

EFFECT OF NON-BINDING BUDGETARY ANNOUNCEMENT, REPUTATION, ETHICS AND SELF - ESTEEM IN BUDGETARY SLACK

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ABSTRACT

This study aims to reexamine the influence nonbinding budgetary announcement (NBA), reputation, ethics and self -esteem of the budgetary slack. The results of this study can be used by the company in controlling slack in the budget and can be generalized so that it can be used in science, especially the science of accounting for the occurrence of slack in a company. This study used an experimental method which each variable carried by several stages which have been designed by the researchers. To know nonbinding budgetary announcement made by the six stages. As for knowing the reputation, ethics, and self -esteem experiment is divided into seven stages. Participants of this study were students of the Graduate School of Economics and Business, University of Hasanuddin Makassar many as 46 people. The results of this study indicate the first hypothesis, nonbinding budgetary announcement adversely affect the budgetary slack. The second hypothesis the reputation of influence on budgetary slack; third hypothesis, ethical influence on budgetary slack and the fourth hypothesis, self-esteem negatively affect budgetary slack. This means that the entire research hypothesis is accepted.

Key words: nonbinding, reputation, ethics, self-esteem

INTRODUCTION

In carrying out the activities of each company certainly requires proper budgeting to achieve corporate objectives to the maximum. Budgets are also part of the company's future financial planning and decision-making can be used in the management of the company. Budgets can also be the key to the creation of harmony of interest in the company. Alignment of interest between the boss and owner of the company with

all levels of company managers is essential. The involvement of all levels of corporate management in the budgeting process commonly known as participatory budgeting. This funding type considered to be better and have a positive impact on managerial performance. It is supported by several studies that have been done on the participatory budget including Brownell, 1982; Brownell & McInnes, 1986; Frucot & Shearon, 1991; which showed a positive effect in the relationship between participative budgeting and managerial performance. But according to Hansen and Mowen (2007) states that the participatory budgeting also has some disadvantages eg, superiors or subordinates will set the standard budget is too high and may even be too low, and subordinates will create budgetary slack by allocating resources beyond what is needed and can cause pseudo participation.

Slack arise because of the asymmetry of information between supervisors and subordinates as the owner of the company as the company management. Slack can indeed appear in the budget process but this should not be allowed to happen as described by Antle and Fellingham (1997) in Fitriyani (2008) that the owner has only limited information about the allocation of resources and capital proper, while the manager has personal information which is not owned by the owner of these things lead to a conflict of interest between owners and managers of companies. Differences in the quality of information held between the owner and the manager showed asymmetry of information. It can also cause slack in the current budget manager proposes a budget amount that does not correspond to the best estimate of the allocation of the resources owned by the information. Budgetary slack can be avoided in many ways both from economic factors or non economic factors. For according to Hansen and Mowen (2007) states that the monetary incentive will not quite reach a certain level of motivation of subordinates. Economic factors in question are capable slack prevented by providing sufficient bonus for all levels of management. While the non-economic factors could be seen from the commitment superiors(commitment of the owners) in controlling slack in the budget as it is done by Fitriyani (2008) but it can also through non-economic factors such as personal factors are reputation, ethics and self -esteem that has been investigated by Nugrahani (2004) .

The research conducted Nugrahani (2004) by the method of experiment to test the tendency of subordinates to carry out budgetary slack is not only related to economic factors such as the agency theory has traditionally but from personal factors, Steven (2002) the reputation and ethics and self -esteem and the results showed that personal factors negatively affect budgetary slack. While Onsi (1973), which examines the ethics, honesty and integrity of the individual and the results showed those factors striving toward budgetary slack. Based on these studies, the researchers are interested in re-examine the budgetary announcement back nonbinding influence, reputation, ethics and self -esteem of the budgetary slack. This study differs from previous studies because the test simultaneously on nonbinding budgetary announcement, reputation, ethics and self -esteem that has never been done by previous studies besides this study used different research participants with previous studies. In Nugrahani (2004) experiments participants are students undergraduate but this study using student study participants Graduate Program Faculty of Economics and Business, University of Hasanuddin Makassar assuming the student has to understand the budgeting process within the company.

LITERATURE REVIEW

Participation Budget

Budget is an important tool for planning and controlling the effective short-term in the organization according to Anthony and Govindarajan (2007) and also a tool to align the goals of an organization or a company. The organization's goals will be easily achieved if a member of the organization is involved in determining measures to achieve the intended goal. Participation is a decision-making process shared by two or more parties, which took effect in the future for those who make the decisions. Participatory budgeting is a participation in the budgeting process is an effective approach to improving the motivation of individual behavior in every part of the organization.

