

How to Cite

Ginanti, P. A. P., & Widanaputra, A. A. G. P. (2022). Perceptions of superiors' reputations and subordinates' honesty moderates effect of budget participation on budgetary slack. *International Journal of Business, Economics & Management*, 5(3), 181-188. <https://doi.org/10.21744/ijbem.v5n3.1936>

Perceptions of Superiors' Reputations and Subordinates' Honesty Moderates Effect of Budget Participation on Budgetary Slack

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Abstract---This study aims to provide empirical evidence regarding perceptions of superior reputation and subordinate honesty in weakening the effect of budgetary participation on budgetary slack. The data in this study were collected using a questionnaire. The population in this study is the Satuan Kerja Perangkat Daerah of Tabanan Regency with a sample of Echelon III and Echelon IV officials involved in budgeting. The sampling technique used is purposive sampling and obtained a sample of 199 respondents. The analysis technique in this study is Moderated Regression Analysis (MRA) using the SPSS version 25 program. The results of the regression analysis state that the perception of superior reputation weakens the relationship between budgetary participation and budgetary slack. This means that the higher the level of perception of subordinates on the reputation of their superiors, the tendency for budgetary slack to occur will be lower. The results of the regression analysis also state that the honesty of subordinates weakens the relationship between budgetary participation and budgetary slack. This means that the higher the level of honesty of subordinates, the tendency for budgetary slack to occur will be lower. Future researchers are expected to consider adding other relevant indicators to measure the level of honesty. In addition, future researchers are expected to be able to use samples at different locations so that research results can be compared with previous studies.

Keywords---budget participation, budgetary slack, honesty subordinate, perception reputation superiors

Introduction

A budgeting participation system can have both positive and negative impacts. The positive impact of this budget participation is that superiors will get more accurate information from their subordinates (Blay et al., 2019), so as to reduce uncertainty, improve production quality and increase profitability (Brink et al., 2018; Douthit & Stevens, 2015). In addition, subordinates will be motivated when the budget is used as a basis for performance appraisal (Carolina, 2020). But on the other hand, subordinates can also lead to dysfunctional behavior by creating budgetary slack (Carolina, 2020; Blay et al., 2019). Assuming that subordinates will act in their own interests, their authority to prepare budgets will be misused. Subordinates tend to arrange budgets that are easy for them to achieve by stating their productive abilities are lower than they really are, so budgetary slack arises.

Budgetary slack is defined as the difference between the amount of the budget proposed by subordinates and the best estimate by the company or organization (Gago-Rodríguez & Naranjo-Gil, 2016). Budgetary slack occurs because of biased information delivery from subordinates to superiors. The tendency for budgetary slack to arise because subordinates are in a state of urgency to achieve the set budget targets (Novitasari & Wirama, 2016; Pusporini et al., 2018). If the budget is used as a performance evaluation tool and the basis for giving bonuses or rewards, then budgetary slack is created by subordinates in order to get the highest possible bonus (Chong & Ferdiansah, 2011; Church et al., 2019). The bias that occurs due to budgetary slack can cause losses because the company or organization will lose the opportunity to obtain maximum performance (Gago-Rodríguez & Naranjo-

Gil, 2016). In addition, resource allocation becomes inefficient (Daumoser et al., 2018; Prawita & Wirasedana, 2017), and can cause a biased effect in evaluating the performance of subordinates in their unit of responsibility (Suherman & Dewi, 2019).

Several previous studies have examined the relationship between budgetary participation and budgetary slack which have inconsistent results. Research conducted by Ngo & Huynh (2017); Pusporini et al. (2018); Mardhiana (2018), shows that there is a positive relationship between budget participation and budgetary slack. This indicates that the higher the level of individual participation in budgeting, the higher the tendency for budgetary slack to occur. Individuals involved in budgeting often seek convenience in achieving the targets set, by making higher or lower cost estimates for revenues. This is due to the desire of individuals to increase their productivity and obtain incentives for achieving budget targets.

