



Effect of Budget Participation, Budget Emphasis, and Fairness Perception on the Budgetary Slack with Managerial Trustworthy Behavior as Moderating Variable at Manufacturing Company in Jakarta

Megawati Oktorina

megawati.okt@atmajaya.ac.id

Yanuar Nanok Soenarno

yanuar.nanok@atmajaya.ac.id

Department of Economics, Atma Jaya Catholic University of Indonesia

Abstract

Purpose: This study examines the effect of budget participation, budget emphasis, and fairness perception to budgetary slack. In addition, this study also adds moderating variable to determine how the effect of managerial trustworthy behavior to the relationship between budget participation, budget emphasis, fairness perception and budgetary slack correlation.

Methodology: the study using Manufacturing companies which located in Jakarta for population. Questionnaires were distributed to the finance manager or production manager or anyone who is an actor-for budgeting process on the company. Data collection method was purposive sampling. Total of 113 questionnaires distributed, only 108 questionnaires can be used for this study. The statistical methods used to analyze the data and the research problem is structural equation models with partial least square approach using SmartPLS 2.0 software.

Finding: The results of this study prove that budgetary participation and budget emphasis affecting budgetary slack. Meanwhile, fairness perception does not significantly affect the budgetary slack. The test results showed that the moderation of managerial trustworthy behavior affects the relationship between budget emphasis and budgetary slack. However, the moderating variable does not effect in the relationship between budgetary participation and budgetary slack. Benefit from the this study is the behavior of managers in making budgetary slack can be significantly affected by factors that are directly related to the budget, but the influence of these factors on budgetary slack can be changed by other factors, in this study managerial trustworthy behavior.

Originality: The study is expected to contribute the literature regarding the budget where this research include psychological variables such as justice perception and managerial trustworthy behavior so that the results obtained are getting richer and multidisciplinary

Keywords: *budget participation, budget emphasis, fairness perception, budgetary slack, managerial trustworthy behavior.*



INTRODUCTION

Budget is important component in company's planning and management. A manager has to arrange a good budget because budget is dealing with the whole company's operations (Siegel *et al.*, 1989). Budget also functions to coordinate, communicate, motivate and evaluate the achievement (Kennis, 1979). Beside motivating the performance of low level manager, budget also facilitates the financial planning (Chow, *et al.*, 1988). Demski and Feltham (Covaleski *et al.*, 2003) view budget as decision facilitating as well as decision influencing. Through this all decisions are facilitated by increasing sub units coordination as well as influencing decisions in its control and evaluation over performance and management compensation.

In budgeting, top managers need to involve their staffs so that all of needs and interests are considered fulfilled by the management. This process is called budget participation. Budget participation is defined as employees communication concerning local condition to the owners so that the report will contribute to production planning and employees compensation (Covaleski *et al.*, 2003). Argyris (Covaleski *et al.*, 2003) states that the employee involvement in budget planning may avoid *pseudo participative budgeting* so that it decreases employee deviant behaviors. In order to obtain such situation, the management need *managerial trustworthy behaviour*.

A budgetary slack may occur because subordinate management has freedom in planning the budget. When asked to compose a set of work performance standard, subordinates tend to lower the standard. This is what Young (1985) calls as a slack. Slack in management may end in two conditions: positive or negative. Positively, a slack in budgetary may benefit the subordinate by protecting them from uncertainty conditions and increase the probability of gaining budget target. In addition, reward by job performance and stress reduction may be obtained easily in this condition. On the other hand budgetary slack used as the bases for incentive system and work evaluation will produce bias evaluation. Therefore, slack minimalization is a must in order to get unbiased budget. Other factors in addition to budgetary slack are supervisors pressures for the subordinates to reach the budget target and organizational justice. It is assumed that the fairer the organization the lower the slack will be.

1.1 Research Problem

1. Do budget participation, budget emphasis, and perceived procedural justice influence the *budgetary slack*?



2. Does *managerial trustworthy behaviour* moderates the relationship among budget participation, budget emphasis, perceived procedural justice and budgetary slack?

