The Effect of Budget Participation on Budgetary Slack with Organizational Commitments and Love of Money as Moderation

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Abstract: This study aims to obtain empirical evidence of the effect of budgetary participation on budgetary slack with organizational commitment and love of money as moderating variables. All 19 of the Ministry of Finance’s ICT and BMN Management Office scope units spread across Indonesia became the research population. Data was collected through survey methods with questionnaire techniques. Sampling using nonprobability method with purposive sampling technique and obtained as many as 111 respondents. Data analysis using Moderated Regression Analysis (MRA). The results of the analysis show that budgetary participation has a negative effect on budgetary slack. Organizational Commitment strengthens the negative influence of budget participation on budgetary slack. Love of Money does not moderate the influence of budget participation on budgetary slack in the scope of the Ministry of Finance’s KPTIK and BMN work units.

Keywords: budget participation, organizational commitment, love of money, budgetary slack

1. Introduction

In budgeting, the budgeting process is divided into two methods including top-down and bottom-up methods (Mahadewi, 2014). The top down method is the method by which top-level management prepares the budget, while the ones implementing the budget are middle and lower level management (Dwirandra & Suryanawa, 2018). The bottom-up method is the budgeting method, which at the beginning of the stage is carried out by lower-level management, then middle-level management continues budgeting and continues to top-level management (Dwirandra et al. 2017). The purpose of using the bottom-up method is to be able to improve the performance of managers or subordinates through participation in budgeting. The benefits and advantages of budgeting participation, namely budget participation, involves lower-level managers in determining how the budget is structured, so that lower-level managers are responsible for the realization of the budget implementation (Dianthi and Wirakusuma, 2017). Budgeting participation is important because subordinates know the direct condition of the part (Wijayanthi, 2016). Self-involvement in conducting participatory budgeting can give rise to a commitment to achieve the set budget targets (Windasari and Sujana, 2016). The budgeting for the Ministry of Finance uses a performance-based budgeting approach with a bottom-up method based on the Minister of Finance Regulation Number 94 / PMK.02 / 2017 concerning the Guidelines for Preparing and Reviewing the Ministries / Institutions Work Plans and Budgets.

The low realization of expenditure with the stipulated budget is able to provide a bad influence for public sector organizations because the government’s performance is less than optimal. Chin-Chun et al. (2013), states that budgetary slack will increase when managers participate in budgeting. Budgetary slack is used so that budget targets are easier to achieve by manipulating the budget (Raudhiah et al. 2014).

Previous research that examined the relationship between budgetary participation and budgetary slack showed inconsistent results. Research conducted by Schift and Lewin (1970), Onsi (1973), Camman (1976), Minan (2005), Latuheru (2005), stated that high budgetary participation was able to reduce budgetary slack. Unlike the case with research conducted by Lowe and Shaw (1968), Young (1985), and Lukka (1988), indicating that high budgetary participation is able to cause budgetary slack. In the public sector there are also inconsistencies in the results of research such as that conducted by Desmiyati (2009), Supanto (2010) which states that budget participation can reduce budgetary slack. In contrast to the research conducted by Falikhatun (2008), Andriyani and Hidayati (2010), Sandrya (2013), Mahadewi (2014) and Triadhi (2014) which states that the higher the budget participation, the higher budgetary slack that occurs.

The differences in the results of the above studies indicate an interesting phenomenon because of differences in findings about budgetary participation in budgetary slack. Empirical evidence of research has not been consistent that participatory budgeting has an effect on budgetary slack. This is evident from the differences in the findings of studies in both the private sector and the public sector. From these reasons it is necessary to be re-tested to strengthen the support of previous findings. Especially for public sector accounting that is still lacking is research examining the effect of budget participation on budgetary budgetary spending slack in the regions. Addressing this phenomenon, not only from economic perspectives that need to be considered and evaluated but also seen from a social, behavioral, and managerial perspective in the context of the organization as a whole (Ajibolade, 2013).

The results of this opposite study may be because there are other factors that also influence the relationship between budgetary participation and budgetary slack (Latuheru, 2005). The difference in the results of these studies can be resolved through a contingency approach. This is done by

Volume 8 Issue 2, February 2019

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Paper ID: ART20195068 10.21275/ART20195068 491
including other variables that might influence the relationship of budget participation with budgetary slack (Govindarajan, 1986). The contingency variable used in this study is the variable organizational commitment and love of money.

Tang and Chiu (2003) stated that love of money is the cause of unethical behavior. Money is a very important aspect of everyday life. In America, a person's success is measured by the amount of money and income produced (Ellias, 2009). Herzberg (1987) said that money is a motivator for some people, but others consider it a hygiene factor. The research conducted by Tang (2008) examined a new psychological variable, namely individuals love money (love of money).

