

**Program Heads' Criteria For and Reactions To  
Fair Governmental Budgetary Procedures**

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## **Abstract**

Program heads are key players in governmental budgeting because they are involved both in formulating their program's budget and ensuring the program's activities are carried out in accordance with the budget. This paper summarizes research pertaining to two aspects of a government's budgeting system—formal budgetary procedures fairness and budgetary procedures implementation fairness—that influence program heads' attitudes and behaviors. Criteria are identified for each of the two forms of budgetary procedures fairness, as are specific types of attitudinal and behavioral reactions on the part of program heads. The paper also discusses implications that this research has for people involved in designing and implementing governmental budgeting systems and for government budgeting researchers.

## **Program Heads' Criteria For and Reactions To Fair Governmental Budgetary Procedures**

Governmental budgeting is an essential decision-making process that motivates a governmental unit to engage in systematic operational planning for the near future and to consider how to best allocate its limited financial resources among competing programs.<sup>1</sup> The final annual budget adopted by the legislative body communicates resource allocation decisions throughout the governmental unit and authorizes a maximum level of spending within each program (Peters, 2004). As such, the budget links financial resources and government employees' behavior with the ultimate objective of accomplishing the governmental unit's overall policy objectives (Wildavsky, 1984, p. 1).

Key players in governmental budgeting are program heads, who are involved in both formulating their program's budget and ensuring the program's activities are carried out in accordance with the budget. Because of their close association with the budget and budgeting, characteristics of the government's budgetary system will influence the attitudes and behavior of these employees. This paper summarizes research pertaining to one general characteristic of a government's budgetary system—the fairness of the budgetary procedures. We draw on research conducted specifically in a governmental budgeting setting, as well as relevant research from other budgeting and related (e.g., performance evaluation and pay allocation) organizational settings. The paper also discusses implications that this research has for government executives, legislators, accounting and finance staff, and others who are involved in designing and implementing governmental budgetary procedures, as well as for researchers who examine governmental budgeting issues.

## **Program Heads are Concerned with Budgetary Outcomes**

One aspect of governmental budgeting that influences program heads' attitudes and behaviors is the *outcome* of the government's budgetary procedures—the final current annual budget established for the program in terms of resources available. These reactions stem from the fact that the program's budget affects the personal rewards, both material and psychological, that program heads receive from the government. For example, heads of programs that receive a relatively large budgetary resource distribution may realize greater material rewards, such as pay, if more resources enable the program to better perform its service mission and material rewards are linked to program performance. A relatively large budgetary resource distribution may also provide program heads with greater psychological rewards because they view themselves as a “winner” in the competition for control over the governmental unit's scarce resources (Merchant & Manzoni, 1989). These program heads may also realize greater psychological rewards because the program's subordinate employees and clientele grant them higher status and recognition for their effectiveness in securing resources for the program (Niskanen, 1971).

For a number of reasons, program heads may have an unfavorable perception of their program's final budget and consequently react to this situation with negative attitudes and behaviors. Government program heads are often viewed as budget maximizers, who seek ever greater resource distributions for their programs (Niskanen, 1971; Wildavsky, 1984). Governments have limited resources and, particularly in times of tight budgets, program heads may feel that their program's budgetary resource distribution is less than what the program needs and/or deserves (Wentzel, 2002). This problem is likely exacerbated by a psychological phenomenon called the egocentric bias, whereby recipients in resource allocations often feel it is appropriate that they receive a large share of the resource pool (Diekmann et al., 1997; Leung et

al., 2004). Governments may often be limited in their ability to establish budgets that program heads will view favorably and react to in a positive way because the decision regarding the final budget for a government program is made primarily with an eye toward political considerations and achieving the government's overall policy objectives (Wildavsky, 1984).

