

# CROSS-FUNCTIONAL BUDGET GOVERNANCE AS A MECHANISM FOR ENHANCING ORGANIZATIONAL COST CONTROL

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## Abstract

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Organizations operating in decentralized and multi-departmental structures frequently face persistent challenges related to budgetary slack and limited independent scrutiny in budgeting processes. This study develops a conceptual framework to examine how accountability architecture redesign can enhance internal cost governance. Adopting a deductive conceptual research methodology grounded in agency theory, behavioral decision research, and responsibility accounting literature, the paper proposes the constructive organizational friction (COF) model and formalizes the cross-functional budget governance mechanism (CFBGM). Although the study does not rely on empirical sampling, it systematically synthesizes established theoretical perspectives to construct testable propositions. The findings suggest that structural redistribution of evaluative authority may reduce confirmation bias, mitigate informational asymmetry, and strengthen cost scrutiny within recurring budgeting cycles. The model contributes to corporate governance scholarship by conceptualizing friction as an architectural governance mechanism capable of reinforcing sustained cost discipline without intensifying hierarchical monitoring.

**Keywords:** Budget Governance, Cost Control, Cross-Functional Accountability, Management Control Systems, Internal Governance, Organizational Budgeting

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## 1. INTRODUCTION

Organizations continuously seek to strengthen cost discipline while preserving managerial autonomy and operational expertise. Traditional governance approaches rely heavily on hierarchical monitoring, centralized oversight, and formal compliance systems to control resource allocation. However, excessive reliance on vertical control mechanisms may lead to bureaucratic layering, reduce decision-making agility, and create information bottlenecks. This tension raises a central governance question: how can organizations enhance cost discipline

without intensifying hierarchical monitoring structures?

This paper addresses the following research question:

*RQ: Can the structural redistribution of evaluative authority within recurring budgeting cycles improve cost discipline independently of monitoring intensity and incentive alignment?*

Answering this question requires distinguishing the governance effects of who evaluates expenditures from how frequently or intensively evaluation occurs—a distinction that existing management control theory does not address.

The proposed framework should be distinguished from several related constructs in the literature. Cross-functional budgeting committees and matrix control structures share authority over decisions but do not separate expenditure execution from review responsibilities. Peer monitoring arrangements presuppose reciprocal evaluation among equivalent actors rather than structured asymmetric scrutiny. Management control packages, as theorized by Grabner and Moers (2013), address the interdependence of control mechanisms but do not prescribe the redistribution of evaluative authority within budgeting cycles. Responsibility accounting with lateral oversight retains functional self-evaluation as the primary governance mode. The cross-functional budget governance mechanism (CFBGM) is distinguished by its institutional separation of execution authority from subpackage review authority, embedded within the recurring annual budgeting cycle, generating constructive organizational friction (COF) as a structural rather than interpersonal governance effect.

Existing research in agency theory, management control systems, and internal governance has extensively examined accountability, incentive alignment, and monitoring intensity. Yet, much of this literature conceptualizes control as either hierarchical supervision or outcome-based incentives. Comparatively less attention has been devoted to structural mechanisms that intentionally embed procedural tension within organizational design to improve evaluative rigor without escalating adversarial confrontation.

This study introduces the concept of constructive organizational friction, formally defined as: the institutional separation of expenditure execution authority from subpackage-level review authority within a recurring governance cycle, generating structured evaluative distance that reduces confirmation bias and informational asymmetry without increasing hierarchical monitoring intensity. Constructive organizational friction is distinguished from dysfunctional conflict—which emerges from interpersonal disagreement or incentive misalignment—by its deliberate architectural character: it is embedded in institutional design, not in adversarial relationships. Constructive organizational friction is a governance arrangement, not a process or an emergent behavioral outcome; its effects on monitoring intensity and cost scrutiny are mediated by the four causal mechanisms. The minimum conditions necessary for constructive organizational friction to exist are: 1) formal separation of execution and review roles; 2) reviewer independence from the expenditure domain; 3) institutionalization within a recurring cycle.

Within budgeting systems, constructive organizational friction emerges when governance design redistributes evaluative authority across vertical and horizontal dimensions. Strategic cost packages are assigned executive-level ownership to ensure vertical accountability, while sub-package review authority is allocated to independent cross-functional actors. This structural configuration generates monitoring intensity through cognitive diversification and evaluative independence, thereby

increasing cost scrutiny without expanding bureaucratic layering.