The concept is used to estimate one's subjective feelings about money. Love of money is a person's behavior towards money and one's wishes and aspirations for money (Tang, 2008). The love of each person for money differs depending on the needs they have and is influenced by several things including demographic factors such as gender, age, education level, socio-economic status, and ethnic background. Research that has been done related to love of money shows that love of money is related to some desirable and unwanted organizational behavior. In the preparation of the government budget an ethical consideration is needed in order to produce the right decisions by considering the principles and pillars of the character of ethical values. If every budgetary apparatus has a good ethical character, it can prevent the occurrence of budgetary slack.

2. Literature Review

Budget participation on Budgetary Slack

The hypothesis tested in this study relates to the budget. Budgeting is part of the planning process. This process begins with the preparation of work programs that have been measured in monetary units (rupiahs) called the budget. Public sector budgeting is related to determining the amount of funds allocated for each program and activity in monetary units (Mardiasmo, 2002). The budgeting process affects human behavior because in the budget limits are set on what is expected and what must be operationalized, this is what tends to encourage the occurrence of budgetary slack which is the difference between the budget stated with the best budget estimates that can be honestly predicted (Suartana, 2010).

Research conducted by Latuheru (2005), Desmiyati (2009) and Supanto (2010) states that participation in budgeting can reduce budgetary slack. This happens because subordinates help provide information about future prospects so that the budget compiled becomes more accurate.

H1: Budget participation has a negative effect on budgetary slack

Organizational commitment strengthens the effect of budget participation on budgetary slack

Organizational commitment is a strong belief and support for the values and goals that the organization wants to achieve (Mowday et al., 1979). Employees with high commitment will apply the budget to their organizational goals but if someone with low commitment will certainly use the budget for their needs and interests.

Wardani (2016) said that employees who have high organizational commitment always try to be able to complete their duties so that organizational goals will be easily achieved. Andriyani and Hidayati (2010) state that organizational commitment has a positive effect on budgetary slack. Keller (1997) states that based on the results of the study, high organizational commitment will tend to reduce budgetary slack and significant performance.

H2: organizational commitment strengthens the effect of budget participation on budgetary slack

Love of money weakens the effect of budget participation on budgetary slack

Ethics is a moral attitude that is related to decision making. Some of the factors that influence unethical decisions or actions in a company according to Hoesada (2002) are individual needs, the absence of individual guidelines, behavior or habits carried out by individuals, and unethical environments to make unethical decisions. Biantara (2014) and Triadhi (2014) state ethics have a negative effect on budgetary slack, where subordinates who have high ethics tend to produce low budgetary slack compared to subordinates who have low ethics.

Tang and Chiu (2003) stated that love of money is the cause of unethical behavior. Money is a very important aspect of everyday life. In America, a person's success is measured by the amount of money and income produced (Ellias, 2009). Herzberg (1987) said that money is a motivator for some people, but others consider it a hygiene factor. The research conducted by Tang (2008) examined a new psychological variable, namely individuals love money (love of money). The concept is used to estimate one's subjective feelings about money. Love of money is a person's behavior towards money and one's wishes and aspirations for money (Tang, 2008). The love of each person for money differs depending on the needs they have and is influenced by several things including demographic factors such as gender, age, education level, socio-economic status, and ethnic background.

H3: love of money weakens the effect of budget participation on budgetary slack

3. Methods

The study design shows the variables studied and describes the steps for each research activity. In designing a study means determining the type of research, determining the data to be used and designing empirical models to test hypotheses - hypotheses that have been built before. This study uses a questionnaire as a research instrument used to collect data in research. The purposive sampling technique was used to collect data from this study. After all data has been obtained, the next step is to process and analyze data to obtain research results.

4. Result and Discussion

The results of multiple linear regression analysis are presented in Table 1 below.
The results of the moderation regression analysis are presented in Table 2 below:

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>20,820</td>
<td>3,766</td>
<td>5,529</td>
<td>0,000</td>
</tr>
<tr>
<td>X1 (Partisipasi Anggaran)</td>
<td>-0,631</td>
<td>0,228</td>
<td>-0,954</td>
<td>-2,772</td>
</tr>
<tr>
<td>M1 (Komitmen Organisasi)</td>
<td>-0,288</td>
<td>0,083</td>
<td>-0,657</td>
<td>-3,479</td>
</tr>
<tr>
<td>M2 (Love of Money)</td>
<td>0,061</td>
<td>0,068</td>
<td>0,204</td>
<td>0,895</td>
</tr>
</tbody>
</table>

