

Conference Paper

The Relationship of Budget Emphasis on the Tendency to Create Budgetary Slack

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Abstract

This study aims to find empirical evidence to support the notion that there is a connection between the budget emphasis and the potential budgetary slack. In this study, there were 65 respondents (out of a potential pool of 872 employees of the regional water supplier for Malang city). Of the 65 questionnaires distributed, 57 were returned fully completed. The data collected was then analyzed using the Product Statistics and Services Solution (SPSS) application program. This study uses a simple linear regression analysis technique to measure the impact of the budget emphasis variable to budgetary slack. The results show that the budget emphasis produced a positive effect on the incidence of budgetary slack, however when the budget emphasis is too tight it can cause aberrant behavior in subordinates owing working pressures to achieve set targets.

Keywords: Budget Emphasis, Budgetary Slack

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1. Introduction

The management control system is necessary for any organization, both private and public sectors to ensure the achievement of these goals. Budget is an important part of the company or public sector organization (Suartana, 2010:137). One important element in the management control system that ensures the achievement of organizational goals effectively and efficiently is the budget. Budget management is required to allocate the limited resources they have for achieving company goals.

Budgets have a direct impact on human behavior. People feel the pressure of a tight budget and anxiety over reports of poor performance so that the budget is often seen as a barrier to their career advancement (Veronica & Krisnadewi, 2010). In line with the statement Suartana (2010:138) that the budget may reflect the success of the employee to the task given to him. Hence the emphasis on the budget may affect budgetary slack.

Budgetary slack can be defined as the difference between the actual resources that are necessary to complete the work effectively with some resources that are added to

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complete the job (Falikhaturun, 2007). According to Merchant (1985) budgetary slack is done by decreasing revenues and increasing costs. Managers do this to look at good performance with the achievement of budget targets. Budgets are often used as the only measure of management performance. The budget emphasis like this, the performance assessment based on budget targets achieved or not will encourage subordinates to create slack.

Budget emphasis by Kusniawati & Lahaya (2017) namely the insistence given superiors to subordinates to execute the budget that had been developed, such as compensation if able to exceed the budget targets and sanctions if budget targets are not achieved. The achievement of budget targets is used as a basis for rewarding or evaluating the performance of middle to lower-level managers, or if middle to lower-level managers estimate that rewards and performance are valued based on budget targets achieved (Dunk, 1993). Assessment of performance based on budget targets achieved or not will encourage subordinates to create slack to increase the prospect of compensation in the form of bonuses for the achievement of such performance. This is reinforced by the revelation Suartana (2010:138) states that the budget emphasis such as this can allow the emergence of slack to improve prospects for future compensation. This is consistent with agency theory which states that every individual will be motivated by self-interest.

If the subordinate's performance is determined by the achievement of the budgetary targets, the performance of subordinates will be greatly determined by the budget that has been prepared, so that subordinates will seek to obtain a favorable variance it was obtained by creating a budgetary slack. In line with the opinion Anggasta & Murtini (2014) stating that the emphasis of the budget as the budget is set performance benchmarks aimed to demand the performance of subordinates to achieve budget targets that are constructed, so that when the budget targets are being achieved then it will create a subordinate to get the award and compensation of a supervisor. If the performance of subordinates meets/exceeds budget targets set then he can receive the award and vice versa if a subordinate performance can not reach the budget target of a subordinate can get the sanction of his superiors. This makes a subordinate will tend to loosen its budget in the budget so that the budget is reached, or in other words do a budgetary slack (Alfebriano, 2013).

Research relating to the budgetary slack is seen as interesting and important because previous studies do not provide consistent results. For example, research conducted by Dunk (1993), Onsi (1973) and Resen (2014) stated that the higher the level of budget emphasis so higher the level too for a slack in the budget, which means that within

organizations using the budget as a benchmark performance lead subordinates tried to improve its performance by way of easing the budget to be easily achieved. This is consistent with the assumptions of agency theory which states that every individual will be motivated by self-interest. Principal (superiors) wanted the company's goals can be achieved with maximum performance, but the agency wants to increase his wealth with minimal work. While the study was done by Saputro, et. al., (2016) and Sujana (2010), concluded budget emphasis does not significantly affect the budgetary slack. Inconsistency of these results is caused by contextual factors. Thus the problems that guide this research are: Does budget emphasis affect the potential for budgetary slack.

2. Theoretical Review

2.1. Agency Theory

Explanation of concepts budgetary slack can be started from the agency theory approach. Practice budgetary slack in the perspective of agency theory is affected by the conflict of interest between agents (subordinate) with the principal (employer) that arises when each party seeks to achieve and maintain the level of prosperity that pleases (Rukmana, 2013). Jensen and Meckling argued agency theory in 1976. The theory of agency theory is a concept that describes the contractual relationship between principal and agent, between two or more individuals, groups or organizations. The principal party is the party that took the decision and give the mandate to the other party (agent), to carry out all the activities on behalf of the principal (Jensen & Meckling, 1976).

2.2. Budget Emphasis

Organizations or companies often make the mistake of using the budget as the sole measure of the performance of the manager (Siregar, et, al, 2013). When an organization or company using the budget as a measure of performance, then subordinates will try to improve its performance in two ways: first, improve performance, so that the realization of the budget is higher than had been budgeted. The moderate second way is to make the budget easier to achieve in other words loosen the budget, for example by lowering its revenue target and elevate the cost of the company, so that the budget is easy to achieve, in this case, will lead to budgetary slack.

