



International Journal of Economic Research

ISSN : 0972-9380

available at <http://www.serialsjournals.com>

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Volume 14 • Number 15 • 2017

The Dimensions of Organizational Commitment Moderates the Relationship between Budget Participation and Budgetary Slack and Its Effects on Performance

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Abstract: *Objective:* This study empirically examines the role of organizational commitment dimensions in the relationship between budgetary participation and budgetary slack, the influence of budgetary participation on budgetary slack and budgetary slack on performance.

Design/Methodology/Analysis Tools: Using primary data by distributing questionnaires to respondents involved in budgeting. The analysis tool used is Structural Equation Model (SEM). The SEM used is WarpPLS.

Findings: This study finds empirical evidence that: budgetary slack is negatively influenced by budgetary participation and budgetary slack negatively affects performance. This study fails to prove the effect of moderation on the dimensions of organizational commitment in the relationship between budgetary participation and budgetary slack.

Keywords: Budget Participation, Budgetary Slack, Performance, Organizational Commitment

INTRODUCTION

Budget can be used as a tool to know performance and encourage management to achieve better performance in the future. Budgeting also may encourage individuals to perform dysfunctional behaviors such as budgetary slack. According to Kenis (1979) budget is not just a financial plan of cost and income in a responsibility center but also it serves as a tool of control, coordination, communication, performance evaluation, and motivation. Sardjito and Mutaheer (2008) stated that in budget formation it is necessary to involve management at a lower level so as to generate commitment to them that the existing budget is also the goal. This will result in conformity between the goals of the organizational member (manager) and the goal of the company (goal congruence).

This research is still interesting because budget participation is still relevant and believed to have an effect on employee's behavior and performance (Lina, 2015). Budgetary participation is judged to have an impact on attitudes and behaviors of organizational members (Murray, 1990). Budgets can have a positive or negative influence on behavior. Positive behavior occurs when the personal goals of both superiors and subordinates in accordance with company goals, so they are motivated to achieve corporate goals. Meanwhile, negative behavior can occur if the budget is not properly administered, so that the boss or subordinate deviates from the organizational goals that have been set. Raghunandan *et al.* (2012) stated that two behaviors that may arise from budgetary participation are motivated by the budget used as a basis for performance appraisal and the occurrence of budgetary slack. Budget slacking may occur because of the manager's efforts to protect himself from the risk of not reaching the budget so as to avoid management pressure or loss of bonuses, trust, and even job (Stede, 2000). Due to the incentives and compensation associated with the budget, the tendency for opportunistic employee behavior is very high.

To identify the role of budgetary participation in creating dysfunctional behaviors, the agency theory is used. Several studies on budgetary slack have examined various factors which may influence managers' inclination to create it (Camman, 1976; Dunk 1993, Merchant 1985; and Onsi, 1973), suggesting that participation in budgeting may decrease budgetary slack. It may be due to the fact that subordinates would provide personal information on future prospects, therefore increasing the accuracy of budget being formulated. The positive communication between superiors and subordinates may reduce the subordinates' motivation to create slack in budgeting. The findings of Lowe and Shaw (1968) and Young (1985), however, suggested otherwise. They reveal that the budgetary participation and budgetary slack have positive relationship; higher participation allows higher possibility of budgetary slack to occur.

This research fills the inconsistency gap in these studies with commitment as a moderating variable. The reason is that budget participation will encourage high work morale so as to reduce budget slack. The work morale is determined by how much an individual identifies himself as part of the organization itself. Therefore, important budget preparation instills a sense of commitment. Individual who is concerned with the organization will minimize the budget slack and he is said to have a high commitment to his organization.

Organizational commitment is not unidimensional because individuals develop organizational commitment into various dimensions (Lekatompessy, 2005). Organizational commitment is multidimensional consisting of three dimensions of affective, continuance, and normative commitment (Meyer *et al.*, 1993). Each dimension has its own influence. Darlis (2002) and Puturu (2005) have studied the effect of organizational commitment in the relationship of budgetary participation with budgetary slack with the assumption that organizational commitment is unidimensional. Meanwhile, in this study organizational commitment is multidimensional. This research becomes more interesting because the dimensions of organizational commitment have not been considered in previous research in the public sector.

