



International Conference on Accounting Studies 2014, ICAS 2014, 18-19 August 2014, Kuala Lumpur, Malaysia

## The influence of participative budgeting on budgetary slack in composing local governments' budget in Bali province

A.A. Widanaputra\*, N.P.S.H. Mimba

*Faculty of Economics and Business, Udayana University, Sudirman Street, Denpasar 80113, Indonesia*

---

### Abstract

This study examines the influence of participative budgeting on budgetary slack in composing nine local governments' budget of Bali Province, using 'career uncertainty' as the moderating variable. The 'career uncertainty' has received insufficient attention in previous studies on budgetary slack. This study tries to fill this gap. Respondents of this study are 686 middle level employees. The results show that career uncertainty can moderate the relationship between participative budgeting and budgetary slack. The more certain local government employees that they will be placed at the same position in the period of budget realization, the larger the budgetary slack will be.

© 2014 Published by Elsevier Ltd. This is an open access article under the CC BY-NC-ND license (<http://creativecommons.org/licenses/by-nc-nd/3.0/>).

Peer-review under responsibility of the School of Accountancy, College of Business, Universiti Utara Malaysia.

*Keywords:* Career uncertainty; participative budgeting; budgetary slack; local governments, Bali Province

---

### 1. Introduction

The management process of a government institution is started by composing a budget. Operationally, a local government budget is composed by executives who will then ask for approval from the legislative member (i.e. known as DPRD). This budget will be used to assess the performance of executives by comparing the budget

---

\* Corresponding author. Tel.: +6-0361-224133.  
E-mail address: [akuntansi\\_fe@unud.ac.id](mailto:akuntansi_fe@unud.ac.id)

estimation with its realization. In composing a budget, this activity often produces problem caused by budgetary slack, as a result of undisclosed of the real capabilities. This is reflected by the income source coming from 'Budget Surplus' (i.e. known as *SILPA*) which might come from either income realization which is larger than budgeted, or from efficiency of spending or inability to maximize the absorption of budgetary spending.

Previous studies showed the inconsistent effect of participative budgeting on budgetary slack. Onsi (1973), Merchant (1985) and Abdullah (2004) found that participative budgeting has a negative influence on the budgetary slack. Meanwhile, Lowe and Shaw (1968) in Yuwono (1998), also Young (1985) found that participative budgeting positively influence the budgetary slack. Collins (1978) found that participative budgeting did not influence budgetary slack. Govindarajan (1986) believes that another approach is necessary to explain the inconsistencies between several variables being studied. This approach can take the form of agency model or use various contingency models as the predictor.

In Indonesia, a local government budget is composed started by composing the budget at the task force level (i.e. known as *Satuan Kerja Perangkat Daerah* or *SKPD*). This condition creates possibilities for staff to create budgetary slack to make it easier to realize the budget (i.e. budget absorption). This attitude is also influenced by how certain the personnel whether he/she will be placed at the same position in the next year. The more certain he/she is about his/her position (i.e. continuity of his/her position), the higher the possibility of budgetary slack will be. Based on the illustration above, we can derive the research question of whether career uncertainty influences the relationship between participative budgeting and budgetary slack within the budget composition of local governments in Bali Province.

This study discusses the agency problem which can occur in participative budgeting mechanism through a budgetary slack, moderated by career uncertainty. Therefore, this study aims to assess the influence of career uncertainty on the relationship between participative budgeting and budgetary slack in composing a local governments' budget in Bali Province. The result of this study is expected to give contribution to professions and practitioners to be implemented in practice and in decision making. Theoretical contribution of this study is connected to the adoption of the agency theory in explaining the relationship between executive members as the agent and legislative members as the principal. The results of this study can also useful as a consideration in making policies, especially in deciding directions. Hence, a budget can be composed optimally.

## 2. Theory and hypothesis development

### 2.1 Budget and agency theory

The agency theory explains the relationship between two parties involved in a contract which consist of an agent as the party given the responsibility of a task and a principal as the party who deliver the responsibility. This condition results in a consequence that parties, agent and principal will try to maximize their utility (Jensen and Meckling, 1976). The separation between the agent and the principal causes an agency problem. This problem occurs because of the tendency of management to perform moral hazard in maximizing their interest by sacrificing the principal.

A budget is a tool of planning and controlling system so that the governmental system can be done efficiently and effectively. In composing a budget, there is an agency relationship between executive members as the agent and the legislative members as the principal. Budget is also the document of a political contract between executive and legislative members for the future (Mardiasmo, 2002).