The present paper advances internal governance theory in three ways. First, it conceptualizes friction as an intentional architectural mechanism rather than an unintended organizational byproduct. Second, it integrates vertical accountability and horizontal review structures within a unified governance framework. Third, it formalizes the causal pathways linking governance design, monitoring intensity, cost scrutiny, and sustained cost discipline through a propositional model. To avoid terminological ambiguity, these four constructs should be understood as causally ordered and analytically distinct: governance design refers to the structural configuration of evaluative authority (the independent variable); constructive organizational friction is the emergent institutional condition generated by that design (the mechanism); monitoring intensity refers to the frequency and depth of oversight activity (the intermediate outcome); and cost scrutiny refers to the quality and rigor of expenditure evaluation (the proximate outcome leading to sustained cost discipline). These terms are not interchangeable and should not be read as synonyms throughout the paper.

The remainder of this paper proceeds as follows. Section 2 reviews the theoretical foundations underlying agency theory, management control, and institutional design. Section 3 examines the structural mechanics of cross-functional budget governance. Section 4 develops the conceptual model of constructive organizational friction and presents formal propositions. Section 5 discusses managerial implications and implementation considerations. Section 6 concludes with theoretical contributions and directions for future research.

## 2. THEORETICAL FOUNDATIONS

### 2.1. Agency theory and internal governance

Agency theory provides a foundational analytical lens for examining inefficiencies within organizational budgeting systems (Jensen & Meckling, 1976; Eisenhardt, 1989). Jensen and Meckling (1976) conceptualize the firm as a nexus of contracts in which principals delegate decision-making authority to agents whose objectives may diverge from those of the organization. In decentralized structures, managers responsible for cost centers frequently possess superior localized information regarding operational conditions, vendor relationships, and contractual arrangements (Milgrom & Roberts, 1992). This informational asymmetry creates structural conditions under which opportunistic behavior—such as budget inflation, strategic buffering, or preservation of low-value legacy expenditures—may emerge.

Traditional governance responses to agency conflicts rely heavily on vertical monitoring mechanisms, including hierarchical approval chains, incentive-based compensation structures, and internal audit systems. While these mechanisms may constrain overt opportunism, they often fail to eliminate more subtle manifestations of budgetary slack embedded within routine planning cycles. When expenditure execution and expenditure

justification remain concentrated within the same functional domain, oversight risks become ceremonial rather than substantively independent—a structural deficiency that Jensen (1993) associates with the broader failure of internal control systems in complex organizations.

Contemporary research in management control and internal governance extends classical agency insights by emphasizing that accountability effectiveness depends not only on monitoring intensity but also on the structural configuration of control systems and role allocation within organizations (Tirole, 2001; Bedford et al., 2016; Grabner & Moers, 2013). Rather than viewing governance solely as hierarchical supervision, recent scholarship highlights the importance of control packages, cross-functional coordination, and architectural alignment in shaping behavioral discipline. These perspectives suggest that governance architecture itself—through deliberate redistribution of evaluative authority—may influence cost scrutiny and managerial behavior independently of formal incentive intensity (Gibbons, 1998).

Building on this extended view, this paper advances the argument that agency conflicts in budgeting systems are not solely a function of insufficient monitoring, but also of accountability architecture. By structurally redistributing evaluative authority across functional boundaries, organizations may reduce informational capture and enhance independent scrutiny without expanding bureaucratic layers.

## 2.2. Budgetary slack and behavioral bias

The concept of budgetary slack has long occupied a central position in managerial accounting research. Cyert and March (1963) describe budgeting as a coalition-based and negotiated process shaped by bounded rationality and internal political dynamics. Hope and Fraser (2003) further argue that traditional annual budgeting structures create systemic incentives for slack formation and short-term optimization that persist even in well-governed organizations. Argyris (1952) was among the first to document the behavioral and human consequences of budget systems on employees. Merchant (1985) and Young (1985) further demonstrate that managers may intentionally introduce slack as a protective mechanism to buffer uncertainty, secure performance targets, or maintain discretionary resources.

Beyond strategic behavior, cognitive biases also play a significant role in sustaining inefficient cost structures. Behavioral decision research highlights confirmation bias, status quo bias, and loss aversion as recurring patterns that influence managerial judgment (Tversky & Kahneman, 1974; Kahneman, 2011). Managers reviewing expenditures within their own domains may unconsciously rationalize historical spending levels, resist renegotiation of established vendor contracts, or overestimate operational risks associated with cost reductions.

More recent behavioral accounting and control research confirms that cognitive biases persist even in highly formalized governance environments, influencing performance evaluation, budgeting judgments, and control system effectiveness (Merchant & Van der Stede, 2017; Hartmann &

Maas, 2011; Speklé et al., 2017). These findings reinforce the argument that structural design mechanisms capable of introducing evaluative independence may play a critical role in mitigating embedded bias within recurring budgeting cycles.