### **Budgetary Procedures are Also Important to Program Heads**

In light of program heads' often unfavorable reactions to their budget, it is perhaps fortunate for governmental units that program heads also react to the *procedures* by which this budgetary outcome is determined. Specifically, program heads are concerned with whether the formal budgetary procedures are fair, as well as whether these budgetary procedures are implemented fairly. *Formal budgetary procedures fairness* addresses how well the government's authorized budgetary procedures comply with the program head's criteria for what is proper. *Budgetary procedures implementation fairness* addresses the extent to which the government's budgetary decision makers and their agents (e.g., government accounting and finance staff) carry out the formal budgetary procedures in a way that is consistent with the program head's criteria for what is proper. Organizational fairness literature (see, for example, reviews by Lind & Tyler, 1988 and Colquitt et al., 2001), including research conducted in a governmental and university budgeting settings (Magner & Welker, 1994; Magner & Johnson, 1995; Staley et al., 2003), indicates that people often have stronger reactions toward the fairness of decision making procedures than they do toward the favorability or fairness of the decision outcomes.

## **Criteria for Fair Governmental Budgetary Procedures**

How do program heads assess whether or not their government's formal budgetary procedures and the implementation of those procedures are fair? Figure 1 shows criteria for formal budgetary procedures fairness (Leventhal, 1980; Greenberg, 1986; Tyler, 1988; Magner et al., 2000; Staley & Magner, forthcoming), which include:

- *Voice*—formal governmental budgetary procedures should provide program heads with an adequate opportunity to voice their opinions regarding budgetary decisions affecting their program.
- *Appeal*—formal governmental budgetary procedures should contain provisions that allow program heads to appeal budgetary decisions affecting their program.
- *Accuracy*—formal governmental budgetary procedures should ensure that budgetary decisions affecting the program incorporate accurate information.
- *Consistency*—formal governmental budgetary procedures should be applied in a consistent fashion across programs and from period to period.

### **Place Figure 1 about here**

Figure 1 also shows criteria for budgetary procedures implementation fairness (Bies & Moag, 1986; Tyler & Bies, 1990, Staley & Magner, forthcoming), which include:

- *Interpersonal sensitivity*—budgetary decision makers and their agents should treat program heads with kindness and respect, and show concern for program head's rights, when implementing budgetary procedures.
- *Consideration of opinions*—budgetary decision makers and their agents should give sincere consideration to opinions that program heads have voiced regarding their program's budget. This criterion does not require that budgetary decision makers

necessarily incorporate the program heads' budgetary opinions into the budget (e.g., give program heads the budgetary resource distribution they requested). If their budgetary input is rejected, however, program heads seek evidence that decision makers took this action only after genuine deliberation and thought.

- *Explanations*—budgetary decision makers and their agents should provide program heads with clear, timely, and adequate explanations of the reasons for their budgetary decisions. This practice may be a particular concern of program heads whose budgetary opinions are not incorporated into their program's budget. Explanations may provide evidence that decision makers did, in fact, give sincere consideration to the program heads' budgetary input before rejecting it.
- *Bias suppression*—budgetary decision makers and their agents should suppress biases that favor one unit over another when implementing budgetary procedures.

If program heads' perceive that these criteria for formal budgetary procedures fairness and budgetary procedures implementation fairness are met, what benefits can a governmental unit realize in terms of improved attitudes and behaviors on the part of program heads?

### **Reactions to Fair Budgetary Procedures**

Figure 1 shows types of attitudinal and behavioral reactions that program heads may have toward formal budgetary procedures fairness and budgetary procedures implementation fairness. Two attitudinal reactions that have received substantial attention in organizational fairness research are organizational commitment and trust in supervisor. Organizational commitment is an attitude toward the organization (e.g., governmental unit) as a whole and addresses the strength of a manager's (e.g., program head's) identification with and involvement in the organization (Mowday et al., 1982). Trust in supervisor is an attitude toward the immediate

supervisor and represents the willingness of a manager to be vulnerable to the actions of the supervisor based on the expectation that the supervisor will perform future actions important to the manager (Mayer et al., 1995). Fostering commitment and trust are important concerns of organizations because these reactions, in turn, have been shown to be associated with a variety of functional employee attitudes and behaviors (Ketchand & Strawser 2001; Mathieu & Zajac 1990; Mayer et al., 1995; Pillai et al., 1999; Whitener et al., 1998). Organizational fairness studies (cf. Colquitt et al., 2001), including those conducted in a governmental budgeting setting (Magner & Johnson, 1995; Staley et al., 2003; Staley & Magner, forthcoming), consistently indicate that formal budgetary procedures fairness and budgetary procedures implementation fairness each have a positive influence on both organizational commitment and trust in supervisor.

