

Profit Planning in Corporate Budgeting

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ABSTRACT:

This study seeks to investigate corruption in Indonesia, a country where corruption is regarded as one of the immoral practices within organizations. Upon reviewing the existing body of study literature, it has been shown that a contributing factor to unethical behavior among managers is the influence imposed by organizations to attain success in meeting targets and budgets. This study examines the correlation between individuals' budgeting practices and their profit planning strategies. Negative human behaviors can potentially lead managers to engage in unethical conduct to attain high performance and meet ambitious targets. One potential approach entails granting management the flexibility to reassess the budget during the current fiscal year, alleviating the workload imposed by the company and mitigating unethical behaviors.

Keywords: Budgeting, Profit Planning, Human Behaviour, Target Difficulty, Target Flexibility

I. INTRODUCTION

The running an institution, it is inevitable that staff will engage in deliberately unethical behavior, such as corrupt practices. Indonesia is widely known as a nation that faces significant challenges related to corruption each year. Corruption is defined as the unauthorized use of public or community resources for personal gain. According to Roberts (2015), corruption has long been considered a pervasive cultural phenomenon in Indonesia, contributing to the increasing number of fraudulent activities. According to the Corruption Perceptions Index published on January 31, 2023, Indonesia is ranked 110 out of 180 countries. This indicates that corruption is widespread in Indonesia, as shown by the relatively low Integrity and Corruption Perception (ICP) score of 34.

According to the theory of the fraud triangle, one factor that contributes to people deliberately committing corrupt acts is the presence of work-related pressures that require employees to make an increased effort to perform their duties. Several factors can contribute to employees facing increased work pressures within an organization. One example is the use of budget or profit targets as a benchmark for evaluating employee performance, which inevitably puts pressure on subsequent positions or compensation packages. This circumstance significantly impacts employee workload and can lead to employees behaving unethically. According to Gallani et al. (2019), setting a target budget for profit planning has an impact on employee

behavior. This study aims to investigate the relationship between profit planning and unethical behaviors when implementing corporate budgeting.

II. LITERATURE REVIEW

A. Overview Corporate Budgeting

Budgeting is a crucial aspect of corporate operations, since it enables methodical planning of all actions inside a firm with the aim of attaining future objectives. A firm's budget serves as a mechanism for coordinating the efforts of many departments within the organization, enabling them to work towards a shared objective. A corporation's budget functions as a framework for work, as it contains specific targets that must be attained to accomplish predetermined objectives (Shim & Siegel, 2005). It is advisable to engage in budgeting for a duration of up to five years, as the increasing temporal distance poses challenges in accurately forecasting future events. The budget definition encompasses various things. Initially, it is important to note that the budget encompasses all operational endeavors undertaken by the organization. The budget comprises a range of summaries detailing the company's activities for the present fiscal year. It is imperative for all organizational divisions to develop comprehensive budgets that encompass many aspects such as production activities, human resources, marketing, operations, and other relevant areas. Furthermore, the inclusion of space-time inside the budget is noteworthy. The budget serves as a projection of anticipated revenue and funding for the forthcoming periods. Typically, organizations formulate budgets for extended durations, such as five years, intermediate durations, such as three years, and shorter durations, such as one year. Estimating the budget becomes increasingly challenging as the duration of the time period extends. Thirdly, budgeting is the premeditated formulation of a corporation's income and expenditure plan at the commencement of a fiscal year.

Failure to create a budget within the organization might lead to a multitude of adverse outcomes. One of the primary issues is the absence of a well-defined plan and proper allocation of resources. Budgets play a crucial role as a strategic planning instrument for the allocation of a company's resources, encompassing revenues, costs, and investments. In the absence of a budget, organizations lack a well-defined strategy for the allocation of resources. This phenomenon can lead to disorganized expenditure, inadequate allocation of funds for essential tasks, or suboptimal utilization of resources. Furthermore, monitoring performance challenges arise when budgets offer a well-defined structure for evaluating organizational performance. The absence of a budget poses challenges in assessing the extent to which the organization is attaining its established objectives and aims. This phenomenon has the potential to impede a company's capacity to recognize and address issues or prospects that have an impact on its overall business performance. Thirdly, the lack of effective cost control is a significant concern. Budgets play a crucial role in the management of costs and the overall financial management of a company. In the absence of a budget, a corporation may lack a comprehensive comprehension of the expenses linked to its operational activities. This phenomenon has the potential to result in unmanageable expenditures, suboptimal allocation of resources, and prospective financial setbacks. Furthermore, a deficiency in long-term planning can be observed as a fourth factor. Budgets play a crucial role in assisting organizations in formulating and strategizing their long-term objectives and determining the necessary actions to accomplish them. The absence of a budget inside a firm can result in a loss of its strategic perspective, impeding its ability to effectively strategize for future expansion and advancement. Finally, one of the challenges encountered in decision making is the difficulty that arises. Budgets serve as a structured framework for making decisions within

