



The Effect of Budget Participation on Budgetary Slack with Information Asymmetry and Organizational Commitment as a Moderating Variable

Irma Dwi Pusporini¹, Haryadi², Eliada Herwiyanti³

¹BPPKAD Cilacap Regency, Indonesia.

^{2,3}Faculty of Economics and Business Unsoed, Purwokerto, Indonesia.

Abstract

This study examines the effect of budget participation on budgetary slack using information asymmetry and organizational commitment as a moderating variable. Hypotheses proposed to this study are budget participation will have a positive effect on budgetary slack, the information asymmetry will have a positive effect on the relationship of budget participation and budgetary slack, organizational commitment will have the negative effect on the relationship of budget participation and budgetary slack. This research is located in Cilacap Regency. Purposive sampling is used to take the samples. The method used in this research is survey method. Data collection method that is used questionnaires method. Data analysis methods that are used linear regression analysis and regression analysis moderation with an absolute difference method. These results shows that budgetary participation has a positive effect on budgetary slack, and the information asymmetry strengthens the effect of budget participation to budgetary slack, additionally, the results show that organizational commitment debilitation the effect of budgetary participation to budgetary slack.

Keywords: Budget Participation; Budgetary Slack; Information Asymmetry; Organizational Commitment.

1. Introduction

Implementation of regional autonomy causes changes in the area of financial management in the form of budgeting reforms from traditional budget system to performance budget system. In the budgeting process should include the participation in various parties. Budget planning process of participatory model often creates some problems. According to Hansen and Mowen (2007) budget participation has the potential problem on the standard used tend to be too high or too low and there is a tendency manager performs budgetary slack. When subordinates pressed to achieve the targeted budget, it allows the tendency to make budgetary slack.

One of the factors that have influence on the emergence of slack is the participation in the budget. Previous research that examined the relationship between budgetary participation and budgetary slack showed inconsistent results. Research conducted Young (1985), Hafsa (2005), Falikhatun (2007), Bangun, et al. (2012) and Ajibolade and Akinniyi (2013) show that the budget participation has a positive relationship with budgetary slack. Unlike Dunk (1993), Ramdeen, et al. (2007), Kren and Maiga (2007) and Ardanari and Putra (2014) who found that high budget participation can reduce the occurrence of budgetary slack. The inconsistency of the results of previous studies allegedly because there are other variables that affect the relationship between participation in the preparation of the budget for the possibility of budgetary slack. Factors that affect the relationship between budgetary participation and budgetary slack are asymmetry of information and organizational commitment.

The budget is used as a tool to measure the performance, so that in the preparation of the budget should be based on realistic expectations and conditions. In reality there is often a difference between the budget drawn up with the realization achieved. It also occurs to budget and actual budget Cilacap Regency, Indonesia at 2010 - 2015 as Table 1 below:

Table 1: Budget and Actual Revenue Cilacap regency Year Budget 2010 - 2015 (in thousands of rupiah)			
Year	Regional Revenue Budget (RP)	Realization of Regional Income (Rp)	Actual percentage of the Revenue Budget (%)
2010	1.315.167.381	1.334.620.370	101.48
2011	1.610.106.238	1.639.234.442	101.81
2012	1.730.602.349	1.792.439.254	103.57
2013	2.074.300.760	2.121.355.398	102.27
2014	2.286.449.415	2.367.534.100	103.55
2015	2.716.710.060	2.737.224.737	100.76
Average	1.955.556.034	1.998.734.717	102.24

Table 2. Budget and Expenditure Realization Cilacap Regency Fiscal Year 2010 - 2015 (in thousands of rupiah)			
Year	Expense Budget Area (Rp)	Expense Realization Area (Rp)	Actual percentage of the Budget (%)
2010	1.433.670.672	1.299.429.295	90.64
2011	1.751.202.584	1.550.277.519	88.53
2012	1.952.975.779	1.792.586.828	91.79
2013	2.289.524.271	2.047.162.545	89.41
2014	2.569.979.136	2.205.741.809	85.83
2015	3.151.326.472	2.657.124.478	84.32
Average	2.191.446.486	1.925.387.079	88.42

Based on Table 1 and 2 above can be seen that the realization of regional income is always higher than the budget revenue defined areas. In addition, the realization of regional spending is always lower than the budget defined areas. Based on the results of previous studies are inconsistent, and the gap between budget and realization in Cilacap Regency, so the researchers were motivated to reexamine the influence of budget participation on budgetary slack with information asymmetry and organizational commitment as a moderating variable in Unit in Cilacap Regency, Indonesia.

