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## Participative Budgeting, Employee Motivation and Budgetary Slack in Private Sector in Indonesia

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**Abstract.** *The role of the budget is basically as a planning and controlling tool for an organization. One thing that organizations need to avoid in budgeting is the emergence of budgetary slack practices. This study was conducted to evaluate and analyze budgeting practices in the private sector, especially in the banking sector with the aim of analyzing the effect of participatory budgeting on employee motivation and analyzing the effect of employee motivation on budget slack. The data collection technique used was a questionnaire. The questionnaire is filled out by supervisors or managers at banks in Bandung. The questionnaires that can be processed are 33 questionnaires. The data analysis technique used is Structural Equation Modeling-PLS (SmartPLS 3.0). The results of hypothesis testing that have been done show that participatory budgeting has a positive effect on employee motivation and employee motivation has a negative effect on budget slack.*

**Keywords:** *budgetary slack, employee motivation, participative budgeting*

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### INTRODUCTION

Planning is important for an organization, without planning, it will be easy for companies to get lost or waste resources that can be used for other things (Coveney & Cokins, 2014). Planning needs to be done to direct the company's resources and activities to achieve goals. Planning is realized in the form of strategy and budget. The budgeting process is an integral part of the management control system (Walker & Johnson, 1999). A budget is a quantitative short-term company plan (Atkinson, Kaplan, & Matsumura, 2012). A budget is considered to have value if management perceives that budget can help achieve the company's goals. Managers use the information from the budget for many purposes, one of which is to motivate employees (Walker & Johnson, 1999). The budgeting process involves many parties, from top management to the operational level. Participative Budget is the level of participation and the effect of a person in the process of making a budget (Kahar, Rohman, & Chariri, 2016). The impact might bring up negative and positive behaviors. Positive

behavior usually appears because managers or employees feel motivated by the budget used as a basis for performance appraisal so that managers or employees can further improve their performance. On the other hand, managers or employees can also behave negatively (dysfunctional) by creating budgetary slack.

Budget processes carried out by companies in Indonesia can affect the economy considering that the budget is used as a tool for evaluating company performance and decision making (Anthony & Govindarajan, 2007). In reality, problems often happen in budgeting, one of which occurs in government related to the use of Local Government Budget. (Kumolo, 2019) as the Minister of Home Affairs said that the expenditure of budget realization was not the same as the allocation that had been made, there were still many allocations from programs that had not yet been developed and the lack of accountability for the use of the Local Government Budget. The extreme turbulent economic situation and the "high regulated" banking industry has the effect of

the complexity of the problem. No exceptions in the budgeting process that management must make. Management is demanded to be more careful in managing the business, including overcoming various problems in the preparation of the budget.

According to (Widanaputra & Mimba, 2014), the cause of budget preparation problems is caused by budgetary slack. Budgetary slack is usually associated with dysfunctional behavior (Atkinson, Kaplan, & Matsumura, 2012), achieving budget targets without much effort, unethical behavior, ineffective allocation of resources and unreliable information (Raudhiah, 2014). This budgetary slack behavior is included in the category of dysfunctional behavior in the budget and is against the company's goals (Anthony & Govindarajan, 2007). Budgetary slack is often made by managers to hide some information from their superiors and deliberately misinterpreted the information to maximize their own utility (Damrongsukniwat, Kunpanitchakit, & Durongwatana, 2015). According to (Falikhathun, 2007), there are three main reasons managers perform budgetary slack: (a) budgetary slack is always used to overcome uncertain conditions, if there is no unexpected event, the manager can exceed / reach his budget; (b) people are always believe that the results of their work will look good in the eyes of superiors if they can reach their budget; (c) budget plannings are always being cut in the process of allocating resources.

One of the factors that forms budgetary slack is the Participative Budget (Maiga & Jacobs, 2007). (Widanaputra & Mimba, The Influence of participative budgeting on budgetary Slack in composing local governments' budget in Bali province, 2014) said that in the budget preparation process, problems caused by budgetary slack happen often. Therefore, budgetary slack is one of the problems which is brought up from participative budgeting. Participative budgeting will increase the motivation of employees which will also increase organizational effectiveness and efficiency

(Umo, 2014) and employee motivation is very important for the sustainability and performance of an organization (Ledimo, Sabbagha, & Martins, 2019).