Budgetary Slack

Douglas et.al (2005) states that the budget slack is the difference between planned performance targets and actual performance

capabilities. Slack budget can be defined as the difference between the total budget and its best estimate, Anthony and Govindarajan (2007). Some researchers have tested the accounting monetary incentives linked to the budget. Steven, 2002; Komalasari et al, 2003 conducted a study on budgetary slack by using incentives Fixed Pay plus Bonus (FPB) or Slack inducing Pay Scheme. FPB method is subordinate to the payment of a fixed salary and if the results exceed the targeted production, it will receive a bonus, but if their products are less than or equal to the target, then the subordinate only receive a fixed salary and was not fined.

Information Asymmetry

Asymmetry of information is very closely linked to the emergence of the theory of agency (Agency Theory). According to this theory, superiors and subordinates tend to maximize her interests. They tend to do a tradeoff between the targets proposed by the actual potential which should be causing budgetary slack. According Dunk (1993) in Fitriyani (2008) states that the information asymmetry arises when subordinates exceeds superiors information. In this study, using the concept of information asymmetry in testing the hypothesis as practiced by Fitriyani (2008) and Nugrahani (2004) to examine the variables that they have used in the research.

Conflicts of Interest between Owners and Managers

The big difference between the interests of company owners and managers can interfere with achievement of corporate objectives and affect the company's performance in the long term. In theory the agency also noted that the owner of the company is assumed to have a neutral risk and aim to maximize their welfare through the profit earned by the company. While managers act to minimize the risks in position by increasing the compensation obtained.

Reputation

According Nugrahani (2004) which states that some researchers have proved empirically accounting fundamental change of the agency theory that superiors or subordinates will maintain its reputation by obtaining above-average returns. Reputation can be observed in subordinates' performance expectations associated with social norms, including honesty, fairness, and avoid failures and fraudulent Steven (2002).

Ethics

According to the agency theory, ethical considerations usually arise in situations of conflict of self-interest and moral burden to others. An ethical consideration as a whole is determined by the individual characteristics of the situation and developing of internal social norms. Agent ethically motivated, perform effective self control, (Rutledge et al 1999; Steven 2002). When subordinates accept different sources of expectations, they often feel unfairly.

Self-Esteem

If based on the hierarchy of needs self esteem, individuals who are at a higher level will find satisfaction, namely the need for esteem, need for achievement, freedom, reputation and status (Brons, et al, 1969) in Nugrahani (2004). In general, a subordinate with low self esteem, will work less optimal than those with high self esteem.

HYPOTHESIS DEVELOPMENT

Slack in the budget is very necessary to be controlled in a company. So much research done by researchers and academics regarding the slack in the budget or budgetary terms, known as slack, especially to address and reduce the incidence of slack in the budget. In the study conducted by Fitriyani (2008) found that the budgetary announcement nonbinding positive effect in reducing slack in the capital budget. Similarly, a study conducted by Stevens (2002) found evidence that the reputation and ethics could reduce the budget slack. The better the reputation of a person then it will tend to act away from the slack. So even when a

person has a high ethical increasingly he also will seek further away from slack. In the study conducted by Nugrahani (2004), which examines some personal factors such as reputation, ethics and self-esteem to overcome and avoid slack in the budget and the result of the personal factors adversely take effect capital budgeting. Based on this hypothesis proposed in this study as follows:

Ha1: Announcement budgetary nonbinding positive influence on budgetary slack

Ha2: Reputation positive influence on budgetary slack

Ha3: Ethics positive influence on budgetary slack

Ha4: Self - esteem is a positive influence on budgetary slack

RESEARCH METHODOLOGY

Participant Experiment

The research was conducted on students of the Graduate School of Economics and Business Faculty of Hasanuddin University Master of Accounting classes as study participants were mostly students' educational background in accounting and has taken courses Budget that is considered sufficient understanding and experience in the field of managerial and budgeting. Participants amount collected totaled 46 people, divided into three groups which are at the level of information asymmetry condition.

Variables Observed / Measured

Budgetary slack is in a state of information asymmetry occurs. As for the independent variables are the treatment of conditions nonbinding budgetary announcement, reputation, ethics and self -esteem. Here's an explanation of each study variable

Information asymmetry

Asymmetry of information is defined as information private from subordinates of their harvests and private information from the employer to the amount of production that determined. Measurements variable information asymmetry can be divided into three levels, namely None, Low, and High asymmetry.