2. Literature Review and Hypotheses Formulation

Goal setting theory originally proposed by Locke (1968), which shows the relationship between the objectives and the performance of one's tasks. This theory explains the relationship between the goals set targets to be achieved. Through goal setting theory can be explained that the participation in the budget will affect the resulting outputs and outcomes to be expected to optimize the organization's goals are maximum performance. The desire to be able to achieve the performance is what will ultimately bring budgetary slack.

Agency Theory can be defined as a concept that describes the relationship between principals and agents. The focus on the agency theory is the existence of information asymmetry, in which agents have better information than the principal. Based on the assumption of agency theory, a person tends to be opportunistic or selfish personal interests, including in the budgeting process, subordinates will draw up a budget that is likely to provide profits for itself by

creating budgetary slack. Therefore, the agency theory can be used to explain the relationship between budget participation and budgetary slack.

3. Research Hypotheses

3.1 Budget Participation and Budgetary Slack

Hansen and Mowen (2007) stated that the participation of the budget provides an opportunity for managers to perform budgetary slack. Performance-based budgeting system, the process of the development of efficient and participatory where the performance as a benchmark for the success of an organization in the implementation of government activities. However, the assessment of performance based on budget targets achieved or not can lead to a budgetary slack.

The above statement is supported by the results of the study Young (1985), Falikhatun (2007), Ikhsan and La Ane (2007), Bangun, et al. (2012), Ajibolade and Akkiniyi (2013), and Oktorina and Soenarno (2013) which says that the budget participation has positive influence on budgetary slack, so that the hypothesis can be derived as follows:

H1: Budget participation have positive effect on the *budgetary slack*.

3.2 Budget Participation, Information Asymmetry, and Budgetary Slack

Based on agency theory, will act in an opportunistic human being is a personal interest rather than the interests in the organization. Agents will be motivated to increase compensation for the future to improve its performance, while the principals are motivated to increase the utility and profitability. The principal can not monitor the activities of an agent every day. Instead, the agent knows important information about the capacity of self, the work environment and the organization as a whole. This has caused the asymmetry of information, namely the imbalance of information about principal and agent.

The asymmetry of information that occurs to the principal and the agent who participated in budgeting can lead to budgetary slack. The interaction between budgetary participation and information asymmetry can lead to budgetary slack (Young, 1985). This theory is supported by Djasuli and Fadilah (2011), Aprilia and Hidayani (2012), Faria and Silva (2013), and Dewi and Yasa (2014) that the interaction budget participation and information asymmetry have positive influence on budgetary slack. Based on the description of the hypotheses proposed are:

H2 : Information asymmetry strengthen the influence of budget participation on budgetary slack.

3.3 Budget Participation, Organizational Commitment, and Budgetary Slack

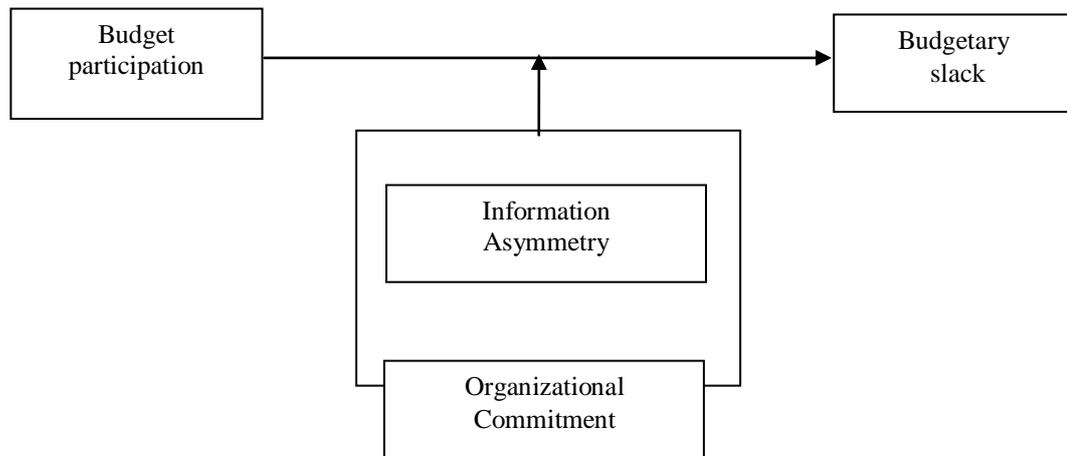
Organizational commitment can serve as a psychological tool in running a particular organization. High organizational commitment would reduce the willingness of an employee to create budgetary slack. Conversely, a low organizational commitment means an employee more priority to personal interests and tend to budgetary slack. This is supported by research Nouri and Parker (1996). Ikhsan and Ane (2007) stated that the Organizational commitment able to moderate the effect of the participatory budget in budgetary slack. Similarly Desmiyati (2009), Marfuah and Listiani (2014), and Murtin (2016) states that organizational commitment negatively affect the relationship between budgetary participation and budgetary slack.