Crucially, these behavioral tendencies are not isolated individual shortcomings; they are reinforced by structural conditions. When accountability for expenditure execution and evaluation remains unified within the same function, cognitive and political biases become institutionally embedded. Even sophisticated financial reporting systems cannot fully mitigate bias if review architecture lacks evaluative independence. The present framework acknowledges, however, that independent review does not automatically reduce bias and slack. Several plausible alternative pathways must be recognized. First, cross-functional reviewers may lack sufficient domain knowledge to evaluate specialized cost structures, reducing scrutiny quality rather than enhancing it; this competence-independence trade-off is formally addressed through the boundary conditions in sub-section 4.5. Second, cross-functional scrutiny may generate defensive managerial behavior, leading to selective information disclosure rather than genuine transparency; the framework addresses this by embedding review within institutionalized annual cycles, reducing the adversarial character of individual evaluations. Third, managers may strategically migrate slack into categories with lower review visibility; the cross-functional budget governance mechanism addresses this through rotating reviewer assignments and structured documentation requirements that expand coverage across subpackages. Fourth, review processes may become ceremonial over repeated cycles if organizational commitment weakens; sub-section 4.3 addresses this through the cultural internalization and structural learning mechanisms, while sub-section 4.5 explicitly identifies executive commitment as a moderating boundary condition.

Constructive organizational friction addresses this structural limitation by embedding cognitive diversity and horizontal accountability into the budgeting process. Cross-functional reviewers, detached from operational ownership of the expenditure category, are less likely to exhibit domain-specific confirmation bias and more likely to initiate fundamental cost-structure questioning.

## 2.3. Responsibility accounting and organizational design

Responsibility accounting traditionally allocates financial accountability according to managerial control over cost and revenue centers. While this approach enhances clarity of authority and performance evaluation, it may simultaneously reinforce functional silos. When cost oversight remains exclusively within operational domains, the boundary between execution and evaluation becomes blurred, limiting the depth of independent scrutiny.

Organizational design theory emphasizes that structural arrangements shape behavior independently of formal incentives (Galbraith, 1973; Ouchi, 1979). The distribution of decision rights, reporting relationships, and evaluative roles influences information flows, attention allocation, and scrutiny intensity (Heath & Staudenmayer, 2000).

Horizontal governance mechanisms—such as cross-functional committees or independent review assignments—can introduce evaluative distance without increasing formal monitoring intensity (Simons, 1994).

Recent scholarship in management control systems further demonstrates that combinations of vertical and horizontal control mechanisms influence organizational outcomes through interactive effects rather than isolated control tools (Langfield-Smith, 1997; Bedford et al., 2016; Grabner & Moers, 2013). Control systems operate as interdependent packages, and the allocation of evaluative roles across organizational boundaries may alter behavioral responses even when formal authority structures remain unchanged (Simons, 2000).

The cross-functional budget governance mechanism extends responsibility accounting by decoupling execution authority from review authority at the subpackage level. Executive-level ownership of strategic cost packages is preserved, ensuring vertical accountability and alignment with organizational objectives. Simultaneously, independent subpackage-level review introduces horizontal evaluative separation. The resulting dual-layer governance structure balances managerial autonomy with structured oversight.

#### **2.4. Constructive organizational friction as a governance mechanism**

Constructive organizational friction is defined as the deliberate institutionalization of structured procedural tension within organizational processes to enhance decision quality and mitigate behavioral bias. Unlike dysfunctional conflict, which arises from interpersonal disagreement or misaligned incentives, constructive friction is embedded in institutional design. It operates through formalized role separation rather than adversarial confrontation.

Within budgeting systems, constructive organizational friction emerges when four structural conditions are satisfied:

- 1) Organizational expenditures are consolidated into strategic cost packages.
- 2) Executive-level ownership is formally assigned to ensure vertical accountability.
- 3) Subpackage-level review authority is allocated to individuals external to the executing function.
- 4) Review cycles are embedded within recurring annual budgeting processes.

This architecture preserves operational expertise while introducing evaluative independence. The friction generated is cognitive and procedural rather than hierarchical. Over successive cycles, institutionalized cross-functional scrutiny may reduce complacency, encourage contract renegotiation, and prevent the gradual accumulation of inefficient legacy cost structures.

By conceptualizing friction as a governance asset rather than a managerial liability, this study reframes internal cost control as a matter of institutional architecture. The next section formalizes the cross-functional budget governance mechanism and articulates its structural components within a comprehensive conceptual model.

### **3. DEVELOPMENT OF THE CROSS-FUNCTIONAL BUDGET GOVERNANCE MECHANISM**

#### **3.1. Conceptual research design**

This study adopts a conceptual and theory-building research design. Rather than relying on empirical data collection, the analysis is grounded in deductive theoretical development. The framework integrates agency theory, behavioral decision research, and organizational design scholarship to construct a governance-based model capable of generating formal propositions. The objective is to advance theoretical understanding of internal cost governance through institutional design mechanisms rather than statistical testing.