### 2.2 Participative budgeting and budgetary slack

The quality of a budget depends highly on the process of how such budget is composed. A budget can be composed either by superiors or by a staff who perform the budget, known as the participative budgeting. In this budgeting system, managers actively participate in composing their own budget. The management process of states finance started by composing a budget. Mardiasmo (2002) states that the form of state's autonomy is carried out through the use of resources economically and efficiently to achieve public accountability. To achieve this, a

proper budget is required as an early step in managing existing resource. Operationally, a budget is composed by executives who will then ask for approval from the legislative members. This budget will be used as a basis to evaluate the performance of executive members after comparing with the budget realization.

The budget is composed by staff in each task force (i.e. SKPD). This budget is the basis to evaluate the performance of SKPD in the next year (i.e. the year of budget realization). In this condition, it is possible for employees to perform budgetary slack to make the realization easier (budget absorption). This attitude is also influenced by how certain the employee that he/she will stay at the same position in the next year (i.e. in the budget realization). The higher level of certainty (i.e. continuity of the position) will result a higher possibility that they will perform a budgetary slack. The confidence level will be very different for each individual because the absence of rules for someone's mutation in each state government. The absence of the rule in this mutation causes uncertainty, mainly during the budget is composed. Budgetary slack occurs when a manager deliberately make an excessive demand on resources exceeding the real budget needs or manager deliberately state their productivity lower than their actual productivity. Hence, there is a chance to choose a benchmark used to assess the performance (Young, 1985; Anthony & Govindarajan, 1998; Schiff & Lewin, 1970).

### *2.3 Previous research and hypothesis development*

Several studies found that budgetary slack caused by several factors, such as participative budgeting. Previous studies on the influence of participative budgeting on budgetary slack showed inconsistent results. Young (1985) found that companies who give rewards to employees based on budget achievement has a positive relationship between participative budgeting and budgetary slack. This research is supported by other studies, for instance: Lukka (1988) and Dunk (1993). Meanwhile, other researchers showed different result, such as Onsi (1973), Merchant (1985), and Abdullah (2004). In contrast to the result above, Collins (1978) found that participative budgeting did not influence the budgetary slack.

Govindarajan (1986) believes a different approach is important to explain the inconsistent relationship between several variables studied if the result is inconsistent. This approach can be done through either the agency model or by using various contingency models as predictor. For instance, Suhartono (2006) examined the influence of budget goal clarity on budgetary slack moderated by organizational commitment. The result indicated that organizational commitment can moderate the relationship between goal clarity and budgetary slack in a government body. Ikhsan (2007) studied the influence of budget participation on budgetary slack using five moderating variables, showed that strategic uncertainty, environment uncertainty, organizational commitment and leadership style were functioned as the quasi moderator.

Our study uses career uncertainty as the moderating variable that influence the relationship between participative budgeting and budgetary slack. Budgetary slack in participative budgeting occurs when someone knows that his/her performance will be judged based on the budget realization. This circumstance motivates him/her to unreveal their optimum ability during the composing of a budge. This attitude might be different when a staff clearly knows whether he/she will be involved or not in the budget execution. If a staff knows that he/she will be involved in the budget realization then there is a tendency that the individual will perform a higher budgeting slack, and vice versa. From the questionnaires results, it can be concluded that the level of career certainty for staff of local governments is still low in general. A mutation can be done without any clear rules. This high uncertainty affects an employee's behaviour at the time the budget is composed. From the above mentioned explanations, the following hypothesis has been developed:

*H0: Career uncertainty does not influence the relationship between participative budgeting and budgetary slack in composing local governments' budget in Bali Province.*

*H1: Career uncertainty influences the relationship between participative budgeting and budgetary slack in composing local governments' budget in Bali Province.*

## **3. Research method**

### *3.1 Population, sample and data source*

This study uses primary data obtained through survey. The sample is taken using purposive sampling. Respondents of this study are middle level employees, such as sub-department head of Finance and sub-department head of Planning and General Affairs in each SKPD of nine local governments in Bali Province. They have to be in their current position for a minimum of one year to ensure that they have sufficient knowledge and experience in answering the questionnaires. Respondents were selected at the task force level (i.e. SKPD) because they have to compose, to use and to report the budget realization (Abdullah, 2004). For each SKPD, we took two respondents. In total, we have 686 respondents.

### *3.2 Variable measurement*

This study uses participative budgeting as the independent variable, budgetary slack as the dependent variable and career uncertainty as the moderating variable. These variables were measured by questionnaires adopted from previous related studies.

#### *3.2 Participative budgeting*

Participative budgeting is an involvement or the influence of a staff or subordinate in composing a budget. The measurement for subordinate involvement is done by using instrument developed by Milani (1975), as this instrument has a sufficient validity level and already used in previous studies. In this instrument, each respondent was asked to answer 6 questions using scale one to five. Scale one showed highest level of participation, while scale five showed lowest level of participation.

