Budgetary Slack on SOEs in Bandung-Indonesia: The intervening Effect of Information Asymmetry on Participative Budgeting and Budgetary Slack

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Abstract:

Budget is an important tool in strategic planning and corporate control. Budget control is done by comparing the budget with actual conditions and is used as a basis for evaluating the performance of business units or individuals. So, individuals or business units will negotiate to create budget targets that are easily achieved by utilizing asymmetric information, to create a budget slack.This study aims to analyze the effect of participative budgeting on asymmetric information and its impact on budget slack. Data collection in this study was carried out by distributing questionnaires, interviews, and FGDs which results were analyzed with the structural equation model (SEM) LISREL. The results showed that asymmetric information has a positive effect on budgetary slack and participative budgeting has a positive effect on asymmetric information.

Keywords: Budget, Participative Budgeting, Asymmetric Information, Budgetary Slack

1. Introduction

Basically, strategy is used by companies to determine which steps to take in order to achieve the goals [1]. In implementing the strategy, a planning tool is needed, which is the budget. Through the budget, each business unit and employees can participate to create targets that are in accordance with company goals. Thus, the role of employees becomes important in budgeting [2]. Employees will try to achieve the targets that are the goals in the company. In order to achieve these targets, employees often deliberately create targets that are easy to achieve by lowering the estimation of income or raising the estimation of budgeting costs excessively [3]. The creation of easy targets is known as budgetary slack and it can occur due to the employees' dishonest communication by utilizing the asymmetric information that occurs between subordinates and superiors [4]. This is the problem in this study, namely how big is the effect of the participative budgeting towards asymmetric information and its impact on budgetary slack on BUMN in Bandung.

Budgetary Slack is a form of unethical behavior that leads to dysfunctional behavior.Dysfunctional behavior on the budget is often found in companies, one of them is in SOEs (State-owned Enterprises). Alamsyah[6] as a researcher from Indonesia Corruption Watch, stated that the mode of corruption which often occurred in Indonesia throughout 2018 was the distortion (Mark-up) and budget misuse. Those actions appeared because of the tradition of cutting budgets in the process of planning and budget submission, thus it brings up budget-making initiatives to exaggerate the budget (Samad, 2018, as Chairman of the KPK for the period of 2011-2015). At PT Telekomunikasi

Indonesia, the policy of budget cuts has indicated the behavior of the cost center manager to add significantly the amount of the budget to the planning process (Parmoredjo, 2018 as the Accounting Assessment Officer of PT Telekomunikasi Indonesia). Furthermore, the 2019 BPK Report on the PT PLN MVPP project stated the same thing, namely that PT PLN was indicated to have marked up its own estimated price submission for the MVPP project tender. The same thing also happened to PT WaskitaKarya which was not transparent and was suspected of manipulating the budget (Pangarso, 2018, as the Vice Chairman of the DPR RI Commission VI). Finally, the problems that have occurred at PT NindyaKarya have resulted in the company being stated by the KPK as a corporate suspect for having deviated and Marked-up budget in the loading and unloading dock construction project in the free trade area and Sabang free port (Syarif, 2018 as the Vice President of the KPK).

Budgetary slack can occur if there is asymmetric information. Asymmetric information occurs if managers do not have adequate information about the activities of their subordinates. One way to deal with asymmetric information is to do participative budgeting, to create an effective exchange of information. However, participative does not always have a positive impact. Drury [14] stated that participative budgeting would provide an opportunity for budgetees to negotiate in lowering the budget target, so that the targets created would be more achieved easily.

Based on the statement above, this study aims to analyze the effect of participative budgeting on asymmetric information and its impact on budgetary slack and it is hoped that the results of this study can provide inputs for improving the governance and performance of SOE companies in terms of budgeting.

2. Literature Review

Asymmetric information occurs when the employees keepan important information as a secret from their superiors [14]. With asymmetric information, superiors become unaware of subordinates' actual efforts in achieving the company targets. To minimize the occurrence of asymmetric information, participative budgeting can be done. However, Lavarda and Almeida [17] stated that participation in the budget does not reduce the occurrence of asymmetric information. In terms of budgeting, employees and business units are involved in the process of setting goals, but that does not mean asymmetric information is reduced. Employees (subordinates) still have the assumptions that they have a better understanding of their duties and responsibilities and are more technically familiar than their superiors. This is supported by the results of previous studies which stated that participative budgeting has a positive effect on asymmetric information [20; 21].

The indicators used to measure asymmetric information are indicators developed by Dunk [22]. Meanwhile, the Milani's (1975)indicator is used to measure the variable of participative budgeting. The two indicators were chosen because these indicators are most often used to measure asymmetric information and participative budgeting.