In general, this study aims to develop previous research to provide better results related to the relationship between budgetary participation with budgetary slack and performance. The main purpose of this study was to examine the effect of budgetary participation on budgetary and performance slack, and to examine the effect of moderating variables on organizational commitment dimensions in the relationship between budgetary participation and budgetary slack. It is hoped that research will contribute to the development of theory, in evaluating the performance improvement of managers (government apparatus) in government organizations practically.

THEORY AND HYPOTHESIS DEVELOPMENT

1. Budgetary Participation

Budgetary participation is a process where work units, either superiors or subordinates, are involved and influential in determining budget targets. The participation in the budgeting process grants authority to the chiefs of work units of the accountability centre to set their budgets. Chong and Chong (2002) state that the budgetary participation is a process in organization which involves managers in setting overall Organizational goals. Milani (1975) states that the budgetary participation reflects the perspective of lower managers toward the level of involvement experienced by subordinates in budgeting, the types of logical decision making performed by superiors when the budget is being revised, the frequency of the budget being discussed and approved by superiors, and the degree of subordinates' influence on the final budgeting and their contribution to the budgeting. Furthermore, Brownell (1982) argues that the budgetary participation is a process where individuals involve themselves in and influence the budget whose performance will be evaluated and probably be rewarded based on the achievement of budget targets. Involving subordinates in the process would increase a sense of togetherness, a sense of belonging, initiatives to provide ideas and wider acceptance of the final decisions.

The budgetary participation in the public sector occurs when the executives, legislatives, and citizens work hand in hand in budgeting. The participation of regional officers in the budgeting process of the local government in this study refers to the degree of the officers' involvement in the local budgeting process as well as their efforts to reach budget targets. One example is their creating activities in their work units. Such participation will be viewed as an interaction between two individuals (superior and subordinate) to set budget which will be accepted by both.

2. Budgetary Slack

Budgetary slack is the numbers which reflect lower productivity when subordinates are granted an opportunity to choose work standards which would be used to evaluate their performance (Young, 1985). Anthony and Govindarajan (2005) view budgetary slack as the difference between the numbers proposed by subordinates and the ideal numbers set by organisation. The subordinates propose lower numbers in order to make the goals easier to reach. The budgetary slack may also mean dysfunctional behavior, even dishonesty, since managers seek to fulfill their personal interests at the cost of higher Organizational expenses (Steven, 2000). Dunk (1993) states that the budgetary slack is performed deliberately by managers by proposing estimations which are not in accordance with the real resources. They do that by underestimating ideal revenue which, in reality, may be achieved, and overestimating cost needed. The managers perform such actions in order to create safe thresholds in achieving predetermined budget targets (Siegel and Marconi, 1989). Hilton *et al.* (2000) state that there are three motivations which encourage managers to perform the budgetary slack:

1. budgetary slack will create a scene as if the performances looked great in the eye of superiors as the targets were met;
2. the budgetary slack is often used to solve the uncertainty of future prediction;
3. and the allocation of resources will be based on the projection of expense budgets, so the budgetary slack makes it flexible.

The problems caused by the budgetary slack have been identified in the governmental budgets since the party which gives approval is the legislative body which will not be involved in the management process after they have given their approval. The budgetary slack in the local government occurs because there are opportunistic behaviors in the Regional Work Units (SKPD) such as proposing certain activities which are actually not priorities, activities which have greater lucrative opportunities, allocating unimportant expenditure components in particular activity, proposing the numbers of expenditure which are too high for expenditure components and budgeting in every activity, and increasing budgets for activities whose results are hard to measure (Halim and Abdullah, 2008).