(Maiga & Jacobs, 2007) and (Kahar, Rohman, & Chariri, 2016) said that participative budgeting has a negative effect towards budgetary slack. Meanwhile, interesting findings from research conducted by (Aprila & Hidayani, 2012) in the public sector, found that participative budgeting has a significant positive effect towards budgetary slack. This indicates that the higher involvement of a person/employee in budgeting process, affects more unethical behavior in budgetary slack. Contradictory research findings motivate researchers to re-examine the effect of participative budgeting towards budgetary slack through employee motivation. Most studies used employee motivation as an independent variable that influences budgetary slack. Many studies have examined employee motivation as a moderating variable. But in this study, employee motivation will be tested as an intervening variable that is influenced by participative budgeting and affects budgetary slack in private sector. Research on budgeting usually mostly done in the public sector. The result of this study is expected to provide input or ideas related to budgeting policy in SOEs, especially in the banking industry by observing the relationship between participative budgeting, budgetary slack and employee motivation. Based on the explanation of the research background above, the problem formulations in this study are (1) does participative budgeting affect employee motivation (2) does employee motivation affect budgetary slack

## **LITERATURE REVIEW**

### **Contingency Approach Theory**

The contingency approach for management accounting is based on the premise that a universal management accounting system is always appropriate to be applied to all organizations in all circumstances. However, the management accounting system also depends on the

situational factors that exist within the organization (Emmanuel, Otley, & Merchant, 2004).

As explained in the introduction section, previous research findings still show inconsistencies. The researcher concludes that other variables influence between budgetary participation and budgetary slack. Through the contingency approach allows the existence of other variables that can act as variables intervening that affects the relationship between budgeting participation and budgetary slack is employee motivation.

### **Agency Theory Approach**

Agency theory is a concept that explains the relationship between principals and agents. The principal is the party that gives the agent the mandate to carry out the principal's activities (Anthony & Govindarajan, 2007). In this study, the agency approach will be adopted to evaluate the effectiveness of budgetary participation in relation to budgetary slack. Principal in this case the budget director can encourage managers or supervisors to be involved in preparing the budget and contribute to providing information so that the budget is made effectively.

### **Participative Budgeting and Employee Motivation**

Participative budgeting is the level of participation and effect of a person in making budgeting (Kahar, Rohman, & Chariri, 2016). Participation can reduce potential conflicts between individual goals and organizational goals so that it has an impact on improving performance. Through participation, superiors can obtain information about the environment that is being and will be faced. This is supported by (Baiman, 1990) which reinforces the argument that participation tends to reduce budgetary slack. The information contains in the budgeting process is used by managers, one of them is to motivate employees who work in the company (Walker & Johnson, 1999). (Umo, 2014) believed that participative budgeting will increase employee motivation which will

increase the organizational effectiveness and efficiency. (Ledimo, Sabbagha, & Martins, 2019) stated that employee motivation is very important for the sustainability and performance of an organization. Successful organizations are usually characterized by motivated employees as valuable assets. Financial organizations such as banks, need motivated employees to achieve targets and performance at a high level. Involvement in the budgeting process is an opportunity for employees to demonstrate their achievements (Hariyanti, Purnamasari, & Magnaz, 2015). Employees will be motivated to make budgeting when their performance is measured by the budget.

Previous study which was conducted by (Djalil, Indriani, & Muttaqin, 2017) found that participative budgeting has a positive effect towards employee motivation. These results illustrate that budget participation effects the high or low levels of employee motivation. Then, the study conducted by (Zainuddin & Isa, 2011) found that participative budgeting has an indirect effect towards motivation through procedural justice as a mediating variable.

Based on the explanation above, the hypothesis 1 proposed is as follows:

H1: Participative budgeting has a positive effect towards Employee Motivation

### **Employee Motivation and Budgetary Slack**

Budgetary slack was defined by (Kahar, Rohman, & Chariri, 2016) as the difference between the amounts of budget that is proportioned lower than the estimated safe number in the company. One of the factors that causes budgetary slack is employee motivation. Based on Self-determination theory, there are several types of motivation called Pluriform Motivation, which consists of extrinsic, intrinsic and extrinsic autonomous motivation (Hariyanti, Purnamasari, & Magnaz, 2015). The motivation that is focused in this study is the intrinsic motivation, which is the motivation that comes from oneself to do something and obtain satisfaction from something that he/she managed to do (Hariyanti, Purnamasari, &

Magnaz, 2015). (Baerdemaeker & Bruggeman, 2015) said that autonomous or intrinsic motivation has a relationship with budgetary slack and autonomous or intrinsic motivation can reduce budgetary slack. Participative budgeting will increase employee motivation which will later increase the effectiveness and efficiency of the organization (Umo, 2014) it will be able to prevent and avoid budgetary slack. Because the higher the motivation of the employee is, the further it will reduce the possibility of employees to perform budgetary slack.

