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## BUDGET PARTICIPATION, ORGANIZATIONAL COMMITMENT, JOB RELEVANT INFORMATION AND POTENTIAL INFORMATION ASYMMETRY CAUSE BUDGETING SLACK

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### **Abstract**

*In several studies on behavioral accounting, there are dysfunctional behaviors that occur in government agency budget planning cycles. The phenomenon of budgetary slack that often occurs is that employees do not want to work optimally and are even dysfunctional and hide information for their own interests. The causes of budgetary slack lead to agency theory which results in information asymmetry between budget makers (agents) and company owners (principals). The purpose of this study is to discuss factors that have the potential to cause budgetary slack, including budgetary participation, organizational commitment, job relevant information, and information asymmetry. The purpose of this article is to discuss with literature review the factors that have the potential to cause budgetary slack are participative budgeting, organizational commitment, job relevant information and information asymmetry. The results of this study are if budget participation, organizational commitment, job relevant information, and information asymmetry cause budgetary slack. therefore, a clear continuity is needed between the right participatory budgeting, strong organizational commitment, job relevant information, and appropriate information symmetry to prevent budgetary slack.*

**Keywords:** *participative budgeting, organizational commitment, job relevant information , information asymmetry and budgetary slack.*

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### **INTRODUCTION**

Budget is one of the most important elements in accountability reporting in a company. In the budget, we can find out whether an organization's targets have been achieved properly or not. At this time, there are many irregularities in the company's budget committed by budget preparers. This can occur due to a lack of control and evaluation of the use of the budget on a regular and comprehensive basis so that the use of the budget is not realized properly, which can have an impact on program implementation and activity targets of a company. If the preparation and management of a company's budget goes well, the company can carry out the company's vision and mission.

The phenomenon that often occurs is the gap in the budget which is termed the difference in the amount of the budget submitted by subordinates with the best estimate from the organization (Anthony and Govindarajan, 2005). The cause of budgetary slack is due to the existence of *agency theory* which results in information asymmetry between budget preparers (agents) and company owners (principals). Therefore, budget participation and organizational commitment are needed so that there are no slack in budget management. In planning and managing the budget, companies need to consider the amount of resources (non-financial and financial) they have so that management of the company's budget can be implemented according to the principles of effectiveness, efficiency, and economy. In addition, in preparing and managing the budget, it is necessary to have budget participation, appropriate job relevant information and high organizational commitment from leaders, subordinates, stakeholders, company owners so that budget management can be carried out optimally.

The author discusses budgetary slack because he wants to know the existence of budgetary slack practices with the basic motivation for each individual's behavior because of their desire to remain safe for each accountability and budget targets are still achieved. This behavior can arise because of human nature that wants to avoid risks. Therefore, budgeting slack can occur because of the relationship between leaders and subordinates in carrying out their functions and responsibilities where both of them will want a relatively safe position.

## METHODS

This type of research is a literature study. A literature review is designed to provide an overview of the sources being researched on a particular topic (Fink, 2014). The type of data used is secondary data. Reviewing and analyzing theories and interrelationships between variables through offline books and journals in libraries and online obtained through *Mendeley*, *Scholar Google* and other electronic media.

## RESULTS AND DISCUSSION

### Agency Theory

Jensen & Meckling (1976) stated that the agency relationship is a contract between the agent and the principal. Agency theory describes a phenomenon regarding the granting of authority by the principal to the agent by carrying out a task to make a decision. Principals focus on the interests of continuing to develop their company, while agents focus on personal interests (Anthony and Govindarajan, 2005). The agency theory that is meant in the practice of budgetary slack is a conflict of interest between the agent and the principal that arises when each party tries to achieve the success they want.

