1995). In addition, employee participation in the budgeting process positively influences variables such as role ambiguity, subordinates' dedication, and job satisfaction. Through these factors, participatory budgeting indirectly impacts employee performance (Chong et al.,

2006). The connection between subordinates' participation and task performance can be achieved indirectly through the positive influence that participation has on subordinates' acceptance of objectives (Renn, 1998).

However, choosing to adopt a participatory budgeting system will result in the company's budget process design being impacted by the essential elements for its effective implementation. Therefore, we will consider bidirectional communication, trust between subordinates and superiors, providing explanations of subordinates' lack of impact on the final budgets, hierarchical level of participation, type of control implemented, and existing culture within the entity as essential factors influencing the budget process.

In order to achieve participative budgeting, it is important to implement a two-way vertical communication between superiors and subordinates. Information provided by superiors can be helpful in reducing the ambiguity of employee roles and improving their performance (Parker & Kyj, 2006), as well as in conveying objectives to subordinates. Employees have the ability to communicate essential information to their superiors through the flow of information from subordinates during budget preparation. Participative budgeting and employee dedication are key to supporting the exchange of information from subordinates to superiors (eng. Organizational commitment) (Parker & Kyj, 2006). However, for subordinates to engage in the budget process, trust in management is indispensable. The positive correlation between trust in superiors and employee engagement is accentuated by embracing a leadership style grounded in empowering subordinates (Gao et al., 2011). Employees' trust in their superiors and in the correctness of budget procedures is supported by the opportunity for employees to get involved in budget elaboration. Participatory budgeting not only ensures the accuracy of procedures but also promotes interpersonal trust, thereby alleviating workplace tension. Participatory budgeting reduces workplace tension through the accuracy of its procedures and the promotion of interpersonal trust (Lau & Tan, 2006). Equally significant, in our perspective, is the trust of superiors in the abilities of their subordinates and in their capacity to contribute effectively to budget realization and decision-making processes.

Participatory budgeting's impact on performance is influenced by the hierarchical level of participation and the type of control implemented. When subordinates participate in budget preparation at higher hierarchical levels, where the work tasks are more complex, it can lead to positive effects on performance, especially when output control is implemented (Jermias & Setiawan, 2008).

The efficacy of the participatory budgeting process is also influenced by the existing culture within the entity. The research on this topic has revealed that the employees' attitude toward participatory budgeting is determined by the culture's dimensions (Tsui, 2001). Consequently, participation may not be effective in countries or organizations with a high degree of collectivism and distance from power.

The design of an effective budgeting system must consider not only the external environment but also the internal dynamics and the human factor, including the impact of elements such as the complexity of work tasks and budgetary objectives, role ambiguity and employee dedication. The complexity of work tasks may necessitate the involvement of subordinates in budget elaboration and objective setting (Jermias & Setiawan, 2008; Lau & Tan, 1998). In addition the complexity or rigor of budgetary tasks and objectives may impact subordinates' perceptions and attitudes towards the accuracy of budgets and the overall budgeting process (Ihantola, 2006). Budget objectives need to be accessible and achievable (Chadwick, 1998) to avoid demotivation, and work tasks need to be clearly defined (Călin et al., 2002). Specialized literature suggests that subordinates who face increased uncertainty in their roles will prioritize achieving budget objectives due to the sense of safety or certainty that budgets provide

(Marginson & Ogden, 2005). The efficiency of the budget process is also influenced by the level of employee dedication. The more they are committed to the organization and its goals, the more they will pay attention to meeting budgets, which will lead to an improvement in their performance and the whole entity (Chong et al., 2006; Nouri & Parker, 1998; Marginson & Ogden, 2005).

3. Research Methodology

The study's objective is to identify the state of knowledge in activity budgeting, analyze the participatory budgeting process, and develop procedures for implementing and evaluating a participatory budgeting system. Various research methodologies were used to achieve the mentioned objectives, including fundamental, interpretive, empirical, and positivist types, as well as deductive and inductive research mechanisms.

The state of knowledge in activity budgeting was assessed through fundamental and interpretive research methodologies, which focused on the benefits and drawbacks of budgets, the role of employees in participatory budgeting and the factors that influence budget development.

Inductive and deductive research methods were used to delimit the ways in which employees can influence budgets and performance. They were also used to measure employee participation and the quality of the participatory budgeting process.

