



Happiness and Dishonesty Budgeting: An Experimental Study

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Abstract: Budgeting is crucial in organizations because it is used as a monitoring and evaluation tool. A poor performance climate encourages individuals to work effortlessly so research is needed that links good mood to budgeting. The research implies that organizations can build a positive work climate to reduce slack rather than just focusing on formal regulations and threats. The purpose of the study is to examine the effect of differences in budget setter mood on proposal preparation regarding the intention to create slack in the budget. The results show that individuals in a happy mood will create less slack in the budget. Individuals in a happy mood will create less slack because the work climate influences a person to make decisions. Individuals in a good work environment will be motivated to be honest. The originality of this research is different from previous research, namely dividing the mood into 2 parts, happy mood and sad mood with the context of individual budget settings, not divisions.

Keywords: budget slack; contingency theory; happy mood; hedonic

1. Introduction

Several companies are competing to be the best place to work, based on data published by online website ([Glassdoor, 2024](#)), the first place is achieved by Bain & Company with a rating of 4.8 who claim that they have invested tremendous effort to improve their comfortable organization environment. They invest a large amount of cognitive effort in mood management. The research shows that employees' mood at work is often linked to their job satisfaction, which suggests that employees' mood can affect their performance at work ([Gottman et al., 1998](#)). This is also important for companies to avoid undesirable things and encourage good employee habits, for example, dishonesty in budgeting.

Budget management is one of the keys to organizational success. Organizations need to ensure that budget management, including reporting, is done in the best possible way and honestly. Factors that can lead to errors and dishonesty in reporting should be avoided. Dishonesty in budget reporting negatively impacts the organization, so this issue is significant to pay attention to ([Altenburger, 2021](#)). One party that has the potential to engage in dishonest behavior is the manager. Previous research has attempted to uncover the affective role of manager behavior in organizational management ([Garrett et al., 2016](#); [Park et al., 2017](#)). One of the affective consequences considered to influence manager behavior is mood.

The mood is a temporary and specific affective state at certain times and situations ([Gardner, 1985](#)). Business studies have revealed the role of mood on human behavior in making business and organizational decisions. Examined the effect of third-party evaluation mood on capital investment projects ([Loh et al., 2023](#)). However, they have not investigated

the impact of mood, which is known to influence how people process data, on third-party evaluations of capital investment improvements. Researchers argue that unintentional mood (caused by elements unrelated to the decision context) may influence third-party consultants' evaluations of capital investments by affecting: (1) the consultant's effort to process project information; and (2) the consultant's inability to make different decisions when the same project information is provided in the same order. The study found that a negative mood made it more difficult for management consultants to process information during the decision-making process than when they were in a positive mood (Cianci & Bierstaker, 2009). Mood is also known to play a role in producing an increase in dishonest behavior (Siniver & Yaniv, 2019).

This research holds both practical and theoretical significance across various agencies and organizations. The annual budget preparation process is crucial, as it must align with the programs and activities planned for the upcoming year (Cardinaels, 2015). Consequently, this study is vital for enhancing the effectiveness of budget submissions. This study aims to provide empirical evidence on the organizational conditions necessary for budget preparers to prevent fraud in budget creation. Additionally, it examines the impact of punitive measures on budget preparers who engage in fraudulent activities. Furthermore, the research compares the performance of budget preparers under varying emotional conditions, specifically happy and unhappy states, to determine the influence of emotional well-being on budgetary accuracy and integrity.

In this study, researchers predict, first, in participatory budgeting, managers will report more honestly if they are in a happy mood than if they are in a bad mood. Second, the level of honesty shown by managers in a happy mood may differ substantially from the level of honesty they show in a bad mood. The motivation for this study is to understand how mood affects individuals' decision-making and cognitive management, based on hedonic contingency theory. This theory states that individuals in a positive mood tend to invest more cognitive effort to maintain their mood, while individuals in a negative mood do not necessarily process the emotional consequences of various actions with the same intensity. Through this research, we wanted to further explore the impact of mood on decision-making effectiveness, focusing on how positive and negative moods affect the level of cognitive effort invested by individuals.

2. Literature Review & Hypotheses Development

2.1. Hedonic Contingency Theory

Hedonic contingency theory states that people who are in a positive mood only have a few choices of actions to maintain their mood, which in this case are called affective consequences (Wegener & Petty, 1994). One of the actions that can be taken to maintain this positive mood is affective consequences in the form of honesty. Conversely, when a person is in a negative mood, he has more action options to maintain or enhance his negative mood, the effective consequence that can arise is dishonesty (Altenburger, 2021). This process occurs because of mood management, a cognitive effort that a person makes to maintain or improve his mood, or in other words, individuals process affective consequences to improve

or maintain their mood. How much cognitive effort is made depends on the current mood state. People who are in a positive mood make more cognitive efforts than people who are in a negative mood. Consequently, people who are in a positive mood have fewer behavioral choices (Hirt et al., 2008). If drawn into a business context, managers who are in a positive mood will try to maintain the mood by reporting the budget honestly. Conversely, managers with negative moods will rarely process the affective consequences of different reporting behaviors because they make little cognitive effort to control their moods. As a result, managers with negative moods will exhibit less truthful reporting behaviors (Abe et al., 2007).