H1: Participative budgeting has a positive effect towards asymmetric information

Budgetary slack is a way to reduce the estimated revenue or to increase estimated cost excessively so that the budget targets are easily achieved [24]. Budgetary slack can occur when there is asymmetric information in the company[25]. The results of previous studies have also stated similarly that asymmetric information has a positive effect on budgetary slack (26; 27; 28).

The indicators that are used to measure

budgetary slack are indicators developed by Onsi[32] and Dunk [33].

H2: Asymmetric information has a positive effect towards budgetary slack

3. Methods

This study uses a quantitative approach with explanatory research. The research strategy used was a survey with data collection techniques using questionnaires, interviews and FGDs. The questionnaire will be distributed in two ways, namely electronically and directly. The population of this study is the head of the cost responsibility center for SOEs which are found in Bandung with a total of 27 companies. It is assumed that of the 27 companies, there are 50 cost responsibility center heads, so the total of the population is 1,350 people. From this population, a minimum of 100 samples will be taken for this study. This is in accordance with the statement of Hair et al [43] if the model contains five or less variables and each variable contains more than three variables, then the minimum number of samples is 100. Each indicator in this study is measured using a Likert scale (1-5) and is analyzed using the structural equation model (SEM) LISREL.
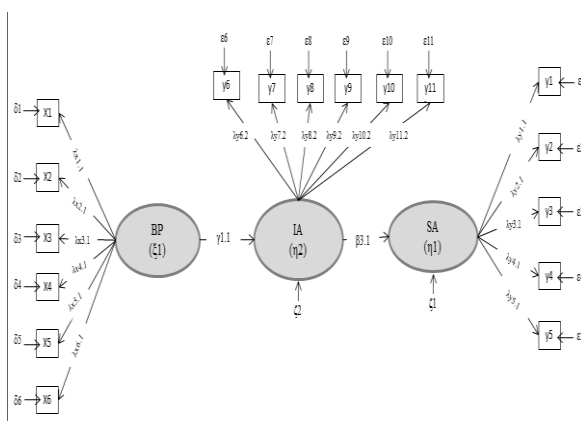

Figure 1. Theoretical Framework

Keterangan: SA = Budgetary Slack; IA = Asymmetric Information; BP = Participative Budgeting

4. Result

Data Normality Testing

Data normality testing was done by using Lisrel 8.8 software with 229 data samples that were successfully collected by researchers. The results showed that the data did not meet the values of the assumption of multivariate normality, so bootstrap data was carried out approximately 1.5 times from the initial sample value. After bootstrapping the data, the number of samples becomes 343 data and the normality test results has met the assumption value of multivariate normality (p-value of skewness and kurtosis is 0.68> 0.05). Thus, parameter estimation using Maximum Likelihood and data processing can be proceeded to the next stage.

Validity and Reliability of the Measurement Model Testing

The Testing is done by looking at the value of standardized loading factor, construct reliability, and extracted variance which results are shown in the following table:

Table 3. Validity and Reliability of the Measurement Model Testing

Variable	standardized loading factor ≥ 0,50	Errors	Reliability		Notes
			CR≥0,70	VE≥0,50	
SA (Budgetary Slack)			0.87	0.64	Good Reliability
SA2	0.89	0.21			Good Validity
SA3	0.86	0.26			Good Validity
SA4	0.77	0.40			Good Validity
SA5	0.65	0.57			Good Validity
IA (Asymmetric Information)			0.89	0.67	Good Reliability
IA2	0.76	0.42			Good Validity
IA3	0.59	0.66			Good Validity
IA5	0.94	0.12			Good Validity
IA6	0.93	0.13			Good Validity
BP (Participative Budgeting)			0.77	0.54	Good Reliability
BP1	0.61	0.63			Good Validity
BP3	0.72	0.48			Good Validity
BP6	0.85	0.28			Good Validity

Source: Processed by Researches (2019)

Based on the above results, it appears that the indicators SA1, IA1, IA4, M2, BP2, BP4, and BP5 have been removed because they are invalid.

Goodness of Fit Testing

The results of the goodness of fit testing are shown in the following table 4 using the criteria stated by Wijanto[45]

Table 4. *Goodness of Fit* Testing

GOF Measurement	Estimation Result	Criteria	Result
RMSEA	0.08	RMSEA 0.05 RMSEA ≤ 0.08	Good Fit
NFI	0.95	NFI≥0.90	Good Fit
TLI or NNFI	0.94	TLI≥0.90	Good Fit
CFI	0.96	CFI≥0.97 0.80≤CFI<0.97	Marginal Fit
IFI	0.96	IFI≥0.90	Good Fit
RFI	0.92	RFI≥0.90	Good Fit
CN	175.17	CN > 200	Not Fit
SRMR	0.11	SRMR ≤ 0.05 0.05 < SRMR < 0.10	Not Fit
GFI	0.94	GFI ≥ 0.90	Good Fit
AGFI	0.90	AGFI≥0.90	Good Fit