1.2 Research Purposes and Benefit

This research aims at finding the influence of budget participation, budget emphasis, and perceived procedural justice toward *budgetary slack*. In addition, the moderating effect of *managerial trustworthy behaviour* over the relationship among budget participation, budget emphasis, perceived procedural justice and budgetary slack is studied. The findings of the research may contribute to management to evaluate and increase the effectiveness of planning activity and control as well as detect budgetary slack in advance.

THEORETICAL BACKGROUND AND RESEARCH HYPOTHESIS

2.1 Budget participation and Budgetary Slack

Budget participation is decision making processes made by two or more sections in the organization and the decision brings impact to all involved (French *et al.* in Siegel *et al.*, 1989). The participation is dealing with budget compilation by every level in management so that the budget target can be set. Participation increases togetherness, belongingness, idea stimulation so that the decision made is acceptable to all. Young reported that staff misreport information needed in budget arrangement will cause in budgetary slack. This may be caused by unwillingness to face risks of unable to reach the budget target. Brownell (1982) finds that budget participation is a process involving individual to participate and be influential in arranging budget target. When the budget target is reached, reward is considered important to give. However, when the subordinates are given full access to budget arrangement, the bigger chance of slack to occur. Given the condition explained, **thus the first hypothesis is the more participation of head department in budget arrangement, the bigger the budgetary slack will be.**

2.2 Budget Emphasis and Budgetary Slack

Supervisory pressure to reach budget target creates budgetary slack. The more pressure is perceived the bigger chance to create budgetary slack. This situation is called budget emphasis. Lowe dan Shaw (1968 in Linn *et al.*, 2001) stated that when budget target is emphasized, budgetary slack is normal. Otley (1978 in Linn *et al.*, 2001) also finds positive and significant relationship between supervisory styles and budget performance. Based on the condition above **the second hypothesis is as follows: the more budget emphasis is perceived the more budgetary slack will be.**



2.3 Perceived procedural justice and Budgetary Slack

Early efforts to understand the concerns people have when evaluating procedural justice were focused on stipulating specific standards of process fairness. For instance, Leventhal (1980) specified six criteria of fair procedures: consistency, bias suppression, accuracy, correctability, representativeness, and ethicality.

The importance of this type of information was highlighted by Leventhal (1980), who identified the use of objective criteria in decision making as central to fair procedures. The same point was highlighted by the control and relational models of procedural justice, which focus on issues such as voice and neutrality, respectively. These refer to such concerns as issues of quality of decision making. A key finding of procedural justice research is that procedural concerns extend beyond attention to how decisions are made. A second function of procedural information is to help people evaluate the social atmosphere of the group or situation (Lind & Tyler, 1988).

Procedural fairness theory is concerned with the impact of the fairness of decision making procedures on the attitudes and behaviour of the people involved in and affected by those decisions (Lind and Tyler, 1988; Leventhal, 1980). In a budget setting, managers may view the fair enactment of budgetary procedures as a necessary, but not sufficient condition, for overall

procedural fairness in budgeting. If this necessary condition is not met, managers may care little about the fairness of the formal budgetary procedures themselves (with which they are less familiar and whose personal impact is less direct). Thus, in this condition, when management is perceived fair procedurally, the probability of budgetary slack is minimal. **The third hypothesis then is saying the fairer the procedures is the less budgetary slack is.**

2.4 Managerial Trustworthy Behaviour as Moderating variable in the relationship among participative budgeting, Budget Emphasis, procedural justice and Budgetary Slack

The subordinates' trust to supervisor is called managerial trustworthy behavior. Managerial trustworthy gives foundation for subordinates and supervisors to cooperate better in achieving organization's goals. Trust may facilitate the relationship between participative budgeting and budgetary slack. When managerial trustworthy is high, participative budgeting will lower the budgetary slack. **On the other hand When managerial trustworthy is high, participative budgeting will lower the budgetary slack (Hypothesis 4a).**