In contrast to the research conducted by Kahar et al. (2016); Rifqi et al. (2017); Pundarika & Dwirandra (2019), show the opposite result. Where the higher the level of participation of a person in the preparation of the budget, the potential for budgetary slack will be lower. The explanation for this negative result is due to good communication between superiors and subordinates so that the information received by superiors becomes more accurate, and there is motivation from subordinates who make the process of preparing this budget their responsibility. While the research conducted by Daumoser et al. (2018), shows that budgetary participation can both increase and decrease the creation of budgetary slack. This is related to the role of oversight in the budgeting process which must always ensure the suitability of the tasks, the individuals involved, their values, and also the payment scheme.

The inconsistent results of this study indicate that other factors can influence the relationship between budget participation and budgetary slack. Another approach is needed to explain the inconsistencies between several variables in the study (Govindarajan, 1986). The phenomenon that occurs between budget participation and budgetary slack can be explained by using the contingency model as a predictor (Widanaputra & Mimba, 2014), involving contingency factors. The contingency factors used in this study as moderators are perceptions of superior reputation and subordinates' honesty.

Wiersma (2017), explains that managers can use budgetary slack for good or bad purposes depending on their choice. Because the slack that arises in the budget does not in itself benefit or harm the company, but the impact of this slack depends on the individual who uses it, whether it is necessary or not. So that in order to achieve the goals of the company or organization, it is important to carry out a control system to ensure the effectiveness and efficiency of operational activities. Control systems generally consist of formal and informal control systems. However, the implementation of a formal control system can cause negative effects such as dissatisfaction among subordinates and tends to require higher costs (Chong & Loy, 2015). In addition, a formal control system that is clearly implemented indicates that there is distrust is formed so that it will override positive reciprocal preferences (Brunner & Ostermaier, 2017). Therefore, the use of informal controls can be increased to assist in overseeing the operational activities of the company or organization.

The contingency factor which also acts as an informal control is used in this study, namely the perception of the superior's reputation and the subordinate's honesty. This factor was chosen based on social learning theory. This theory predicts that direct experience or observation of the behavior of others can shape a person's behavior pattern (Bandura, 1971). Each individual will automatically learn about new things when they observe the behavior of others. The interaction that occurs between superiors and subordinates will provide opportunities for subordinates to observe the behavior of their superiors. Therefore, under certain conditions, individuals will feel like they want to be like other people so, through observations made, individuals tend to imitate this behavior (O'Connor, 1995; Sukayana & Putri, 2019; Romario et al., 2019).

Literature Review and Hypotheses Development

Budget participation is one of the factors that is widely studied and is considered to have a significant effect on the emergence of budgetary slack. When subordinates are given the opportunity to prepare their own budgets, there will be a tendency to use the information they have to prepare budgets with greater leeway. Especially when the budget is used as a tool for performance appraisal, subordinates will try to arrange a budget that is easy for them to achieve to maximize the bonuses or rewards they will receive. This is reinforced by several research results that show a positive relationship between budget participation and budgetary slack, such as Ngo & Huynh (2017); Pusporini et al. (2018); Mardhiana (2018).

Management must continue to monitor (control) both formally and informally the budget preparation process so that it continues to run according to plan. However, formal control activities that are clearly implemented in the company will have a negative impact both in terms of costs and reciprocity provided by subordinates. Therefore,

utilizing informal controls effectively can be an appropriate alternative for companies. One form of informal control used in this study is the perception of the superior's reputation. The perceived reputation of superiors is thought to be able to act as an informal control that can reduce the creation of budgetary slack (Chong & Loy, 2015; Netra & Damayanthi, 2017; Rahmawati, 2020; Febriati & Yunita, 2021). In this study, the perception of superior reputation is defined as the perception of subordinates on various levels of attributes including expertise, experience, fairness, trust, and integrity attached to their superiors. The influence of a superior will form a reputation that can affect the attitudes and behavior of his subordinates.