4. Employees of the Economic Entity and their Impact on the Budget Process

When preparing budgets, economic entities must be mindful of the fact that these managerial tools are created and implemented by people. Employees always play a role in ensuring the smooth functioning of the activity, which makes them an essential resource of the entity that must be managed and controlled to generate benefits and contribute to the improvement of the company's performance.

The specialized literature shows that focusing on employees results in a higher level of performance improvement than focusing on other stakeholders (Bussy & Suprawan, 2012).

To maximize results efficiency, subordinates must be encouraged to commit, and management must consider three essential psychological conditions: role significance, safety, and availability (Gruman & Saks, 2011). Thus, subordinates should see their role in the organization as crucial and important for achieving success. In addition to feeling valued by the entity, they also need to feel confident that they can contribute to the growth of the activity without fearing possible retribution. Furthermore, employees should be ready to assume their roles and get involved in achieving goals and improving performance.

Concerning the impact of employee satisfaction on performance, while some studies may not confirm a direct correlation between the two variables, research within the service industry suggests that this relationship can be established indirectly, primarily through customer satisfaction (Chi & Gursoy, 2009).

The influence of employee participation on performance is analyzed through both the affective approach and the cognitive approach (Cabrera et al., 2003). From the affective perspective, subordinate participation affects performance through their commitment. In this view, involvement provides employees with psychological benefits such as fulfillment, satisfaction, as well as material and financial rewards which motivate them and encourage them to develop a favorable attitude towards the entity, leading to better dedication. Contrarily, the cognitive approach argues that subordinate participation can impact performance through the exchange of information. According to the specialized literature, the

useful information provided by employees can help make more appropriate decisions that will eventually lead to better performance. Another strategy to incentivize employees to enhance their performance involves their involvement in establishing the performance measurement system. The rationale behind this approach stems from the understanding that performance evaluation methods significantly impact employees' behavior and willingness to dedicate themselves to achieving objectives and improving their performance.

It is particularly important, however to recognize that the significance of employees' roles also extends to the budgeting process. The specialized literature acknowledges that budget systems encompass two dimensions: the technical dimension, which involves the accounting and statistical aspects of budgets and budgetary control, and the psychological dimension, which considers the factors that motivate subordinates to attain budget objectives. Thus, international studies emphasize that "The process of budget development occurs within a human context, and therefore, behavioral factors cannot be ignored" (Chadwick, 1998).

While budgets are intended to influence people's behavior towards the objectives set by their superiors, individuals' responses to these instruments are influenced by various factors such as the manner in which budgets are formulated, the level of subordinate participation in their establishment, the extent of training or education of other people. Our belief is that the business's success cannot be guaranteed through the simple preparation and use of budgets. Constructing coherent and dependable budgets relies on the understanding of subordinates, their engagement, their accessibility, and the opportunity for them to share their private information with their superiors, among other factors. Also, the attainment of budget objectives depends on the dedication of subordinates toward meeting predetermined targets, their attitudes and perceptions regarding the accuracy of budgets and the budget process as a whole, their relationship with superiors, their comprehension of work tasks, the significance of objectives, and management's expectations.

Our perspective on the connection between an organization's employees, performance, and the budget process (Ștefănescu & Tănase, 2013) is graphically represented in Figure 1. According to this representation, employees directly impact the entity's performance as outlined in the specialized literature, or indirectly, through their involvement in the budget process.



Figure 1. The Influence of Employees on the Entity's Budgets and Performance

Source: adapted from Ștefănescu & Tănase, 2013

Budgets are frequently used by entities to plan activities and improve performance, but individuals are in charge of the development and execution of budgets. Analyzing the involvement of employees in the budget process is crucial since the entity's objectives are based on the attitude, feelings, opinions, and dedication of employees, and budgets themselves are a reflection of these objectives. The significance of this analysis becomes increasingly apparent when we realize that budgets and their implementation

directly impact the entity's performance. Employees need to cooperate, dedicate, and participate in order for the budget process to be successful, which is why their attitude towards the budgeting process and budgets in general is essential. By having a positive attitude, employees can create more realistic budgets that they consider accurate, they can establish budget objectives that are accessible, resources can be more efficiently allocated, negative budget deviations can be reduced, and employees are more dedicated to achieving budget values. We believe that all of these factors will contribute to improving performance, which will consequently experience positive influence.