Trust is also assumed to influence budget emphasis dan budgetary slack. **Then it is hypothesized that Trustworthy behavior will moderate the relationship between budget emphasis dan budgetary slack(Hypothesis 4b).**

Trustworthy behavior is also assumed influencing the relationship between perceived procedural justice and budgetary slack. Subordinates with high trust to their supervisors will increase the procedural fairness so that budgetary slack will be lower. **In this case the perceived procedural justice will lower budgetary slack when trustworthy behavior is high (Hypothesis 4c).**

RESEARCH METHOD

3.1 Population, Data Collection and Sampling Technique

The population of the research is manufacturing company in Jakarta with criterion as follows: at least 5 years establishment, at least 50 Head Divisions of production and finance. The data were collected from the 2011-2012 company list of *Indonesian Chamber of Commerce and Industry Jakarta Division*. *The sampling technique was purposive.*

3.2 Research variables and measurement

Exogen Variable. Budget participation. This variable is measured by five indicators developed by Milani (1975). The scale was 6 items with 5 scale instrument. Score 1 indicates lowest participation and score 5 indicates the highest participation in budgeting. The scale measured the following: participation in arranging the budget, satisfaction in budget arrangement, the need to express idea, voluntary to state the idea, the influence in the final budget, frequency of supervisors' request for idea in budget arrangement.

Budget Emphasis. Budget emphasis is measured by 7 items in 5 scale instrument from Stede (2000, 2001). The bigger the score the bigger pressure to reach budget target perceived.

Perceived procedural justice / fairness. Four items in five scale are used to measure procedural justice developed by Leventhal (adapted in Faturochman, 2002). The measurement covers: performance evaluation, feedback, promotion decision, and pay increase.

Endogen variable. Budgetary slack is measured by 6 items in 5 Likert scale developed by Dunk (1993) and Stede (2000). The lower the score the more disagreement toward budgetary slack.

Moderating Variable. Managerial Trustworthy Behaviour is defined as trust of the subordinates to top management. This is measured by 21 items in 5 likert scale developed by Butler (1991) and McAllister (1995).



3.3 Research Model

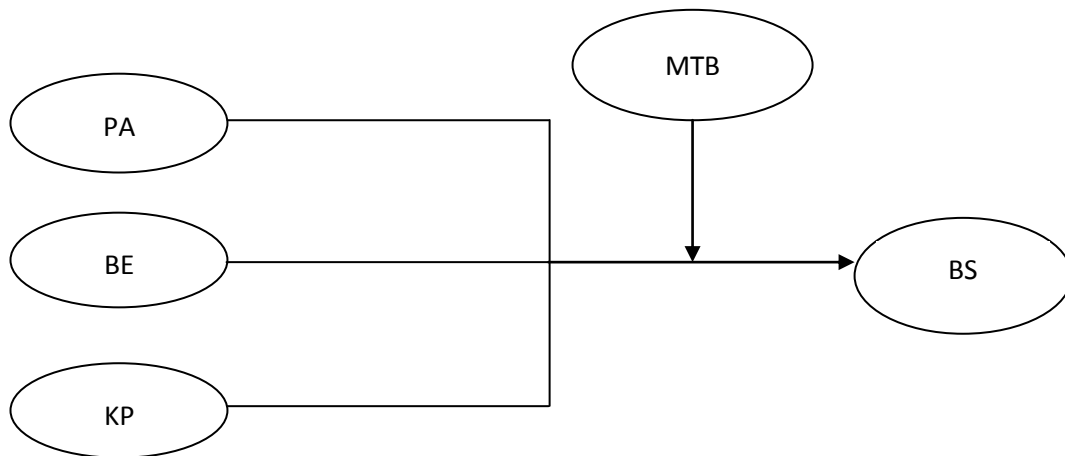


Figure 1. Research Model

Where:

PA : Budget participation

BE : Budget Emphasis

KP : Procedural Justice

MTB : Managerial trustworthy behavior

BS : Budgetary Slack.