Based on the literature review and the results of previous research, it can be concluded that the process of budgetary participation is also determined by the commitment of the implementer, when individuals pursue personal interests that have organizational commitment is low, then the individual participation in budgeting will attempt to budgetary slack so that its performance look good, in other words that organizational commitment is able to affect the relationship of participation budgets for budgetary slack. Thus, the researchers propose hypotheses as follows:

H3: Organizational commitment debilitation the effect of budgetary participation to budgetary slack.

4. Research Model

Based on the above, it can be served as a research model Figure 1 below:



5. Research Methods

This research is quantitative. According to Cooper and Schindler (2011), quantitative research trying to take measurements accurate to one study. The location will be used as a place of research is the Cilacap Regency, Indonesia. The population in this study are middle management in Cilacap Regency, Indonesia. Sampling method using purposive sampling, is sampling technique with a certain considerations (Sugiyono, 2011). The sample in this study were 80 respondents including Head Office and Head of Planning Subsection. Methods of data collection using a questionnaire survey.

6. Variable Operation Concepts and Definition

6.1 Budget Participation

Budget participation is a process that involves people directly in it and have an influence on the preparation of budget performance objectives will be assessed and will likely be rewarded on the basis of their budget goal achievement (Milani, 1975). Participation in the research budget is the level of involvement and influence of individuals involved in local budgeting. Instruments to measure variables participation in budgeting adopting instruments used in research Milani (1975).

6.2 Information Asymmetry

Information asymmetry is a condition in which the subordinate information beyond their superiors (Dunk, 1993). Information asymmetry in this study is the difference information held between superiors and subordinates, in which subordinates have better information than the boss. Variable information asymmetry was measured with an instrument developed by Dunk (1993).

6.3 Organizational Commitment

Organizational commitment is the attitude shown where people favor the organization and objectives of the organization and maintain membership in order to achieve organizational goals. (Mowday et al, 1979). Organizational commitment in this research is the attitude of an employee who always sided with his office and have a strong desire to achieve agency objectives, and maintain membership in the institution. The indicators used in this study using indicators developed by Mowday et al (1979).

6.4 Budgetary Slack

Budgetary *slack* the delivery amount of the budget easier to achieve (Dunk, 1993). Budgetary slack in this study is the difference in the amount of the budget drawn up by the competent authorities to plan the budget with the best estimate that can actually be achieved. The instrument used to measure the budgetary slack variables using indicators developed Dunk (1993).

7. Results and Discussion

7.1 Data Analysis

Hypothesis 1 was tested using linear regression analysis, while the second and third hypotheses were tested using regression analysis with an absolute difference method. The results can be seen in the following explanation:

1. Equation 1:

To determine the influence of budget participation on budgetary slack, used simple linear regression test with the results listed in Table 3 as follows:

Table 3. The influence of the Budget Participation <i>budgetary Slack</i>		
Predictors	Coefficient	α
Constants	0.741	0.065
Budget Participation	0.786	0,000
Dependent variables: budgetary slack		

Based on Table 3 regression equations can be formulated as follows:

$$BS = 0.741 + 0.786 BP$$

Information:

BS = Budgetary Slack

BP = Participation Budget

2. Equation 2:

To determine the influence of information asymmetry in the relationship of budget participation on budgetary slack, used regression analysis moderation with an absolute difference method. Based on the results of tests performed obtained values listed in Table 5.

Table 4. Moderating Effect of Effect of Information Asymmetry in the Budget Participation on Budgetary Slack		
Predictors	Coefficient	α
Constants	4.130	0,000
ZBP	0.286	0,000
ZAI	0,003	0.951
ZBP-AI	0.135	0,042
Dependent variables: budgetary slack		

Based on Table 4 can be obtained regression equation as follows:

$$BS ZBP = 4.130 + 0.286 + 0.003 + 0.135 ZAI | ZPA - ZAI |$$

Information:

BS: budgetary Slack

ZBP : Variable budget participation standardized

ZAI : Variable information asymmetry standardized

| ZBP - ZAI | : Absolute Difference standardized information asymmetry variables

Based on the above equation it can be seen that the budgetary participation standardized variables, variables standardized information asymmetry, and the absolute difference standardized information asymmetry variables have a positive influence on budgetary slack.

