

11. The Impact Of Ethical Environment On Budget Gaming Behaviour

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THE IMPACT OF ETHICAL ENVIRONMENT ON BUDGET GAMING BEHAVIOUR

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ABSTRACT

Budget gaming behavior has been a concern in the organization for a long time and this dysfunctional behavior is often associated with ethics. This study examines perceptions of the ethical environment and trust are potential determinants of budget gaming behavior. A survey questionnaire was used to collect data. The sample was drawn from 112 managers in go public manufacturing companies in Indonesia to determine if perceptions of the ethical environment and trust are determinants of budget gaming behavior. The data were analyzed using Partial Least Square (PLS). The results indicate the ethical environment has a positive effect on trust; trust negatively affects budget gaming behavior; trust significantly mediates the relationship between ethical environment and budget gaming behavior. This study provides a warning for companies to truly concern about the ethical environment because its impact on dysfunctional behavior that causes serious harm to the organization.

Keywords : Ethical environment, budget gaming behaviour, trust

INTRODUCTION

Budget gaming behavior is a dysfunctional behavior that is still much conducted by managers in the budgeting process (Morlidge & Player, 2010; Libby & Lindsay, 2010). This dysfunctional behavior has the potential to cause frustration in the budget planning and evaluation process and to provide a serious loss to the organization (Lidia, 2014). But unfortunately, this budget problem has not been solved and needs to be taken seriously (Baerdemaeker & Bruggeman, 2015; Libby & Lind-say, 2010). Budget gaming behavior was related to budgeting and performance evaluation system factors on previous research (for example, SeTin et al. 2019; Ogiedu & Odia, 2013; Derfuss, 2012). The results of these studies have not been conclusive, thus triggering the need to test the other explanatory variables that could reduce the budget gaming behavior (Baerdemaeker & Bruggeman, 2015).

There is much debate that states budget gaming behavior is a form of ethical-related behavior (Walker & Fleischman, 2013) and ethical behavior is shaped and

driven by an ethical environment (Bobek et al. 2017). Therefore, it is very important to understand the perceptions of the ethical environment (Bobek, et al. 2010) and understand that ethical behavior could stimulate a positive behavior for organizational growth and unethical behavior could cause a fatality in an organization (Singh et al., 2015). Ethical environment perceptions can effect individual perceptions about reality so that it effects the attitudes and job outcomes (Demirtas & Akdogan, 2015; Dalton et al. 2014).

Previous researches that studied the ethical environment and ethical behavior were mostly done at the accounting profession, for example auditors (Sweeney et al, 2010); public accountants and professional accountants (Bobek et al. 2017; Bobek et al. 2015); the tax profession (Bobek et al. 2010). However, in the practices of management accounting, which are vulnerable to the behavior of budget gaming, there is no empirical evidence found so far relating it to the ethical environment. Therefore, this study intends to measure the managers' perceptions of the ethical environment of the organization to predict the dysfunctional behavior of budget.

To broaden the understanding of whether and how the ethical environment is related with budget gaming, this study uses a mediating variable from psychology, which is trust. The trust variable was chosen because trust is often the main problem of dysfunctional behavior (Smith, 2019) and trust has been a crucial field for a long time which is associated with jobs / outcomes antecedents (Castaldo et al. 2010).

This study enriches the management control system literature by providing a novelty that shows the relationship between budget gaming behavior and the ethical environment through trust. This study also provides the practitioners with an understanding of how budgeting interacts with trust and ethical environments. Differences in perceptions among manager levels regarding the tested variables are also discussed in this study.

LITERATURE REVIEW

Method is a method of work that can be used to obtain something. While the research method can be interpreted as a work procedure in the research process, both in searching for data or disclosing existing phenomena (Fitriani, I., et al., 2020:253). One of important component of an organizational culture to encourage ethical decision making and to form ethical behavior is ethical environment (Bobek et al. 2017; Bobek

et al. 2007). The ethical environment enhances employees' performance within the organization (Smith et al. 2013). Trust exists at various organizational levels, namely interpersonal levels (individuals and coworkers, superiors and subordinates), group levels (teams and departments), organizational levels (individuals, groups and organizations), and cross-organizational levels (Green-wood & Van Buren, 2010). Trust in organizations refers to the belief that individuals or teams will make an effort with good intention to maintain the commitment, honesty, and not make use of others (Vanhala et al. 2011). Trust in superiors according to Read (1962), is trust related to the status and career of subordinates, for example, opportunities for career growth, disclosure of information from superiors and the security felt by subordinates. Trust is an important foundation in decision making. Budget gaming behavior refers to managerial manipulation behavior by the managers which is planned during the budgeting process (Bart, 1988), for example, deferring necessary expenditures, in the end of budget period spending unspent money, negotiating easier targets to make the budget easier to attain (adapted from Bart, 1988; Umopathy, 1987; Merchant, 1985). Budget gaming behavior becomes a problem in budgeting that has caused serious losses for the organization (Lidia, 2014).