### ***Budgetary Participation Affects Budgetary Slack***

Participatory Budgeting is a process in which individuals are involved in and have influence on budgeting whose performance will be evaluated and likely to be rewarded on the basis of achieving their budget targets (Hansen & Mowen,

2013). Budget participation is one of the many elements that can create budgetary slack, managers who participate in preparing a budget will create budgets with a low level of difficulty so that they can easily achieve budget targets, so that the budgeting process with the participation of individual groups can create budgetary slack. Mardhiana, 2018). Kramer and Hartmann (2014), Gallani (2015), Harvey (2015) found that budgetary participation has a positive effect on budgetary slack, which means that if the level of budgetary participation is high, it will increase budgetary slack. According to Q. Ngo *et.al* (2017), a high level of budget participation allows budget preparers to actively provide input regarding the budget, and thereby negotiate budgets with leaders . Onsi (1973) says that budgetary slack has decreased since participation leads to positive communication. Research conducted by Camman (1976) concluded that budgetary participation reduces subordinates' self-defense responses such as creating budgetary slack. Research conducted by (Erawati, 2014) said that there is a negative relationship between budgetary participation and budgetary slack. Soobaroyen's research (2005) shows that participatory budgeting has a significant effect on dysfunctional behavior, namely budgetary slack.

### ***Organizational Commitment Affects Budgetary Slack***

Organizational Commitment is defined as an urge from within the individual to do something in order to support the success of the organization in accordance with its goals and prioritize the interests of the organization (Zurnali C., 2010). Organizational commitment includes behavioral dimensions that can be used to assess employee tendencies to remain as members of the organization, identification and involvement of someone who is relatively strong in the organization, the desire of organizational members to maintain their membership in the organization and are willing to work hard for the achievement of organizational goals (Sopiah, 2008). Nouri and Parker (1996) concluded that a person's level of organizational commitment can influence their desire to create budgetary slack. Marfuah & Listiani (2014) argue that an increase or decrease in budgetary slack can be seen from the extent to which an individual is more concerned with himself or even works for the benefit of his organization which is the target in achieving his commitment. Research conducted by Alfebriano (2013) shows that organizational commitment does not have a significant effect on budgetary slack.

### ***Job Relevant Information Affecting Budgetary Gaps***

Job Relevant Information is the latest information that is directly related to the duties of the accountability unit (Arlina Delas, 2015). *Job relevant information* is relevant information about assignments. Subordinates who have relevant information can reduce budgetary slack (Dunk, 1993). Yuswaningrum and Ghazali (2005) state that they understand job relevant information as information that facilitates budgetary decision-making. Nugroho's research (2011) proves that Job Relevant Information has no effect on the tendency to create budgetary gaps. This research is not in line with the research by Agustina and Dwi (2010) which states that the more Job Relevant Information available, the budget gap can be minimized.

Meanwhile, Pradani and Ni Made's research (2016) states that *job relevant information* has a negative effect on budgetary slack.