To positively influence the behavior of subordinates, economic entities must consider several elements when defining, developing, and utilizing budgets. This includes being mindful of how employees perceive the company's objectives, involving them in setting these objectives, maintaining a balance between the entity's goals and employees' personal objectives, and ensuring effective communication between superiors and subordinates. Equally important is motivating employees and sustaining a high level of morale within the organization. Therefore, budgets should not be perceived as rigid plans to be achieved at any cost, and failure to meet them should not be deemed as a failure. Similarly, budgets should not serve as an excuse for poor performance. Economic companies should also consider establishing achievable yet challenging budgetary objectives and avoid imposing budgets (Chadwick, 1998). Instead, involving subordinates in their achievement proves to be much more effective.

The analysis of specialized literature reveals that involving employees in setting budget objectives ensures the dedication of subordinates to achieving them (Marginson & Ogden, 2005), mainly due to the fact they perceive the targets as more accurate and aligned with their expectations. Moreover, employee participation facilitates gaining essential budgetary support and the creation of appropriate budgets. This is a consequence of subordinates possessing a better understanding of the tasks they will undertake and the associated requirements (Nouri & Parker, 1998). Furthermore, the high level of appropriateness of budgets, coupled with employees' dedication to achieving objectives, leads to improved workplace performance (Nouri & Parker, 1998; Renn, 1998).

International studies also indicate that employee participation in budget preparation enables them to perceive budgetary procedures as fair, thereby reducing subordinates' negative attitudes toward potentially unfavorable budgets (Magner et al., 1995). Additionally, managers' attitudes toward the budget process are influenced by the budgetary behaviors adopted by superiors (Huang & Chen, 2009). Consequently, a leadership style emphasizing rewards (such as positive feedback) has a beneficial impact, both directly and indirectly (through mitigating economic budgetary games), on managers' attitudes toward the budget process. Conversely, a leadership style characterized by sanctions (negative feedback) has a negative indirect impact on attitudes toward budgets, primarily through fostering dishonest budgetary games. Moreover, managers who use economic budget games to obtain reasonable budgets, compared to dishonest ones, are believed to have a positive outlook on the budget process (Huang & Chen, 2009).

The integrated analysis of the presented approaches leads to the conclusion that the manner in which economic entities design their budget process will impact employee behavior. Subsequently, employees' attitudes toward budgets will, in turn, influence the effectiveness of utilizing these managerial tools (Figure 2).

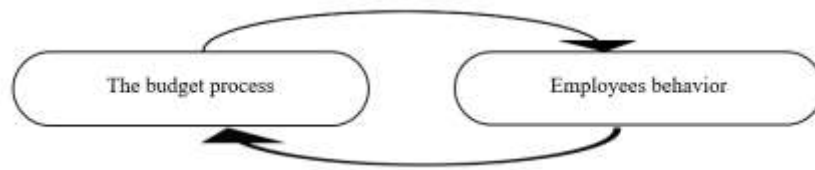


Figure 2 The Bidirectional Influence between the Budget Process and Employee Behavior

Source: author projection

5. Participatory Budgeting and its Role

The effective management of human resources is essential for the management of economic entities, particularly when considering the impact that employees have on the budget process and their performance. Superiors can also impact the opinions, beliefs, and attitudes of their subordinates. However, superiors can, in turn, influence the opinions, beliefs (Paul et al., 2000), and attitudes of subordinates.

To improve the budget process, entity management will struggle to motivate employees, maintain high levels of job satisfaction, and enhance subordinates' dedication to achieving objectives. Additionally, superiors will endeavor to make employees accountable by requiring them to communicate the necessary information for the successful running of their activities, as well as to motivate them to improve their performance.

To address these considerations, company management must attend to the psychological climate, employee motivation, work relationships, and trust between superiors and subordinates, but also, they should focus on establishing clear objectives, defining work tasks, implementing performance measurement systems, and other related factors.

Identifying methods to achieve these objectives can indeed be challenging for economic entities. However, the specialized literature proposes a mechanism that can support superiors in their mission and have a strong psychological impact on subordinates: participatory budgeting. This approach is considered an effective measure that provides benefits not only to the entity but also to subordinates. Through participatory budgeting, entity management can shape the attitude of employees and their impact on budgets in a positive manner (Tănase, 2013).