Based on the explanation above, the hypothesis 2 proposed is as follows:

H2: Employee Motivation has a negative

effect towards Budgetary Slack

## RESEARCH METHOD

This study uses primary data which is obtained from closed questionnaires. The possible choice of answers was determined in advance

and respondents were not given alternative answers. The unit of analysis in this study is bank employees at the manager or supervisor level. The sampling technique used is Simple Random Sampling. In the end, there were 33 questionnaires collected for processing. Based on the rule of thumb, the data will then be processed and analyzed.

The analysis technique used to test the proposed research model and hypothesis is Structural Equation Modeling (SEM) PLS with the help of the SmartPLS 3.0 application. SEM-PLS is used because the number of samples is not large. According to (Latan & Ghozali., 2012), 5 stages of analysis in PLS-SEM begin from the conceptualization of the model, determining the algorithm analysis method, determining the resampling method, depicting the path diagram, and evaluating the model which includes evaluating the outer model / measurement model and evaluating the structural model / inner model.

In this study, indicators for related variables are as follows

Table 1. Operationalization Variable

Variable	Indicator	Scale
Participative Budgeting (X)	<ol style="list-style-type: none"> <li>1. I was involved in the budgeting process</li> <li>2. Various reasons were given by the head of business unit to me when the budget was requested to be revised</li> <li>3. I provide input, opinions, and / or suggestions about the budget to the head of business unit without asking at the first place</li> <li>4. The impact of me on budget completion</li> <li>5. The importance of my contribution towards the budget</li> <li>6. The head of business unit will always ask for my input, opinions and or suggestions when preparing the budget.</li> </ol>	Ordinal

(Milani, 1975) ; (Chong & Strauss, 2017); (Dunk, 1993) (Raudhiah, 2014)

Employee Motivation (Y)	<ol style="list-style-type: none"> <li>1. I feel that I have made a personal achievement when the targets in my business unit were achieved</li> <li>2. My opinion of myself will go down if I don't reach my target</li> <li>3. I feel proud of achieving budget targets in my business unit</li> <li>4. I am not happy when my efforts in achieving budget targets do not meet my usual standards.</li> <li>5. I look back at the efforts I made to achieve the budget target by feeling that I have done well for my work.</li> <li>6. I try to think of new ways to achieve budget targets.</li> </ol>	Ordinal
Budgetary Slack (Z)	<p>(Warr, Cook, &amp; Wall, 1979); (Dow, Watson, Greenberg, &amp; Greenberg, 2012)</p> <ol style="list-style-type: none"> <li>1. I always succeeded in proposing a budget that is easy to achieve;</li> <li>2. The budget target drives productivity in my business unit;</li> <li>3. The budget target has not made me paying attention to the increasing of efficiency in my business unit;</li> <li>4. The budget target has not made me paying attention to the increasing of efficiency in my business unit;</li> <li>5. Budget in your business unit (1) is very easy to achieve; (2) can be achieved with a reasonable effort; (3) can be achieved with great effort; (4) almost cannot be achieved; or (5) impossible to achieve.</li> </ol> <p>((Van der Stede, 2000) (Raudhiah, 2014)</p>	Ordinal

## RESEARCH RESULT

### 1. Result of Outer Model Testing - Construct Validity Testing

Tabel 2. Outer Loading

Measurement Instruments	Outer Loading	Status (>0,7)
BP1	0,852	Valid
BP2	0,871	Valid
BP3	0,883	Valid
BP4	0,845	Valid
BP5	0,816	Valid
MP1	0,782	Valid
MP2	0,816	Valid
MP3	0,801	Valid
MP4	0,745	Valid
MP5	<b>0,534</b>	Valid
MP6	0,821	Valid
BS1	0,801	Valid
BS2	0,776	Valid



BS3	0,854	Valid
BS4	<b>0,644</b>	Valid
BS5	<b>0,632</b>	Valid

Source: Data processing SmartPLS 3.0

Based on the table above it can be concluded that the indicator is valid because it has a loading factor value above 0.7. If there are indicators that have a value below 0.7, it still declared valid or has met the convergent validity (above 0.5).