### ***Information Asymmetry Affects Budgetary Slack***

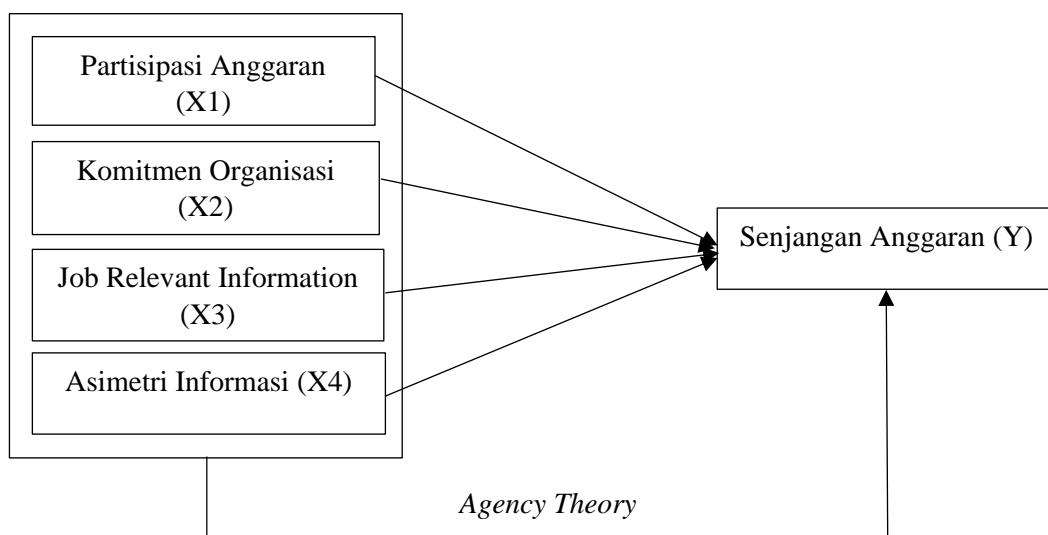
Dunk (1993) defines information asymmetry as a condition when the information possessed by subordinates exceeds that of superiors, especially local and personal information. Rani (2015) states that determining the right budget is not easy and it will be a problem if subordinates have better information than the information possessed by the leader. The difference in information held between leaders and subordinates is called information asymmetry. The existence of information asymmetry is one of the factors that cause negative behavior in this case is budgetary slack. Suartana (2010) explains that the concept of asymmetric information is that budget leaders may have more knowledge and insight than subordinates, or vice versa. Research by Young (1985), Utomo (2006), Djasuli and Fadilah (2011) that information asymmetry has a positive and significant effect on budgetary slack.

Table 1. Research Previously

No	Researcher (Year)	Research Title	Objective Study	Research result
1	Duan , et. al (2022)	Standardization of the strategy translation process, procedural fairness in budgeting and corporate performance	Studying the effect of standardization of procedural justice process strategies in budgeting and performance company	Standards and strategy implementation will reduce manager bias in the target setting process, thereby increasing managers' sense of fairness in the budget process and ultimately improving company performance
2	Michelon et. Al (2020)	Capital budgeting: a systematic review of the literature	To identify research opportunities in capital budgeting.	budgeting has a key role in business management, therefore, managers must adopt more sophisticated analytical practices.
3	Frederickson, JR, and CB Cloyd (2008)	Influence performance cues, subordinates' susceptibility to social influence, and the nature of subordinates' private information on budgetary slack	To determine the effect of personal performance, social and personal pressure on budgetary slack	There is a positive relationship between social influence pressure and change in creating gaps
4	Özer & Emine (2011)	The Influence of Perceptions of Procedural Justice,	Know the impact of the effectiveness of budgetary controls,	Perception procedural justice has a partial mediating effect between

	Budgetary Controlling Effectiveness and Ethical Climate on the Tendency to Create slack a budget	ethical work climate and procedural fairness of managers perception about tendencies to create slack budget in public organizations.	the effectiveness of budgetary control, ethical working climate and tendency to create budgetary slack.
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(Processed by researchers, 2023)



**Figure 1. Theoretical Framework**  
 (Processed by Researchers, 2023)

## CONCLUSION

The results obtained confirm that budget participation, organizational commitment, job relevant information, and information asymmetry can cause budgetary slack. The existence of poor budget participation from company employees/employees, weak organizational commitment of employees of a company, poor job relevant information, and information asymmetry in the preparation of company budgets can potentially cause budgetary slack and result in budget implementation that is not optimal so that accountability reports budget has not been realized properly. Therefore, a clear continuity is needed between proper budget participation, strong organizational commitment, good job relevant information, and the existence of symmetrical information so that budgetary slack does not occur.

## ACKNOWLEDGEMENT (If Any)

The implications of this research can be considered by practitioners and academics as important input because after all, high budgetary slack will create deviant behavior in the organization concerned. Budgetary slack must be controlled

or predicted early in order to increase the effectiveness of the company's budget, especially in planning and controlling activities. Based on the results of research, discussion and conclusions, suggestions for future researchers in this study are to add other factors that can cause budgetary gaps such as: employee capacity, budget emphasis, locus of control, environmental uncertainty, employee motivation, budget emphasis, and use *e-budgeting* system in Manufacturing and Banking Companies, BUMN, or Local Government Organizations.

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