Social learning theory predicts that direct experience or observation of the behavior of others can shape a person's behavior pattern (Bandura, 1971). So that the behavior of superiors can influence the behavior patterns of subordinates. The good reputation owned by superiors is used as a reflection and tends to be imitated by subordinates. In relation to budgetary slack, a superior who has a good reputation will honestly report and prepare a budget in accordance with his production capabilities. This behavior will be followed by subordinates so that the possibility of creating budgetary slack is lower. Several previous studies have examined the relationship between reputation and budgetary slack and showed negative results, such as Chong & Loy (2015); Netra & Damayanthi (2017); Rahmawati (2020); Febriati & Yunita (2021). This means that when superiors have a good reputation, the tendency of subordinates to create slack in budgeting will be lower. Individuals who have a high level of perception of the reputation of their superiors will believe that if they commit fraud, they will be easily detected. So that when subordinates have a high reputation perception of their superiors and are involved in the budgeting process, the risk of creating budgetary slack will be lower.

H1: The perception reputation of superiors weakens the relationship between budget participation and budgetary slack.

Another informal control used in this study and allegedly able to monitor the process of budgeting is honesty (Chong & Ferdiansah, 2011; Douthit & Stevens, 2015; Brunner & Ostermaier, 2017; Rahmawati, 2019). Honesty refers to individual attitudes and behaviors that reflect positive values and is a form of social norms that can influence individual behavior. Honesty is considered the most prominent norm in budgetary participation, which is because honesty does not only depend on the individual but also on the situational context. This is in line with social learning theory which states that the behavior of superiors can influence the behavior patterns of their subordinates. Honest behavior in the company must be applied by all individuals to create transparency so that the information held by both superiors and subordinates does not make any difference (Nouri, 1994; Mia, 1988; Nouri & Parker, 1998). When each individual reports the information they have honestly, the budgetary slack formed will be lower, and the company can perform optimally. The honesty of subordinates in the context of budgeting is defined as the behavior of subordinates who use the value of honesty in the budgeting process by providing accurate information so that both superiors and subordinates have the same information. A high preference for honesty causes subordinates to be willing, to be honest even if it does not get financial benefits. In addition, the willingness of subordinates to be honest because of the social norms that apply in their environment. Honesty is involved in the process of preparing the company's budget targets, so the value of this budget participation depends on the honesty of each individual involved in the preparation of the budget itself.

Several researchers who tested the relationship between honesty and budgetary slack showed negative results, such as Chong & Ferdiansah (2011); Douthit & Stevens (2015); Brunner & Ostermaier (2017); Rahmawati (2019). This shows that when subordinates have a high level of honesty, the tendency to create budgetary slack will be lower. When individuals believe that the actions taken if based on the norms of honesty will have a positive impact not only on themselves but also on the people around them. Therefore, subordinates who participate in the budgeting process and are willing to provide honest and accurate information to their superiors will be able to reduce the creation of budgetary slack.

H2: Subordinate's honesty weakens the relationship between budget participation and budgetary slack.

Methods

A research location is a place where researchers will obtain the necessary data related to the research conducted. The location of this research is the Government of Tabanan Regency. The scope of this research is limited to the perception of superior reputation and honesty of subordinates as moderating influence of budget participation on budgetary slack. The population in this study were officials who served in the *Satuan Kerja Perangkat Daerah*

Tabanan Regency. The total population in this study was 416 officials, consisting of Echelon II, Echelon III, and Echelon IV officials.

The samples used in this study were Echelon III and Echelon IV officials at the *Satuan Kerja Perangkat Daerah* of Tabanan Regency. The method used in determining the sample in this study is non-probability sampling with a purposive sampling technique. The criteria for determining the sample used are:

- 1) Serving on *Satuan Kerja Perangkat Daerah* in the form of service, agency or division.
- 2) Is an official of Echelon III and Echelon IV.
- 3) Participate directly in the preparation of the budget.

The above criteria are used because the preparation of the *Rencana Kerja Anggaran* (RKA) is carried out by Echelon III and Echelon IV officials in each service, agency, or section, which is then submitted for approval from the secretary and head of the *Satuan Kerja Perangkat Daerah* (SKPD). This budget work plan will then be discussed by the *Tim Anggaran Pemerintah Daerah* (TAPD) and evaluated to form the *Rancangan Anggaran Pendapatan dan Belanja Daerah* (RAPBD). Furthermore, the RAPBD will be discussed with the Tabanan Regency DPRD and stipulated as an APBD after obtaining approval from the Regional Government and the Tabanan Regency DPRD. Based on these criteria, the number of samples in this study was 199 people consisting of Echelon III and Echelon IV officials at the *Satuan Kerja Perangkat Daerah* of Tabanan Regency.