Previous studies have shown that employees' perceptions about the ethical environment of the organization are positively related with trust in superiors (Hough et al. 2016; Lilly et al. 2016; Castaldo et al. 2010). A significant predictor of trust in superiors is an ethical climate (Alghamdi, 2018). Trust is very important because it forms the basis of a culture that promotes ethical behavior and prevents aberrations of ethical norms (Cohen & Dienhart, 2013). Lack of trust is often a major problem of dysfunctional behavior (Smith, 2019). Interpersonal trust affects the employees' involvement in decision making related to budget value creation (Libby & Lindsay, 2019). Low trust in superiors causes subordinates to create more budget gaming (Gago & Naranjo-Gil, 2016; Chong & Ferdiansah, 2012). This study suspects that budget gaming is closely related to manager's trust on superiors.

Continuing from H1, namely the perceptions of the ethical environment have a positive effect on trust, and H2, trust in superiors has a negative effect on the tendency to do budget gaming, so this study suspects that trust in superiors mediates the effect of perceptions of the ethical environment on budget gaming behavior. Previous studies

provide evidence that the perceptions of ethical environment have a positive effect on ethical behavior (Bobek et al. 2017; Sweeney et al. 2010; Bobek, et al. 2010; Bobek & Radtke, 2007) and is positively related to ethical judgment and decisions (Shafer, 2015; Dalton et al. 2014; Lu & Lin, 2014; Mayer et al. 2010).

- H1. The perceptions of the ethical environment have a positive effect on trust in superiors
- H2. Trust in superiors has a negative effect on budget gaming behavior.
- H3. Trust can mediating the effect of the ethical environment on budget gaming behavior

RESEARCH METHOD

Ethical environments were measured using the instruments developed by Bobek & Radtke (2007) through 12 question item. The ethical environment question items relate to whether the organization has an ethical values, concerns on ethical behavior, whether the organization encourages ethical behavior and others. Trust is measured by 4 question items developed by Read (1962), for example, trust in superiors related to status and career in the organization. Budget Gaming Behavior is measured by 9 question items developed by Libby & Lindsay (2010) and Onsi (1973). The question of whether respondents tend to agree or disagree in conducting budget gaming. The respondents used a scale of 1 (strongly disagree) to a scale of 7 (strongly agree). This study is an empirical study with hypothesis testing. Data was collected from January 2020 - March 2020 through a questionnaire survey of 119 managers of Go Public manufacturing companies in Indonesia, and 112 questionnaires were obtained which could be processed. SmartPLS 3.8 was used for data analysis.

RESULT AND DISCUSSION

The sample consisted of three groups of Managerial levels (31 senior managers, 67 middle managers and 14 lower managers). Kruskal-Wallis test was used for testing the differences in the perceptions of the three levels of managers (Cooper & Schindler, 2014). The average score of the responses (scale 1-7) for the ethical environment was 5.80, meaning that most respondents had positive perceptions about the ethical environment. For trust, the average score of the responses was 6.62 which means that the majority of respondents had a very high trust on superiors. For the ethical

environment and trust, top level managers had the most positive perceptions, followed by the middle managers and lower managers. The average score of the responses to the budget gaming behavior is 1.39. This shows that the majority of respondents rarely conduct budget gaming. Middle-level managers rarely conduct budget gaming, followed by top managers and lower managers. The results show that there are significant differences regarding the managers' perceptions of the ethical environment (p-value $0,000 < 0.05$) and the managers' trust in superiors (p-value $0.029 < 0.05$). However, there is no significant difference in manager behavior towards budget gaming (p-value $0.061 > 0.05$).

