



Slack Inducing Scheme, Idealism, and Budget Emphasis Upon the Budgetary Slack Behavior at PT BANK NTT

Christian Timotius Peilouw
Accounting Departement
State Polytechnic of Kupang
Kupang, Indonesia
christian.peilouw@pnk.ac.id

Fransiscus Nicodemus Naiola
Accounting Departement
State Polytechnic of Kupang
Kupang, Indonesia
fransiscus.naiola@pnk.ac.id

Clara Margilina Reinamah
Accounting Departement
State Polytechnic of Kupang
Kupang, Indonesia
clara.reinamah@pnk.ac.id

Abstract - This research is aimed to collect more empirical evidences on the Slack Inducing Scheme Idealism and Budget Emphasis upon the Budgetary Slack Behaviour. The research employs the population of all employees in PT. Bank NTT (main branch office) utilizing stratified random sampling over 136 employees. The research occupies surveys as its' method and each hypothesis was tested through double regression analysis in statistic measurements using SPSS 2020 version of 26.0. Statistics analysis shows that Slack Inducing Scheme and Budget Emphasis positively affect Budgetary Slack Behaviour. While Idealism can negatively affect the Budgetary Slack Behaviour.

Keywords— *Slack Inducing Scheme; Idealism; Budget Emphasis; Budgetary Slack Behaviour.*

I. INTRODUCTION

[20] Budgeting is one important mechanism in performing and controlling a company, in which practical arrangement may cause problems as its tendency to create a slack in the budgeting itself (Rodrigues and Gil, 2016). One phenomenon happened in NTT Bank in 2020 when the company targeted the profit of the company should reach IDR 231.263.000K based on the company budget plan, while its realization showed that there was difference of IDR 5.026.000K higher than what they had planned before. The NTT Bank showed how high performance from the budget target could give positive impact to employees in the form of bonus. Annual bonus will be given right after the final financial statement. This condition represents the idea of realizing the budget mechanism may support budget slack behaviour.

[3] Based on the agency theory, there are differences between principal and agent where the manager working as the agent has the tendency of being biased to their own interest. Budget slack can also be done by particular individuals for each individual has their own rationality upon their own economic conditions and interests (Brigham and Houston, 2019). Managers tend to proceed to budget slack in order to put their interest on top of the other. [11] Slack Inducing scheme will financially motivating, in which later on be used to motivate economically the budget slack mechanism applied,

Helmayunita and Betavia (2019). Slack Inducing scheme or usually called as rewarding scheme will actually affect the budget slack. The NTT Bank who practically used rewards can be interpreted as compensation scheme within slack inducing.

[6] Personal philosophy and ethical ideology might affect the ethical condition in arranging the budget. Ethical ideology can be described through idealism approaches in assuming that good consequences are exist, (Douglas and Wier, 2000). Budget plans directly affect human's behaviour. High emphasis upon budget came to be a burden and might hamper somebody's career improvement. Higher emphasis might happen to the manager of the company if he, in particular, cannot achieve the target of the budget plan. The result of these tensions will be on how the manager will be so much defensive in applying budget slack to avoid risks and, not to mention, achieving the target. [16] Ngo et al. (2017) reported that budget slack is actually caused by high emphasis on the budgeting itself.

[19] This research completes the previous research which has never examined some other factors affecting budget slack within three constructs, which are economy, psychology and sociology. Research done by Palupi and Mulyanto (2014) got down the case of employment contract between agents and principal in the basis of economy. The research which took its base in economy was lacking of psychological aspect related to preferences and individual trust. [10] Researches done by Harvey (2015) in psychological aspect was lacking on explanation about how important social aspect regarding to their environment during the budget works. [5], [16] Research done by Chong and Law (2016); Ngo et al. (2017) in social aspect was also lacking of explanation about how economy and psychology are important to begin with.

This research is aimed to provide empirical evidences and larger knowledge about the effect of slack inducing scheme, idealism, and budget emphasis upon the budget slack. The research is expected to be useful for the top management of company to understand the manager budget slack behaviour that the top management are expected to reduce the budget

slack inside, the applied budget will still carry the challenge itself but aimed to be achieved somehow

II. LITERATURE REVIEW

A. Agency Theory

[3] Brigham and Houston (2019) agency problem define a personal interest conflict to be a condition where the manager who stands as the principal or representing the stock holders in conducting the business processes within the company might not his best to upgrade the company's value and take his own sides. Agency Relationship happened if an individual or another organisation was being paid by the principal to conduct the company for the sake of the principal himself. Simply refer to the idea of conflict of interest which says that budgetary slack was being done by the management in order to get the rewards. [15] The bigger the rewards means that the bigger the budget slack (Munandar et al. 2019).