#### *3.3 Budgetary slack*

Budget slack is a tendency in composing a budget to unveil their optimum ability in the budget composition process. The measurement of budgetary slack was done using an instrument developed by Onsi (1973) with four questions using five scales. Scale one showed the highest level of budgetary slack, while scale five showed the lowest level of budgetary slack.

#### *3.4 Career uncertainty*

Career uncertainty is someone's level of confidence that he/she will remain at the same position when a budget is composed and realized. This level of confidence highly influences the disclosure ability at the time when the budget is composed. The career uncertainty was measured using the instrument developed by Riyanto (2001) with some modifications. Each respondent was asked to answer five questions with a scale of one to five which showed respondent's perception on career uncertainty. The scale of five showed the highest level of uncertainty, while the scale of one showed the lowest level of uncertainty.

## **4. Data analysis technique**

### *4.1 Data quality testing*

This study obtained data through questionnaire. The reliability measurement was done by calculating the alpha cronbach coefficient of each instrument of the variables. Nunnally (1978) in Ghazali (2002) states that instruments are reliable if they have alpha cronbach coefficient close to 1. The validity test was done by data homogeneity testing, using correlation test with a score from question item with total score (i.e. Pearson Correlation) and significance level of 1 percent. If the correlation coefficient is significant then the question item in the instrument is valid. Hypothesis testing was done using multiple regression analysis to test the moderation effect. The use of this model requires several conditions for its implementation. Hence, the linear estimator will not bias. The classical assumption testing was done through non-multicollinearity, normality, and homokedasticity tests.

## 5. Result and discussion

### 5.1 Respondents profile

The numbers of questionnaires were 718, which were directly delivered by the researcher. The number of returned questionnaires were 610 (84.96%), while 15.04 percent was not used because they were incomplete and did not fulfil the criteria (i.e. has no involvement in composing the local government's budget). There were 66.61% males, while 33.39 were females. Most respondents were head of sub unit (87.07%), and about 62.47% respondents had experience 1-2 years in their current position. Most of respondents had a bachelor degree (68.04%) and their age were mostly around 40-49 years old (51.53%). Table 1 shows the descriptive statistic for data analysed and presents standard deviation of each variable that lower than the mean value. This reflects that the data have an equal distribution.

Table 1. Descriptive Statistic

Variable	N	Minimum	Maximum	Mean	Standard Deviation
Y	557	1,00	4,80	3,3176	0,58881
X1	557	1,00	3,79	2,3304	0,53223
X2	557	1,00	4,64	3,2239	0,62403
Valid N (list wise)	557				

### 5.2 Hypothesis testing

Research hypothesis stated that career uncertainties influence the relationship between participative budgeting and budgetary slack on local governments' budget of Bali province. The testing result using multiple regression is presented in Table 2.

Table 2. Hypothesis Testing Result

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Error	Beta		
1(Constant)	1,479	0,259		5,714	0,000
X1	0,262	0,084	0,396	3,133	0,002
X2	0,468	0,081	0,496	5,758	0,000
X1X2	-0,049	0,023	-0,363	-2,104	0,036

Adjusted R Square =0,195  
F=44,574 Sig.=0,000

Adjusted R Square of 0,195 means that 19,5% of budgetary slack variance can be explained by participative budgeting, career uncertainty and interaction between participative budgeting with budgetary slack, while 80,5% explained by factors outside the model. Anova test results 44,574 with significance level is smaller than 0,05 means that the regression model can be used to predict budgetary slack. It can be said that participative budgeting, career uncertainty and interaction between participative budgeting with budgetary slack simultaneously influence the budgetary slack.

The influence of career uncertainty on the relation between participative budgeting and budgeting slack showed by t value -0,049 with significance level 0,036. This result indicates that career uncertainty can moderate the relationship between participative budgeting and budgetary slack. The negative value of t value showed adverse influence of the relationship. The result implies that the higher (lower) level of someone's career uncertainty in a position at the time of budget realization, then the smaller (bigger) the budgetary slack will be. The slack is established to make his/her performance looked good because this reflect that he/she is able to execute the job according to the budget.

The results of this study support previous related studies on budgeting slack, such as Suhartono (2006) and Ikhsan (2007). This study supports the agency theory which explain that in the relation between an agent and a

principal, both parties will try to maximize their own utility. In this study, the agency theory is worthwhile to explain the willingness of local governments' staff to maximize their interests in composing a budget.

