

Summary of Paper: [Budgetary Participation and Top Managers' Earnings Forecasts](#)

What is this study about?

This study examines whether letting lower-level managers actively participate in setting budgets affects how top managers forecast company earnings to outsiders. Budgets are supposed to improve planning because frontline managers have detailed operational knowledge. But participation can also encourage “budgetary slack”—understating expected revenue or overstating costs—so targets are easier to hit. The authors test whether this slack leads top managers to issue overly pessimistic earnings forecasts (i.e., lower than would reasonably be expected).

What are the major findings of the study?

Using a mail survey plus archival forecast/outcome data from Japanese listed firms, the authors find that more budgetary participation is associated with more pessimistic management earnings forecasts. Economically, a one-point increase (on a 1–7 scale) in participation increases the chance of pessimistic forecasts by about 2.7 to 3.2 percentage points. This effect is stronger when lower-level manager pay is closely tied to performance, consistent with stronger incentives to build slack. The results hold across alternative measures of forecast bias and additional robustness tests.

Why is the study important?

For controllers, FP&A, internal audit, and assurance teams, the paper flags a practical risk: budgeting design can unintentionally distort not just internal targets, but also external earnings guidance. Analysts, regulators, and boards should recognize that forecast bias may originate in management accounting systems, not only in deliberate investor-relations “guidance management.”

What is the impact on professional practice and society at large?

Biased earnings forecasts can mislead investors, affect valuation, and influence resource allocation and governance decisions. The study suggests firms may need stronger controls around budgeting participation—especially where incentives are high—such as independent challenge processes, better variance analysis, and compensation designs that reduce slack-building behavior.