A behavior that is of particular concern in a governmental budgeting setting is the extent to which program heads try to build slack into their program's budget. When program heads are involved in budgeting, they have a tendency to try to intentionally bias the process so as to secure a greater resource distribution than can be justified given the program's contributions to the government (Merchant, 1985; Van der Stede, 2000). This behavior is driven by self-interest because, as discussed earlier in this paper, a large budgetary resource distribution can lead to greater personal rewards for the program head. From the governmental unit's standpoint, however, budgetary slack may lead to a suboptimal allocation of resources between programs and, ultimately, undermine the extent to which the governmental unit meets its policy objectives. Fair formal governmental budgetary procedures and fair implementation of these procedures have each been shown to play a role in reducing program heads' propensity to create budgetary slack (Staley & Magner, forthcoming).

In addition to greater commitment to the governmental unit, higher trust in supervisor, and lower propensity to create budgetary slack, organizational fairness research suggests that program heads will react in other positive ways to formal budgetary procedures fairness and budgetary procedures implementation fairness. These reactions include greater compliance with the budget and budgetary procedures, more job satisfaction, lower turnover and absenteeism, greater organizational citizenship behavior (e.g., helping colleagues), more support for the governmental unit and its authorities, and higher job performance (e.g., Colquitt et al., 2001; Lind & Tyler, 1988; Tyler, 1994).

### **Fair Budgetary Procedures May Reduce Negative Reactions to Unfavorable Budgets**

As discussed earlier in this paper, program heads often have unfavorable perceptions of their program's current budget and react to this condition with relatively negative attitudes and behaviors. Furthermore, because of factors such as resource scarcity and the egocentric bias, governmental units are often limited in their ability to set budgets that program heads will react to in a positive manner. Given this situation, an important quality of both forms of budgetary procedures fairness is that they may reduce the extent to which program managers react to their current budget, as shown in Figure 2. Organizational fairness research frequently indicates that even when people receive an unfavorable decision outcome (e.g., budget), they will have less negative attitudes and behaviors if they believe the decision-making procedures or implementation of those procedures is fair (Brockner & Wiesenfeld, 1996). In fact, this research suggests that budgetary procedures fairness may sometimes completely ameliorate the negative effects that an unfavorable budget has on program heads' attitudes and behaviors. The potential for fair budgetary procedures to reduce program managers' reactions to their current budget may

be due to information that such procedures convey about program managers' ability to realize long-run benefits, as discussed in the next section.

**Place Figure 2 about here**

### **Why are Fair Budgetary Procedures Important to Managers?**

The fact that formal budgetary procedures fairness and budgetary procedures implementation fairness have positive effects on program heads' attitudes and behaviors indicates that fair budgetary procedures are important to program heads. Drawing on social exchange theory, both general organizational fairness research (Aryee et al., 2002; Konovsky & Pugh, 1994; Masterson et al., 2000; Brockner, 2002) and governmental budgeting research (Staley & Magner, forthcoming) support the idea that program heads value fair budgetary procedures because such procedures provide assurance that the program heads can trust their governmental unit and its budgetary decision makers to provide them with valued material and psychological benefits over the long-run.