## 6. Conclusion and suggestion

Based on the data analysis and discussion, this study finds that career uncertainty can moderate the relation between participative budgeting and budgetary slack in composing local governments' budget in Bali Province. This is shown by the significance level of 0,036. Hypothesis testing results show that the higher level of uncertainty that someone will be placed at the same position in the time of budget realization, then the smaller the budgetary slack will be, and the other way around. The budgetary slack was performed so that the increase of performance can be seen in relation to the budget (i.e. comparison with the targeted performance).

For the executives and legislative members as the authority holders in composing the budget, the result of this study can be used as a consideration in making policies concerning local government budget. In addition, this study can be useful to determine certain conditions required in order to allow the budget composed optimally. This study can also be fruitful in determining job mutation by showing more transparent job criteria, because the career clarity of local governments' staff can influence their attitudes, especially in composing a budget.

## References

- Abdullah, H., (2004). *Pengaruh Kejelasan Anggaran, Pengendalian Akuntansi, dan Sistem Pelaporan Terhadap Akuntabilitas Kinerja Instansi Pemerintah Pada Kabupaten dan Kota di Daerah Istimewa Yogyakarta*. Tesis. Program Pasca Sarjana UGM.: Yogyakarta.
- Anthony, R.N., & Vijay Govindarajan. (1998). *Management Control Systems*. 9 ed. Irwin/McGraw-Hill.
- Collins F., (1978). The Interaction of Budget Characteristics and Personality Variable with Budgetary Response Attitude. *The Accounting Review*. pp. 324-335.
- Dunk, A.S., (1993). The Effect of Job-Related Tension on Managerial Performance in Participative Budgetary Setting. *Accounting Organization and Society*. Vol 18 (7). pp. 575-585.
- Ghozali, I., (2002). *Aplikasi Analisis Multivariate Dengan Program SPSS*. BP Undip.
- Govindarajan, V., (1986). Impact of Participation in the Budgetary Process on Managerial Attitudes and Performance. *Universalistic and Contingency Perspective*. *Sciences* 17. pp. 496-516.
- Ikhsan. A., (2007). Pengaruh Partisipasi Anggaran Terhadap Senjangan Anggaran Dengan Menggunakan Lima Variabel Pemoderasi. *Simposium Nasional Akuntansi X*. pp. 1- 27.
- Jensen, M.C. dan W.H. Meckling, (1976). Theory of the Firm: Managerial Behavior, Agency Cost and Ownership Structure. *Journal of Financial Economics*. Vol. 3. No 4. pp. 305-360.
- Lowe, A, E, & R. W. Shaw. (1968). An Analysis of Managerial Biasing: Evidence from a Company's Budgeting Process. *Journal of Management Studies*. pp. 304-315.
- Lukka K., (1988). Budgetary Biasing in Organization. Theoretical and Empirical Evident. *Accounting Organization and Society*. pp. 281-301.
- Mardiasmo, (2002). *Akuntansi Sektor Publik. Edisi Pertama*. Andi: Yogyakarta.
- Merchant Kenneth A., (1985). Budgeting and Propensity to Create Budgetary Slack. *Accounting, Organization, and Society*. Vol 10. pp. 201-210.
- Milani, K. W. (1975). The Relationship of Participation in Budget-Setting to Industrial Supervisor Performance and Attitudes: A Field Study. *The Accounting Review*. April. pp. 274-284.
- Nunnally, J. C. (1978). *Psychometric Theory*. 2<sup>nd</sup> ed. New York: McGraw-Hill.
- Onsi M., (1973). Factor Analysis of Behavioral Variables Affecting Budgetary Slack. *The Accounting Review*. pp. 535-548
- Riyanto L. S, Bambang, (2001). Alternative Approach to Examining a Contingency Model in Accounting Research: A Comparison. *Jurnal Riset Akuntansi, Manajemen, Ekonomi*. Vol. 1. No. 1. Februari, pp.1-12.
- Schiff, M. and A. Y. Lewin. (1970). The Impact of People on Budgets. *The Accounting Review*. April. pp. 259-268.
- Suhartono. E., (2006). Pengaruh Kejelasan Sasaran Terhadap Senjangan Anggaran Instansi Pemerintah Daerah dengan Komitmen Organisasi sebagai Pemoderasi. *Simposium Nasional Akuntansi IX*. pp. 1-20.
- Young S. M, (1985). Participative Budgeting: The Effect of Risk Aversion and Asymmetric Information on Budgetary Slack. *Journal of Accounting Research*. Autumn 23. pp. 829-842.
- Yuwono, (1998). Pengaruh Komitmen Organisasi dan Ketidakpastian Lingkungan Terhadap Hubungan Antara Partisipasi Anggaran dengan Senjangan Anggaran. *Jurnal Bisnis dan Akuntansi*. pp. 12-26.