Budgetary Slack

Nugrahani (2004) conducted a study on budgetary slack by using incentives Fixed Pay plus Bonus (FPB) or Slack inducing Pay Scheme. FPB method is subordinate to the payment of a fixed salary and if the results exceed the targeted production, it will receive a bonus, but if their products are less than or equal to the target, then the subordinate only receive a fixed salary and was not fined.

Nonbinding Budgetary Announcement

Effects on budgetary announcement nonbinding compared with the effect on the condition of binding budgetary announcement (BA). While no announcement conditions (NA) is a control group against two other treatments. Participants who are in conditions of NA are not given manipulation or the announcement of the budget (budgetary announcement) as participants in the two other conditions, NBA and BA.

Reputation

The instrument consists reputation of one item, with measurements a Linker scale of 1 to 5. Questions reputation of using instruments used by Nugrahani (2004). Participants were asked to give an X (cross) on the question, with the choices of 1 means (strongly disagree), 2 (disagree), 3 (doubtful), 4 (agree), and 5 (strongly agree) .

Ethics

Variable ethics interpreted as thinking subordinates to do the right thing in determining the budget targets Steven (2002). Ethical questions

using an instrument used by Nugrahani (2004). A question of ethics consists of one item with a Likert scale of 1 to 5. Participants were asked to give an X (cross) on the question, with a choice of 1 means that (strongly disagree), 2 (disagree), 3 (doubtful), 4 (agree), and 5 (strongly agree) .

Self-Esteem

This study uses an instrument that is used Nugrahani self esteem, 2004. The questionnaire consists of 10 items. Measurements of each item questions using a Likert scale of 1 to 5. Participants were asked to give an X (cross) on every item in question with the first selection means (strongly agree), 2 (disagree), 3 (doubtful), 4 (disagree) and 5(strongly disagree). Questions of self esteem can be grouped into two parts, namely the question with feedback that is both positive and negative.

Model Research

This study of its four independent variables namely nonbinding budgetary announcement, reputation, ethics and self -esteem. While budgetary slack as the dependent variable. Here is a picture of our model:

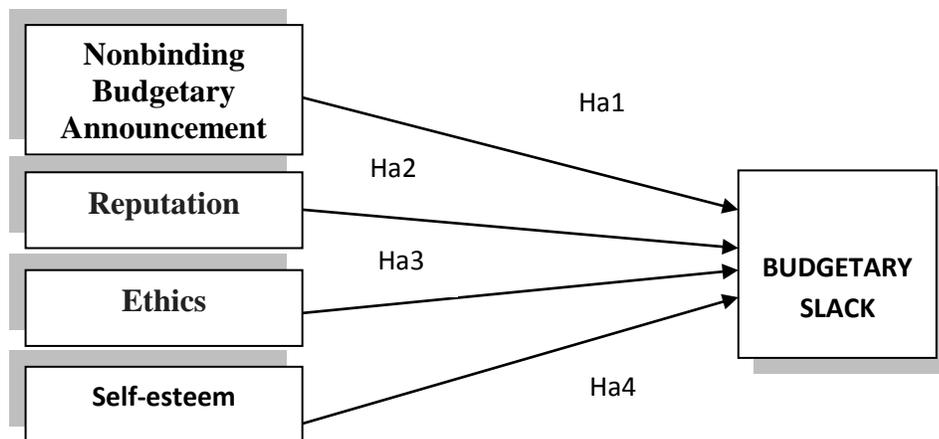


Figure 1 Model Research

Draft Experiment

This research was conducted in the form of experiments as well as in this study, researchers will act as manager boss, while participants act as subordinate managers. Variable nonbinding budgetary announcement is designed in the form of experimental between-subjects design 3x1 as used by Fitriyani (2008) using three treatments (treatment), which is nonbinding budgetary announcement (NBA), binding budgetary announcement (BA), and no announcement (NA). As for the variable reputation, ethics is designed in the form of between- subjects design experiments 2x3 and self -esteem are designed to form the between - subjects experimental design 3x3 with experimental instrument that has been used by Nugrahani (2004) . Each variable faced with the challenges of information asymmetry with three levels namely group None, Low and high asymmetry between superiors and subordinates regarding the budget and production capabilities expected by superiors. In this experiment each participant had only one treatment conditions only and will vary with other participants in order to reduce irrelevant factors which can interfere with the internal validity of research result. As for reputation, ethical use of 2x3 and questionnaire design for self -esteem. Subordinate managers assigned to submit the budget amount it cost to produce a new product for three periods of production are mutually independent. The production of the three periods, only three production periods which will be used for the analysis of hypothesis testing for the two periods of production previously considered just an exercise for the participants in understanding and submits a budget.