ANALYSIS

The Structural Equation Modeling Method by SMARTPLS is used to analyze the research model. This software is used to adapt data which are not normal and small sample size. The next assumption is that the model is still new and predictive in nature. Total 108 subjects are analyzed. Descriptively, the tenure of the subject is in range 05 5-10 years working, dominantly male, married, and undergraduate degree holders.

4.1 The outer model (measurement model)

To evaluate the reflective measured models we examine the following: outer loadings, composite reliability, and AVE (Average variance extracted). Items with loadings below minimum requirement of 0.5 are dropped. Item dropped is from Budgetary slack variable : BS 6 (0.4). The composite reliability of the measurements is as the following:

Tabel 1. Composite Reliability



Variables	<i>Cronbach's Alpha</i>	<i>Composite Reliability</i>
Budget participation	0.94	0.95
Budget Emphasis	0.82	0.86
Procedural Justice	0.84	0.89
Budgetary Slack.	0.83	0.88

The composite reliability shows that the measurements are reliable and ready for next analysis in structural model test.

4.2 Inner model test

The model structural test aims at finding relationship between latent variables in the study. As predicted, Budget participation, and Budget Emphasis significantly predicted Budgetary Slack. The T value of each relationship exceeds 1.96 in $p > 0.05$. Meanwhile, the procedural justice do not predict Budgetary slack due to lower T value (< 1.96).

The insignificance path of Procedural Justice to Budgetary Slack causes revision of research model. In moderating effect testing of managerial trustworthy behavior on the relationship among budget participation (partisipasi anggaran), budget emphasis and budgetary slack is omitted. The results show that managerial trustworthy behavior does not moderate the relationship between budget participation and budgetary slack (T value < 1.96).

The relationship between budget emphasis and budget slack is moderated by managerial trustworthy behavior. In this case the T value of moderating variable exceeds 1.96 with original sample value of -1.482372. This means that managerial trustworthy behavior weaken the relationship between budget emphasis and budget slack. The result of the analysis is summarized in the table 2 below.



Table 2 Parameter Estimation of Structural Model testing the Moderating Effect of Managerial Trustworthy Behavior in Relationship between Budget Emphasis and Budget Slack

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics ((O/STERR))
Budget Emphasis -> Budget Slack	1.509990	1.410418	0.351503	0.351503	4.295809
Budget Emphasis * Trustworthy Behaviour -> Budget Slack	-1.482372	-1.392245	0.445356	0.445356	3.328513
Trustworthy Behaviour -> Budget Slack	0.910700	0.923850	0.201934	0.201934	4.509887

4.3 Discussion

According to the analysis, the first hypothesis, the more participation of head department in budget arrangement, the bigger the budgetary slack will be cannot be rejected. This means that budgetary slack is predicted by budget participation. The finding is in line with Brownell (1982) and Sugiwardani (2012) research finding.

The second hypothesis also cannot be rejected. The more budget emphasis is perceived the more budgetary slack will be. The finding supports the finding of Lowe and Shaw (in Linn et al, 2001). The third hypothesis saying the fairer the procedures is the less budgetary slack is. This hypothesis cannot be accepted. This means the procedural justice does not influence the budgetary slack.

The fourth hypothesis consists of four sub hypotheses. Hypotheses 4a states that budget participation will decrease the likely of budgetary slack when the managerial trustworthy behavior is high and on the other hand budget participation will decrease the likely of budgetary slack when the managerial trustworthy behavior is high. This hypothesis cannot be accepted. This means that the relationship between budget participation and budgetary slack does not change in both managerial trustworthy behavior qualities: high or low. The hypothesis 4 b stated that the budget emphasis will decrease budgetary slack when managerial trustworthy behavior is high and the budget emphasis will increase budgetary slack when managerial trustworthy behavior is low cannot be rejected. This shows that when the head of department feels pressure to achieve the budget target and at the same time he perceives high managerial trustworthy behavior then the tendency to have budgetary slack is minimum. Thus, trust is important factor in decreasing budgetary slack in its relation



with budget emphasis. The last hypothesis (4c) is dropped from the analysis since procedural justice perception does not influence budgetary slack. Therefore, the moderating effect of managerial trustworthy behavior does not need to test.

