

The Influence of Budgetary Participation on Budgetary Slack: The Role of Organizational Fairness, Managerial Trust, and Budget Goal Commitment

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Abstract. The purpose of this research is to examine the influence of budgetary participation on budgetary slack through the role of organizational fairness, managerial trust, and budget goal commitment.

Accounting managers who responsible to the budget process will be the unit of analysis in this research. Five, four, and three stars hotels in Bandung West Java Indonesia will be the subject of this research because the increasing in hospitality business in Bandung as phenomena.

Primary data will be collected through questionnaires and used Structural Equation Modelling (SEM) with Partial Least Square (PLS) as the analysis technique in this research.

The results show that budgetary participation influence on organizational fairness, in turn, influence on managerial trust and then managerial trust influence on budget goal commitment, and finally reduce managers' propensity to create budgetary slack.

Keywords : Budget Participation, Budgetary Slack, Organizational Fairness, Managerial Trust, Budget Goal Commitment

1. Introduction

Many studies conducted to analyze the factors that may cause propensity to create budgetary slack. One factor that has been researched and considered to have a significant effect on the incidence of budgetary slack is budgetary participation.

Most of previous studies support the hypothesis that the participation of subordinates in the budget preparation will create slack [1]. Another previous research showed that high participation provide lower managers the opportunity to create slack [2]. However, some studies do not support the finding, participation in the budget preparation can reduce budgetary slack, because positive communication between top managers and lower managers will reduce the pressure to create budgetary slack [3][4][5].

Previous empirical studies show inconsistencies result between the researchers. Therefore in this study I am interesting to use another variable such as distributive fairness, procedural fairness, interactional fairness, managerial trust, and budget goal commitment as an intervening variable.

The purpose of this study was to analyze the effect of budgetary participation on budgetary slack through the role of distributive fairness, procedural fairness, interactional fairness, managerial trust, and budget goal commitment.

2. Literature Review and Hypothesis Development

The theoretical model in this study (Fig.1) indicate that budgetary participation (BP) is expected to reduce budgetary slack (BS) through the role of distributive fairness (DF), procedural fairness (PF), interactional fairness (IF), managerial trust (MT), and budget goal commitment (BGC).

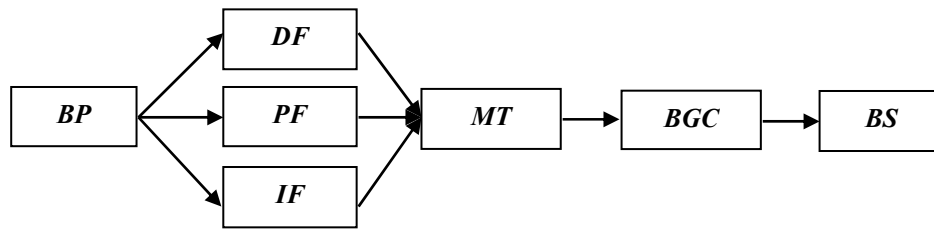


Fig. 1: Theoretical Model

High participation between subordinates and superiors in the budgeting system will help develop a sense of DF, PF, and IF [6][7].

H1: BP has a positive influence on DF, PF, and IF

Procedures that are structurally and interactional fair will lead to trust in the system and for those who implement the decisions, meanwhile, a distrust of the structural and or interactional fairness will ultimately lead to low levels of trust [8][9].

H2: DF, PF, and IF have a positive influence on the MT

Trust may be important for superiors because it is necessary to mobilize the commitment of subordinates to the vision desired by the superiors [10]. Meanwhile, trust is a major factor for the commitment. Trust in superiors and the organization has been able to predict its commitment to the organization [11][12]. Furthermore it can be concluded that trust in the relationship between superiors and subordinates will affect BGC [13].

H3: MT has a positive influence on the BGC

BGC is very important since the productivity of managers defined more broadly, whether the organization can achieve its goals? [6]. A strong commitment to the goals will drive business and increase the persistence and that is the most factor directly related to performance [14]. Furthermore, any person who has a higher BGC will seek interaction with people who have a broad insight into their work environment, performance objectives to be achieved, task strategies, and other issues that have significant impact on their performance [15]. Ultimately this factor will reduce the propensity to create BS [9].

H4: BGC has a negative influence on the propensity to create BS

3. Research Methods

3.1. Sample and Analysis Techniques

Questionnaires were distributed to 56 Accounting Managers at five, four, and three stars hotel in the city of Bandung West Java Province Indonesia. Thirty seven questionnaires returned (response rate 66%). This study using the Structural Equation Model (SEM) with Partial Least Square (PLS) method as Analysis techniques because the sample size was slightly[16]. This analytical techniques was different from previous research [6][9].

3.2. Measurement of Variables

BP was measured using a measuring instrument introduced by Milani [17]. This measure has been widely used and validated (tested) in the management accounting studies [18][19] [20] [21] [22] [23] [24] [25] [26] [6][27] [28] [9].

