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RESEARCH ARTICLE

ANALYSIS ON BUDGETARY SLACK.

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Abstract

Budgetary Slack is the differential between estimation and realization of the budget (Ueno & Sekaran, (1)). In making revenue budget, there is a predisposition to underestimate the revenue, while, in contrast, in making expenditure budget, the existing predisposition is to overestimate the expenditure. Budget tolerance is ranging between 5% and 10 %. Both executive and legislative have different interest on APBD but it is still called as the joint product of both institutions. Executive achievement is evaluated based on APBD realization and its accountability to legislative. This research was aimed to prove that ethics, bureaucratic culture (in this case, the paternalistic culture), social pressure and individual capacity have an effect on budgetary slack among the budgeting executives at the Coordinator Agency for Region II of East Java Province. Research was conducted at the office of the Coordinator Agency for Region II of East Java Province. The scope of Region II includes the regencies of Bojonegoro, Tuban, Lamongan, Mojokerto, Jombang, Kediri, and the cities of Kediri and Mojokerto. Samples were taken with purposive sampling, and it results in total respondents of 236 individuals from Echelon II and III. Variables considered were ethics, bureaucratic culture (in this case, the paternalistic culture), social pressure, individual capacity and budgetary slack. Data were analyzed using Structural Equation Modeling (SEM). Result gave some indications. Ethics has positive and significant effect on budgetary slack among budgeting executives. Bureaucratic culture has negative and significant effect on budgetary slack among budgeting executives. Social pressure has positive and significant effect on budgetary slack among budgeting executives. Finally, individual capacity has no effect on budgetary slack among budgeting executives.

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Introduction:-

Budgetary slack can happen in any types of organization, including private or government agencies. When subordinates are given a chance to participate into budgeting, possibly because they have good achievement, there is a predisposition for them to overestimate or underestimate the budget. Different opinions are given for budgetary slack. Budgetary slack is a function of ethics (Douglas & Wier (2)); of budget culture, institutional strategy, institutional culture, general culture, and participation in budgeting (Mardiasmo (3)); of social pressure (Van der Stede (4)); and of individual capacity (Dunk & Perera (5)).

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The Coordinator Agency for Region II has work scope including the regencies of Bojonegoro, Tuban, Lamongan, and Jombang, and the cities of Mojokerto and Kediri. Local tax revenue from the Agency has a mean of differential (deviation) for 8.09 %, 18.87 %, 11.27 % and 13.42 % while budget tolerance ranges from 5 to 10%. There is a slack in revenue side. Is budgetary slack in the Agency occurring in consistent with theories?

In budget setting, the participation of subordinates is quite necessary. As noted by Agency Theory, this participation would help the achievement of budget goal. Revenue side of budget goal is always low, while the proposed cost is higher. In organization with strong paternalistic culture, such predisposition gets stronger. This research, therefore, attempts to examine individual capacity, the effect of bureaucratic culture, and its relation with budgetary slack.

Blanchette et al., (6) have investigated the effect of ethics on budgetary slack by focusing on personal variables. They also analyze whether budgetary slack is also prevalent in public sector organization. They found that budgetary slack is ethical and thus, giving positive effect. Other finding is that bureaucratic culture is influential to budgetary slack, and this activates a predisposition to overstate slack (assuming that budgetary slack is ethical).

Lau (7) confirmed that control system has negative and significant effect on budgetary slack among production managers. It means that the stricter is the control system, the weaker becomes the budgetary slack.

Mayper et al.,(8) said that budgetary slack can be identified from budget variance (deviation). Positive deviation means that budget realization has exceeded budget goal, or in other words, budgetary slack occurs because the region shows a predisposition to underestimate revenue. Negative deviation denotes for a condition when budget realization is smaller than budget goal. Budgetary slack in negative number means that the region is hardly achieving the goal despite the hard work it may do. High or low slack indicates how good or bad is the use of public sector resources. Indeed, deviation is the adequate indicator that budgetary slack is already there. The presence of budgetary slack proves that the observed region tends to overestimate expenditure and underestimate revenue. This characteristic is confirmed with the non-random direction of budget variance.

Method:-

Research population includes all individuals (executives) who serve at The Coordinator Agency for Region II of East Java Province and who have involvement in budgeting process of public sector. Research uses 37 manifest variables (indicators) with the sample counted for 185-370 individuals. Of 300 questionnaires distributed, 110 questionnaires show the detail of high local genuine revenue (LGR), while 100 questionnaires are with medium LGR and 90 questionnaires indicate low LGR. The complete questionnaires that are ready for analysis are 236 or we have rate of return 78%. By this number, the sample is identified as 236 respondents. Analysis technique is SEM (Structural Equation Model).