4.4 Research Limitation

This research has limitation in number of sample studied that is only 103 subjects. The justice measured is also limited to procedural justice, which is not complete concepts in organizational justice. The interaction and distributive justices are also important to research.

4.5 Suggestion

For the coming research it is essential to consider greater number of participants out of is important to study all of organizational justice types.

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APPENDIX 2: DESCRIPTIVE STATISTICS

Table 1 Descriptive Statistics

	SEX	AGE	STATUS	EDUCATIO N	WORK	LOK_KERJ A	MASA_KERJ A
N Valid	108	108	108	108	108	108	108
Missing	0	0	0	0	0	0	0
Mean	1.4537	2.0370	1.4815	2.6296	2.3519	2.6944	1.8056
Median	1.0000	2.0000	1.0000	3.0000	3.0000	2.0000	1.0000
Mode	1.00	2.00	1.00	3.00	3.00	1.00	1.00
Std. Deviation	.50017	.93655	.63366	.88172	.82388	1.74794	1.20325
Minimum	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Maximum	2.00	4.00	3.00	4.00	3.00	5.00	6.00

Table 2 Outer Loading

Outer Loadings

	Budget Emphasis	Budget Slack	Procedural justice	Budget participation
BE_1	0.539681			
BE_2	0.805283			
BE_3	0.782721			
BE_4	0.703877			
BE_5	0.736428			
BE_6	0.731969			
BE_7	0.512397			
BS_1		0.796271		
BS_2		0.866014		



BS_3	0.756227
BS_4	0.734963
BS_5	0.699917
BS_6	0.403151
KP_1	0.856000
KP_2	0.828740
KP_3	0.752923
KP_4	0.813131
PA_1	0.913815
PA_2	0.786803
PA_3	0.890876
PA_4	0.874698
PA_5	0.899620
PA_6	0.868775

Table 3 Measurement Model

Measurement	<i>Cronbach's Alpha</i>	<i>Composite Reliability</i>
PA	0.94	0.95
BE	0.82	0.86
KP	0.84	0.89
BS	0.83	0.88