a commercial context. The absence of a budget can pose challenges for companies in terms of assessing alternatives, determining the viability of projects or initiatives, and establishing distinct objectives. Budgets play a pivotal role in the realm of financial management and business planning, as they serve as a crucial tool for organizations to ensure optimal resource allocation and the attainment of long-term objectives.

III. METHODS

Given that they will be interpreting the data gathered, it is crucial for researchers to utilize methodologies to assure the quality of the study process. This study is using literature review from many resources to discuss the objectives of topic. The discussion in this literature uses a content analysis approach method.

IV. RESULTS

The fundamental goal of a for-profit business is to achieve optimal financial profitability. It is essential to use effective strategies, define precise goals, and set clear objectives to achieve this. In the broadest sense, companies have the option of two basic strategies to increase their profitability: maximizing revenue or minimizing operating costs. To promote effective decision-making, it is critical to conduct a comprehensive review of each of these strategies in a prudent manner for each department (Walker, 1989). In profit planning, it is essential to develop goals with clarity, achievability, realism, specificity, and measurability. The primary objective of profit planning is to clarify the level of profitability that can be achieved, the strategies and methods by which those profits can be achieved, and the expected time frame for realizing those profits. To prevent potential conflicts and unethical behavior, it is critical to establish clear and transparent channels for communicating goals to all departments.

In order to achieve the profit target set, measurable targets and goals must be defined to enable the realization of profits. Profit planning essentially involves reviewing and managing the revenue and financial components. Regular monitoring is critical for managers to assess the need for potential revisions to profit targets, particularly with respect to sales or financials. For example, if expected sales growth for the first quarter is set at 30%, but realized sales show a 10% decline, the company will be forced to make a change by cutting funds by 10% to meet targeted profit goals. It is common for business units to formulate key objectives, which may include increasing sales, developing new products, and expanding market presence. The formulation of goals and objectives then serves as the basis for evaluating employee performance measures, particularly at the management level, to achieve desired goals and financial gains. As a result, the organization will provide feedback commensurate with demonstrated employee efforts.

When considering profit goals, several factors are involved in calculating profit, of which selling price is an important component. The term "selling price" refers to the monetary value at which a particular product or service is made available to potential buyers to enable a purchase. The pricing strategy significantly impacts the sales volume determined in the profit planning phase. The process of determining an optimal selling price requires the organization to carefully evaluate many internal and external factors, facilitating the formulation of a successful sales plan. In addition, profit determination is influenced not only by price, but also by production levels. A positive relationship has been established between production volume and production costs, which means that an increase in production volume is associated with a proportional increase in the costs incurred. In addition, it is essential to examine the issue of

costs. The production of any product involves financial expenses. The obvious impact of costs on selling prices in the market and the resulting impact on profit levels is an important factor to consider. There is a positive relationship between minimizing costs and maximizing profit potential, so the inclusion of these three variables increases the usefulness of cost-volume-profit analysis. The application of cost-volume-profit (CVP) analysis is considered an important tool for profit planning and decision making in companies.

Cost-volume-profit (CVP) analysis is a strategic method used by companies to gain a comprehensive understanding of and competently manage the complicated dynamics between sales volume, production costs, selling prices, and overall profitability. By using cost-volume-profit (CVP) analysis, companies are able to determine the break-even point, which is the level of sales required to reach a state of neutral profitability. In addition, companies can perform sensitivity analysis to understand the impact of price, cost or sales changes on the company's financial performance.