3. Organizational Commitment

Organizational commitment is individual's relative power to identify and involve themselves in particular organisation (Mowday *et al.*, 1979). Mayer *et al.* (1993) identifies three dimensions of Organizational commitment, namely affective commitment, normative commitment, and continuence commitment. Affective commitment refers to emotional involvement, identification, and the will to involve oneself in organisation. Normative commitment refers to the awareness of belonging to organisation. Continuence commitment refers to the consideration of profit and loss when leaving organisation. Wiener (1982) defines Organizational commitment as an internal motivation to do something that sustains organisation's success according to the goals and place Organizational interests before personal ones. According to this view, individuals who have higher commitment will prioritize the Organizational interests than personal even groups' ones. Commitment allows organisation to be more productive and profitable (Luthans, 1998: 151). For individuals with high Organizational commitment, the achievement of Organizational goals are important. On the contrary, for individuals or workers with lower Organizational commitment, the achievement of personal gains is more important than the achievement of Organizational goals. A strong, Organizational commitment will motivate individuals to perform their best to achieve Organizational goals (Angle and Perry, 1981; Porter *et al.*, 1974) and they have positive outlook and perform their best for the sake of their organisation's success (Porter *et al.*, 1974).

4. Development of Hypotheses

4.1. The Relationship Between Budget Participation and Budgetary Slack

According to the agency theory, participation is a means of gaining personal information from agents to decrease the asymmetry level of information. Lower managers will provide their personal information in their budget proposals, making the proposed budget will be close to the reality. Baiman (1982) states that involving subordinates in the budgeting process will encourage them to help their superiors by providing their personal information, resulting in a more accurate proposed budget. Siegel and Marconi (1989) state that by involving themselves in the budgetary planning, managers would feel that they are not only involved in the execution but also in the planning phases, boosting their work moral and initiatives. Work moral is a form of satisfaction one has toward their jobs, superiors, and colleagues, while initiatives are ideas, opinions and information fully planned (Mulyadi, 2001). Work moral created from such condition would guide and allow workers and managers to formulate budget according to the reality.

The participation of subordinates would improve the sense of togetherness, belonging, and initiatives to provide ideas. Therefore, the decisions made would be widely accepted. Furthermore, the participation

may also reduce potential conflicts between personal interests and organisational ones, leading to subordinates' improved performance. Through participation, superiors may access to information regarding the present and future conditions of the environment. Thus, the budgetary slack would be less likely to occur and the proposed budget would be more accurate. This is supported by Baiman (1982) and Dunk (1993) who argue that participation tends to decrease the budgetary slack. Several studies suggesting that the budgetary participation have negative influences on the budgetary slack are Onsi (1973), Merchant (1985), Camman (1976), Baiman (1982) and Dunk (1993). The budgetary participation would encourage subordinates to provide their information to help organisation, decreasing the possibility of budgetary slack. Therefore, the first hypothesis is formulated and developed as follows:

H1: The budgetary participation negatively affects the budgetary slack.

4.2. The Relationship of Budgetary Participation, Budgetary Slack and The Dimensions of Organizational Commitment

The findings of previous studies indicate the inconsistencies of the relationship between the budgetary participation and the budgetary slack. That is why other approaches must be employed in examining the relationship in order to gain different insights. Govindarajan (1986) argues that to overcome the differences over the findings of those studies, the contingency approach should be employed. The contingency theory explains that the nature of the relationship between individual's capacity and the budgetary slack varies in different situations.

Based on the contingency theory, the budgetary slack will decrease when there is an interactive relationship between contingency variables such as organisational commitment and budgetary participation (Darlis, 2002). Commitment indicates strong belief and support on values and goals which will be reached by organisation (Mowday *et al.*, 1979). A professional who is committed to believe and accept all of profession targets will do his best (Sallagan *et al.*, 2017). Organisational commitment may grow if individuals have emotional bond and motivation to dedicate themselves to organisation (Porter *et al.*, 1974). Higher commitment encourages individuals to care for the future of their organisation and do their best to lead their organisation to a better direction. In sum, the existence of higher commitment reduces the occurrence of budgetary slack.

Nouri and Parker (1996) suggest that the rise or fall of budgetary slack may depend on whether individuals choose to achieve their personal needs or organisational goals. The budgetary slack will be minimized when workers place the organisational goals before their personal ones. This is an actualisation of their level of commitment. Individuals with higher commitment will prioritize organisational goals. The commitment to achieve certain goals occurs as a result of participation.