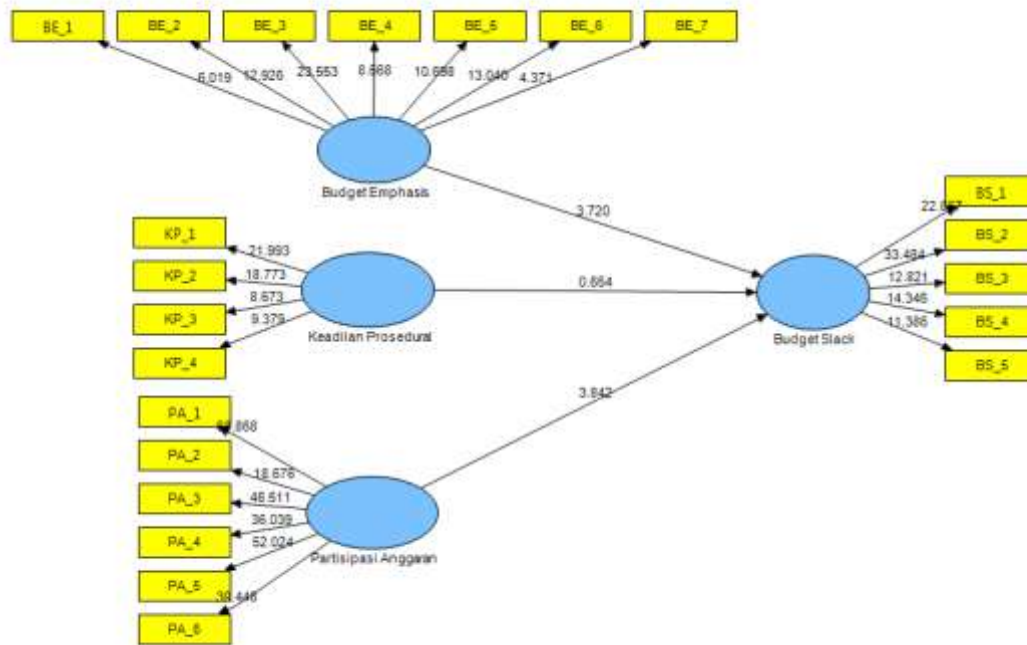


Figure 1 Structural Model

Table 4. Estimation Parameter of Structural Model

	Original Sample (O)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (O/STERR)
Budget Emphasis -> Budget Slack	0.297079	0.079867	0.079867	3.719650
Keadilan Prosedural -> Budget Slack	0.043417	0.066349	0.066349	0.654372
Partisipasi Anggaran -> Budget Slack	0.393394	0.102395	0.102395	3.841938

Tabel 5 R Square

	R Square
Budget Emphasis	



Budget Slack	0.372257
Keadilan Prosedural	
Partisipasi Anggaran	

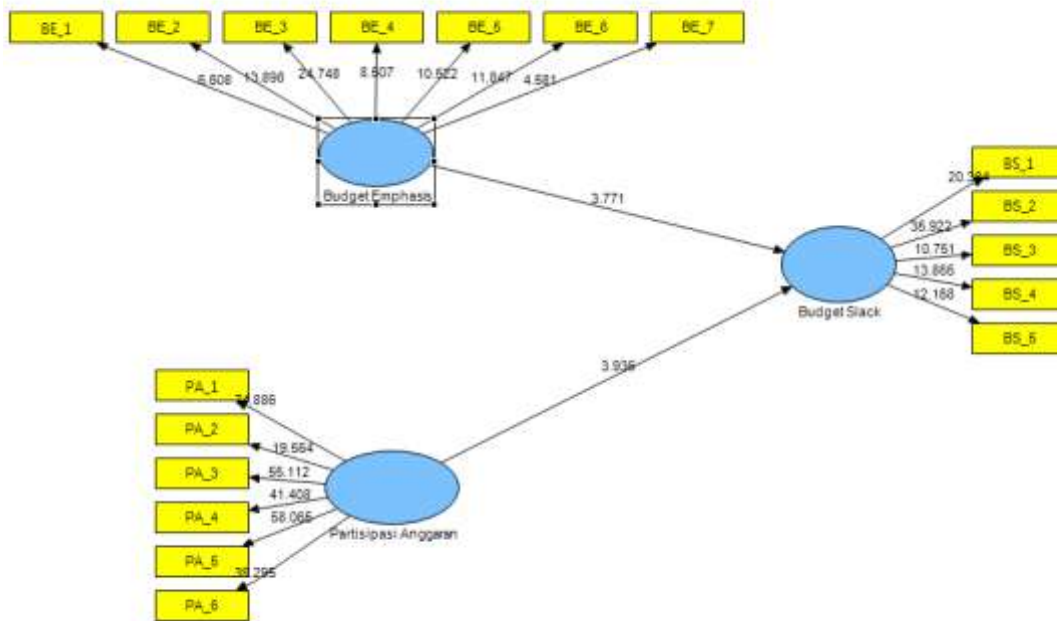


Figure 2 Structural Model without Procedural Justice Perception

Table 6 Estimation Parameter of Structural Model of *Managerial Trustworthy Behaviour* moderating effect toward the relationship Budget Participation and *Budget Slack*

	Original	Sample	Standard Deviation	Standard Error	T Statistics
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	Sample (O)	Mean (M)	(STDEV)	(STERR)	(O/STERR)
Partisipasi Anggaran -> Budget Slack	1.194598	1.218319	0.442220	0.442220	2.701369
Partisipasi Anggaran * Trustworthy Behaviour -> Budget Slack	-0.824270	-0.865536	0.516719	0.516719	1.595199
Trustworthy Behaviour -> Budget Slack	0.518960	0.571772	0.164351	0.164351	3.157627