Building upon agency theory and the literature on budgetary slack, this section formalizes the cross-functional budget governance mechanism as an institutional design solution intended to mitigate persistent internal cost inefficiencies.

Traditional budgeting systems rely predominantly on vertical governance structures in which accountability flows upward through hierarchical chains of command (Jensen & Meckling, 1976). While hierarchical oversight establishes formal authority and decision rights, it does not necessarily eliminate informational asymmetry at the operational level. Functional managers often retain superior localized knowledge regarding contractual terms, vendor dependencies, and operational constraints, thereby preserving structural conditions under which budgetary slack may persist (Merchant, 1985).

The cross-functional budget governance mechanism introduces horizontal accountability as a complementary governance dimension. Rather than intensifying monitoring intensity through additional approval layers or audit procedures, the mechanism reconfigures accountability architecture itself. Specifically, it separates expenditure execution from subpackage-level review authority by assigning cross-functional reviewers external to the executing department.

This structural separation generates evaluative independence while preserving managerial ownership. Executive-level responsibility over strategic cost packages remains intact, ensuring alignment with organizational objectives, while operational-level scrutiny is diversified across functions. The result is not an erosion of authority but a redistribution of evaluative perspective.

#### **3.2. Structural architecture of the mechanism**

The cross-functional budget governance mechanism consists of four institutional components embedded within the recurring annual budgeting cycle:

1) **Cost package consolidation:** Organizational expenditures are consolidated into strategic cost packages representing broad operational domains (e.g., personnel, technology, infrastructure, marketing, procurement). This consolidation reduces fragmentation in cost classification and enhances visibility at the strategic level.

2) **Executive package ownership:** Each cost package is assigned to a senior executive (Package Owner) responsible for vertical accountability and final decision authority. This preserves hierarchical governance and strategic coherence.

3) Cross-functional subpackage review: Subpackages—representing accounting-level expenditure classifications or contract clusters—are assigned to reviewers external to the executing function. These reviewers possess no direct operational ownership over the expenditure category, thereby introducing evaluative distance and reducing confirmation bias.

4) Annual institutionalization: The review process is embedded within the formal annual budgeting cycle. This institutionalization transforms cross-functional scrutiny into a predictable governance routine rather than a reactive or episodic intervention.

Collectively, these components form a dual-layer governance architecture: vertical authority at the package level combined with horizontal evaluative independence at the subpackage level.

Organizational design theory suggests that such redistribution of evaluative roles alters behavioral incentives by reshaping information flows and scrutiny intensity (Galbraith, 1973). By diversifying review authority, the mechanism reduces the probability that legacy expenditures remain unchallenged due to functional self-justification or inertia.

### 3.3. Causal mechanisms

The effectiveness of the cross-functional budget governance mechanism is grounded in interrelated causal mechanisms derived from agency theory, behavioral decision research, and organizational design theory.

#### 3.3.1. Reduction of confirmation bias

Behavioral research demonstrates that decision-makers systematically privilege information consistent with pre-existing beliefs (Tversky & Kahneman, 1974). In budgeting contexts, managers may rationalize historical cost structures due to familiarity, sunk-cost perceptions, or perceived operational necessity.

Cross-functional reviewers, lacking embedded ownership in the expenditure domain, are less likely to exhibit domain-specific confirmation bias. Their relative detachment increases the probability of fundamental questioning regarding vendor contracts, cost benchmarks, and the necessity of recurring expenditures. The mechanism thus introduces cognitive diversity into cost evaluation processes.

#### 3.3.2. Mitigation of informational asymmetry

Agency theory emphasizes that agents may exploit private information when oversight mechanisms lack independence (Jensen & Meckling, 1976). When operational managers control both execution and justification of expenditures, informational asymmetry is structurally reinforced.

The cross-functional budget governance mechanism introduces informational triangulation by enabling independent reviewers to request documentation, comparative data, or benchmarking evidence. While asymmetry cannot be eliminated, the redistribution of review authority reduces the likelihood of unilateral informational control.

#### 3.3.3. Disruption of departmental capture

Over time, cost categories may become institutionally embedded within departmental identities, producing what can be described as departmental capture. Expenditures acquire implicit legitimacy through repetition, and historical allocations become normalized.

By reallocating subpackage review authority across functional boundaries, the mechanism weakens territorial reinforcement. Responsibility accounting remains intact at the executive level, but operational self-assessment is replaced with structured peer-level scrutiny. This horizontal redistribution challenges the persistence of unexamined legacy cost structures.