Participatory budgeting hinges on the involvement of subordinates in budget development. The principles underlying the implementation of a participatory budgeting system necessitate genuine employee influence on budgets and two-way vertical communication between superiors and subordinates (Parker & Kyj, 2006). Therefore, specialized literature views participatory budgeting as the authentic influence of subordinates in establishing budgets (Groen et al., 2012).

Integrating fundamental, inductive, and deductive research methodologies, we seek to synthesize the reasons that determine entity management to implement participatory systems and the ensuing impact on subordinates.

The most significant benefit of participatory budgeting is in the allocation of resources to the entity. Subordinates have a better understanding of the entity's activities, their implications, and the necessary resources to achieve its objectives than their superiors. By being directly involved in the processes, they have higher-quality information that they can provide to their superiors by participating in budget elaboration, which will lead to efficient allocation of resources. Studies in the specialized literature confirm that participatory budgets reduce the risk of inefficient resource allocations by incorporating the needs of subordinates. Kilfoyle & Richardson (2011) characterize budgets as a negotiation between

the principal, the authorizer of resources, and agents, who seek to acquire essential knowledge that is only theirs and ensure that their interests do not conflict with the entity's. Participatory budgeting enables superiors to gain a deeper understanding of the work and interdependencies between tasks, fostering more effective planning and coordination of work activities. It also affords management the opportunity to integrate the insights and knowledge provided by subordinates into the budgeting process.

The participatory budgeting process provides the entity with an opportunity to enhance the flow of information between superiors and subordinates. The efficiency of communication between these two parties, facilitated by employee participation, enables the acquisition of relevant information for budget formulation from subordinates which leads to the development of budgets with a higher degree of accuracy. As participatory budgeting improves the quality and precision of budgets, budget estimates become more reliable, resulting in reduced occurrences of negative deviations (Nouri & Parker, 1998; Parker & Kyj, 2006).

The essence of participatory budgeting extends beyond the positive effects it generates on the quality of budgets, although these effects are noteworthy. In our opinion, implementing a participatory budgeting system has benefits because it can change people's perception and attitudes toward the budgetary process and budgets as a whole.

Superiors' involvement in decision-making and paying attention to subordinates' opinions and knowledge can lead them to view management as correct, appreciate the transparency of decision-making processes, and increase their trust in superiors. Additionally, involving subordinates in setting budget objectives provides them with a different perspective on budgets and budget procedures, which they perceive as correct and achievable (Libby, 1999; Magner et al., 1995; Hoozée & Bruggeman, 2010). Employees who participate in the creation of budgets tend to exhibit a more tolerant attitude toward both the individuals who established the budget and the budget itself, even if it is unfavorable (Magner et al., 1995). However, for budgets to be perceived as correct, it is not only essential for employees to participate but also crucial to provide explanations to subordinates in cases where they cannot influence the final budgets. This transparency and communication are vital for maintaining trust and understanding within the organization.

Indeed, participatory budgeting not only "motivates employees, but also satisfies the needs for recognition and influence reducing the monotony of daily routines. Also, the participative budget system provides subordinates with feelings of fulfillment, satisfaction, control, and involvement in decision-making processes. It determines" their efforts toward achieving objectives, increases loyalty to the entity, improves access to information, boosts employee satisfaction and motivates subordinates to perform at their best" (Cabrera, Ortega & Cabrera, 2003, pp. 43-54). These benefits underscore the value of participatory budgeting in fostering a positive organizational climate and enhancing employee engagement.

Participative budgeting fosters trust between superiors and subordinates while creating a perception of fairness in budgetary procedures, consequently "reducing workplace tension" (Lau & Tan, 2006, pp. 171 – 186) and enhancing subordinates' commitment to achieving objectives. Although the specialized literature has not definitively established a direct link between participative budgeting and job satisfaction, it can be achieved indirectly through the system's ability to clarify and streamline work tasks. Additionally, participatory budgeting empowers subordinates by decentralizing and delegating authority, further enhancing their sense of ownership and responsibility within the organization.

Discussions facilitated by participatory budgeting between superiors and subordinates enable "the clarification of objectives and the methods of achieving them. Consequently, this process reduces

ambiguity regarding employee roles and leads to improvements in individual performances” (Parker & Kyj, 2006, pp. 27-45). By fostering open communication and shared understanding of goals, participatory budgeting enhances clarity and empowers employees to perform effectively within their roles.