Result and Discussion:-

Table 1:- Multinormal Test for Each Latent Variable.

Latent Variable	Value of Section below The Curve χ^2	Conclusion
Ethics	79.6610	Normal Multivariate Distribution
Bureaucratic Culture	74.1525	Normal Multivariate Distribution
Social Pressure	85.5932	Normal Multivariate Distribution
Individual Capacity	85.1695	Normal Multivariate Distribution
Budgetary Slack	80.5085	Normal Multivariate Distribution

Source: Data are processed.

Modification Model:-

Modification stage is shown in Figure 1 while the relationship of variables is displayed in Table 2.

Table 2:-Direct effect across variables

Relationship			Loading	S.E.	C.R.	P
Ethics	<---	Bureaucratic Culture	.226	.057	3.244	.001

Social Pressure	<---	Bureaucratic Culture	.513	.113	6.591	***
Individual Capacity	<---	Social Pressure	.112	.030	1.788	.074
Individual Capacity	<---	Bureaucratic Culture	.463	.049	6.648	***
Individual Capacity	<---	Ethics	.061	.055	.970	.332
Budgetary Slack	<---	Social Pressure	.202	.021	2.150	.032
Budgetary Slack	<---	Ethics	.485	.044	4.331	***
Budgetary Slack	<---	Bureaucratic Culture	-.311	.038	-2.623	.009
Budgetary Slack	<---	Individual Capacity	-.166	.047	-1.620	.105

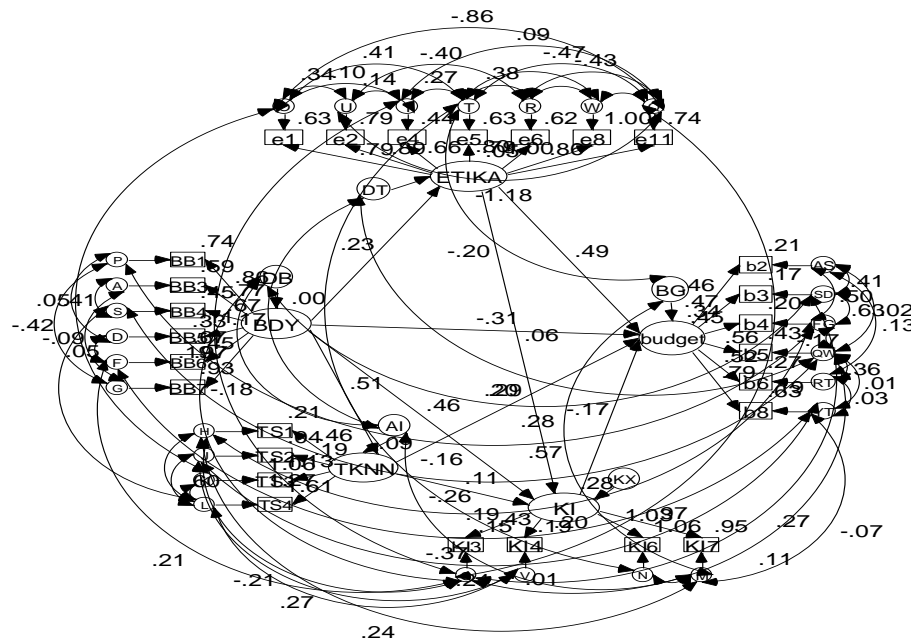


Figure 1:- Structural Model At Modification Stage.

The Relationship Of Variables:-

The Effect of Ethics on Budgetary Slack:-

Ethics has positive and significant effect on budgetary slack. It is consistent with Hypothesis 1a that ethics influences budgetary slack. The effect size is shown by factor loading of 0.485 at significance value of 4.331. It supports hypothesis. Positive direction in path coefficient confirms that when respondents consider budgetary slack as ethical, there is higher predisposition to create budgetary slack. Conversely, when they presume as ethical for budgetary slack, lower predisposition to create budgetary slack is more apparent. Sale manager often considers budgetary slack as ethical.

In real world, budgetary slack is possible because a factor of uncertainty is always there. The range eof budgetary slack remains between 20% and 30%. Field observation shows that the development of physical infrastructure (for example, constructing the bridge) involves slack 20%, while for non-physical activity (for example, extension service), the slack reaches 30%. It is hoped that slack should be controlled because it may risk local government with loss and bad mentality.