#### 3.3.4. Institutionalized cost scrutiny

Unlike crisis-driven cost-cutting initiatives—which are reactive, episodic, and often disruptive—the cross-functional budget governance mechanism embeds scrutiny within routine governance cycles. Annual institutionalization transforms cost questioning into an expected procedural norm rather than an exceptional intervention.

This normalization reduces interpersonal defensiveness, as scrutiny becomes systemic rather than accusatory. Over repeated cycles, organizations may internalize elevated cost-awareness standards, reinforcing anticipatory discipline and cultural alignment with efficiency objectives.

### 3.4. Governance implications

The Cross-Functional Budget Governance Mechanism contributes to internal governance scholarship by demonstrating that structural role reassignment may function as a substitute for increased monitoring intensity.

Rather than expanding audit functions or tightening approval hierarchies, the mechanism enhances governance through the redistribution of evaluative authority. This design-based approach aligns with broader institutional perspectives that view organizational architecture as a determinant of behavioral outcomes.

Importantly, the framework is sector-agnostic. It is particularly relevant for organizations characterized by:

- decentralized cost centers;
- contract-intensive operations;
- high managerial discretion;
- complex multi-layered hierarchies.

By embedding constructive organizational friction within the budgeting cycle, organizations may strengthen cost discipline while preserving managerial autonomy. The following section develops a comprehensive conceptual model integrating horizontal accountability and vertical governance within a unified analytical framework.

## 4. THE CROSS-FUNCTIONAL BUDGET GOVERNANCE MECHANISM

### 4.1. Integrating vertical and horizontal governance

To formalize the dynamics of constructive organizational friction, this section develops an integrated conceptual model that synthesizes

vertical authority structures with horizontal accountability mechanisms.

Conventional governance frameworks emphasize vertical control, whereby principals delegate authority to agents and monitor them through hierarchical reporting systems (Jensen & Meckling, 1976). Vertical governance establishes formal accountability and allocates decision rights; however, it often fails to address peer-level reinforcement of cost inertia within functional silos. When cost evaluation remains embedded within the same domain as cost execution, scrutiny may be constrained by shared assumptions, localized rationalities, and cultural reinforcement.

The cross-functional budget governance mechanism introduces a complementary horizontal governance dimension. Rather than displacing executive authority, horizontal accountability intersects with vertical oversight at the subpackage level. The interaction between these two governance axes produces what this paper conceptualizes as constructive organizational friction.

Constructive friction emerges under three structural conditions:

- 1) Execution authority remains within the functional domain.
- 2) Review authority is partially redistributed to actors external to that domain.
- 3) Both execution and review operate within a recurring and institutionalized annual cycle.

The resulting governance matrix creates evaluative distance without eliminating operational expertise. This distance is sufficient to disrupt automatic reinforcement of legacy cost structures while preserving domain-specific knowledge.

#### 4.2. The governance interaction matrix

The conceptual model may be represented as a two-dimensional governance matrix composed of:

Dimension 1: *Vertical accountability*:

- executive ownership of strategic cost packages;
- alignment with organizational objectives;
- final decision authority.

Dimension 2: *Horizontal accountability*:

- Cross-functional subpackage review;
- independent scrutiny of cost justifications;
- structured procedural questioning.

The intersection of these dimensions generates three core structural effects:

1) *Cognitive diversification*: Independent reviewers introduce alternative interpretative frameworks and reduce the bounded rationality constraints described by Cyert and March (1963). Exposure to non-domain perspectives challenges embedded assumptions about cost necessity.