2.3. Budgetary Slack

Budgetary slack an obstacle that most often appears in a budgeting process, may result in loss due to the best estimate of the budget it self will affect the performance of an organization (Kusniawati & Lahaya, 2017). The budgetary slack tend to be committed by subordinates in the knowledge that their performance is measured by the level of achievement of the budget that it has set. Budgetary slack is where the action under elevate manager will need the resources of the company which are allocated to carry out the activities of companies or managers under degrading its performance capabilities when given the opportunity to influence the budget setting where a set budget will be used to evaluate the performance of managers below (Schiff & Lewin, 1970). Meanwhile, according to Young (1985) defining the budgetary slack as the amount which managers deliberately incorporate redundant power sources in the budget, or consciously do not express the real productive capabilities.

Based on the above understanding can be concluded that the budgetary slack or the budget gap is the difference in the amount of the budget with the best estimate of the manager by raising and lowering the burden of income. Basic managers perform budgetary slack is to provide a margin of safety to meet the budgeted objectives. This is done manager to relieve stress and frustration associated with the budget, in addition to the growing alignment of personal and organizational goals.

3. Research Methodology

This research is explanatory or explanatory, the research aims to explain the influence of free or independent variable (X) is the budget emphasis on the bound or dependent variable (Y) that budgetary slack. Judging from the type of data used, this study used a quantitative approach, which emphasized in this research hypothesis testing to obtain a generalization to explain the phenomenon in the relations among variables proposed.

The population in this study were all employees of the regional water supply company Malang city and as many as 352 employees of the regional water supply company Malang regency as many as 520, so the total population in this study was 872. The sample of this study was determined by the purposive sampling method, the number of samples that could be used in this study were 65 respondents. To achieve the objectives of this research hypothesis testing is done with a simple linear analysis technique with the help of an application program Statistical Product and Service Solutions (SPSS). The

analysis conducted is to test the hypothesis with regression methods that were tested with a significance level of 5%.

4. Results and Discussion

This study uses simple linear regression analysis to test the hypothesis. Test the hypothesis in this study to determine the effect of the independent variable budget emphasis against potential budgetary slack. Hypothesis tests conducted using the application's help Statistical Product and Service Solutions (SPSS) for windows. Regression test results can be seen in the following table.

TABLE 1: Regression Analysis Linear

Model		Unstandardized Coefficients		standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	8830	1,594		5,541	.000
	Budget Emphasis (X)	.545	.111	.553	4927	.000

a. Dependent Variable: Budgetary Slack (Y)

Table 1 above shows the regression coefficients of the independent variables and the constant budget emphasis, budgetary slack dependent variable, the regression equation as follows:

$$Y' = 8830 + 0.545X$$

Variable budget emphasis has a value of a t table of 1.674. Based on the results of the partial test (t-test) in Table 1, it can be seen that the variable budget emphasis has t count > t table (4,927 > 1,674) is expressed by a positive sign. Besides, the significant value of the variable budget emphasis is 0.000, which indicates that the value is smaller than 0.05. Based on these results, there is a positive and significant influence between the budget emphasis on the potential of budgetary slack, so the hypothesis is accepted.

The results showed that the budget emphasis affects the emergence of the budget prepared by the regional water supply company Malang city and Malang regency. The results also supported by research conducted by Yasa, et al, (2017), Resen (2014) and Apriadinata, et, al. (2014) which states that the variable budget emphasis significantly affects budgetary slack. Based on the analysis of the questionnaire showed that 55.42% of respondents answered "AGREE" it means that the high budget was emphasized on the regional water supply company of Malang city and Malang Regency. The budget emphasis is pressure from superiors to subordinates to carry out a budget that has

been made by either (Nopriyanti, 2016), One form of suppression budget is a bonus given to subordinates when the budget targets reached (Tenriwaru, 2015).

The budget emphasis occurs, when the budget targets used as a benchmark performance of subordinates or the provision of monetary incentives such as bonuses when they make budget targets achieved. Such compensation allows the emergence of budgetary slack, where middle managers down creating an accessible budget to get a bonus when the target budget is reached. This is consistent with the assumptions of agency theory which states that every individual will be motivated by self-interest and often of interest between the two collide, principal (boss) neutral toward risk while agents (subordinate) are resistant effort and risk. Budgetary slack created by subordinates under the influence of private interests, so that subordinates will set budget targets at a level that is easier to achieve if the performance appraisal of subordinates is determined based on achieving budget targets (Schiff & Lewin, 1970).

In general, the bonus will be given at the time of the budget that has been made has been fulfilled or achieved. Often the bonus will increase if the budget targets are met, but the bonus is generally restricted to a certain extent. Due to the obvious reason, a manager whose performance is evaluated based on the achievement of targets and program managers who have a bonus as it is very possible that the managers preparing budget targets at a level that is easier to achieve. Achievement needs to encourage a person to float their creativity and be able to demonstrate its ability to achieve maximum results (Desmayani & Suardikha, 2016), Someone realized if it has a high achievement then it will get a great reward, the reward great cause increased budgetary slack (Enni, 2011).

The result of the coefficient of determination (R²) of the independent variable on the dependent variable in this study is as follows.

TABLE 2: Test Results the Coefficient of Determination (R²)

Model	R	R Square	Adjusted R Square	Std. An error of the Estimate	Durbin-Watson
1	.553a	.306	.294	2,095	1,354

a. Predictors: (Constant), emphasis Budget (X)

b. Dependent Variable: budgetary Slack (Y)

Based on table 2 above, it can be seen the value of R square of 0,306. This suggests that the variant on the budgetary slack can be explained by the budget emphasis by 30,6%, while 69,4% are influenced by other factors not examined in this study.

5. Conclusion

Based on the analysis of data as described above, it can be concluded that the budget emphasis a positive effect on the incidence of budgetary slack, the budget emphasis is too tight can cause aberrant behavior in subordinates for working pressures to achieve the targets set.

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