Contracts that encourage honesty are based on the assumption that managers have an overriding preference to maximize their own wealth (Chung et al., 2009). This is due to the fact that managers' honesty levels are much higher across all groups than predicted by traditional economic theory. However, under more favorable conditions, the difference in firm profits between these two types of contracts is even greater (Kadous, 2001).

2.2. Dishonesty Budgeting

Budgetary slack is a common practice in which managers intentionally underestimate revenues and overestimate expenditures in their budgets to create reserves. This deliberate budget padding by managers has long been recognized as a controversial practice in organizations (Nordin & Hussain, 2023). Budgetary slack involves ethical issues as it is incompatible with the professional norms of managers and accountants (Lucyanda et al., 2023). It can cause moral dilemmas by allowing deception by subordinates, which violates social norms and professional standards. Budgetary slack is influenced by environmental factors. Recently, local budgets have faced problems such as limited resources, unclear spending authority, inefficient spending models, and low investment capacity (Vasylevska & Kurtsev, 2024). Apart from environmental factors, organizational regulations are also one of the triggers for budgetary slack where company human resources carry out budgetary slack to achieve company targets (Kavusan et al., 2024).

Fund control in budgetary slack is initially used to control spending to fit the budget, with leeway within the company as the difference between estimated expenditure costs and the allocated budget (Valle & Morrás, 2023). Slack is used for unexpected purchases, demonstrating consumers' flexibility in managing their finances. However, this financial slack often results in payment difficulties, which are not explained by long-term financial goals or household income, but rather by perceptions of financial scarcity. Although early studies were correlational, follow-up studies manipulated the salience of financial slack to explore causal relationships (Pomerance & Reinholtz, 2024). Budgetary slack in firms is controlled by the management control system through cooperation, which includes: relationship flexibility, information exchange, joint problem-solving, and limiting the use of power (Contabilidade & Beuren, 2022).

2.3. Mood

Organizational culture is very important in creating a good work climate. With a happy mood, organizational performance can be further improved. However, the creation of an

effective work culture cannot be separated from the right budgeting system in the company (Setyowati & Prabowo, 2024). A good mood can be created through a participative leadership style is one of the prominent aspects of leadership, where leaders involve their subordinates in decision-making, creating a collaborative and inclusive environment (Alhasnawi et al., 2023). Values such as social harmony, security, cohesion, equality, diversity, and other community-building values are emphasized to provide an increase in the pleasant mood of organizational members, which in turn will also improve performance in the organization (Ho et al., 2023). The success of the organization cannot be separated from the organization's ability to develop plans related to the allocation of financial resources, planning as one of the determinants in determining the main strategy is an indicator that can illustrate whether the organization can make important concepts in determining the main policy (Setyowati & Prabowo, 2024).

Budgeting is one of the main pillars of organizational and management accounting, through which strategic planning, organizing, evaluating operations, and changing employee behavior can be carried out (Hatami-Marbini et al., 2022). A complex problem that arises during budget preparation and execution, both in the private and public sectors, is the creation of budget gaps, the occurrence of budget gaps in organizations can arise both at the budget preparation stage and during the budget execution process (Namazi & Rezaei, 2023). Organizations should pay attention to the relationship between employee budget participation, procedural justice, trust, and job stress and found that employee budget participation increases their sense of justice, thereby reducing their job stress (Duan et al., 2022). Therefore, employees' perception of a problem is always shaped by their work experience and environment, which allows them to change things during policy implementation (Ohemeng et al., 2022).

2.4. Research Question

Information asymmetry conditions occur in organizations that implement participatory budgeting (Hansen & Van der Stede, 2004). In this process, lower-level managers tend to be dishonest in reporting to upper-level managers and creating budget gaps to obtain more incentives (Libby & Lindsay, 2010). Some studies show that situational factors can affect the level of honesty of managers in preparing budgets, namely the use of information systems (Hannan et al., 2006), and preferences of coworkers (Church et al., 2012). Meanwhile, other research found that increasing manager participation in strategic planning can reduce budget gaps because managers are involved in preparation and have strong ties to the organization (De Baerdemaeker & Bruggeman, 2015). In participatory budgeting, budgeters tend to submit more honest budgets if they are in a happy state compared to individuals in an unhappy state. Although the influence of mood has received considerable attention in accounting and economics in recent years, research on the relationship between mood and honesty is still lacking (Altenburger, 2021).

RQ: Will individuals in a happy mood be more honest in budget reporting than individuals in a sad mood?

3. Method

An experimental study is a research designed to investigate a phenomenon by creating circumstances or conditions through certain procedures then observing the results (manipulation) and implementing them. The independent variable in this study is mood based on, participants were categorized into two groups (Altenburger, 2021): happy mood and sad mood. The dependent variable in this study is dishonesty in budgeting.