DF was measured by using the DF scale to assess the response of managers, composed of four elements developed by Magner and Johnson [29]. This measuring instrument was updated [9] by adding one element, so DF scale has five-elements for use in budgeting and assessing the basis of comparison (needs, expectations, and what is deserved) used by managers when considering the DF.

PF was measured by using PF scale to assess the response of managers, composed of six elements developed by Magner and Johnson [29]. Based on the measure used by Leventhal [30], PF scale has been updated by adding two elements [9].

IF was measured using five elements adopted from Greenberg [31] is enhanced by Colquitt [32]. MT was measured using four elements developed by Zand [33][9].

BGC was measured by using three elements developed by Hollenbeck et al. [34]. Based on Wright et al. in [27], this measure describes the establishment of one's view of commitment to the objectives (cognitive, affective, and behavioral).

BS was measured by using three elements [5], which was developed [35][14][9].

4. Result

4.1. Result of Influence Test

The research model used to answer the problem using SEM PLS method with Smart PLS 2.0. Based on the hypothesized structural model, this study obtained the influence of BP on DF, PF, and IF; influence of DF, PF, and IF on MT: the influence of MT on BGC, and the influence of BP and BS on BGC as follows:

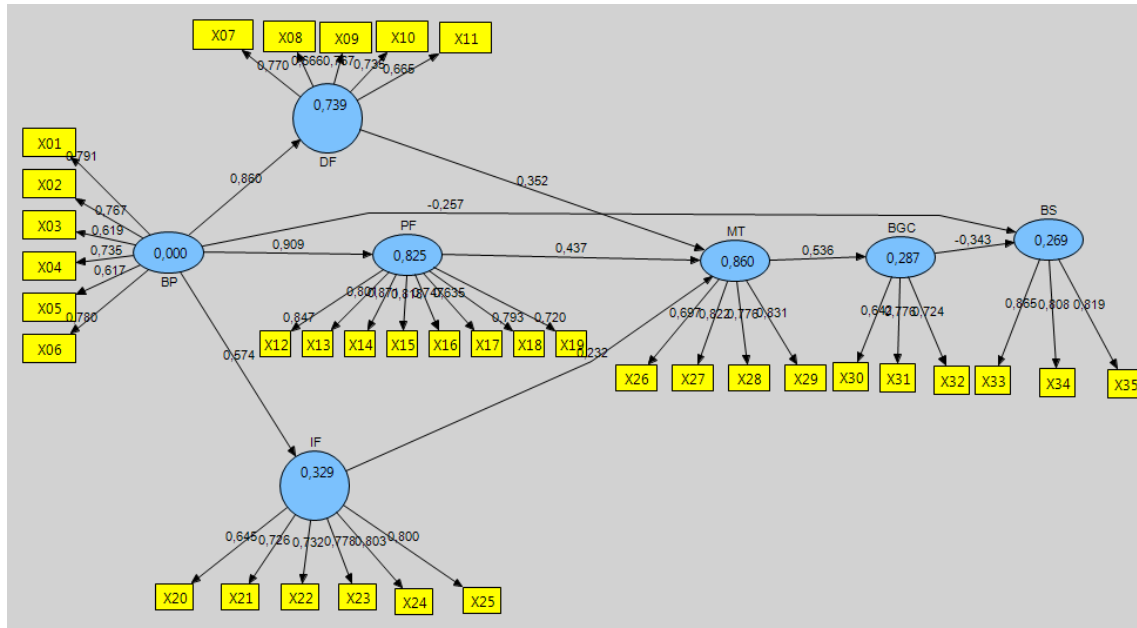


Fig. 2: Structural Model (Inner Model)

Model evaluation is done by seeing the results of the measurement model and the structural model (inner model) of the research model were studied, as follows:

4.2. Evaluation of Outer Model (Measurement Model)

Based on Table 1, the AVE values > 0,50 for each latent variable, which indicates the ability of the latent variables BP, DF, PF, IF, MT, BGC, and BS in describing or representing the original variables meeting the criteria. Table 1 also shows that the composite reliability > 0.70 it means the level of reliability variable measuring is good.

Table 1 : Average Variance Extracted (AVE) Value and Composite Reliability

	AVE	Composite Reliability		AVE	Composite Reliability
BP	0,521100	0,865988	MT	0,613528	0,863403
DF	0,521109	0,844194	BGC	0,513187	0,758679
PF	0,611804	0,925947	BS	0,690605	0,869969
IF	0,561492	0,884281			

Convergent validity is used to test whether the indicators have been measured construct or dimension accurately. Cut-off value are required to conclude that an indicator to precisely measure the latent variable is at least 0,50. The test of Convergent validity of these indicators showed that all loading factors above 0,50. For BP latent variables measured by 6 indicators, DF measured by 5 indicators, PF measured by 8 indicators, IF measured by 6 indicators, MT measured by 4 indicators, BGC measured by 3 indicators, and BS measured by 3 indicators.

4.3. Evaluation of Structural Model (Inner Model)

In Partial Least Square, hypothesis testing is done by testing the structural model (inner model) through the value of R square, path coefficients, and t-statistics. The results for this study can be seen in fig. 2 and table 2. There is a path diagram with R square and path coefficient for inner model testing.