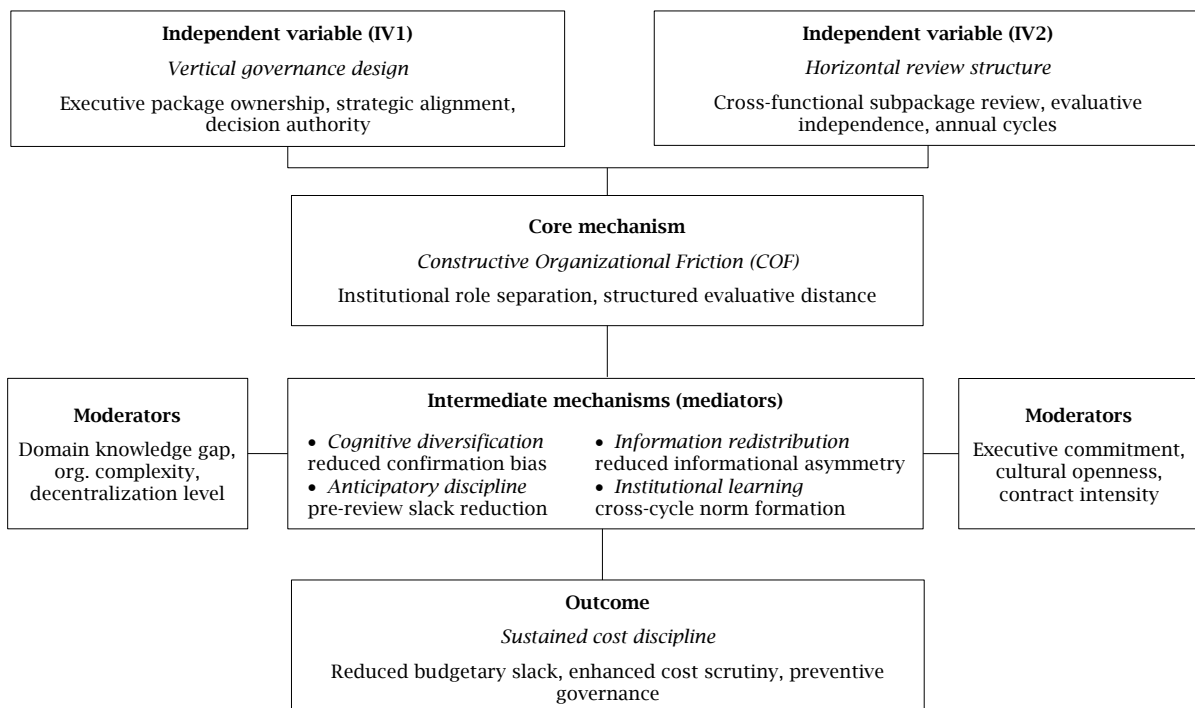
2) *Information redistribution*: Oversight responsibilities expand access to cost-related information beyond functional boundaries. This redistribution mitigates informational monopolies and reduces the unilateral control over expenditure narratives typically described in agency settings.

3) *Behavioral moderation*: The anticipation of independent review alters managerial incentives before formal scrutiny. As suggested in budgetary slack research (Merchant, 1985), the expectation of external evaluation may moderate opportunistic behavior and reduce slack formation at the proposal stage.

Together, these structural effects enhance cost discipline without increasing bureaucratic layering or intensifying hierarchical monitoring.

To synthesize the structural relationships described above, Figure 1 presents the conceptual model of constructive organizational friction, integrating vertical and horizontal governance mechanisms within a unified accountability framework.

Figure 1. Conceptual model of constructive organizational friction



Source: Author's elaboration.

The model illustrates how vertical executive ownership and horizontal cross-functional review interact to generate structured cost scrutiny, which enhances sustained cost discipline over recurring budgeting cycles.

#### 4.3. Dynamic effects over time

A distinguishing feature of constructive organizational friction is its temporal dimension. Because the mechanism is embedded in the recurring annual budgeting cycle, its effects are cumulative rather than episodic.

Three dynamic processes are anticipated:

1) Anticipatory discipline: When managers anticipate cross-functional review, they may proactively reassess vendor contracts, renegotiate pricing structures, or eliminate marginal expenditures before formal evaluation occurs. This anticipatory discipline transforms cost governance from reactive correction to preventive alignment.

2) Cultural internalization: Repeated exposure to structured cross-functional scrutiny may gradually normalize transparency expectations. Over successive cycles, organizations may internalize higher standards of cost justification, embedding efficiency norms within organizational culture.

3) Structural learning: Cross-functional reviewers accumulate exposure to diverse expenditure categories across cycles. This cross-domain learning enhances benchmarking capabilities, diffuses knowledge across silos, and strengthens collective understanding of cost drivers.

Over time, the governance mechanism transitions from an externally imposed evaluative intervention to an embedded organizational routine.

#### 4.4. Propositional development

Building on the conceptual relationships illustrated in Figure 1, the following propositions formalize the causal linkages embedded within the constructive organizational friction model.

*Proposition 1 (P1):* The strength of governance design mechanisms, including structured budget architecture and vertical executive ownership, is positively associated with the level of constructive organizational friction generated through cross-functional review processes.

*Proposition 2 (P2):* Higher levels of constructive organizational friction increase monitoring intensity by introducing evaluative independence and cognitive diversification in cost assessment.

*Proposition 3 (P3):* Increased monitoring intensity enhances cost scrutiny by reducing confirmation bias and mitigating informational asymmetry within budgeting processes.

*Proposition 4 (P4):* Enhanced cost scrutiny contributes to sustained cost discipline over repeated budgeting cycles through anticipatory managerial behavior and cross-functional learning effects.

Collectively, these propositions position constructive organizational friction as an architectural governance mechanism that strengthens cost discipline through structural redistribution of evaluative authority.