## 2. Result of Outer Model Testing - Convergent Validity and Average Variance Extracted (AVE)

Tabel 3. AVE and comunnality

	AVE	communality	Status (>0,5)
Participative Budgeting (X)	0,682	0,682	Valid
Budgetary Slack (Z)	0,514	0,514	Valid
Employee Motivation (Y)	0,523	0,523	Valid

Source: Data processing SmartPLS 3.0

Convergent validity of the measurement model with reflective indicators assessed based on the loading factors of the construct indicators. In this study, there are 3 constructs with several indicators ranging from 5 to 6 indicators with 1 to 5 scales. Based on the test results, the measurement model can be explained as follows:

- a) The participative budgeting construct was measured using BP1, BP2, BP3, BP4, BP5, and BP6. All indicators have AVE above 0.5 and communality > 0.5.
- b) Employee Motivation construct was measured using MP1, MP2, MP3, MP4, MP5, and MP6. All indicators have AVE above 0.5 and communality > 0.5.

- c) Budgetary Slack construct was measured using BS1, BS2, BS3, BS4, and BS5. All indicators have AVE above 0.5 and communality > 0.5.

These values meet the convergent validity test. Thus, it can be concluded that the indicators are declared valid and can be accepted as a measure of latent variables of the study.

## 3. Result of Outer Model Testing Discriminant Validity Testing

Tabel 4. Cross Loading

	Participative Budgeting (X)	Employee Motivation (Y)	Budgetary Slack (Z)
MP1	0,503	<b>0,803</b>	0,719
MP2	0,425	<b>0,786</b>	0,504
MP3	0,565	<b>0,858</b>	0,724
MP4	0,321	<b>0,614</b>	0,421
MP5	0,267	<b>0,616</b>	0,335
MP6	0,295	<b>0,541</b>	0,399
BS1	0,500	0,624	<b>0,872</b>
BS2	0,515	0,658	<b>0,684</b>
BP1	<b>0,851</b>	0,274	0,405
BP2	<b>0,832</b>	0,230	0,439
BP3	<b>0,882</b>	0,302	0,483
BP4	<b>0,843</b>	0,485	0,444
BP5	<b>0,835</b>	0,315	0,394

BP6	<b>0,792</b>	0,634	0,671
BS3	0,470	0,402	<b>0,835</b>
BS4	0,279	0,619	<b>0,754</b>
BS5	0,260	0,349	<b>0,613</b>

Source: Data processing SmartPLS 3.0

The cross-loading value in the table above showed good discriminant validity. The indicator correlations value to its construct is higher than the indicator correlations value to other constructs.

The consistency test for the indicators was done by the reliability test. Following are the results of Cronbach's alpha testing and composite reliability, which are present in the table below:

#### 4. Result of Outer Model Testing Reliability Testing

Tabel 5 Cronbach's Alpha and Composite Reliability

Konstruk	Cronbach's Alpha	Composite Reliability
Participative Budgeting (X)	0,945	0,954
Budgetary Slack (Z)	0,874	0,917
Employee Motivation (Y)	0,823	0,875

Source: Data processing SmartPLS 3.0

Based on the table above, it can be concluded that the construct of participative budgeting, budgetary slack, and employee motivation has good reliability. Cronbach's Alpha and Composite Reliability value is greater than 0.6

The testing criteria with a significance level ( $\alpha$ ) of 5% are determined as follows: If  $p\text{-value} \leq 0.05$  (alpha 5%), the hypothesis is accepted. If  $p\text{-value} \geq 0.05$  (alpha 5%), the hypothesis is rejected.

#### 5. Inner Model Testing (Structural Model)

Table 6. Hypothesis Testing Results on the Research Model

Hypothesis	Path	Path Coefficient	P Value	Notes
H1	PP → MK	0,357	0.001	Significant
H2	MK → BS	0,716	0.000	Significant

Source: Data processing SmartPLS 3.0

Hypothesis 1 stated that Participative Budgeting (PP) has a positive effect on Employee Motivation (EM). The test results on the path coefficient between PP and EM indicate that the path coefficient value of PP → EM (0.357) is greater than 0.1 and it's significant at  $\alpha = 0.05$ , thus hypothesis 1 is accepted.