Nouri and Parker (1996) conclude that one's level of organisational commitment may influence their intention to create budgetary slack. Higher organisational commitment will prevent individuals from committing budgetary slack. Puturu (2005) found a significant, positive relationship between budgetary participation and budgetary slack and a negative relationship between organisational commitment and budgetary slack. Santoso (2005) found that the interaction between budgetary participation and organisational commitment significantly influenced budgetary slack. Darlis (2002) indicated three dimensions of organisational commitment such as emotional attachment, obligation to stay and cost of leaving, but the research instruments employed did not anticipate those dimensions. The next hypotheses, therefore, are formulated and developed as follows:

H2a: The relationship between budgetary participation and budgetary slack is moderated by affective commitment.

H2b: The relationship between budgetary participation and budgetary slack is moderated by continuence of commitment.

H2c: The relationship between budgetary participation and budgetary slack is moderated by normative commitment.

4.3. *The Relationship Between Budgetary Slack and Performance*

Applying the agency theory, the budgetary participation may result in positive outcome, in form of efficiency, and negative outcome, in form of opportunistic behavior. The agency theory views slack as negative since managers receive positive evaluation at the lower level from their performance. Several literature, however, identified several positive benefits of the budgetary slack:

1. to ensure the achievement of budget targets (Merchant, 1985; Dunk, 1993; Lukka, 1988; Davila and Wouters 2005; Young, 1985),
2. to increase motivation (Lukka, 1988),
3. to perform certain actions which cannot be officially approved (Merchant, 1985; Onsi, 1973), and
4. to focus on other short-term and long-term goals besides reaching the budget (Davila and Wouters, 2005).

The slack may be used to maintain the aspiration level, encouraging subordinates to reveal their personal information on their performance in budgeting. Such information then will be used to plan and control their behaviors. The budgetary slack may be reduced when the individual performance standards are provided for every member of the group. Simons (1988) stated that the termination of budgetary slack may increase job performance, at least in short term period.

The empirical findings from previous studies show that the budgetary slack influences managers' performance (Karsam, 2015; Stede, 2000; and Dunk, 1995). Karsam (2015) and Stede (2000) find evidence that the budgetary slack significantly and negatively influences performance. Therefore, the next hypothesis is formulated and developed as follows:

H3: The Budgetary Slack Negatively Affects Performance.

RESEARCH METHODS

1. Data

Based on data collection techniques, this type of research is a quantitative survey research. The reason for the use of this survey method is that *Satuan Kerja Perangkat Daerah (SKPD)* leaders who become the target of this research spread in 5 regencies/municipalities making it difficult and require much time and cost if done by direct interview. The population of this study is all government officials directly involved in the process of drafting the Regional Administrative Work Unit (SKPD) of Regency/Municipality Government in North Sumatra Province. The sample of this research is the leader in the department/office/agency or Head/Sub-Head/Section Head/staff at SKPD of Regency/Municipality in North Sumatra Province.

2. Data Analysis and Discussion

2.1. The Measurement of Model (Confirmatory Factor Analysis/Outer Model)

The measurement of model (outer model) is conducted by using convergent validity, discriminant validity, and composite reliability, aiming to evaluate the validity and the reliability of every construct or latent variable. The convergent validity must have loading factor value greater than 0,70, significant at any level less than 0,05, and its AVE value must be greater than 0,50 (Chin *et al.*, 2003). The discriminant validity must have AVE roots value greater than 0,50 and its cross loading value must be less than the construct loading value (Hulland, 1999). The three composite reliability values must be greater than 0,70. The values of composite reliability and AVE are presented in Table 1 and the values of convergent validity are presented in Table 2 as follows.

Table 1
Composite Reliability and Convergent Validity

<i>Latent Variabel</i>	<i>Composite Reliability</i>	<i>AVE</i>
B_Par	0,940	0,723
B_Slc	0,899	0,599
Perform	0,938	0,627
Av_Co	0,920	0,699
Nor_Co	0,965	0,848
Com_co	0,965	0,848

The above table indicates that the instruments used to measure variables have good reliability as its convergent validity is met. The Table 2 below provides information for determining the discriminant validity.