Regarding formal budgetary procedures fairness, the presence of authorized budgetary procedures that, for example, allow program heads an opportunity to voice their budgetary opinions and to appeal budgetary decisions, signal to program heads that they will receive material benefits such as favorable budgets and rewards linked to these budgets such as pay (see, for example, the self-interest model of fair procedures by Lind & Tyler, 1988). Fair formal budgetary procedures also provide program heads with psychological benefits such as self-esteem in that the use of such procedures signifies that the governmental unit and its officials respect the program heads and view them as important and valued members of the governmental unit (see, for example, the group value model of fair procedures by Lind & Tyler, 1988). Because formal budgetary procedures are structural in nature and organizational inertia tends to

allow structures to remain as they are, program heads will be inclined to view the formal budgetary procedures as stable over time (Brockner, 2002). Therefore, if program heads believe that the formal budgetary procedures are fair currently, they will infer that the procedures will continue to be fair in the future, and thus will trust the governmental unit and its budgetary decision makers to provide them with the material and psychological benefits that stem from such procedures over the long-run. In order to cultivate and sustain this beneficial relationship with the governmental unit and budgetary decision makers, program heads will reciprocate with improved attitudes (e.g., greater organizational commitment) and behaviors (e.g., less propensity to create budgetary slack). Also, because they expect to realize benefits from the budgetary system over the long-run, program heads will be less sensitive to whether or not their unit's current budget is favorable.

Regarding budgetary procedures implementation fairness, when budgetary decision makers carry out formal budgetary procedures through, for example, showing interpersonal sensitivity and providing clear and adequate explanations for their budgetary decisions, program heads are likely to view such treatment as a signal that they are respected and valued members of the governmental unit. Recognition as a respected and valued employee will, in turn, provide program heads with psychological benefits such as enhanced self-esteem. Such treatment also indicates to managers that budgetary decision makers have goodwill toward and mean well by them, which provides assurance that decision makers will take care to provide the program heads with their fair share of material benefits such as favorable budgets and consequent rewards. Because of the fundamental attribution error (Heider, 1958; Gilbert & Malone, 1995), by which people tend to attribute the behavior of others to their relatively enduring personality traits, motives, and attitudes (i.e., their "disposition") rather than to situational causes, program heads

will be inclined to view the way that decision makers implement formal budgetary procedures as stable over time (Brockner, 2002). Therefore, if program heads perceive that decision makers are currently implementing formal budgetary procedures in a fair manner, they will infer that the decision makers will continue to implement the procedures fairly in the future. Thus program heads will trust budgetary decision makers to provide them with material and psychological benefits over the long-run. Program heads will reciprocate for the expected future benefits stemming from fair implementation of budgetary procedures through improved attitudes and behaviors, and will be relatively insensitive to the favorability of their unit's current budget.

### **Implications for Governmental Budgeting Officials**

Fair budgetary procedures are an important component of a governmental unit's budgetary system because they promote more positive attitudes and behaviors on the part of program heads, which ultimately may enable the program to better fulfill its service mission and the governmental unit as a whole to better accomplish its policy objectives. Furthermore, governmental units should attend to both types of budgetary procedures fairness: It is not sufficient only to establish a fair set of formal budgetary procedures; budgetary decision makers and their agents must carry out these procedures in a fair manner for the governmental unit to realize the greatest positive impact on program heads' attitudes and behaviors.

To enhance formal budgetary procedures fairness, people involved in designing a governmental unit's budgetary system should develop procedures that allow program heads to voice their opinions regarding budgetary decisions and to appeal those decisions. Furthermore, formal budgetary procedures should ensure budgetary decisions are based on accurate information and are made in a consistent manner. Many governmental units have in place formal budgetary procedures that, at least in form, address these criteria. For example, formal budgetary

procedures often direct accounting and finance staff to meet as needed with program heads and other program personnel to answer questions, address concerns, and provide assistance in formulating the program's budget request. Formal budgetary procedures also often grant program heads opportunities, prior to the final adoption of the budget, to meet with the chief executive and to testify before legislative committees and during public hearings. These opportunities for interaction with budgetary decision makers and their agents address the voice, appeal, and accuracy criteria for formal budgetary procedures fairness. Governmental units frequently codify formal budgetary procedures in a budget manual, a practice that addresses the consistency criterion.