This study used a purposive sampling method. Purposive sampling is a non-probability sampling technique in which the researcher determines the sample based on certain assessments or criteria that are under the research objectives. The sample criteria are undergraduate students who have passed business ethics, intermediate financial accounting, and strategic management courses. The participants were 90 students who were randomly divided into 2, which are 46 students in the sad mood group and 44 students in the happy mood group.

To test the dishonesty budgeting variable, researchers compared the proposed target with the actual performance, where the difference between the two was used to measure dishonesty budgeting (Hobson et al., 2011). Some protocols have been developed by the experimenter:

- a. The group was split into two sections by the experimenter: one with a positive mood and the other with a bad mood. The experimenter got the subjects to write a story of sadness and rage and played melancholy music.
- b. The researcher, who was in a bad mood, requested the subjects to write down tales of happiness and pride. Furthermore, upbeat music was also provided. The individual was then instructed to put the paper away by the experimenter before moving on to the next phase.
- c. The next stage is the assignment. The assignment was conducted to measure the actual performance performed by the individual. Participants are given 2 times the same assignment regarding the translation of numeric passcodes into letters and guessing words formed from numbers available in the experimental case. Furthermore, participants will be given instructions to give a target score on the next task with a note that a bonus will be given for each difference between the proposed target and the actual performance on the next task. Individuals who have a score above the target will get a bonus. The difference between the actual performance on the previous task and the proposed target for the next task is calculated as dishonesty budgeting.
- d. Debriefing was the final stage. The researcher provided information regarding the rationale behind the experiment's conduct by the study subjects. Additionally, the researcher explains the purpose of the study

4. Result

The table 1 below contains descriptive statistics and independent sample t-test to test the hypothesis formulation.

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean
Gender	90	1.00	2.00	1.530
GPA	90	3.00	3.95	3.503
Mood	90	1.00	2.00	1.488
Dishonesty Budget	90	1.00	20.0	5.711

Table 1 shows the descriptive statistics for budget slack for both male and female managers. The mean budget slack for male managers is 5.4524, while the mean for female managers is 5.9375. The median budget slack for male managers is 5.00, while the median for female managers is 4.5000. The variance of budget slack for male managers is 12.303, while the variance for female managers is 20.698. The standard deviation of budget slack for male managers is 3.507, while the standard deviation of budget slack for female managers is 4.549. The maximum dishonesty budget reported by participants was 20.00 and the minimum slack created was 1.00. A dishonesty budget is the difference between actual performance on a task and the proposed target for the next task.

Table 2. Descriptive Statistics

	Mean		Std. Dev		F	Sig
	Sad Mood	Happy Mood	Sad Mood	Happy Mood		
Mood	6.543	4.840	4.754	3.049	4.048	0.047*

* Sig < 5%

The table 2 shows the descriptive statistics for the budgeting dishonesty variable from both mood groups: sad and happy. The average GPA for respondents is 3.503. Table 2 shows that the sad mood group has an honesty coefficient of 6.5435 while the happy mood group has an honesty coefficient of 4.8409. The test results show that the mean difference between groups is 1.7026 and the F value is 4.048 with a significance value of 0.047, it can be concluded that the hypothesis is accepted at the 5% level.

5. Discussion

The research question formulated is individuals in the happy mood group will submit fewer dishonest budgets than those in the sad mood group. The results indicate that managers in a good mood create less budget slack. This study supports previous research on the effect of mood on the ethical decisions of auditors (Curtis, 2006). Specifically, budget gaps are created to enhance managers' economic incentives at the expense of company performance (Altenburger, 2021). These findings suggest that a positive mood can reduce the tendency of managers to engage in dishonest behavior. According to hedonic contingency theory, people who are in a positive mood will put a lot of cognitive effort into controlling their mood. In contrast, people who have negative moods are at the bottom of the mood spectrum. Based on this theory, a person does not need to process the emotional consequences of different types of actions if they want to increase or maintain a negative mood. This is because almost any action will make a person feel better or at least not worse. Also, the mood dips caused by actions are smaller than those experienced by people who are in a

positive mood. Therefore, people who have a negative mood do not need to make much cognitive effort to control their mood (Wegener & Petty, 1994).

6. Limitations & Suggestions for the Future

The limitations of the experiment affect the interpretation of conclusions regarding the time effect of mood, as there is a possibility that changes occurring at the start of work were influenced by other factors not controlled in this study. The implication of this study for organizations is to encourage them to foster a positive mood among managers, thereby enabling employees to provide feedback that translates into positive performance. This research also indicates that mood improvement can serve as an alternative method to enhance employee honesty and loyalty to the organization, in addition to the implementation of formal policies. Future research could consider other factors that influence mood, such as the rejection of proposals and trust among members, in line with previous research which states that feedback and trust will affect the mood of the individual so that it finally affects the behavior to cheat or behave honestly (Sommer & Kulkarni, 2012). Future research can include gender because of gender stereotypes (Budiarto et al., 2023).

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