B. Deontology Ethic Theory

[4] Brooks and Dunn (2014) defined Deontology as an obligation or a duty and a person's ethical responsibility. Motivation owned by the decision maker works as the basis of Deontology theory in evaluating ethical behaviour. An act can be said as ethically correct only if it meets the value of the duty and ethical responsibility. Not because the act can create happiness or resulting on a good deed, but a decision maker will always make a decision which follows the rules applied in society and appropriate to moral values upheld.

C. Teiry of Obedience

Theory of obedience explains that a person with power equals to a person with an ability to influence the other people's behaviour through their commands. [2] Being obedient to authority was developed by Stanley Milgram who stated that psychologic changes might happen to employees who at first very autonomies then changes into agent behaviour because of some pressures given by the authority (Armando, 2019). Top manager can give more pressures to the manager, while these pressures might influence the manager to commit such kind of deviation or any disfunction behaviour.

D. The Influence of Slack Inducing Scheme to Budgetary Slack Behaviour

[3] The agency theory explains the conflict between agents and principal where agents chose to prioritize their personal interests (Brigham and Houston, 2019). Agency theory uses personal interest assumptions that all agents will try their best to get their rewards by doing budgetary slack behaviour. The bigger the rewards, the bigger budget slacks they conduct.

E. The Influence of Idealism to Budget Slack Behaviour

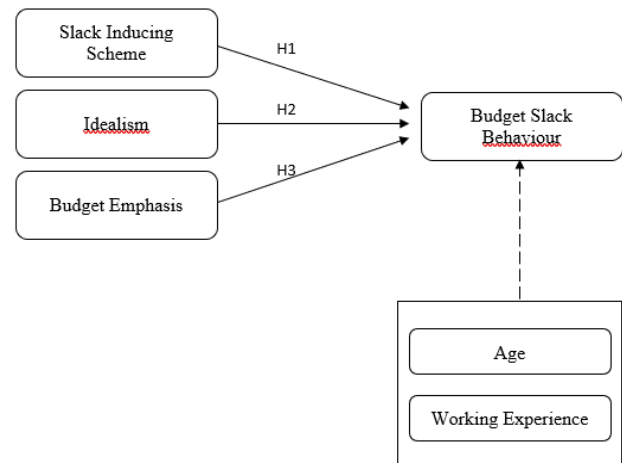
[4] Based on categorical imperative approach applied in ethical theory of Deontology, it shows that an action can be said to be ethically correct if and only if it was consistently done and appropriate to general norms (Brooks and Dunn, 2014). [10] Those idealist individuals see budget slack as a form of action violating rules that they will try to avoid it from

the beginning (Harvey, 2015). During the budget plan, the idealist will certainly make objective projections and providing reasonable assumptions. [10] Upon such conditions, the higher the idealism of an individual, the lower the tendency to have budget slack behaviour (Harvey, 2015).

F. The Influence of Budget Emphasis to Budget Slack Behaviour

[2] Obedience emphasis will trigger subordinates' psychology changes from autonomic behaviour into agent behaviour (Armando, 2019). Subordinates will actually do budget slack behaviour with all expectations to avoid emphasis and be in peace. Subordinates with emphasis will behave as what they have got and tend to trespass the rules applied in the company. They will be in a budget slack behaviour when their efforts measured by the budget itself. [1], [16] The higher the emphasis will lead into higher possibility of budget slack behaviour done by subordinates (Apriwandi and Pratiwi, 2019; Ngo et al. 2017).

Note According to the previous literature study, a framework can be reviewed in picture 1.



Picture 1. Conceptual Framework

III. METHODS

A. Sample

From 136 respondents in the basic formula of Slovin, samples were taken by stratified random sampling. Surveys were provided in google formula that all employees including all permanent employees and soutsourchings, There are 73 men (equals to 53.7%) from all respondents which are a little more in number than the women with 63 people (equals to 46.3%). There are 73.5% respondents categorized as permanent staffs and 26.5% respondents are outsourcing staffs.