Source: Processed by researches

Based on the above results, the research model can be states as "Fit" because the majority of the results showed "Good Fit".
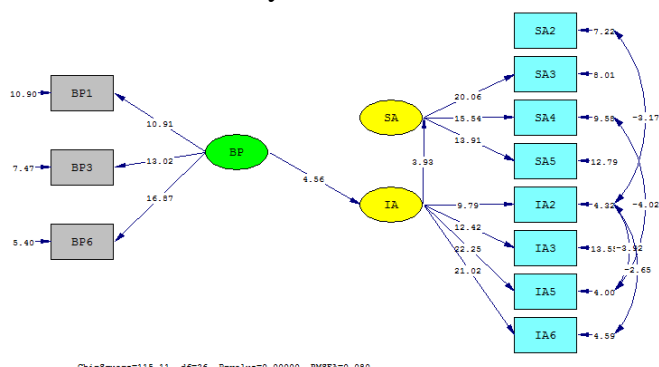
Hypothesis Testing

After the model was stated as fit, hypothesis testing is carried out using the Lisrel 8.8 software with the following results:

Table 5. Hypothesis Testing Results

Hypothesis	Path	Path Coef.	Error	t-Value	R²	Results
H2 (+)	IA → SA	2.050	0.5200	3.93	0.045	Accepted
H1 (+)	BP → IA	0.027	0.0059	4.56	0.067	Accepted

Source: Processed by researches

Figure 2. Stuctural Model Analysis (t-value) with Lisrel 8.8

Notes: SA=Budgetary Slack; IA= Asymmetric Information; BP=Participative Budgeting

a. Participative budgeting has a positive effect towards asymmetric information The direct effect coefficient of the participative budgeting towards asymmetric information is 0.027 with an error value of 0.0059, resulting in a t value of 4.56. Because the hypothesis stated a positive effect, then the right-direction test was carried out (t-statistic> t-table = 4.56> 1.96). Furthermore, it can be concluded that the direct effect of participative budgeting towards asymmetric information is significant and the second hypothesis can be accepted.

b. Asymmetric information has a positive effect towards Budgetary Slack The direct effect coefficient of the asymmetric information towards the budgetary slack is 2.050 with an error value of 0.52, resulting in a t value of 3.93. Because the hypothesis stated a positive effect, the right-direction test was carried out (t-statistic> t-table = 3.93> 1.96). Furthermore, it can be concluded that the direct effect of asymmetric information towards the budgetary slack is significant and the first hypothesis can be accepted.

5. Discussion & Conclusion

Based on the phenomena, theory, problem formulation, and research results, it can be concluded that:

1) Participative budgeting has a positive effect towards asymmetric information. Our findings are in accordance with the findings of the study conducted by Basuki [33], Lavarda and Almeida [35], Douglas and Wier [36]. Participation in budgeting is aimed to create an effective exchange of information during the preparation of budgeting, so it is expected that with

participation in budgeting, asymmetric information can be minimized. However, for SOEs in Bandung, participation in budgeting is limited to procedures that must be gone through without realizing the meaning in them. Participation is used as a means to negotiate in lowering the achievement target while still utilizing asymmetric information that occurs between subordinates and superiors.

2) Asymmetric information has a positive effect towards budgetary slack. Our findings are in accordance with the findings of the study conducted by Nurmayati et al [37], Ngo et al [38], Kren and Maiga[39]. Companies usually use the budget as a tool in measuring management performance. Budget achievements are generally used as a means in evaluating performance. This, of course, only measures the final achievement (lag indicator) while the process achievement (lead indicator) usually gets less attention. Whereas the measurement of lead indicators plays an important role in measuring the achievement of company goals. This condition also happened, including the SOEs in Bandung. Performance that is measured based on the level of budget achievement is often a motivation for subordinates to provide biased information just to facilitate their efforts in achieving the budget. This information is usually used by subordinates in making decisions which are related to the budget. Such conditions encourage budgetary slack to happen.

6. Suggestion

This study is inseparable from a variety of limitations that can be developed by future researchers. It is expected that further researchers can reassess the measures used in measuring the variables used, increasing the number of study samples to above 300 respondents so that the results are closer to the actual conditions which occurred in the population. In addition, researchers are expected to expand the area of research, so that research is not only limited to SOEs in Bandung, but can be done in other cities, even throughout Indonesia.

Meanwhile for SOEs in Bandung, it is expected that employees can realize the meaning of participative budgeting with various of directions and approaches from superiors. Superiors can start by increasing sensitivity to the subordinates' conditions and building teamwork by creating an atmosphere of solidarity, so as to create a safe environment at work and subordinates are open to superiors on all encountered technical problems. Knowledge about detailed conditions in the field and the existence of reports on targets and daily achievements is also needed by superiors to minimize asymmetric information and budgetary slack.

Acknowledgement

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