To enhance budgetary procedures implementation fairness, budgetary decision makers and their agents should treat program heads with kindness and respect, show concern for the program heads' rights, give sincere consideration to the program heads' budgetary opinions, provide clear and adequate explanations for budgetary decisions, and suppress personal biases. The general organizational fairness literature (Colquitt, 2001) suggests that some of the criteria identified for formal budgetary procedures fairness may also be relevant to budgetary procedures implementation fairness. For example, while the government's formal budgetary procedures may mandate that program heads be given opportunities to have a voice in and to appeal budgetary decisions, the degree to which program heads are actually granted voice or appeal is often largely at the discretion of budgetary decision makers and their agents as they implement the formal procedures. Therefore, program heads may apply the voice and appeal criteria when forming judgments of budgetary procedures implementation fairness as well as when forming judgments of formal budgetary procedures fairness.

Given the often political and incremental nature of governmental budgeting (see Wildavsky, 1984, for a prominent discussion of this issue), program heads may sometimes be wary about the true underlying fairness of their governmental unit's budgetary process, regardless of how the formal budgetary procedures *appear* to be structured and the manner in which these procedures *appear* to be implemented. To assuage this concern, budgetary decision makers and their agents may be advised to employ self-presentation tactics to convince program heads that the budgetary process is fair. Magner et al. (2000, p. 810) have proposed several such tactics, including public pronouncements of the intention to be impartial and to use accurate information during budgeting, active questioning of program advocates presenting their case at public budget hearings, distribution of internal government memorandums soliciting more information from programs on which to base budget decisions, and playing the role of devil's advocate during discussions of budget outcomes they are likely to favor. One aspect of budgetary procedures implementation fairness—showing interpersonal sensitivity by treating program heads with kindness and respect—may be a particularly effective (and low cost) method for reducing apprehension regarding the underlying fairness of the budgetary process.

Many of the actions necessary to meet the criteria for fair governmental budgetary procedures and the benefits that can be realized from these actions are likely not entirely evident to government executives, legislators, and accounting and finance staff involved in the design and implementation of the governmental unit's budgetary system. Therefore, governmental units should utilize training and development mechanisms like seminars to educate these parties about the importance of both formal budgetary procedures fairness and budgetary procedures implementation fairness and about specific ways they can promote each form of budgetary procedures fairness.

## **Implications for Governmental Budgeting Researchers**

While the organizational fairness literature is extensive, few studies to date have been conducted specifically in a governmental budgeting context. This situation creates a number of opportunities for future governmental budgeting research. For example, as discussed earlier in this paper, one of the most common findings in the fairness literature is an interaction between decision outcomes and decision making procedures such that people have less negative reactions to unfavorable outcomes if they believe that the procedures or implementation of the procedures are fair. We suggested that this phenomenon will often generalize to a governmental budgeting setting, yet Staley et al. (2003) failed to support the interaction in their study of U.S. federal executives with budget responsibility. Future research spanning different types of governmental units (local, state, and federal) should examine whether or not the Staley et al. findings are an aberration and, if they are not, try to identify aspects of the governmental budgeting setting that make the interaction between outcomes and procedures less likely to emerge there than in other organizational decision-making contexts. Another potential avenue for future governmental budgeting research is to examine whether or not formal budgetary procedures fairness and budgetary procedures implementation fairness might interact with each other to influence program heads' attitudes and behaviors. This recommendation is motivated by Little et al. (2002), who found that managers in business organizations have particularly favorable behavioral reactions (e.g., particularly high performance, particularly low propensity to create budgetary slack) when they perceive that *both* the formal budgetary procedures *and* decision-makers' implementation of the procedures are fair.