RESULTS AND DISCUSSION

Description Data Subject

Table 1 Description Class Subject

Class	Amount
MAKSI A	13
MAKSI B	15
MAKSI C	18
AMOUNT	46

Table 2 Subject Demographics

Information		Frequency	%
Gender	Man	22	48%
	Woman	24	52%
	Total	46	100%
Age	< 25 tahun	7	15%
	26-35 tahun	18	39%
	36 - 45 tahun	21	46%
	46 - 55 tahun		
	> 55 tahun		
	Total	46	100%
Background	Accounting	39	85%
	Non Accounting	7	15%
	Total	46	100%
Work experience	Yes	35	76%
	No	11	24%
	Total	46	100%

The study was conducted with 46 subjects who were students of four classes Master of Accounting Program (Maksi) Hasanuddin University, Makassar and all have passed the checks so that the whole subject of manipulation can be used for the next stage. The descriptive statistics include description of the class participants, demographics like the subjects consisted of 22 men (48 %) and 24 women (52 %) with the majority of 36 -year -old to 45 years old (46 %). The subject was also known to have an educational background dominant accounting (85%) and work experience (76%). However, work experience has no significant effect on the implementation of the production period is tested using t -test and Levene's test.

First Hypothesis Testing (H1)

In the first hypothesis testing that is nonbinding budgetary Announcement positive influence on budgetary slack. In this hypothesis is processed only in the period to 3 only because the period

1 and period 2 is considered as an exercise. The results shows that when in a state budget NBA slack occurring in every production is lower than the budget slack arising on both the other conditions, BA and NA. On the condition of BA and NA, budget slack created tend to be higher. However the results of this study based on ANOVA test can shows that the nonbinding budgetary Announcement negative influence on budgetary slack; accordingly the first hypothesis is accepted although the effect negative. This indicates that the commitment of the owner to the budget stated in the announcement of the budget that is not binding (nonbinding budgetary announcement) can reduce the incidence of slack in the budget compared to the absence of commitment of the owners (no announcement).

Testing the second hypothesis (H2)

In the second hypothesis testing positive effect on the reputation of budgetary slack and the test results show t -test value of 4.142 reputation with p value 0.0000 means that there is an influence on budgetary slack reputation . Beta coefficient is equal to 0.0550 reputation means if reputation grew 1 it will reduce budgetary slack at 0.0550. So that the second hypothesis of this study is received which means that if the subordinate's reputation increases, will reduce the budgetary slack.

Third Hypothesis Testing (H3)

On testing the third hypothesis is ethical positive influence on budgetary slack and based on the results of the t test showed 0.516 with a p - value of 0.609, which means ethics have an influence on budgetary slack. So that the third hypothesis this study received since $0.609 > 0.05$. The higher the ethics subordinates hence will reduce the budgetary slack

Testing the fourth hypothesis (H4)

In testing the fourth hypothesis that self esteem as influence on budgetary slack after test results turned out to self esteem but negatively affect the budgetary slack. The higher self esteem negatively

subordinates will be the creation of budgetary slack. Subordinates who have high self esteem then tend to budgetary slack.

Reputation Regression Testing, Ethics and Self Esteem to budgetary slack

Based on the results of multiple regressions testing on the influence of reputation, Ethics and Self Esteem to budgetary slack (see appendix) is shown by the following regression equation.

$$\text{Slack} = 1,797 + 0,715 \text{ Reputation} + 0,076 \text{ Ethics} - 0,126 \text{ Self-Esteem}$$

Meanwhile, the high variable influence reputation, ethics and self - esteem (see appendix) can only explain by 0.371 or 37.1 % above its influence on budgetary slack and explain why outside the model.

IMPLICATIONS

Expected with the results of this study could serve as a reference for employers to avoid going budgetary slack. And with regard to the influence subordinates reputation, ethics owned subordinate and subordinate ratings of self esteem so on not only pay attention to in terms of budget just to carry out the operations of the company. Besides this research can be applied as teaching materials for accounting students, especially in decision-making within the company.

CONCLUSION

Nonbinding budgetary Announcement negative influence on budgetary slack so that the first hypothesis is accepted even if negatively, which means indicates that the commitment of the owner to the budget stated in the announcement of the budget that is not binding (nonbinding budgetary announcement) can reduce the incidence of slack in the budget compared to the absence of commitment of the owners (no announcement). As for the hypothesis test the effect of variable reputation , ethics and self -esteem of the budgetary slack each hypothesis is accepted , although only affects 37.1 % of the budgetary slack .