While empirical evidence may not directly support the hypothesis that subordinates’ performance is influenced by the participatory budgeting system (Libby, 1999; Nouri & Kyj, 2008), the bond between the two variables can be established through various mechanisms, such as the exchange of information, which reduces ambiguity in employee roles (Parker & Kyj, 2006; Chong et al., 2006) and uncertainty in work tasks (Jermias & Setiawan, 2008; Lau & Tan, 1998), through employee dedication (Nouri & Parker, 1998; Parker & Kyj, 2006; Chong et al., 2006) and satisfaction. The participation of subordinates in establishing performance objectives can indeed be beneficial, as it increases their confidence in the correctness of procedures and fosters acceptance of the objectives. However, while the hypothesis suggesting that individual performance is directly influenced by subordinates’ participation in setting performance objectives may not be validated, there is evidence of an indirect association achieved through the acceptance of objectives (Renn, 1998).

The opinions presented in the specialized literature actually support the positive impact of the participatory budgeting process on performance, particularly when participation occurs at higher levels of the hierarchy. In such contexts, where work tasks are more complex and the exchange of information is crucial, participatory budgeting can significantly enhance performance outcomes. Moreover, this positive relationship is stronger when output-based control mechanisms are in place (Jermias & Setiawan, 2008) and when subordinates possess in-depth knowledge of cost management principles (Agbejule & Saarikoski, 2006). Moreover, if budgets are used as part of the evaluation criteria for subordinates’ performance, then their participation in setting budget objectives can contribute to improving performance (Jermias & Setiawan, 2008; Lau & Tan, 1998). When employees are involved in setting budget objectives, they have a clearer understanding of the expectations and goals they need to achieve. This involvement fosters a sense of ownership and accountability, leading to increased motivation and commitment to meeting the established objectives. While research in the specialized literature supports the positive effects of the participatory process, „providing essential information for improving performance, streamlining communication, increasing employee loyalty, motivating subordinates, enhancing job satisfaction, clarifying objectives, and reducing role ambiguity and workplace tension”, we acknowledge the importance of analyzing the potential disadvantages associated with adopting a participatory budgeting system.

We recognize several obstacles in implementing participatory budgeting, primarily related to communication challenges between superiors and subordinates. It’s not easy for superiors to accept the input of employees, and employees can be hard to persuade to share their information. Additionally, establishing and maintaining trust between the two parties may prove difficult. Conflict of interests between superiors and subordinates may also lead to heated debates and hinder the effectiveness of participatory budgeting initiatives. Although, participatory budgeting can generate additional costs and require significant time and effort investment from both superiors and subordinates. Superiors may face uncertainty regarding whether subordinates possess essential information for budget preparation, necessitating explanations when suggestions are not incorporated into final budgets. For employees, participation in the budgeting process without influencing final budgets can lead to demotivation and decreased morale. Another aspect that should not be ignored, refers to the fact that participatory budgeting can lead to increased responsibilities of subordinates, potentially resulting in heightened pressure and stress for both superiors and subordinates. Moreover, there is a risk that some individuals

may attempt to manipulate budgets to serve their own interests, undermining the integrity and effectiveness of the process.

Our view on the advantages and disadvantages of participatory budgeting, for both superiors and subordinates, is summarized in Table 1:

Table 1. The Advantages and Disadvantages of the Participatory Budgeting System

The advantages of participatory budgeting	Disadvantages of participatory budgeting
<i>For superiors</i>	
It improves the information flow between superiors and subordinates	Communication between superiors and subordinates is difficult to achieve
It allows the entity to obtain useful information in the preparation of budgets from subordinates	It can be difficult to convince subordinates to participate in the development of budgets and to provide the privileged information they have
It allows efficient allocation of resources	Subordinates may not have privileged information, useful in the preparation of budgets
It allows obtaining adequate, reliable budgets with a higher degree of accuracy	It can lead to heated debates between superiors and subordinates
It allows the harmonization of the interests of superiors and subordinates	It can be a source of stress for superiors
It allows a more efficient planning and coordination of the activity	Superiors must accept the involvement of subordinates
Make subordinates responsible	Subordinates may try to manipulate budgets and resource allocation
Supports the improvement of subordinates' performances	Superiors must provide employees with an explanation regarding their lack of impact on final budgets (if applicable)
	It may incur additional costs
	It involves a large amount of time and effort
<i>For subordinates</i>	
It improves the information flow between superiors and subordinates	Communication between superiors and subordinates is difficult to achieve
Improves trust in superiors	Subordinates must agree to get involved in the budget process
Improves confidence in the correctness of the budget process	They must trust their superiors and not be afraid to get involved in the preparation of budgets
It supports the development of a favorable attitude towards those who set the budget and towards budgets	It can lead to heated debates between superiors and subordinates
Allows subordinates to perceive budgets as correct and achievable	It can be a chore and a source of stress for subordinates
Motivate employees	It determines the increase in the responsibility of subordinates
Satisfies the needs of recognition and influence felt by subordinates	It can demotivate employees if they cannot influence the final budgets
It gives subordinates a sense of fulfillment, satisfaction, control and involvement in decision-making	
It reduces the tension that employees feel at work	
It allows the clarification of objectives and tasks	
It reduces the ambiguity of the employee's role	
It improves the commitment of subordinates in achieving the objectives	
It supports the improvement of individual performances	