The Effect of Ethics on Budgetary Slack through Individual Capacity:-

Ethics has negative effect on budgetary slack through individual capacity. The effect size is shown by coefficient rate -0.01 ($0.061 \times -0.166 = -0.01$). However, the effect of ethics on budgetary slack through individual capacity is not significant because individual capacity of budget maker does not have significant effect on budgetary slack. It does not align with Hypothesis 1b that ethics influences budgetary slack through individual capacity. Therefore, this hypothesis is disconfirmed. Positive direction of path coefficient indicates that respondents assume that the more unethical is budgetary slack, the lower becomes the predisposition to create budgetary slack. Conversely, when

respondents declare that budgetary slack is ethical, then the predisposition to create budgetary slack becomes stronger.

Education has positive and direct effect on ethics. The material-oriented lifestyle advocated by modern community may explain this. It is seen that education is an investment to warrant the materially better life. Any efforts are taken to improve the accessibility to education which often requires higher cost over times. It is expected that investment on education to empower ethics can increase community welfare.

The Effect of Bureaucratic Culture on Budgetary Slack:-

Bureaucratic culture has negative and significant effect on budgetary slack. Hypothesis 2a that bureaucratic culture influences budgetary slack is supported. Managers view budgetary slack as ethical or positive action. Paternalistic respondents show that they are protected by superior whom they value as their parent. Respondents are made satisfied for their material, social, spiritual and emotional necessities. The satisfied respondents would try to please their superior by showing good deed.

Government organization experiences culture transition. Paternalistic culture is still prevalent such as coming to superior's invitation of wedding or attending the celebration of Great Day. Dwiyanto et.al., (9) found that the percentage of subordinates who are bold enough to remind superior is greater than those reminding superiors indirectly or than those who do nothing. The effect of paternalistic culture on budgetary slack goes onto negative direction, and it is interpreted as that the higher is paternalistic culture, the lower becomes budgetary slack.

The Effect of Bureaucratic Culture on Budgetary Slack Through Individual Capacity:-

Bureaucratic culture is negatively influencing budgetary slack through individual capacity. Total effect size is shown by coefficient rate -0.077 (0.463×-0.166). The effect of bureaucratic culture on budgetary slack through individual capacity is not significant. Thus, Hypothesis 2b is supported.

It is consistent with the fact that in paternalistic culture, respondents receive protection from the superior who acts as their parent. It is said so because respondents are made satisfied for their material, social, spiritual and emotional necessities. The satisfied respondents tend to boost up budgetary slack by expecting that budget can be easily realized and their performance is valued as good by superior.

The Effect of Bureaucratic Culture on Budgetary Slack through Social Pressure:-

Bureaucratic culture has positive and significant effect on budgetary slack through social pressure. The effect size is shown by coefficient rate 0.104 ($0.513 \times 0.202 = 0.104$). It supports Hypothesis 2c stating that bureaucratic culture influences budgetary slack through social pressure. This hypothesis is proved. Whether someone make ethical decision or not is affected by individual and situational factors. This research focuses on individual factor, and shows that individual capacity has positive effect on ethical decision made by individual on budgetary slack. It can be interpreted in such a way that the higher is individual education background, the more positive or ethical is their view on budgetary slack.

Social pressure (i.e. the desire to avoid negative social sanction associated with shirking) affects the occurrence and magnitude of budgetary slack. It means that social pressure may influence and change the direction of its effect on budgetary slack. The higher is social pressure, the lower is budgetary slack. Social pressure also acts as control system.

The Effect of Bureaucratic Culture on Budgetary Slack through Social Pressure and Individual Capacity:-

Bureaucratic culture does not have significant effect on budgetary slack through social pressure and individual capacity. The indirect effect size of bureaucratic culture on budgetary slack through social pressure and individual capacity is shown by coefficient rate -0.01 ($0.513 \times 0.112 \times -0.311 = -0.01$). It does not conform with Hypothesis 2d that bureaucratic culture influences budgetary slack through social pressure and individual capacity.

Social pressure acts as control system. Being as control system, the result is not consistent. Lau has found that among production managers, the control system is accounting, but accounting system has negative significant effect, meaning that it tends to reduce the predisposition of creating budgetary slack.