3. Equation 3

Based on the results of tests performed obtained values are listed in Table 5.

Table 5. Moderating Effect of Organizational Commitment under the influence of the Budget Participation on Budgetary Slack.		
Predictors	Coefficient	α
Constants	4.321	0,000
ZBP	0,299	0,000
ZOC	-0.134	0,005
ZBP-ZOC	-0.093	0,047
Dependent variables: budgetary slack		

Based on Table 5, the regression equation can be obtained as follows:

$$BS = 4.0321 + 0.299 ZBP - ZOC 0.134 - 0.093 | ZBP - ZOC |$$

Information:

BS : Budgetary Slack

ZBP : Variable budget participation standardized

ZOC : Variable organizational commitment standardized

| ZBP - ZOC | : Absolute Difference organizational commitment variable standardized

Based on the above equation it can be seen that the budgetary participation variables standardized positive influence on budgetary slack, while variable organizational commitment standardized, and organizational commitment variable absolute difference standardized negatively affect budgetary slack.

7.2 Hypothesis Testing

Summary results of the regression analysis of the hypothesis 1 to 3 can be seen in Table 6 as follows:

Table 6. Summary of Results of Regression Analysis			
Variable	Coefficient	α	Conclusion
BP	.786	0,000	H1 accepted
ZBP-AI	0.135	0,042	H2 accepted
ZBP-OC	-0.093	0,047	H3 accepted

Based on Table 6 can be explained as follows:

a) Hypothesis 1

Regression analysis showed BP coefficient is 0.786 with a value of $\alpha = 0.000 < 0.05$, which shows that the budgetary participation variable positive and significant impact on the budgetary slack. H_0 rejected and H_a accepted. Thus the first hypothesis stated that budget participation has positive influence on budgetary slack is acceptable.

b) Hypothesis 2

Regression analysis moderation in Table 9 shows that the absolute difference in the coefficient of standardized information asymmetry variables (b3) is 0.135 with a value of $\alpha = 0.042$ less than 0.05, which means that the information asymmetry strengthens the influence of budget participation on budgetary slack. H_0 rejected and H_a accepted. Thus Hypothesis 2 stated that the information asymmetry strengthens the influence of budget participation on budgetary slack is acceptable.

c) Hypothesis 3

Regression analysis moderation in Table 9 shows that the absolute difference in the coefficient of standardized organizational commitment variable is -0.093 with a value of $\alpha = 0.047$ less than 0.05, which means that the organization's commitment to weaken the influence of budget participation on budgetary slack. H_0 rejected and H_a accepted. Thus the third hypothesis which states that the organization's commitment to weaken the influence of budget participation on budgetary slack is acceptable.

7.3 Discussion

i) **Effect of Budget Participation of the Budgetary Slack**

The results of hypothesis testing showed budget participation significant effect on budgetary slack on the Cilacap Regency, Indonesia. Results showed that the structural officials, especially Top Management and Middle Management participated well in the preparation of the budget.

Participation in Cilacap Regency have a high influence on the budgetary slack. This shows that individuals who participate in the budgeting, the higher the chances of budgetary slack.

The results are consistent with research conducted by Lau and Eggleton (2003), Bangun, et al. (2012), Ajibolade and Akkiniyi (2013), Oktorina and Sunarno (2013), Kartika (2010), Falikhatun (2007), Ikhsan and Ane (2007), Merchant (1981), Young (1985), showed that the high participation in the budgeting process could lead to budgetary slack (budgetary slack) is also high. The results of this study are not consistent with research conducted by Dunk (1993), Ramdeen, et al. (2007), Kren and Maiga (2007), Ardanari and Putra (2014) who found that high budget participation can reduce the occurrence of budgetary slack.