#### 4.5. Boundary conditions

The effectiveness of the cross-functional budget governance mechanism may vary according to contextual conditions:

- organizational size and structural complexity;
- degree of decentralization and managerial discretion;
- contract intensity within expenditure categories;
- executive commitment to procedural integrity;
- cultural openness to cross-functional evaluation.

In highly centralized organizations with limited discretionary authority, the marginal gains from horizontal accountability redistribution may be modest. Conversely, in complex multi-unit organizations characterized by high discretionary spending and contract dependency, the impact of constructive friction is likely to be amplified.

Articulating these boundary conditions refines the generalizability of the model while preserving its sector-agnostic applicability.

#### 4.6. Conceptual synthesis

The constructive organizational friction model reconceptualizes internal governance as a matter of accountability architecture rather than monitoring escalation. By integrating vertical authority with horizontal evaluative independence, organizations introduce structured procedural tension into budgeting systems.

Rather than treating friction as a source of inefficiency, this framework positions structured friction as a governance resource—capable of mitigating bias, redistributing information, and reinforcing sustainable cost discipline over time.

The following section translates these theoretical insights into managerial implications and implementation considerations.

### 5. MANAGERIAL IMPLICATIONS AND IMPLEMENTATION CONSIDERATIONS

#### 5.1. Reframing cost control as institutional design

The constructive organizational friction framework challenges the prevailing assumption that effective cost control is primarily a function of intensified monitoring or stricter hierarchical approval mechanisms. Instead, it advances the proposition that sustainable cost discipline can be achieved through deliberate institutional redesign of accountability architecture.

For practitioners, this reframing is consequential. Rather than expanding audit layers, tightening approval thresholds, or introducing surveillance-based control systems, organizations may enhance governance effectiveness by redistributing evaluative authority across functional boundaries. In doing so, cost scrutiny becomes structurally embedded rather than procedurally imposed.

The managerial implication is that cost governance can be strengthened through architectural realignment rather than bureaucratic expansion. By leveraging structural independence as a governance resource, firms may increase scrutiny intensity without increasing formal monitoring burden.

## 5.2. Implementation considerations

The effective implementation of the cross-functional budget governance mechanism requires careful calibration of structural and cultural elements.

First, role clarity is essential. Cross-functional reviewers must operate in an evaluative capacity rather than assuming operational intervention. Clearly defined boundaries between execution and review reduce ambiguity and limit dysfunctional interference.

Second, executive sponsorship is critical. Senior leadership endorsement legitimizes horizontal accountability and signals that cross-functional scrutiny constitutes institutional design rather than personal critique.

Third, procedural standardization enhances consistency. Review cycles should incorporate structured documentation requirements, benchmarking protocols, and predefined questioning frameworks. Formalization ensures that friction remains procedural and objective rather than discretionary.

Fourth, cultural framing influences acceptance. Positioning the mechanism as an organizational learning and efficiency initiative—rather than a corrective surveillance measure—reduces defensive responses and enhances long-term sustainability.

Importantly, the mechanism operates within existing budgeting infrastructures and does not necessitate technological overhaul or structural reorganization. Its low implementation cost enhances scalability across organizational contexts.

## 5.3. Risk mitigation and potential challenges

Although constructive organizational friction is designed to generate productive procedural tension, inadequate implementation may produce unintended consequences.

Potential risks include:

- perceived territorial intrusion across functional boundaries;
- reviewer overload in highly decentralized organizations;
- excessive procedural formalism leading to decision delays;
- escalation of conflict in the absence of clear governance protocols.

Mitigation strategies include limiting review scope to material subpackages, rotating cross-functional assignments to prevent bias entrenchment, and establishing formal escalation channels for unresolved disagreements.

When governed appropriately, friction remains cognitive and structural rather than interpersonal, preserving its constructive character.

## 5.4. Cross-sector applicability

While the framework was conceptualized within complex multi-departmental environments, its underlying principles are broadly applicable. Organizations characterized by decentralized cost centers, contract-intensive operations, vendor dependency, and significant managerial discretion are particularly well positioned to benefit from horizontal accountability redistribution.

Examples include manufacturing firms managing distributed production units, healthcare systems balancing clinical and administrative cost centers, technology firms overseeing software licensing and infrastructure expenditures, and professional service organizations operating under project-based budgeting structures.

Because the mechanism is architectural rather than sector-specific, it may be adapted without altering core operational models.

## 5.5. Preventive governance and organizational resilience

A distinctive contribution of the cross-functional budget governance mechanism lies in its preventive orientation. Many firms address cost inefficiencies only in periods of financial stress, triggering reactive retrenchment strategies that may disrupt operations and erode organizational morale.