Table 2
Discriminant Validity

	<i>B_Par</i>	<i>B_Slc</i>	<i>Av_Co</i>	<i>Com_co</i>	<i>Nor_Co</i>	<i>Perform</i>	<i>Av_Co</i> <i>*B_Par</i>	<i>Com_co</i> <i>*B_Par</i>	<i>Nor_Co</i> <i>*B_Par</i>
B_Par	(0.850)	-0.396	0.478	0.428	0.462	0.473	-0.378	-0.369	-0.385
B_Slc	-0.396	(0.774)	-0.426	-0.465	-0.455	-0.553	0.142	0.147	0.111
Av_Co	0.478	-0.426	(0.866)	0.850	0.848	0.554	-0.411	-0.438	-0.418
Com_co	0.428	-0.465	0.850	(0.921)	0.894	0.455	-0.399	-0.409	-0.385
Nor_Co	0.462	-0.455	0.848	0.894	(0.921)	0.468	-0.427	-0.432	-0.455
Perform	0.473	-0.553	0.554	0.455	0.468	(0.792)	-0.125	-0.136	-0.131
Av_Co*B_Par	-0.378	0.142	-0.411	-0.399	-0.427	-0.125	(0.962)	0.935	0.955
Com_co*B_Par	-0.369	0.147	-0.438	-0.409	-0.432	-0.136	0.935	(0.994)	0.926
Nor_Co*B_Par	-0.385	0.111	-0.418	-0.385	-0.455	-0.131	0.955	0.926	(0.957)

The above table indicates that the square root of average variance extracted (AVE) have higher values compared to other correlation constructs, confirming that its discriminant validity is met.

2.2. Model Structural Analysis

Structural Model Analysis is used for hypothesis testing. The results of the data show the results of full model equation as follows:

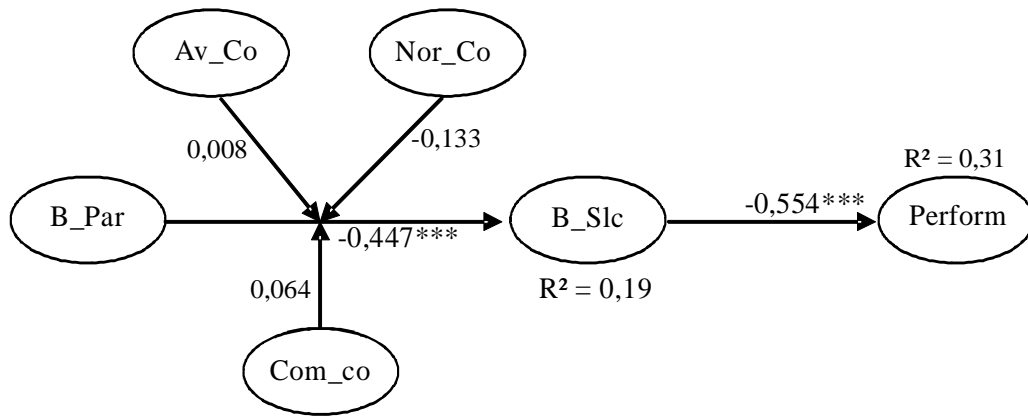


Figure 1: Full Model Structural

*** $p < 0,01$

** $p < 0,05$

Source: Primary data, analysis, 2017.

By using 0,05 as the degree of significant, it can be concluded that empirical research model path is significant.

Table 3
Fit Model Measurement

Parameter	Value	Limitation	Result
Average path coefficient (APC)	0,241 $P < 0.001$	$P < 0,05$	Model is Fit
Average R-squared (ARS)	0,250 $P < 0.001$	$P < 0,05$	Model is Fit
Average adjusted R-squared (AARS)	0,236 $P < 0.001$	$P < 0,05$	Model is Fit
Average block VIF (AVIF)	2,303	acceptable if ≤ 5 , ideally ≤ 3.3	Model is Fit
Average full collinearity VIF (AFVIF)	3,900	acceptable if ≤ 5 , ideally ≤ 3.3	Model is Fit

Based on the table 3, it can be concluded that the criteria of goodness of fit has been fulfilled. Average path coefficient (APC) is significant with p value $< 0,001$; Average R-squared (ARS) is significant with p value $< 0,001$; Average adjusted R-squared (AARS) is significant with p value $< 0,001$. By using 0,05 as the degree of significant, it can be concluded that model is fit. Average block VIF (AVIF) value 2,303; and Average full collinearity VIF (AFVIF) is 3,9. Both AVIF and AFVIF values lower than 5 (≤ 5), it can be concluded that model is fit.