The results showed the significant relationship between budgetary participation and budgetary slack, which means the higher the participation of the budget will result in increasing budgetary slack. It is caused when subordinates are involved in the preparation of the budget and have a great influence on the budget, then they will use this opportunity to propose a budget that is easy to achieve and boost their productivity. The notion that if the budget available is limited then they should do extra scrutiny against any expenses, so that subordinates will propose a budget that is loose by enlarging the proposed budget. Likewise, in order to look good performance, then the subordinate would propose a budget that is not too high demands of performance, revenue targets are not too high, and the performance goals that are easy to be realized.

ii) **Information Asymmetry Strengthening the Effect of Budget Participation on Budget Slack.**

2nd Hypothesis test results showed that the information asymmetry strengthens the effect of budget participation on budgetary slack, which means that the participation of the budget will affect the budgetary slack on high information asymmetry. If the information asymmetry that occurs between the agent and the principal to participate in budgeting is getting stronger, then it is likely to be stronger budgetary slack anyway. The condition of information asymmetry in the regional work units (SKPD) Cilacap district can be said to be high, can be seen in the results of the research data descriptive statement that the indicator with an average score of 4.04 and the overall indicator significant effect on the interaction of budget participation on budgetary slack. Thus, it can be stated that the information asymmetry can amplify the effect of budget participation on budgetary slack in Cilacap regency.

The results are consistent with research conducted by Young (1985), Djasuli and Fadilah (2011), and Faria and Silva (2013), Dewi and Yasa (2014) states that the interaction budgetary participation and information asymmetry positive and significant impact on the budgetary slack, Based on the above results show that when the staff involved in the preparation of the budget have a better understanding of what can be achieved in the work, then they will develop a budget that is easy to implement in order to look good performance, so it caused a budgetary slack. The results of this study contradict the research conducted by Falikhatun (2007), Supanto (2010) and Pello (2014).

Conditions associated with the theory of information asymmetry agency. According to this theory the relationship between subordinates and superiors basically because their interests often at odds with each

different parties. Asymmetry of information is a condition in which the principal (employer) does not have enough information about the performance of his subordinates, so that subordinates in the process of budget participation provides biased information to his superiors. The difference between the information owned by subordinates and superiors to be a factor that contributed to the budgetary slack when subordinates provide biased information to superiors (Falikhatun, 2007). The existence of information asymmetry can lead subordinates tend to overestimate their needs or lowering targets under their true performance capabilities. Thus, the interaction between budgetary participation and information asymmetry can lead to budgetary slack (Young, 1985).

iii) **Organizational Commitment Weakening Influence of Budget Participation on the Budgetary Slack**

3rd Hypothesis test results indicate that organizational commitments weaken the influence of budget participation on budgetary slack (budgetary slack). This means that the participation of the budget will affect the budgetary slack in the low organizational commitment, and instead will reduce budgetary slack in higher organizational commitment. Employees who have a low organizational commitment would prefer their personal interests rather than the interests of SKPD, so when the opportunity to participate in the preparation of the budget, they will draw up targets and budget targets are within easy reach so assessed as having a good performance. This ultimately led to their budgetary slack.

Strong organizational commitment in a person will cause people to work hard to achieve the goals of the organization in accordance with the planned objectives. This is in line with research conducted by Ikhsan and Ane (2007), Latuheru (2005), Dewi and Yasa (2014), as well as Nitiari and Yadyana (2014) shows that organizational commitment has a negative influence on the relationship between budgetary participation and budgetary slack. The larger the organization, the commitment will cause a decrease in the tendency of individuals to perform budgetary slack. The results of this study contradict the research conducted by Kartika (2010) which shows that organizational commitment has no effect on the budget and slack participation / slack budget.

Organization's commitment to the regional work units (SKPD) Cilacap in the high category, where employees will work in accordance with the rules that exist in the organization and be more professional in performing their duties so that organizational goals can be achieved. The influence of budget participation on budgetary slack will decline with high organizational commitment.

8. Conclusions and Recommendations

8.1 Conclusion

Based on the results of research on the effect of budget participation on budgetary slack with asymmetry of information and the organization's commitment to SKPD in Cilacap District Government it can be concluded as follows:

- i) Budget Participation have positive influence on budgetary slack.
- ii) Asymmetry of information strengthens the effect of budget participation on budgetary slack.
- iii) Organizational commitment weaken the influence of budget participation on budgetary slack.

8.2 Recommendations

Future studies are recommended to provide a more extensive time to the respondents in order to answer the question better and in accordance with the actual conditions and by adding interviews and field observations to advance research than just using techniques questionnaire survey, and are advised to consider other factors as independent variable or variables moderation.