(Source: adapted from Tănase, 2013)

6. Methodological Approach Regarding Participatory Budgeting

Absolutely, the participation of subordinates in the budgeting process can yield numerous benefits, including improved communication, increased employee motivation, and enhanced responsibility. However, it's essential to acknowledge and address the potential challenges associated with participatory budgeting, such as increased costs, time consumption, and the risk of manipulation. The management of entities faces the challenging task of designing and implementing an effective participatory budgeting system tailored to the specific needs and circumstances of their organization. This involves carefully balancing the advantages and disadvantages of participatory budgeting and implementing measures to mitigate potential drawbacks.

Designing and implementing participatory budgeting within economic entities requires a systematic approach to ensure its effectiveness. Based on insights from the specialized literature, we propose a set of measures intended to streamline the process.

In our view, participatory budgeting consists of five stages: 1. analyzing the organizational environment; 2. communication with the involved parties and their training regarding the principles of participatory budgeting; 3. identifying the deficiencies and adopting the necessary measures aimed at creating an environment suitable for the implementation of participatory budgets; 4. preparing budgets by using the participatory system and using them in carrying out the activity; 5. evaluation of the participatory budgeting system.

Before embracing participatory budgeting, organizations should evaluate their work environment. We contend that the successful implementation of this budgeting approach relies on conducive conditions within the entity. A work atmosphere supportive of developing participatory budgeting system implies a suitable organizational culture, the presence of efficient communication channels, and positive relationships between superiors and subordinates.

First of all, the successful execution of participatory budgeting hinges on the organizational culture of the entity. We believe that the participatory budgeting process can be analyzed using two important dimensions of culture: power distance between superiors and subordinates and collectivism. Participatory budgeting tends to be more effective in environments where power distance is minimized and where individualism is less emphasized, fostering collaborative teamwork (Lau & Tan, 1998).

Also, communication plays a pivotal role in implementing a participatory system. However, communication channels should not operate solely in one direction. The exchange of information must occur both from superiors to subordinates and from subordinates to superiors. The aim of participatory budgeting is to engage subordinates in the budgeting process. Therefore, vertical communication from subordinates to superiors needs enhancement to enable employees to furnish management with crucial information for budget elaboration. Their in-depth knowledge about their activities can result in the development of appropriate budgets, as they possess relevant information that is only available to them (Parker & Kyj, 2006).

From a theoretical standpoint, ensuring an effective communication system may seem straightforward, but in practice, it's far more complex. It's important to remember that while communication channels may exist, effective communication is a process that involves people and heavily relies on the quality of relationships between them. The role of superiors is twofold: they must establish effective channels for two-way communication and manage relationships between superiors and subordinates to ensure the use of these communication channels. It's crucial for both superiors and subordinates to maintain a favorable attitude towards the participatory budgeting process and remain open to its implementation.

The specialist literature discusses the potential reluctance of superiors to include subordinates in budget preparation, share information, grant autonomy, and involve them in decision-making processes, thus limiting their decision-making authority. But, it's not just superiors who may view the participatory system unfavorably. Subordinates may also exhibit reluctance to engage in the budget process, fearing increased responsibilities or greater task ambiguity. It's fundamental that they don't feel obligated to participate but voluntarily offer relevant information they possess, and if they choose to get involved, they should do so without fear of potential reprisals. International studies have demonstrated that employees who are confident in their abilities and are communicative are more likely to be motivated by participation.

