

## Conference Paper

# Primary Determinant of Budgetary Slack in Small Manufacturing Firms

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### Abstract

This study intendsto examine the effect of budget emphasis and budget participation on budgetary slack practiced in small manufacturing companies. The practices of budgetary slack are often thought to occur only in large companies, but depends on agency theory it can be apply to any agency relationship at every level and type of organization, the practices of budgetary slack, as a form of control costs, or part of agency costs, is suspected to occur in small manufacturing companies. Budgetary slack is worth investigating because this practice does not provide real economic results for the company. This research was conducted through a survey of 80 small manufacturing companies located in Tangerang. Data analysis techniques used linear regression. The result has indicate that: (1) budget emphasis is the main determinant of budgetary slack practice; (2) budget participation, although it has a strong correlation with budgetary slack, is a significant determinant of small manufacturing companies.

**Keywords:** budgetary slack, budget emphasis, budget participation.

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## 1. Introduction

Planning and controlling are the importance things in business requires, that would encourage the organization to works effectively and efficiently in order to survive and win business competition. Budget is one of tool to make a plan and control some businesses. According to Kenis (1979) the budget is not only a financial planning but it's also means of control, coordination, communication, performance evaluation, and motivation. That's means a good budget would help to strengthen organization to survive. Budget also have a weaknesses, because that's made based on estimates that contains elements of uncertainty which will indicates behavioral dysfunction, behavior changes, job delays, and gamesmanship which are the indirect control costs caused by budgetary use as performance evaluation.

Those weaknesses will indicates a slack when budget is made to evaluate someone performances, therefore managers will find a ways to manage the problems of inability for achieving the budget targets. This could be realized by minimize a budget target

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which different from the initial estimation that has been made. These action called a budgetary slack. In several cases this slack is difficult to prevent, because there is a role from subordinates to participate in budgeting process to set the targets, which indicate for them to also make a slack. The participate members of budget planning will encourage a company goals with personal goals, but will instead lead to negative responses such as to make a slack because the budget is made to improve performances.

This research is aims to examine a primary determinant of budgetary slack in small manufacturing firms located in Tangerang Selatan. Therefore, this research could give a prove about practical of budgetary slack.

## 2. Literature Review and Hypotheses Development

### 2.1. Agency Theory

Agency theory is the relationship between principal and agent. Principals are people who assign agents to carry out work following their interests, which in the implementation involves the delegation of authority decision-making authority to the agent (Jensen and Meckling, 1976). In this situation, the principal cannot directly control the agent is behave correctly or not, therefore the controlling is needed which includes activity control and yield control, that can be realized in the budget. The tendency to create slack can be happened when the strict control results are used by the principal when evaluating the achievement of the budget target of the agent.

### 2.2. Budgetary slack

A business environment is full of uncertainty and will make individuals do a budgetary slack. This is happened because individuals cannot predict the future properly and it will encourage them to make a good performance result to get the achievement that the principal wanted. According to Dunk (1993), the budgetary slack is a mismatch between users of funds that are larger than the budget planned previously. So that the budgetary slack is the differences between resources needed with the right resources because it cannot predict the situation in the future.

### 2.3. Budget emphasis

The budget has a positive impact that encourage managers to be motivated to improve their performance, and the negative impact is could be a barrier to career progresses for those who are forced to implement the budget. Budget emphasis happened when a person performance evaluation is determined based on the budget achieved, then subordinates will do a budgetary slack by making the performance report looks good besides what they are doing does not giving any economic impact. There will be a reward when the performance appropriate the budget target and also there will be a punishment if the performance not appropriate to the budget target, therefore subordinates will loosen the budget to be easily achieved or by doing a budgetary slack (Alfebriano, 2013).

H1: budget emphasis affects budgetary slack

### 2.4. Budget participation

According to Falikhatun (2007), budget participation is a process that describes the involvement of individuals in budgeting and has an influence on budget targets and to reach some appreciation for these achievements. Subordinates and superiors will behave positively towards the budget when both have the same goal, but it is different if the subordinates have a different ways from the common goal by doing a budgetary slack to make their performances appropriate in performance evaluation.

H2: budget participation affects budgetary slack

## 3. Methods

Sources of data in this research used primary data obtained from respondents. Population and sample are functional managers who play a role in budgeting and use the Lemeshow formula to determine the minimum amount of samples used.

$$n = \frac{Za^2 \times P \times Q}{L^2} \quad n = \frac{(1,96^2) \times 0,5 \times 0,5}{0,1^2} = 96,04 = 96$$

So that the minimum sample needed is 96 respondents. Methods of data collection using questionnaires which distributed to respondents. And data analytical techniques helped by using SPSS version 22 software, by conducting the feasibility test of the instrument, multiple linear analysis and then classical assumption and hypothesis testing.

## 4. Result

### 4.1. Analysis regression

TABLE 1: regression result.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin - Watson
1	.887 <sup>a</sup>	.786	.781	3.43087	2.342

Table 1 above is to find out the ability of the model in explaining the variation of the dependent variable. R Square results obtained at 0.788 or 78.8% means that the independent variables in this study have strong abilities.