Hypothesis 2 stated that Employee Motivation (EM) has a negative effect on budgetary slack (BS). Test results on the path

coefficient between EM and BS showed that there's the value of the path coefficient of MK → BS (0.716) is greater than 0.1 and significant at  $\alpha = 0.05$ , thus hypothesis 2 is accepted.

#### Discussion & Conclusion

Based on the results of the research conducted, results show that participative budgeting has a positive effect on employee motivation in achieving his organizational goals. This research proves the theory stated

by Anthony & Govindarajan, 2007). Participatory budgeting can affect employee motivation, this influence means that when an organization involves employees in the budgeting process, it will motivate employees to carry out their duties and responsibilities.

An organization will succeed if its employees also have high motivation in achieving common goals not for their own interests. Employees feel valued and respected if they are involved in the budgeting process in the company or organization where they are located.

The banking industry has the human capital in carrying out its operational activities. Therefore, employees' "presence" should be well considered. Employee involvement in the preparation of the budget is very important so that employees will have the responsibilities in every activity carried out. This result is also in accordance with previous research conducted by (Djalil, Indriani, & Muttaqin, 2017) found that participative budgeting has a positive effect towards employee motivation. These results illustrate that budget participation will offer at high or low levels of employee motivation. Meanwhile, research conducted by (Zainuddin & Isa, 2011) results are obtained that participative budget indirectly has an effect on motivation through procedural justice as a mediating variable.

Participative budgeting will increase the employee motivation which will later increase the organizational effectiveness and efficiency (Umo, 2014). This will prevent and avoid budgetary slack. If the motivation is high, managerial performance will also be high, because there is a bonus if the budget target has been set by the employer and vice versa. Because the higher the motivation of the employee is, it will reduce the possibility of employees making budgetary slack. This illustrates that highly motivated employees will use the budget to pursue organizational interest, while employees with low motivation will use the budget to pursue their own interests. The results of this study also indicate that employees who are motivated

through budgeting participation will influence the practice of budgetary slack.

Empirical facts findings showed that the intrinsic motivation which is the focus of this study is a concept of motivation that affects the budgeting undertaken in the banking sector. The research findings also showed that if employees have higher intrinsic motivation, they will make more efforts to do positive things in doing their works and avoid budget slack. This finding also supported by previous research conducted by (Baerdemaeker & Bruggeman, 2015). Their research conducted showed that autonomous or intrinsic motivation is more able to reduce the potential for budgetary slack practice than extrinsic motivation.

## Conclusion

Based on the results of the research, conclusions are obtained as follow:

1. The result of testing the first hypothesis showed that participative budgeting has a positive effect on employee motivation, which means that employee involvement in the budgeting process will increase the employee motivation in achieving the goals of his organization.
2. The result of testing the second hypothesis showed that employee motivation has a negative effect towards budgetary slack which means that this study accepts the second hypothesis which states that employee motivation has a negative effect towards budgetary slack.

This study focuses on participative budgeting as a factor that affects budgetary slack through employee motivation. Employee motivation that is emphasized in this study is intrinsic motivation. Future research is also expected to use the concept of intrinsic motivation in assessing the motivation associated with budgeting. Because based on the results of this study, this intrinsic motivation that comes from within the employees affects the budgetary slack. Researchers can also examine other variables such as asymmetric information and the value of the budget. This research also can be developed by researching budgetary gaming.

Budgetary slack is part of budgetary gaming so that by conducting further research, more general research results can be obtained on budgeting practices in Indonesia.

## Research Implications

### Theoretical Implications

When referring to a theoretical perspective, the results of this study basically support the theory stated by Anthony and Govindaran (2007) which states that budgeting can affect aspects of employee behaviour. The research findings prove that budgeting in the form of employee participation can affect employee motivation. The results of this study will also enrich literature and study on budgets and provide an overview of the budgeting undertaken in the banking sector in Indonesia.

### Practical Implications

The findings of this study will ultimately provide a reference for practitioners who use the budget as a planning and control tool. The findings of this study found that unethical practice, namely budgetary slack, can be avoided through budgeting participation which will affect employee motivation in carrying out their duties and responsibilities. Practitioners can consider the quality of the budgeting done, one of which is by involving employees who in the end can suppress budgetary slack practices by increasing employee motivation.

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