Primary Data, 2018

Based on the table above, the regression equation can be arranged as follows:

\[ Y = 20,820 - 0,631X_1 - 0,288M_1 + 0,061X_1M_1 - 0,060X_1M_2 \]

Organizational Commitment Strengthens the Effects of Budget Participation on Budget Slack

The second hypothesis (H2) states that organizational commitment strengthens the influence of budgetary participation on budgetary slack. The significant level of the t test of the interaction variable between organizational commitment and budget participation (X1M1) of 0.011 means that it is smaller than the specified level of significance (\( \alpha = 0.05 \)), so that H2 can be accepted, ie organizational commitment strengthens the effect of budgetary participation on budgetary slack. These results indicate that high budget participation accompanied by high organizational commitment will cause budgetary slack to decline, so that with the inclusion of organizational commitment variables it will strengthen the influence of budgetary participation on budgetary slack. Every individual involved in the budgeting process has high organizational commitment so that organizational commitment in budget participation will reduce budgetary slack and strengthen the negative influence of budget participation on budgetary slack. These results support the research conducted by Keller (1997), Andriyani and Hidayati (2010) and Wardani (2016), which states that organizational commitment can strengthen the relationship between budgetary participation and budgetary slack.

Love of Money Weakens the Effects of Budget Participation on Budget Slack

The third hypothesis (H3) states that love of money weakens the effect of budget participation on budgetary slack. Significant level of t test variable love of money is 0.363, this means greater than the level of significance set (\( \alpha = 0.05 \)), so it can be concluded that H3 is rejected, namely love of money is not able to moderate the influence of budgetary participation on budgetary slack. This shows that the high budget participation accompanied by high love of money does not cause budgetary slack.

The Determination Coefficient (R2) basically measures how far the model's ability to explain the variation of the dependent variable. The amount of the coefficient of determination Adjusted R2 of 0.742 means that budgetary slack can be explained by the variable budgetary participation of 74.20%, while the remaining 25.80% is explained by other variables not examined.

Based on Table 2, the regression equation can be arranged as follows:

\[ Y = \alpha + \beta_1X_1 + \beta_2M_1 + \beta_3X_1M_1 + \beta_4X_1M_2 + e \]

\[ Y = 17,541 - 0,419X_1 - 0,083M_1 + 0,025X_1M_1 + 0,025M_2 \]
5. Conclusion and Suggestion

5.1 Conclusion

1) Budget participation has a negative effect on the budgetary slack of the scope of the KPTIK and BMN Ministry of Finance. This means that the higher employee participation in budgeting, will be able to reduce budgetary slack. This shows that the contribution and role of employees in budgeting is very well applied in the budgeting process to reduce the occurrence of budgetary slack.

2) Organizational commitment strengthens the influence of budget participation on the budgetary slack of the scope of the KPTIK and BMN Ministry of Finance. This shows a high organizational commitment in budgeting will be able to strengthen the negative influence of budget participation on budgetary slack. This means that organizational commitment in the organization provides strength and positive impact on employees in budgeting because the commitments set together will encourage employees to achieve established organizational goals.

3) Love of money is not able to moderate the influence of budgetary participation on the budgetary slack of the scope of the KPTIK and BMN Ministry of Finance. This means that someone's love for money is not able to weaken the negative influence of budget participation on budgetary slack. This shows that love of money is not able to moderate the influence of budgetary participation on budgetary slack.

5.2 Suggestion

Based on the results of the research that has been done, there are several things that need to be conveyed as suggestions, namely:

1) Adjusted R2 value is 0.772 which indicates there are 22.8% percent of other variables that can moderate the effect of budgetary participation on budgetary slack. This makes the opportunity for further research to add other variables such as age, years of service, and level of education that are expected to moderate and reduce budgetary slack.

2) Love of money is not able to moderate the influence of budgetary participation on the budgetary slack of the scope of the KPTIK and BMN Ministry of Finance. This relates to the profile of respondents in this study which is seen based on age, level of education and tenure, tends to indicate differences in mindset, views, life goals, and level of welfare, so that the love of money is relatively different depending on individual characteristics. This can be used as another variable in the next study.

3) This research is only limited to one type of national work unit so that the next research can be carried out in other work units to see the differences in the budgeting process in each agency.

4) Related to the respondent's response to the statement on the questionnaire, it is necessary to do several things to reduce the occurrence of budgetary slack, namely:
   - Providing socialization that can improve employee understanding of tasks and functions that must be carried out and provide motivation that money is not the main orientation, but there are still many other things such as career paths that must be pursued.
   - Supervise employees in budget participation to reduce budgetary slack.

References


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**Volume 8 Issue 2, February 2019**

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Paper ID: ART20195068

10.21275/ART20195068 496