Cost-volume-profit (CVP) analysis facilitates corporate profit planning by identifying different approaches to pricing, costs, and sales volumes. These approaches can be used to achieve specific profit goals. By gaining a thorough understanding of the dynamic relationship between costs, sales, and to achieve budget goals. Appropriate incentives, such as performance bonuses or recognition for achieving budget targets, can influence human behavior in an effort to achieve desired results. Moreover, participation and involvement: Human behavior also plays a role in participation and involvement in the budgeting process. Whether through discussion, goal formulation, or identification of necessary resources, employee involvement in budgeting can influence their commitment and responsibility towards budget achievement. Greater participation of employees in budgeting can also increase motivation, a sense of ownership, and understanding of organizational goals.

Furthermore, Control and Supervision: Human behavior is also related to control and supervision in budgeting. Budgeting provides a framework for monitoring performance and identifying deviations from budget targets. Human behavior in terms of reporting accurate information, disclosing discrepancies, and taking corrective actions plays an important role in the effectiveness of budget control and oversight. In budgeting, it is important to understand human behavior and encourage participation, appropriate motivation, and transparency of information. By considering human behavior factors, budgeting can be a more effective tool in directing organizational behavior towards achieving desired goals and performance.

Without realizing it, there is a relationship between people in compiling and adapting profit budgeting within the company. The main key in preparing budgets and profit targets is communication and coordination between managers or employees. This leads to the formation of human habits in working which are closely related to the budget. The behavior can be considered positive or negative. For example, positive behavior formed due to human habits with budgets is an increase in managers' work motivation in adjusting performance to existing budgets or pursuing predetermined targets. While the negative habits formed can be in the form of pressure on managers in the face of insufficient budgets, pressure on target achievements, company expectations and so on. This is because the budget has the nature of work supervision and company control so that negative behavior makes managers have not many choices that can be made. Profit planning suppresses the manager's performance at work and makes managers always have to compare the results of their work with predetermined standards. This can encourage managers to do unethical things in order to achieve good performance and satisfaction targets.

Unethical profit planning can influence managers' behavior and encourage them to commit dishonest or ethical actions. Here are some of the effects of profit planning on managers' unethical behavior:

1. **Performance Pressure:** Unrealistic or aggressive profit planning can create high performance pressure for managers to achieve those targets. In such situations, managers may feel compelled to take unethical actions, such as manipulating financial statements or ignoring correct accounting principles, in order to achieve expected profit figures. High performance pressure can affect the integrity of managers and encourage unethical behavior.
2. **Incentives and Bonuses:** The system of incentives and bonuses associated with achieving profit targets can also influence the unethical behavior of managers. Suppose significant bonuses and incentives depend on achieving a certain profit figure. In that case, managers may feel compelled to take dishonest actions, such as hiding costs, compensating revenue, or manipulating financial statements, in order to achieve those targets. This can lead to unethical accounting practices and harm the interests of the company.
3. **Conflict of Interest:** Unethical profit planning can also create conflicts of interest among managers. For example, suppose managers have a vested interest in achieving high profit targets, such as bonus receipts or option shares. In that case, they may be tempted to take unethical actions to manipulate financial statements and achieve their personal interests. This kind of conflict of interest can compromise the integrity and ethics of the manager.
4. **Organizational Culture:** Unethical profit planning can also be influenced by organizational culture that does not prioritize integrity and ethics. If an organization creates an environment where the achievement of profit targets is above all else, managers may find it easier to commit dishonest actions without considering ethical methods. An organizational culture that encourages unethical behavior can create norms that are detrimental and influence manager behavior.

To reduce the influence of profit planning on managers' unethical behavior, it is important to promote strong ethics and integrity throughout the organization. This can involve implementing clear policies and procedures related to business ethics, rigorous monitoring and supervision of accounting practices, and open and transparent communication of organizational objectives and expectations related to profit planning. In addition, it is important to foster an organizational culture that supports ethics and integrity, where unethical actions are not accepted and rewarded.

A. The Effect of Profit Planning on Manager's Unethical Behavior

At the managerial level, managers' performance is assessed by evaluating their ability to adhere to budgetary constraints and meet predetermined targets. Positive feedback from the company is contingent upon the manager's performance review and the extent to which they achieve their targets. There exists a positive association between feedback and budget performance. Employees will receive positive feedback through various means such as promotions, wage increments, bonuses, awards, and other forms of recognition. According to Joshi et al. (2003), feedback is anticipated to motivate managers, encouraging them to persist in their efforts to attain organizational aims. Nevertheless, the feedback provided is not

consistently favorable. Negative feedback may arise in situations where managers receive poor performance assessments, fail to reach targets, and engage in overspending. This practice has a significant adverse impact on employees, since it may result in negative feedback being communicated to management through measures such as employment termination, wage decrease, demotion, and similar consequences.