TABLE 2: Simultaneous Significance Test (F Test).

ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3330.328	2	1665.164	141.465	.000 <sup>b</sup>
	Residual	906.359	77	11.771		
	Total	4236.688	79			

Table 2 shows the value of  $F_{count} > F_{table}$  ( $141.465 > 3.35$ ) with a significance value of  $0.000 < 0.05$ , that can be concluded the budget emphasis and budget participation together have a positive and significant effect on the budgetary slack.

### 4.2. Classical assumption

TABLE 3: Heteroscedasticity Test.

Model	Unstandardized Coefficients		Standardized Coefficient	T	Sig.
	B	Std. Error	Beta		
(Constant)	3.914	1.041		3.760	.000
Budget_Emphasis	-.061	.088	-.127	-.698	.487
Budget_Participation	-.003	.067	-.007	-.040	.968

Based on table 3 above, shows the results of the heteroscedasticity test has a sig value  $> 0.05$  which means that it does not have a heteroscedasticity problem so that the regression model is feasible to use.

TABLE 4: Multicollinearity Test.

Model	Colinearity Statistics	
	Tolerance	VIF
(Constant)		
Budget_Emphasis	0.386	2.594
Budget_Participation	0.386	2.594

In table 4 shows that the independent variable has a tolerance value > 0.1 and VIF value <10 which means there is no correlation between independent variables whose value is more than 95%.

TABLE 5: Normalitas Residual Test.

		Unstandardized Residual Model Moderasi
N		80
Normal Parameters <sup>a,b</sup>	Mean	.0000000
	Std. Deviation	3.38716693
Most Extreme Differences	Absolute	.089
	Positive	.089
	Negative	-.047
Test Statistic		.089
Asymp. Sig. (2-tailed)		.177 <sup>c,d</sup>

Table 5 above aims to determine the distribution of data in the research and the Kolmogorov-Smirnov value is 0.089 with a significance value of 0.177 > 0.05, which means that the regression model meets the assumptions of normality.

### 4.3. Hypothesis Test

TABLE 6: Significance Parameter Individual Test (T Test).

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Correlations	
	B	Std. Error				Beta	Zero-order
(Constant)	.499	1.799		.277	.782		
Budget_Emphasis	1.141	.152	.637	7.503	.000	.868	.650
Budget_Participation	.402	.116	.294	3.466	.001	.794	.367

Based on table 6, the regression equation obtained is:

$$BS = 0,499 + 1,141 BE + 0,402 BP + e$$

## 5. Discussion

Based on the statistical results by using SPSS software the following results are obtained:

### 1. Budget emphasis has significant positive affect on budgetary slack

Based on t-test result of budget emphasis on budgetary slack, show that the regression coefficient is 1.141 with  $t_{count} > t_{table}$  which is  $7.503 > 1.991$  and the sig value is  $0.000 < 0.05$  and also with a very strong statistical power value of 86.8%. This means that budget emphasis has a significant and positive effect on budgetary slack.

This is relate to the research was conducted by Sunarchirna (2017), Veronica (2009), and Annisarahma (2008) who stated that budgetary emphasis has a significant positive effect on budgetary slack.

The budget emphasis is the budget which is used as the most dominant factor in measuring the performance of managers, so they will improve their performance by making a budget is easily achieved by doing a budgetary slack. They will play a gamesmanship such as "slack" to make their performance reports look good even though they know that the actions they take do not have an economic impact at all.

### 2. Budget participation has significant positive affect on budgetary slack

Based on t-test result of budgetary participation on budgetary slack, show that the regression coefficient is 0.402 with  $t_{count} > t_{table}$  which is  $3.466 > 1.991$  and the sig value is  $0.001 < 0.05$  and also with a strong statistical power value of 79.4%. This means that budget participation has a significant and positive effect on budgetary slack.

This is realte to the research of Herawai (2014), Resen (2014), Murtin and Septiadi (2012) which states that budget participation has a significant positive effect on budgetary slack.

This research shows that the participation of managers or agents in budgeting provides an opportunity for them to carry out budgetary slack by loosening the prepared budget, which is to reduce the income target and increase the costs needed. So the higher the budget participation carried out by subordinates, the higher the tendency for

the practice of budgetary slack. This is happened because they want to reach a good performances.

## 6. Conclusion

The conclusion of this research is the need to reexamine the budget-based performance assessment because it can indicate the practice of budgetary slack. As in the previous discussion, if the measurement of performance is based on the budget, the manager or subordinate will make the budget easy to achieve and ignore the things that happened. If the principal only measures performance based on the budget, there will be a behavior of myopia where the principal will pay more attention to the budget compared to creating value in the long run. The solution is to loosen the budget so that it can reduce the practice of budgetary slack, and also the principal can do non-financial evaluation as a performance measurement. The limitations of this study are: (1) there are not many sample used in this study;(2) this study only use manufacturing companies in South Tangerang.

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