Thus, the organization's management should influence how its employees think. It should instruct superiors to view the participation of subordinates as an addition to their authority or an impediment to decision-making, but rather as a necessary aid in establishing proper budgets. On the contrary, employees should perceive participation not as an obligation, but as an opportunity to contribute to budget realization, secure more favorable budgets, and establish achievable objectives aligned with actual capabilities. Therefore, the entity must emphasize the benefits of participatory budgeting for both superiors and subordinates.

In the second stage of participatory budgeting, communication with all involved parties will occur, accompanied by training on the principles of participatory budgeting. The aim of this phase is to acquaint employees with the participatory process, highlight the benefits of such a system for both the entity and individuals, and foster a positive attitude towards participatory budgeting. Employee acceptance and involvement are decisive for the successful implementation of the participatory budgeting system.

The feedback that the company's management receives from stakeholders, their responses, and opinions, is crucial in determining the points that will cause problems with the use of the participatory budgeting system and to implement it, the entity must correct its effectiveness. If the prevailing environment within the entity and the responses from individuals are unfavorable, management may even consider abandoning the project of adopting a participatory system. This measure can also be implemented when subordinates are unable to offer valuable or pertinent information during budget preparation. Literature in the field indicates that an impediment to adopting participatory budgeting may stem from factors such as a limited number of employees, their lack of experience, or their inability to make meaningful contributions (Jermias & Setiawan, 2008).

Therefore, following an analysis of the organizational environment and discussions with all involved parties, the entity must determine whether to proceed with the implementation of the participatory system or to discontinue it. The decision to proceed with the adoption of participatory budgeting initiates the third stage of this process. During this phase, deficiencies or issues that could hinder the effective implementation of the participatory process will be identified. Subsequently, measures will be developed and implemented to eliminate these inconveniences and create an environment conducive to the participatory budget system. These measures include optimizing communication channels, shaping employee mindsets, organizing a program of meetings and discussions between superiors and subordinates, phasing the budget process, and establishing detailed procedures regarding employee participation in budget preparation. It's crucial to note that implementing these measures should precede budget preparation to ensure the seamless execution of the entire budgetary process.

Upon completion of the third stage, if the identified issues were minor, the process will proceed directly to the next stage. Otherwise, if significant problems were identified, the entity will implement necessary

corrective measures and then reassess the process from the first stage to evaluate the effectiveness of the implemented solutions (Figure 3.).