References

- [1] Ajibolade, SO and OK Akinniyi. 2013. The Influence of Organizational Culture and budgetary Participation on propensity to Create budgetary Slack in Public Sector Organizations. British Journal of Arts and Social Sciences. Vol 13 No. 1.
- [2] Anthony, RN and V. Govindarajan. 2004. Management Control Systems, found by Drs. Fx Kurniawan Tjakrawala. 2012. Salemba Four. Jakarta.
- [3] Aprilia, N. and S. Hidayani. 2012. The Effect of budgetary Participation, Information asymmetry, Budget Emphasis and Commitment Organization to budgetary Slack at SKPD Governmental of Bengkulu City. Proceeding The 13th Malaysia Indonesia Conference on Economics, Management and Accounting (MIICEMA).

- [4] Ardanari, IGAASC and I.N.W.A Putra. 2014. Effect of Participation Budgeting, Information Asymmetry, Self Esteem and Budget Emphasis on budgetary Slack. *E-Journal of Accounting Universitas Udayana* 7.3. P. 700-715.
- [5] Bangun, N; KW Andani and W. Sugiyanto. 2012. Effect of Budget Participation, Information asymmetry, Budget Emphasis, and Self Esteem to budgetary Slack. *Accounting Journal* Vol 12 No. 1 thing. 577-594.
- [6] Cooper, DR and PS Schindler. 2011. *Business Research Methods*, Translation Budijanto, et al. 2006 PT Media Global Education. Jakarta.
- [7] Desmiyawati, et al. 2009. Effect of Information Asymmetry and the size of the Company's Profit Management in Manufacturing Companies listed on the Indonesia Stock Exchange. *Pekbis Journal*, Vol. 1 3, Pages 180-189.
- [8] Dewi, NLPS and GW Yasa. 2014. Effect Analysis Participatory Budget on budgetary slack with four variables Moderation Case Study on SKPD Badung, Bali). *E-Journal of Economics and Business*, University of Udayana. Volume 3. No. 01.
- [9] Djasuli, M. and NI Fadilah, 2011. Effect of Information Asymmetry Interaction, Organizational Culture, Group Cohesiveness and Motivation for the Causal Relationship between Participation Budgeting and budgetary Slack. *Proceeding PESAT (Psychology, Economics, Literature, Architecture and Civil*. Vol. 4. Gunadarma University, Jakarta.
- [10] Dunk, AS 2003. The Effect of Budget Emphasis and Information Asymmetri on the Relation Between Budgetary Participation and Slack. *The Accounting Review* Vol. 68 (2).
- [11] Falikhatun, 2007. Interaction Information Asymmetry, Organizational Culture, and group cohesiveness in the relationship between participation Budgeting and budgetary Slack (Case Study on the Regional General Hospital Se Central Java), a National Seminar on Accounting (SNA) X. Hasanuddin Makassar.
- [12] Faria, JAD and SMBG Silva. 2013. The Effects of Information asymmetry on Budget Slack: An Experimental Research. *African Journal of Business Management*.
- [13] Govindarajan, V. 1986. Impact of Participation in the Budgetary Process on Managerial Attitudes and Performance: Universalitican and Contingency Perspective. *Decision Sciences*. 17: 496-516.
- [14] Hafisah. 2008. Influence of Organizational Commitment Information Asymmetry and the relationship between budget participation and budget gap. *Journal of Accounting and Business Research* Vol. 8 No. 1,
- [15] Hansen, DR and MM Mowen. 2007. *Management Accounting* 8th Edition. South-Western. USA: Thomson Learning.
- [16] Ikhsan, A. and L. Ane. 2007. Effect of Budget Participation on budgetary slack by Using Five moderating variables, *Accounting National Seminar X*. Makassar.
- [17] Ikhsan, A. and M. Isaac. 2005. *Behavioral Accounting*. Salemba Empat: Jakarta,
- [18] Kren, L. and US Maiga. 2007. The Intervening Effect of Information Asymmetry on Budget Participation and Slack Segment. *Management Accounting*, Volume 16. 141-157.
- [19] Latuheru, BP, 2005. The Effect of Budget Participation on Budgetary Slack with Organizational Commitment as Moderating Variable (Empirical Study on Industrial Zone Maluku). *Journal of Accounting and Finance*. Vol. 7. No. 2. Page. 117-130.
- [20] Locke, EA 1968. Toward a Theory of Task Motivation and Incentives. *Organizational Behaviour and Human Performance*. 157-189.
- [21] Lau, CM and IRC Eggleton. 2003. The Influence of Information asymmetry and Budget Emphasis on the Relationship Between Participation and Slack. *Accounting and Business Research*. 33: 2, 91-104.