An aspect of governmental budgeting that complicates research regarding budgetary procedures fairness is that the executive branch and the legislative branch each play a separate

role in budgetary decision making and each adopt and implement their own set of budgetary procedures. Chief executives (e.g., mayors, governors, city managers) and their agents generally are responsible for formulating a recommended budget that will be submitted to the legislature. Developing this recommended budget involves gathering budgetary information and budget requests from programs and meeting with program personnel as adjustments are made to budget requests. Once the recommended budget has been submitted to the legislature, this body and its agents will often allow programs to testify on issues related to their budget requests before approving a final budget for the governmental unit. Given this shared responsibility for governmental budgetary procedures and decision making, future research should measure program heads' perceptions of formal budgetary procedures fairness and budgetary procedures implementation fairness with separate reference to both the executive branch and the legislative branch. This research might find, for example, that program heads react more strongly to the budgetary procedures fairness of the executive branch than that of the legislative branch (or vice versa).

All previous studies to address budgetary procedures fairness in governmental units have utilized questionnaire data where all the variables were measured at the same point in time. While this design permits the examination of interrelationships between several variables simultaneously and in a realistic setting, it offers little control over other unmeasured variables that might explain the relationships found in the studies and does not provide conclusive evidence as to the direction of causality between variables (Isaac & Michael, 1971). To address these weaknesses, future research should examine budgetary procedures fairness relationships via laboratory experiments that use governmental program heads (as compared to college

students) as subjects to enhance the extent to which the results will generalize to actual governmental budgeting settings.