RESEARCH LIMITATIONS

Each study course has its limitations, this study can be seen a number of limitations that is variable reputation, ethics and self -esteem only have the effect of 37.1 % over the budgetary slack so hopefully in future studies to try gender variable to the potential budgetary slack.

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APPENDIX

Table 3 Descriptive statistics

	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Slack Anggaran Peric Equal varianc assumed	,061	,806	-,603	44	,549	-9,86111	16,34755	2,80743	3,08521
Equal varianc not assumed			-,669	16,903	,513	-9,86111	14,74719	0,98858	1,26635
Slack Anggaran Peric Equal varianc assumed	,000	,987	-,428	44	,670	-6,25000	14,58807	5,65032	3,15032
Equal varianc not assumed			-,438	14,882	,667	-6,25000	14,25654	6,65804	4,15804
Slack Anggaran Peric Equal varianc assumed	,082	,776	-,107	44	,916	-2,01389	18,90620	0,11684	6,08906
Equal varianc not assumed			-,118	16,761	,908	-2,01389	17,13822	8,21160	4,18383

Table 4 t test

Dependent Variable	(I) Kondisi Perilaku	(J) Kondisi Perilaku	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
Slack Anggaran Period	NBA	BA	21,64583	15,85922	,179	-10,3373	53,6290
		NA	33,64583*	15,85922	,040	1,6627	65,6290
	BA	NBA	-21,64583	15,85922	,179	-53,6290	10,3373
		NA	12,00000	16,11298	,460	-20,4949	44,4949
	NA	NBA	-33,64583*	15,85922	,040	-65,6290	-1,6627
		BA	-12,00000	16,11298	,460	-44,4949	20,4949
Slack Anggaran Period	NBA	BA	24,79167	13,63896	,076	-2,7139	52,2973
		NA	38,12500*	13,63896	,008	10,6194	65,6306
	BA	NBA	-24,79167	13,63896	,076	-52,2973	2,7139
		NA	13,33333	13,85720	,341	-14,6124	41,2790
	NA	NBA	-38,12500*	13,63896	,008	-65,6306	-10,6194
		BA	-13,33333	13,85720	,341	-41,2790	14,6124
Slack Anggaran Period	NBA	BA	44,41667*	17,98443	,018	8,1476	80,6857
		NA	25,58333	17,98443	,162	-10,6857	61,8524
	BA	NBA	-44,41667*	17,98443	,018	-80,6857	-8,1476
		NA	-18,83333	18,27220	,308	-55,6827	18,0161
	NA	NBA	-25,58333	17,98443	,162	-61,8524	10,6857
		BA	18,83333	18,27220	,308	-18,0161	55,6827

Table 5. Tests of Between-Subjects Effects
 Dependent Variable: Reputation

Source	Type III Sum of Squares	Df	Mean Square	F	Sig.
Corrected Model	112,765(a)	43	2,622	2,003	,390
Intercept	839,351	1	839,351	641,093	,002
NA	47,357	15	3,157	2,411	,332
LA	5,493	4	1,373	1,049	,541
HA	4,774	2	2,387	1,823	,354
Error	2,619	2	1,309		
Total	2102,677	46			
Corrected Total	115,383	45			

a R Squared = ,977 (Adjusted R Squared = ,489)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	,609 ^a	,371	,326	1,31412	,371	8,271	3	42	,000	1,529

a. Predictors: (Constant), Self Estem, Reputasi, Etika

b. Dependent Variable: SLACK

ANOVA(b)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	42,853	3	14,284	8,271	,000(a)
	Residual	72,531	42	1,727		
	Total	115,383	45			

a Predictors: (Constant), Self Estem, Reputasi, Etika

b Dependent Variable: SLACK

Table 5. Tests of Between-Subjects Effects

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	42,853	3	14,284	8,271	,000 ^a
	Residual	72,531	42	1,727		
	Total	115,383	45			

a. Predictors: (Constant), Self Esteem, Reputasi, Etika

b. Dependent Variable: SLACK

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	1,797	1,332		1,348	,185	-,892	4,486
	Reputasi	,715	,173	,550	4,142	,000	,366	1,063
	Etika	,076	,147	,069	,516	,609	-,220	,371
	Self Esteem	-,126	,087	-,179	-1,459	,152	-,301	,048

a. Dependent Variable: SLACK

ANOVA

SLACK

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	49,683	13	3,822	1,861	,076
Within Groups	65,700	32	2,053		
Total	115,383	45			

ANOVA

SLACK

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	66,695	17	3,923	2,256	,027
Within Groups	48,688	28	1,739		
Total	115,383	45			