The analysis technique in this study is Moderated Regression Analysis (MRA) using the Statistical Product and Service Solution (SPSS) version 25 program. The analysis stages in this study begin with the classical assumption test, the formulation of the MRA model, the coefficient of determination, the feasibility test of the model (test F), and hypothesis testing (t-test).

Result and Discussion

Moderated regression analysis (MRA)

The results of the Moderated Regression Analysis (MRA) test can be seen in Table 1 below.

Table 1
Moderated regression analysis (MRA)

| Model | Unstandardized Coefficients | | Standardized Coefficients Beta | t | Sig. |
|--------------------------|-----------------------------|------------|-----------------------------------|--------|-------|
| | B | Std. Error | | | |
| (Constant) | 46,754 | 0,855 | | 54,709 | 0,000 |
| X1 | -2,093 | 0,486 | -0,254 | -4,306 | 0,000 |
| X2 | 2,687 | 0,483 | 0,326 | 5,563 | 0,000 |
| X3 | -4,651 | 0,510 | -0,564 | -9,123 | 0,000 |
| X1X2 | -1,618 | 0,577 | -0,164 | -2,805 | 0,006 |
| X1X3 | -1,192 | 0,564 | -0,126 | -2,112 | 0,036 |
| <i>Adjusted R Square</i> | 0,441 | | | | |
| F-value | 29,219 | | | | |
| Sig. F-value | 0,000 | | | | |

Secondary Data, 2022

Based on Table 1, the MRA regression model equation is obtained as follows:

$$Y = 46,754 - 2,093 X_1 + 2,687 X_2 - 4,651 X_3 - 1,618 X_1 X_2 - 1,192 X_1 X_3$$

Coefficient of determination (R²)

Table 1 shows that the adjusted R square value is 0.441. This shows that 44.1% of the variation in budgetary slack can be explained by the variables of budget participation, perception of reputation of superiors, and honesty of subordinates, while the remaining 55.9% is influenced by other variables not included in this study.

Model feasibility test (F Test)

Based on Table 1, it is known that the calculated F value is 29.219, with an F significance of 0.000 where the value is smaller than 0.05. This shows that the model is feasible to use in this analysis.

Budget participation and budgetary slack are moderated by the perception superior reputation

Hypothesis 1 in this study states that the perception of superior reputation weakens the relationship between budget participation and budgetary slack. Based on Table 1, it is known that the interaction variable between budget participation (X1) and perception reputation of superiors (X2) has a regression coefficient value (β_4) of -1.618 with a significance level of $0.006 < 0.05$. This shows that the interaction of budget participation and perception of superior reputation has a significant negative effect on budgetary slack. So hypothesis 1 is accepted and states that the perception of superior reputation weakens the relationship between budget participation and budgetary slack (Wu & Wolford, 2018; Merchant, 1985; Maiga & Jacobs, 2007).

The perception of superior reputation weakens the relationship between budgetary participation and budgetary slack as evidenced by testing hypothesis 1 (H1). The results of the regression analysis state that the perception of superior reputation weakens the relationship between budget participation and budgetary slack. That is, the higher the level of perception of subordinates on the reputation of their superiors, the tendency to create budgetary slack will be lower when using the participation system in budgeting.

The results of this study are consistent with theories, namely contingency theory, and social learning theory. Contingency theory explains that the relationship between budgetary participation and budgetary slack can be influenced by other factors. This is due to the concept of this theory which depends on the situation of a company or organization both internally and externally (Ghozali, 2020). One of the contingency factors used in this study is the perception of the superior's reputation. Then social learning theory predicts that direct experience or observation of the behavior of others is able to shape a person's behavior pattern (Bandura, 1971). So that the behavior of superiors can influence the behavior patterns of subordinates. The good reputation owned by superiors is used as a reflection and tends to be imitated by subordinates.