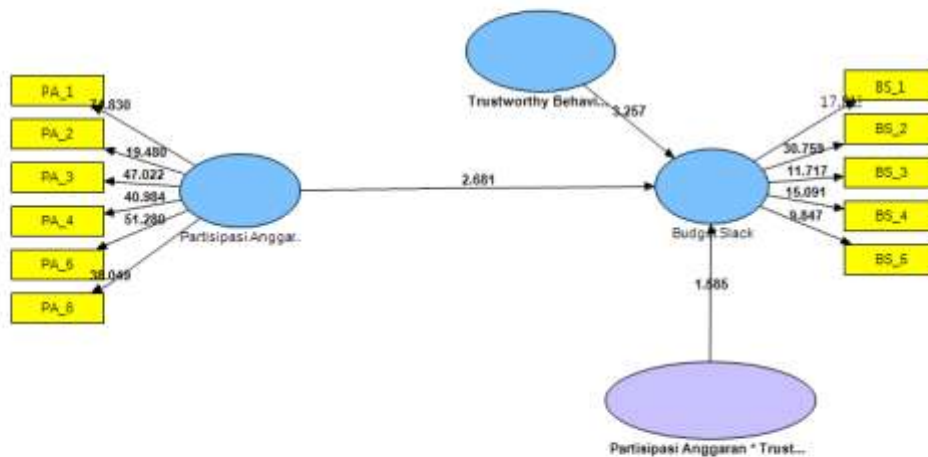


Figure 3 Structural Model of Estimation Parameter of Structural Model of *Managerial Trustworthy Behaviour* moderating effect toward the relationship Budget Participation and *Budget Slack*

Table 7 Estimation Parameter of Structural Model of *Managerial Trustworthy Behaviour* moderating effect toward the relationship Budget Emphasis and *Budgetary Slack*

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (O/STERR)



Budget Emphasis -> Budget Slack	1.509990	1.410418	0.351503	0.351503	4.295809
Budget Emphasis * Trustworthy Behaviour -> Budget Slack	-1.482372	-1.392245	0.445356	0.445356	3.328513
Trustworthy Behaviour -> Budget Slack	0.910700	0.923850	0.201934	0.201934	4.509887

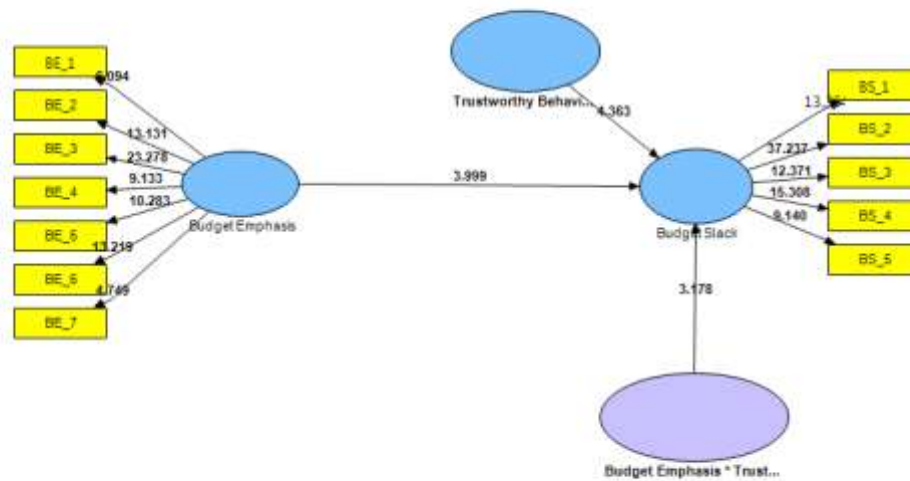


Figure 3 Structural Model of Estimation Parameter of Structural Model of *Managerial Trustworthy Behaviour* moderating effect toward the relationship *Budget Emphasis* and *Budgetary Slack*