Table 2 : R-square Value for Constructs

	R Square		R Square		R Square
<i>DF</i>	0,738900	<i>IF</i>	0,329159	<i>BGC</i>	0,286967
<i>PF</i>	0,825441	<i>MT</i>	0,859768	<i>BS</i>	0,268512

R-square for the dependent constructs DF (0,7389) showed the effect of BP on DF 73,89%. R-square for the dependent constructs PF (0,8254) showed the effect of BP on PF 82,54%. R-square for the dependent constructs IF (0,3292) showed the effect of BP on IF 32,92%.

R-square for the dependent constructs MT (0,8598) showed DF, PF, and IF affect MT 85,98%. R-square for the dependent constructs BGC (0,286967) showed the effect of MT on BGC 28,70%. R-square for the dependent constructs BS (0,268512) showed BP and BGC effect on BS 26,85%.

4.4. Hypothesis Testing/Inner Model Testing (Structural Model)

Inner model testing or structural model is performed to see the relationship between the construct and the significance of the research model. The results of inner model test are given in table 3.

Table 3 : The Results of Inner Model Testing (Hypothesis Testing)

Hypothesis	Estimate Coefficient	T Statistics	Critical Value	Description
<i>BP -> DF</i>	0,860	6,337	1,96	Significant
<i>BP -> PF</i>	0,909	12,886	1,96	Significant
<i>BP -> IF</i>	0,574	2,859	1,96	Significant
<i>DF -> MT</i>	0,352	2,623	1,96	Significant
<i>PF -> MT</i>	0,437	3,089	1,96	Significant
<i>IF -> MT</i>	0,232	2,222	1,96	Significant
<i>MT -> BGC</i>	0,536	3,326	1,96	Significant
<i>BP -> BS</i>	-0,257	2,607	1,96	Significant
<i>BGC -> BS</i>	-0,343	2,529	1,96	Significant

Based on table 3, BP significantly influence on DF. The test also indicate the positive influence. Therefore a significant influence, DF could be explained by BP (R square = 73,9%). These result was consistent with previous researches [6][9]. BP significantly influence on the PF. The test also indicate the positive influence. Therefore a significant influence, PF could be explained by BP (R square = 82,5%). These result was consistent with previous researches [6] [28][9].

BP significantly influence on IF. The test also indicate the positive influence. Therefore a significant influence, IF could be explained by BP (R square = 32,9%). DF significantly influence on MT. The test also indicate the positive influence. Therefore a significant influence MT could be explained by the DF (R square = 12,4%). These results was consistent with previous researches [8][7][9].

PF significantly influence on MT. The test also indicate the positive influence. Therefore a significant influence MT could be explained by PF (R square = 19,1%). These result was consistent with previous researches [8][7][9][24]. IF significantly effect on MT. The test also indicate the positive influence. Therefore a significant influence MT could be explained by the IF (R square = 5,4%). These result was consistent with previous research [36].

MT significantly effect on BGC. The test also indicate the positive influence. Therefore a significant influence, BGC could be explained by MT (R square = 28,7%). These result was consistent with previous researches [13][9]. BP Significantly influence on BS. The test also indicate the negative influence. Therefore a significant influence, BS could be explained by BP (R square = 6,6%). These result was consistent with previous researches [3][4][5]. BGC significantly influence on BS. The test also indicate the negative influence. Therefore a significant influence, BS can be explained by BGC (R square = 11,7%). These result was consistent with previous researches [15][9].

In table 4, the direct influence of BP on BS is 6,6%, as for the influence of BP on BS indirectly through DF, MT, and BGC is 5,6%; the influence of BP on BS indirectly through PF, MT, and BGC is 7,3%; the influence of BP on BS indirectly through IF, MT, and BGC is 2.4%. So, the influence of BP on BS indirectly through other variables is 15,3% greater than the direct effect of BP on BS is 6.6%. This means that DF, PF, IF, MT, and the BGC are an intervening variable to influence BP on BS.

Table 4. The Influence of BP on BS

Relationships	Total effect	Relationships	Total effect
<i>BP -> BS</i> (direct influence)	6,6%	<i>BP -> PF -> MT -> BGC -> BS</i>	7,3%
<i>BP -> DF -> MT -> BGC -> BS</i>	5,6%	<i>BP -> IF -> MT -> BGC -> BS</i>	2,4%

5. Conclusions and Limitations

Based on the testing, budgetary participation affects organizational fairness (distributive fairness, procedural fairness, and interactional fairness) and, in turn, managerial trust, further affecting the budget goal commitment and ultimately will reduce manager’s propensity to create the budgetary slack.

The results are also consistent [3][4][5], in which budgetary participation has a negative relationship with the budgetary slack. It was determined that there are contingency factors that mediate the relationship between budgetary participation and budgetary slack, through distributive fairness, procedural fairness, interactional fairness, managerial trust, and budget goal commitment.

There are limitations in this study, first, the low response of respondents may be different results if a great response from the respondents. Second, this study is only done in the service sector (hotel) so it can not be generalized to other sectors.

6. References

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