In relation to budgetary slack, a superior who has a good reputation will honestly report and prepare a budget in accordance with his production capabilities. This behavior will be followed by subordinates so that the possibility of creating budgetary slack is lower. Individuals who have a high level of perception of their superiors will believe that if they commit fraud, they will be easily detected. Under certain conditions, individuals will feel like they want to be like other people, then through the observations they make, individuals tend to imitate this behavior. So that when subordinates have a high reputation perception of their superiors and are involved in the budgeting process, the risk of creating budgetary slack will be lower. The results of this study are consistent with the results of previous studies such as those conducted by Chong & Loy (2015); Netra & Damayanthi (2017); Rahmawati (2020); Febriati & Yunita (2021).

Budget participation and budgetary slack are moderated by the honesty of subordinates

Hypothesis 2 in this study states that the honesty of subordinates weakens the relationship between budgetary participation and budgetary slack. Based on Table 1 it is known that the interaction variable between budget participation (X1) and subordinate honesty (X3) has a regression coefficient value (β_5) of -1.192 with a significance level of $0.036 < 0.05$. This shows that the interaction of budget participation and the honesty of subordinates has a significant negative effect on budgetary slack. So hypothesis 2 is accepted and states that the honesty of subordinates weakens the relationship between budgetary participation and budgetary slack (Putri & Wirama, 2016; Shim et al., 2011; Webb, 2002).

The honesty of subordinates weakens the relationship between budgetary participation and budgetary slack as evidenced by testing hypothesis 2 (H2). The results of the regression analysis state that the honesty of subordinates weakens the relationship between budgetary participation and budgetary slack. That is, the higher the level of honesty of subordinates, the tendency to create budgetary slack will be lower when using the participation system in budgeting (Altenburger, 2021; Baiman, 1990; Brownell, 1982).

The results of this study are also consistent with the theories used, namely contingency theory and social learning theory. The concept of contingency theory depends on the situation of a company or organization both internally and externally (Ghozali, 2020). Another contingency factor used in this study is the honesty of subordinates. Then social

learning theory predicts that direct experience or observation of the behavior of others is able to shape a person's behavior pattern (Bandura, 1971).

Honesty is considered to be the most prominent norm in budgetary participation, which is because honesty does not only depend on the individual but also on the situational context. A high preference for honesty causes subordinates to be willing to be honest even if they do not get financial benefits. Honesty also arises because of the mutual trust that is formed in the relationship between subordinates and superiors. In addition, the willingness of subordinates to be honest because of the social norms that apply in their environment. The existence of social norms that are formed greatly affects the behavior patterns of a person. So that when someone has a high level of honesty, the tendency to create budgetary slack will be lower. The results of this study are consistent with the results of previous studies such as those conducted by Chong & Ferdiansah (2011); Douthit & Stevens (2015); Brunner & Ostermaier (2017); Rahmawati (2019).

Conclusion

The results of this study are consistent with the concepts of contingency theory and social learning theory. The contingency theory in this study is associated with factors that can influence the relationship between budgetary participation and budgetary slack. In this study, perceptions of superior reputation and honesty act as contingent factors that can weaken the relationship between budgetary participation and budgetary slack. In addition, theoretically, this research is consistent with social learning theory which predicts that direct experience or observation of other people's behavior can shape a person's behavior pattern. So that through the observations made, there will be a tendency of individuals to imitate the behavior of others. In this study, the perception of the superior's reputation and the honesty of subordinates can reduce the creation of budgetary slack when using the participation system in budgeting.

The results of this study indicate that the perception of superior reputation is able to weaken the relationship between budget participation and budgetary slack. The higher the level of perception of subordinates on the reputation of their superiors, the risk of creating budgetary slack will be lower. A superior is expected to always maintain his behavior pattern because the good reputation owned by the superior is used as a reflection and tends to be imitated by subordinates. In addition, the results of this study also show that the honesty of subordinates is able to weaken the relationship between budget participation and budgetary slack. A superior is expected to be able to control the norms that apply in the organization, especially social norms that are formed because this can affect the behavior patterns of subordinates.

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