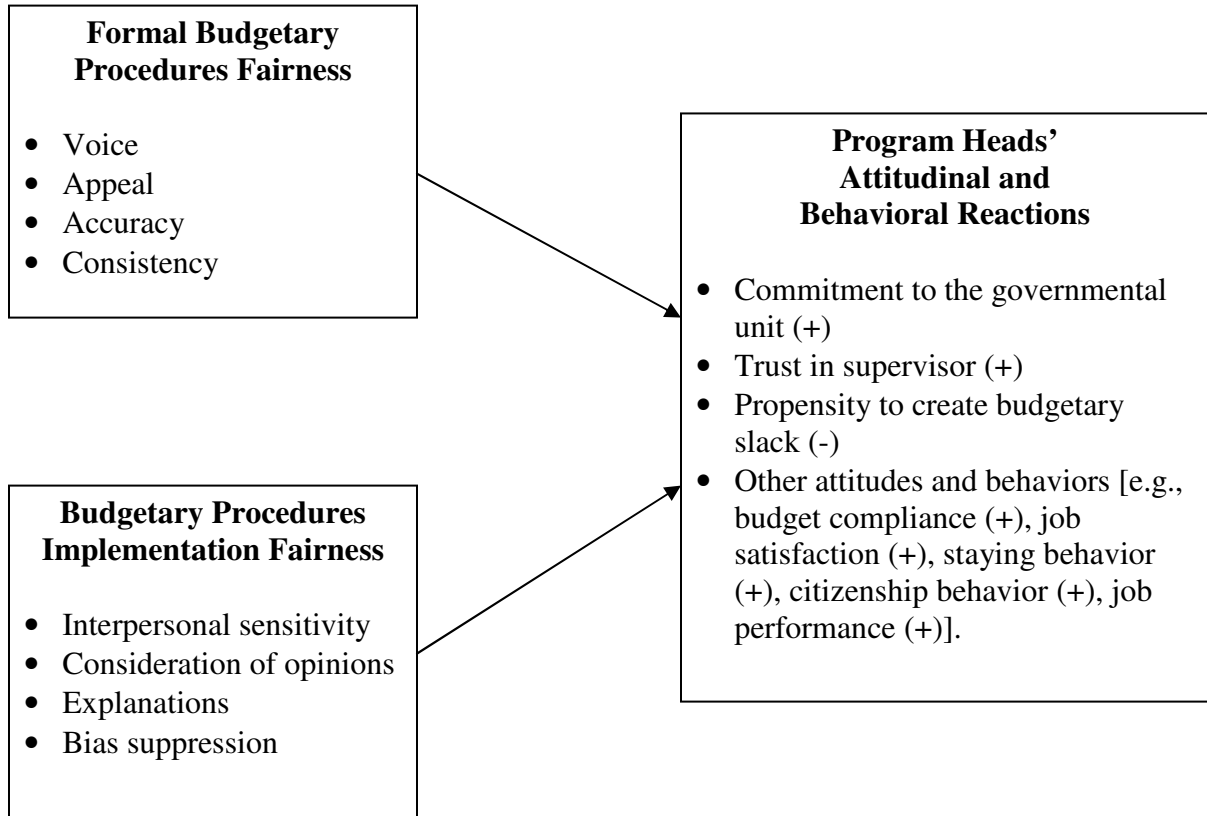
## Footnotes

- <sup>1</sup> The term “program” is used throughout the paper to refer to all subunits of a governmental unit, including departments, agencies, divisions, and bureaus.

**Figure 1**

**Criteria For and Types of Program Heads' Reactions**

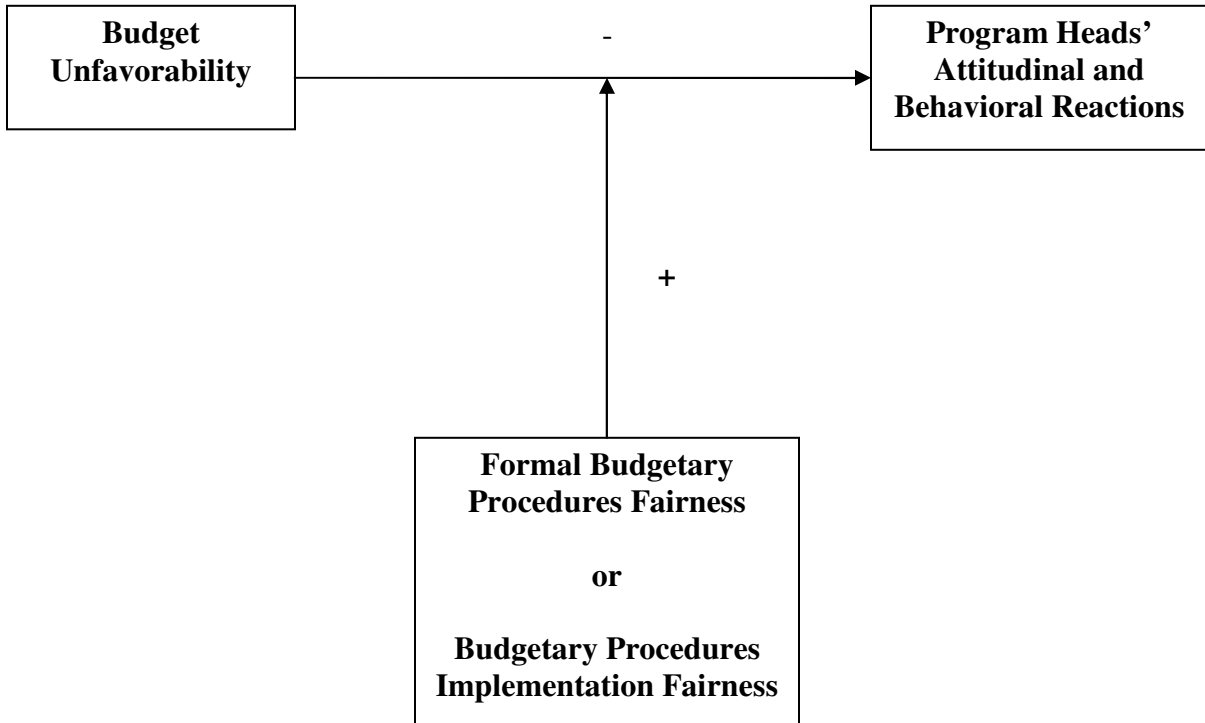
**Toward Budgetary Procedures Fairness**



**Figure 2**

**Budgetary Procedures Fairness May Reduce Program Heads'**

**Negative Reactions to an Unfavorable Budget**



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