2.3. Hypothesis testing

The following table presents the path coefficient and *p* values of the data

Table 4
Path Coefficient and *P*Values

	<i>B_Par</i>	<i>B_Slc</i>	<i>Perform</i>	<i>Av_Co</i>	<i>Com_Co</i>	<i>Nor_Co</i>	<i>Av_Co</i> * <i>B_Par</i>	<i>Com_Co</i> * <i>B_Par</i>	<i>Nor_Co</i> * <i>B_Par</i>
<i>A. Path Coefficient</i>									
<i>B_Par</i>									
<i>B_Slc</i>	-0,447						0,008	0,064	-0,133
<i>Perform</i>	0,389	-0,363							
<i>B. P Values</i>									
<i>B_Par</i>									
<i>B_Slc</i>	<0,001						0,462	0,218	0,052
<i>Perform</i>	<0,001	<0,001							

Source: Primary data, analysis, 2017.

The above test results show the coefficient value of negative relationship between budget participation with budget slack with a significant influence of -0.447 and *p* value 0.001 (< 0.05). These results suggest that the budget participation hypothesis negatively affects budgetary slacking supported by empirical evidence. These results support Cammann's (1968), Onsi (1973), Merchant (1985) and Dunk (1993) researches which state budgetary participation will reduce budgetary slack.

In accordance with agency theory, participation is a means to obtain private information owned by the agency so that budgeting provides an opportunity to decrease the level of information asymmetry. The lower-level manager will endeavor to provide the information he has in his budget proposal so that the budget will be closer to a more accurate actual state. Thus the budget slack will be smaller or the budget will be more accurate.

The results of this study do not support the hypotheses of two, three and four. The coefficient value of affective commitment to the relationship of budget participation with budget slack is 0,008 with *p* value 0,462 (> 0,05). The moderate commitment moderation coefficient value to budget participation relation with budget slack is 0.064 with *p* value 0,218 (> 0,05). The coefficient value of moderation of normative commitment to the relationship of budget participation with budget slack is -0.133 with *p* value 0.052 (> 0,05).

These three dimensions of commitment have no significant effect on the relationship between budgetary participation and budgetary slack. This result is different from the researches (Paturuhu, 2005; Darlis, 2002 and Falikathun, 2007). This may be the case because budgetary slack in the government sector is not easily explained because it has a slack distribution among stakeholders (Busch, 2002). Furthermore, Busch (2002) stated that the slack in the government sector occurs in two forms as an inducement for stakeholders or as a perception when management experiences difficult situations. Mardiasmo (2002) said

that when budgeting, executive leaders are required to have the ability to negotiate, salesmanship, and marketing. So the researcher concludes that the slack done by the employee does not happen because of his desire, but “is something to do” because of the necessity of inducement to the powerful stakeholders.

Test results also showed negative coefficient relationship between budget slack and performance with significant influence of -0.363 and p value $0.001 (< 0.05)$. These results suggest that the budget slack hypothesis negatively affects the performance supported by empirical evidence. These results support the study (Karsam, 2015 and Stede, 2000) who found evidence that budget slack had a significant negative effect on performance. Budgetary slack will decrease when individual performance is available for all group members. In line with organizational theory that says that slack has a positive effect on performance, Simons (1988) argued that successfully eliminating slack can improve performance, at least in the short run.

CONCLUSION

Based on the results of the study and discussion, it is concluded that first, this study is consistent with previous research that using the agency theory of budget participation will affect the budget slack; the higher the participation in budgeting the lower the budget slack. Second, the study also consistently supports research findings that suggest that budget slack negatively affects performance; the lower the slack created in the budget the higher the performance it has. The results of this study support hypotheses one and three. However, this study fails to provide empirical evidence of the role of moderation in the dimensions of organizational commitment in the relationship between budgetary participation and budgetary slack. So the results of this study fail to support the hypotheses of two, three and four.

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