By embedding cross-functional scrutiny within routine annual cycles, constructive organizational friction transforms cost governance from episodic correction to continuous discipline. Over time, this preventive approach may reduce the accumulation of structural inefficiencies and strengthen organizational resilience.

The framework thus contributes not only to cost efficiency but also to long-term governance stability.

## 5.6. Implications for internal governance scholarship

From a scholarly perspective, the proposed framework extends internal governance research by emphasizing accountability architecture as a determinant of organizational outcomes. Whereas traditional governance literature privileges monitoring intensity and incentive alignment, this study highlights structural redistribution of evaluative authority as an alternative governance lever.

By demonstrating how horizontal accountability may function as a substitute for intensified hierarchical control, the framework broadens the analytical scope of governance scholarship. Future research may further examine how combinations of vertical and horizontal governance mechanisms interact to influence performance, risk management, and organizational learning.

The following section synthesizes the theoretical contributions of the study and outlines avenues for future empirical research.

## 6. CONCLUSION

This study introduced Constructive Organizational Friction as a governance-based mechanism designed to enhance cost discipline through deliberate redesign of accountability architecture. By integrating insights from agency theory, behavioral decision research, and responsibility accounting, the paper advances the argument that internal cost inefficiencies are not solely the product of incentive misalignment or inadequate monitoring, but are deeply rooted in structural configurations of evaluative authority.

The primary theoretical contribution lies in conceptualizing cross-functional accountability as

an institutional governance lever. Whereas prior literature has emphasized vertical monitoring systems, incentive alignment, and audit intensity, comparatively limited attention has been devoted to horizontal redistribution of evaluative authority within budgeting systems. The cross-functional budget governance mechanism formalizes this redistribution by separating expenditure execution from subpackage-level review responsibility, thereby introducing evaluative independence without eroding managerial ownership.

By reframing friction as a governance resource rather than a managerial pathology, this paper extends internal governance scholarship and demonstrates how structural role realignment may serve as an alternative—or complement—to intensified hierarchical monitoring.

From a managerial perspective, the framework offers a scalable and comparatively low-cost mechanism for embedding cost scrutiny into routine governance processes. Unlike crisis-driven retrenchment initiatives, constructive organizational friction operates preventively through institutionalized annual review cycles.

The mechanism does not require additional bureaucratic layers, technological infrastructure, or centralized control expansion. Instead, it leverages redistribution of evaluative authority to generate structured procedural tension and anticipatory discipline. Over time, this preventive orientation may reduce structural cost accumulation and enhance organizational resilience.

By demonstrating that governance effectiveness can be strengthened through architectural redesign rather than surveillance escalation, the framework provides actionable guidance for leaders seeking sustainable cost discipline.

As a conceptual contribution, this study does not empirically test the proposed propositions. While grounded in established theoretical frameworks, the causal pathways described herein require systematic empirical validation across diverse organizational contexts.

Furthermore, the effectiveness of the cross-functional budget governance mechanism may vary depending on contextual variables such as organizational culture, leadership commitment, structural complexity, and degree of decentralization. In highly centralized or low-discretion environments, the marginal benefits of horizontal accountability redistribution may be attenuated.

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These limitations underscore the need for empirical refinement and contextual examination.

Several avenues for future research emerge from this conceptual framework.

First, quantitative studies could examine whether organizations institutionalizing cross-functional subpackage review exhibit measurable reductions in budgetary slack persistence, vendor contract rigidity, or cost inertia relative to organizations relying exclusively on vertical governance structures.

Second, experimental and behavioral research designs could isolate the cognitive mechanisms underlying evaluative independence, particularly the moderating effects of confirmation bias and anticipatory discipline.

Third, cross-industry comparative analyses may identify boundary conditions and contextual moderators influencing the magnitude of constructive friction effects.

Finally, a broader investigation into accountability architecture design may expand internal governance scholarship beyond monitoring intensity and incentive alignment, exploring how structural configurations of evaluative authority shape organizational outcomes.

Constructive organizational friction challenges the implicit assumption that organizational harmony is synonymous with efficiency. Instead, it proposes that structured and institutionalized procedural tension—when deliberately designed—can function as a catalyst for sustainable cost discipline.

In an era characterized by increasing organizational complexity, decentralized decision-making, and contract-intensive operations, redesigning accountability architecture may prove more effective than intensifying control mechanisms. By embedding cross-functional scrutiny within recurring budgeting cycles, organizations can transform friction into a strategic governance capability.

This reconceptualization positions accountability design at the center of internal governance discourse and opens new pathways for theoretical advancement and practical innovation.

Managers seeking to enhance cost transparency and prevent structural inefficiencies may adopt this governance framework as a practical enhancement to existing budgeting systems.

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