Figure 1 shows the results of the measurement model towards 25 question items in 3 constructs and the majority of question items have an outer loading of > 0.7 (meeting the threshold of ≥ 0.7 according to Hair et al., 2016) and significant at $p < 0.001$. The absence of cross loading indicates that the Discriminant validity is satisfactory.

Table 1 shows the AVE value for each construct is in the range of 0.649 - 0.730 and this value exceeds the minimum threshold of 0.50 according to Hair et al. 2016. This shows that, on average, the construct explains more than half of the variance of the indicator / shows that there are different indicators (satisfactory convergent validity). The test results of convergent validity support the test results of discriminant validity. Table 2 shows the internal consistency reliability of each constructs, which is indicated by the Cronbach's alpha value and the composite reliability value above the minimum threshold of 0.7 according to Hair et al. 2016. These results conclude that the respondents' answers were consistent.

Table 2 shows that the value of R2 with a fairly strong predictive power. Ethical environment gives an effect of 18.8% on trust in superiors. Trust in superiors gives a 30.6% effect on budget gaming behavior. Ethical environment which is mediated by trust in superiors gives a 24% effect on budget gaming behavior. The path coefficient of ethical environment towards trust in superiors is positive (p-value < 0.01 ; H1 is supported); trust in superiors on budget gaming behavior is negative (p-value < 0.01 ; H2 is supported); ethical environment on budget gaming behavior that is mediated by trust in superiors is negative (p-value < 0.01 ; H3 is supported).

Ethical environment has a positive effect on trust in superiors, this supports the previous studies conducted by Alghamdi, 2018; Hough et al. 2016; Lilly et al. 2016; Castaldo et al. 2010. Trust in superiors has a negative effect on budget gaming behavior, this gives support to Gago & Na-ranjo-Gil, 2016; Chong & Ferdiansah, 2012. Trust in superiors significantly mediates the effect between ethical environments on budget gaming behavior. These results correlate with the findings that support the ethical environment has a positive effect on trust and trust in superiors has a negative effect on budget gaming behavior. This finding also supports Hair et al. 2016, that mediation is considered significant if all path coefficients are also significant.

CONCLUSION

This study concludes that the perceptions of the ethical environment can impact budget gaming through trust in superiors. Different manager levels are also affecting the perceptions of ethical and trust environments, while there is no difference among managerial levels for the tendency to conduct budget gaming. This research contributes to the management control system literature, namely that an appropriate control system through the creation of an ethical environment can overcome employees' behavior. The findings also have implications for organizations to create a better ethical environment (for example through formal ethical codes, ethical training, socially responsible behavior, management role models, and social pressure) to reduce the budget gaming behavior. The results of the study can also remind organizations that it is very important to understand and manage subordinates' trust in superiors in order to reduce unethical behavior that can harm the organization's reputation. Future research could highlight a sample of organizations outside of manufacturing and could consider the use of experimental methods to ensure a causal relationship between the perceptions of ethical environmental on budget gaming behavior.

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FIGURE AND TABLE

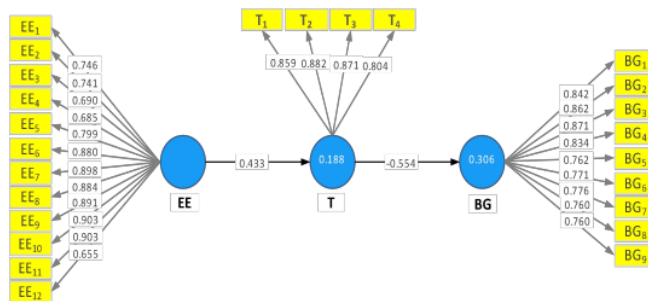


FIGURE 1. STRUCTURAL MODEL TEST RESULT

TABLE 1. COVERGENT VALIDITY AND RELIABILITY TEST RESULTS

Variable	∑item	Average Variance Extracted	Composite Reliability Coefficient	Cronbach alpha coefficient
Ethical Environment	12	0,659	0,958	0,936
Trust	4	0,73	0,915	0,876
Budget Gaming	9	0,649	0,943	0,951

TABLE 2. STRUCTURAL MODEL TEST RESULT (R² AND Q² VALUES)

Path	Coefficient	t _{statistic}	p-value	R ²
EE → T	0,433	5,346	0	0,188
T → BG	-0,554	6,407	0	0,306
EE → T → BG	-0,24	3,637	0	

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