Consequently, managers experience significant pressure when they cannot meet targets, leading them to resort to unethical measures to attain their objectives. As an illustration, it has been observed that managers engage in deceptive practices such as fabricating sales figures in order to meet sales targets. Additionally, managers have been found to engage in the substitution of inferior and hazardous raw materials as a means to curtail output. Instances of bribery have also been documented in managerial contexts.

According to Arnold and Artz (2015), the complexity of the aim is identified as one of the contributing reasons leading managers to engage in unethical behaviors in order to attain desired outcomes. There is a positive correlation between the level of difficulty associated with obtaining a target and management's propensity to engage in unethical behaviors to sustain the attainment of such aim. According to Fukushima and Yamada (2023), excessively high targets might result in a loss of enthusiasm and commitment among managers, hindering their ability to attain those targets.

The implementation of budgetary flexibility for managers can effectively address the aforementioned challenge. Numerous businesses provide their companies the opportunity to modify aims during the fiscal year in the event that expectations become unattainable, thereby granting greater flexibility in proportion to the difficulty associated with the target. According to Arnold and Artz (2015), the implementation of this measure is expected to reduce the likelihood of managers engaging in unethical behaviors within the organization.

The term "sustainable budgets" is used to refer to the budgetary modifications implemented in the present fiscal year. Flexibility within the budget does not imply that unmet targets will be pardoned and modified at the manager's discretion. The primary objective of this sustainable budget is to provide managers with the opportunity to evaluate the targets and budgets that have been established for the upcoming period. This approach will lead to a budget that is characterized by greater rationality and feasibility. The reduction of work pressure experienced by the boss indirectly contributes to a decrease in unethical behavior and an increase in work motivation.

Furthermore, in order to mitigate the impact of profit planning on managers' unethical conduct, it is imperative to foster a culture of robust ethics and integrity across the entire firm. This may entail the implementation of explicit policies and processes pertaining to business ethics, meticulous monitoring and oversight of accounting operations, and the dissemination of corporate objectives and expectations for profit planning through open and transparent communication. Furthermore, it is imperative to cultivate a corporate culture that promotes and upholds ethics and integrity, wherein unethical behaviors are neither tolerated nor incentivized.

V. DISCUSSION AND CONCLUSION

The Organization shall prepare a comprehensive budget Periodically before commencing operations in a new fiscal year. The main objective of this budget is to provide a guiding framework for the organization's activities and to enable effective coordination between the

various departments. In addition to preparing a budget, the company is also concerned with formulating an appropriate strategy to achieve the targeted level of profitability, commonly referred to as profit planning. Profit planning is a strategic process used by companies to identify the specific goals that managers need to achieve to increase the organization's overall efficiency and achieve optimal profits. The critical element required to put these two entities together is the establishment of effective collaboration between the respective managers of the two organizations. Moreover, budget serves as a crucial indicator of an organization's success in accomplishing a task, thus influencing the development of human habits related to budgetary considerations. The formation of this relationship is mediated by human action. There are other factors that contribute to the formation of this habit, such as effective communication, sharing of feedback, appropriate control of budget use, and other related elements.

This observation suggests that the habits developed may include both positive and harmful behaviors. The positive aspects may manifest themselves in the managers' enjoyment of their work in achieving their goals, while the negative aspects may manifest themselves in the pressures that managers face in their professional endeavors. Management may resort to unethical practices to meet performance goals and maximize profits because work-related stress is high and great importance is placed on these measures as indicators of success. The goals set and the resources allocated pose a great challenge for achievement. However, this challenge can be addressed by allowing the manager to restructure the budget during the current fiscal year, commonly referred to as budget flexibility. Managers can use this flexibility to evaluate the performance results of the previous period and make the necessary adjustments to bring them in line with the prevailing circumstances in the subsequent target period. This measure is believed to reduce employee stress, thereby reducing the incidence of unethical behavior by supervisors.

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