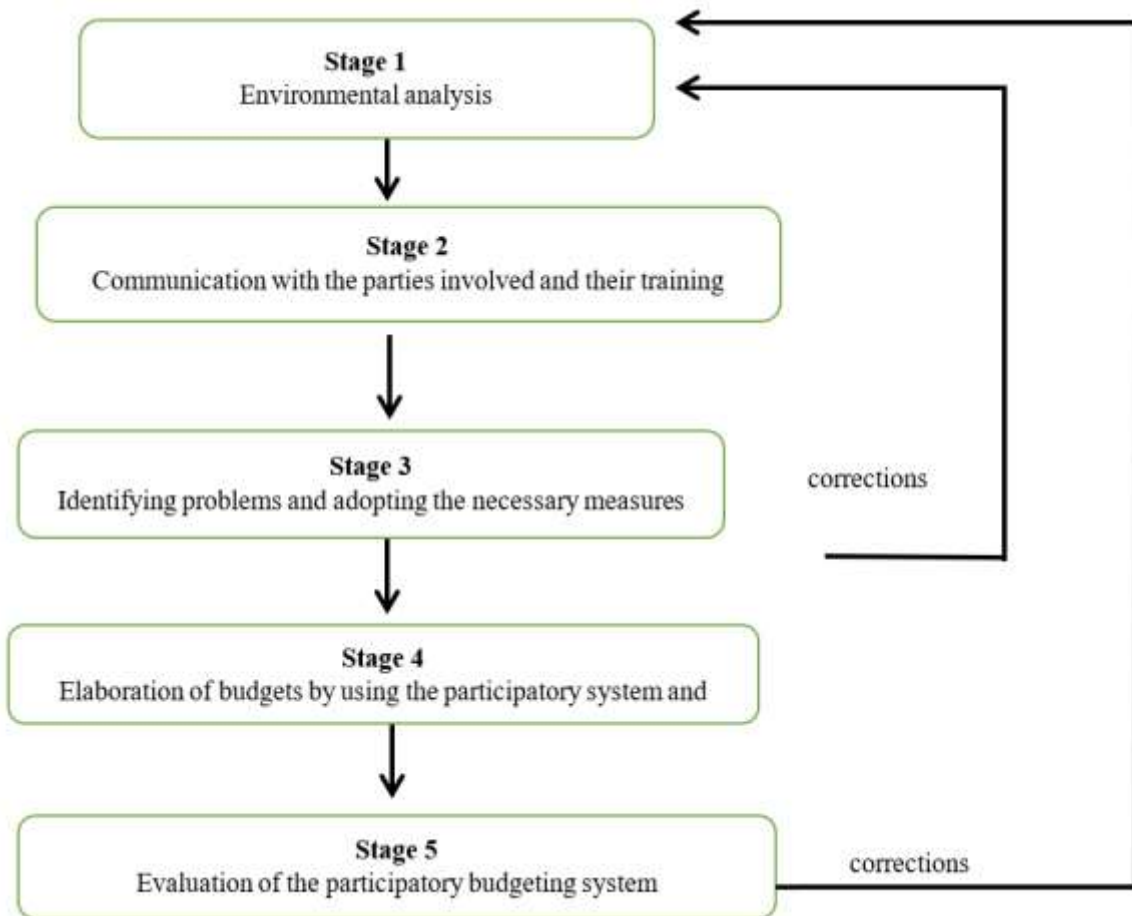


Figure 3. The Stages of the Participatory Budgeting Process

(Source: own conception)

Once the participatory system is effectively implemented, the entity can develop budgets with the participation of subordinates. In the specialized literature, stages of participatory budgeting (within the public sector) include selecting participants, completing questionnaires, distributing information, organizing debates and negotiations, and conducting voting processes. The selection of participants for contributing to budget creation is crucial because, as mentioned earlier, not all subordinates possess equally valuable information that could impact budgets significantly. Utilizing questionnaires enables superiors to gather opinions and suggestions from subordinates. In addition, negotiations and debates facilitate effective communication, while participation enhances the transparency of the decision-making process.

Once participatory budgets have been formulated, the subsequent activity will focus on achieving the established objectives. To foster a positive attitude toward the participatory process, it is important for subordinates to receive feedback on the activity performed and the results achieved. It is believed that employees receiving such evaluations will exhibit more active participation, increased motivation, greater job satisfaction, and reduced role ambiguity.

7. Conclusions

The conducted study reveals a particularly important aspect related to the benefits of budget utilization, which are more pronounced when the entity embraces a participatory budgeting approach. Therefore, it's imperative not to overlook the fact that budgets are formulated and implemented by individuals.

We strongly believe that employees within organizations exert a profound influence on the entire budgetary process. Increased involvement, dedication to achieving company objectives, effective communication among team members, and diverse knowledge and skills contribute to the reliability of budgets, efficient resource allocation, minimized deviations, and ultimately, heightened performance. However, employees' attitudes are largely influenced by their perceptions of the budgeting process. Considering this aspect, our research underscores not only the significance of employees in budgeting activities but also the importance of implementing a participatory budgeting system that allows employees to get involved and have a tangible impact on budget development.

Participatory budgeting improve the flow of information between superiors and subordinates, resulting in a more efficient allocation of resources, realistic budgets, and balancing the interests of both parties involved. Moreover, based on the conducted research, the participatory budgeting system fosters a sense of responsibility among subordinates, enhances their trust in superiors and the accuracy of the budget process, cultivates a positive attitude towards budgets, and contributes to elevating employee satisfaction, responsibility, and motivation levels. According to specialized literature, implementing a participatory budgeting system can also reduce role ambiguity, clarify the work tasks of subordinates, and lead to improved performance. While we acknowledge the usefulness of participatory budgeting for economic entities, we also recognize the importance of understanding its disadvantages. Thus, our research delves into challenges such as the difficulty in establishing effective communication between superiors and subordinates, the ineffectiveness of employee participation in budget development without essential information, and the potential increase in stress levels associated with such a budgeting system. In addition, participatory budgeting can incur higher costs, be more complex to manage, potentially demotivate employees if they perceive their impact on final budgets as limited, and may even prompt them to engage in budgetary games.

Despite all these difficulties, participatory budgeting can prove highly effective for entities that are skilled in using it.

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