The Effect of Bureaucratic Culture on Budgetary Slack through Ethics:-

Bureaucratic culture has positive and significant effect on budgetary slack through ethics. The effect size is indicated by coefficient rate 0.11 ($0.226 \times 0.485 = 0.11$). Hypothesis 2e, thus, is supported. Managers see budgetary slack as ethical or positive action. It is confirmed by Blanchette et.al. Subsequently, Ueno & Sekaran associates bureaucratic culture with budgetary slack. United States managers who have strong dimension of individualism would create bigger budgetary slack than Japan managers who are strong in their collectivist dimension. Budgetary slack allows managers to be more creative, more independence in doing their job, and anticipative to uncertainty.

The Effect of Social Pressure on Budgetary Slack:-

Social pressure has positive and significant effect on budgetary slack. It supports Hypothesis 3a that social pressure influences budgetary slack. The effect size is shown by coefficient rate 2.202 at significance value 2.150 (p value = 0.032). Hypothesis 3a, thus, is confirmed. Social pressure (or the desire to avoid negative social sanction associated with shirking) affects the occurrence and magnitude of budgetary slack. It means that social pressure influence and change the direction of its effect on budgetary slack. The higher is social pressure, the lower is budgetary slack.

The effect of social pressure on budgetary slack is shown by positive direction. It can be interpreted in such way that external control system against public organization is not yet effective. Muslim (10) says that human resource quality of DPRD members is still low in terms of education and experience. CSIS has reported that human resource quality of local legislatures is below expectation. The relevant case is the action by The Investigator of Corruption Crime for the Police Department of East Java Province that subjects 45 DPRD members in Surabaya to the investigation for accusation of gratifying approval on APBD 2008 (Radar Surabaya, Wednesday, 16 January 2008).

The Effect of Social Pressure on Budgetary Slack through Individual Capacity:-

Social pressure has positive and significant effect on budgetary slack through individual capacity. It supports Hypothesis 3b that social pressure influences budgetary slack through individual capacity, and therefore, Hypothesis 3b is confirmed. Social pressure (or the desire to avoid negative social sanction associated with shirking) affects the occurrence and magnitude of budgetary slack. It means that social pressure influence and change the direction of its effect on budgetary slack.

The Effect of Individual Capacity on Budgetary Slack:-

Individual capacity is not influential to budgetary slack created by budget maker executives. The effect size is shown by coefficient rate - 1.620 (p -value = 0.105). Whether individual capacity exists is not influential to budgetary slack created by budget maker executives. It does not conform Hypothesis 4 that individual capacity influences budgetary slack. Therefore, Hypothesis 4 is not confirmed. Syakhroza (11) said that gap in budget implementation is caused by lack of knowledge. Budget implementation should be optimum if budget maker has adequate knowledge of budget making. Gap in budget implementation is caused also by lack of training.

Conclusion:-

Budgetary slack is not ethical. The more is respondents considering budgetary slack as unethical, the lower becomes predisposition to create budgetary slack. The creation of budgetary slack is designed to anticipate uncertainty due to the characteristic of public budget, for example, tightness of budget, because budget is made based on laws. Revision is made only after local regulation is verified which this would be involving the role of legislatures. (2) The effect of bureaucratic culture on budgetary slack can be interpreted in such way that the higher is education background, the lower is paternalistic culture. The higher is paternalistic culture, the lower is budgetary slack. (3) The effect of social pressure on budgetary slack has positive direction, and it means that external control system on public organization is not yet effective. (4) Individual capacity does not influence budgetary slack. Lacking of knowledge about budget, for example performance budget, local financial system, and local strategic plan, has caused respondents to lack of understanding and knowledge in preparing revenue budget. This lack determines the failure to exploit the optimum potential of the local. The lack of training leads to the inadequate knowledge required by individuals to work on their main tasks and functions. In this case, the lack of knowledge and information will increase predisposition to create budgetary slack. (5) The culture of *ewuh pakewuh* (humility) as shown by paternalistic culture among bureaucrats, has faded. The reluctance to reject the requirement of superior is not longer proportional and is experiencing transition to the culture of open communication. (6) The effect of ethics on budgetary slack through individual capacity is not significant. The more is respondents considering budgetary slack as unethical, the lower is predisposition to create budgetary slack. (7) Basically, whether someone is ethical or not is

affected by individual factor and situational factor, which proves that individual capacity has positive effect on the decision of individual to consider budgetary slack as ethical. (8) Social pressure is a control system. Accounting system as a control system would reduce predisposition to create budgetary slack. In other words, managerial predisposition to increase budgetary slack can be restrained by applying stricter control system.

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