Budgetary Slack
Teaching Notes

What Are the Relevant Facts?

1. The division has developed new procedures, not yet fully proven, which may reduce materials costs for some products.
2. Jennifer prepared product budgets based on the projected cost savings.
3. The new procedures and anticipated savings have not been reported to company headquarters.
4. Ron, Jennifer's supervisor, wants her to prepare a less stringent budget which does not show the possible cost savings.
5. If materials costs are lowered by the new procedures, the division would "look good" next year, and there would be bonuses for division personnel.

What Are the Ethical Issues?

1. When should information, such as the new procedures and anticipated cost savings, be communicated upward in an organization?
2. Is it ethical for managers of the division to use information which they have, and those in corporate headquarters do not, to their own advantage?
3. Should the managers of a division propose a budget which they think will be easy to achieve? Will this proposed budget motivate managers and other employees?
4. When managers prepare a budget, are they obligated to make the budget as accurate as possible?
5. Should budgets be used both for planning and for evaluating the performance of company personnel?

Who Are the Primary Stakeholders?

- Jennifer
- Ron
- Other managers and employees within the division
- Corporate managers
- Stockholders have an indirect stake in this case. If the loose budget covers up for inefficiency within the division or if bonuses are paid out because the division beats its budgetary goals, stockholders' interest are adversely affected.

What Are the Possible Alternatives?

1. Jennifer could revise the budget, as Ron told her to do.
2. Jennifer cold refuse to revise the budget.
3. Jennifer cold go to Ron's superior with her arguments that a realistic budget should be prepared.

What Are the Ethics of the Alternatives?

- From a "utilitarian" perspective (costs and benefits):
  1. Which approach to preparing the budget benefits the division and its managers?
  2. Which method of preparing the budget benefits the stockholders?
  3. For each of the alternative actions, what are the costs axes benefits for Jennifer?
  4. Which budget offers the greatest benefit overall?
- From a "rights" perspective:
  1. What rights do shareholders and corporate management have in this situation?
  2. What rights and responsibilities do division managers have?
  3. What responsibilities does Jennifer have? Does she have responsibilities which conflict with each other?
- From a "justice" perspective (benefits and burdens):
  1. Is it fair and reasonable that division managers receive bonuses based on performance in comparison to a budget?
  2. How do the different alternative actions affect benefits and burdens for Jennifer?

What Are the Practical Constraints?

1. The final budget may be different from what Jennifer and Ron propose. It may be

revised and amended at higher levels of the organization.

What Actions Should Be Taken?

1. What action should Jennifer take?
2. Which of the ethical theories (utilitarian, rights, justice) should Jennifer use in eaching her decision?