B. Measures

[21], [6] Dependent variable: Slack inducing scheme is measured by combining questionnaires from Searfoss (1976)

and Douglas and Wier (2000), 8 question with a 5 item – likert scale. [7] Questionnaires on idealism was measure by ethic position questionnaire (EPQ) developed by Forsyth (1980), 10 question with a 9 item - likert scale. [8] Questionnaires about the budget emphasis were measured through questionnaires developed by Hansen and Stede (2004), 4 question with a 5 item - likert scale.

[8] Independent variable: Questionnaires about the budget emphasis were measured through questionnaires developed by Hansen and Stede (2004), 6 question with a 7 item - likert scale.

Control variable: [5], [18] The use of age and work experience variables refers to the research of Chong and Law (2016) and Nurcahyo and Ahmar (2012), with rasio scale.

C. Action

Here is the analysis model used is as follows:

$$PKA = \alpha + \beta_1 SKSI + \beta_2 IDE + \beta_3 TA + \beta_4 USIA + \beta_5 PK + \varepsilon$$

Notes:

- PKA = Slack Budgetary Behaviour
 α = Constants
 β_{1-5} = Parameters
 SKSI = Slack Inducing Scheme
 IDE = Idealism
 TA = Budgetary Emphasis
 USIA = Age (control variable)
 PK = Work Experience (control variable)
 ε = Error.

IV. RESULT

In table 1 below explains the variables in slack inducing scheme has the coefficient of 0,179 with significance level of 0,33 which means slack inducing behaviour gave a positive effect to the slack budgetary behaviour. Idealism variable has the coefficient of -0,068 and significance number of 0,011 which means idealism affect slack budgetary behaviour negatively. Budgetary Emphasis variable has the coefficient of 0,958 with coefficient number of 0,000 which means that budgetary emphasis can positively affect the slack inducing behaviour.

Age control variable has the coefficient number of -2.261 with significance number of 0,000 means that the variable of age has negative effects toward slack budgetary behaviour. While working experiences has the coefficient of 2,441 with significance level of 0,000 which means that it affects slack budgetary behaviour positively.

According to the result of the test using double linear regression analysis shows in table 1 below:

Table 1. The result of the test using double linear regression analysis

Variabel	Koefisien regresi (b)	Std. error	Beta (β)	t _{hitung}	Sig.	Ket
Kons-tanta	9.517	4.753		2.002	0.047	Sig
SKSI	0.179	0.083	0.162	2.156	0.033	Sig
IDE	-0.068	0.027	-0.186	-2.567	0.011	Sig
TA	0.958	0.221	0.329	4.328	0.000	Sig
USIA	-2.261	0.489	-0.397	-4.627	0.000	Sig
PK	2.441	0.672	0.312	3.633	0.000	Sig
R	= 0.596					
R Square	= 0.355					
Adjusted R square	= 0.330					
F _{hitung}	= 14.310					
Sign. F	= 0.000					
α	= 0.05					

V. DISCUSSION

A. The Effect of Slack Inducing Scheme to Slack Budgetary Behaviour.

Slack inducing Scheme affect positively to the slack budgetary behaviour with the significance level of 0,033 (<0,05). The manager shows the best work that he could achieve the target and finally accept his rewards as dealt in the agreement. Rewards came to be a strong motivation to push the manager to do slack budgetary behaviour and the chance of doing slack inducing will be even bigger in inducing scheme.

The principal trusted the agent or the management to arrange the budget as best as they can in order to provide a clear picture of the company monetary system. However, conflict of interest between the principal and the agent which is a little discordant might hamper the company. The agent tends to be biased in giving the information, hoping that they could achieve the target. The agent was lowering the profit of the company so that the target can be seen to be achieved and the reward will be reachable. Those events above are the result of the agency problem which directs their budgetary arrangement into a more self-interest focus.

Slack inducing scheme is a scheme used by PT. Bank NTT, main office. [6] Slack inducing is a chance for the management to do slack budgetary behaviour since there is no punishment given when the management cannot achieve the target budget (Douglas and Wier, 2000). The bigger the rewards given, so does the chance of the slack budgetary behaviour to be done. Related to the explanations above, Slack inducing scheme can positively affect slack budgetary behaviour. [6], [11] These are being supported by some researches done by Douglas and Wier (2000), Helmayunita and Betavia (2019).

B. The Effect of Idealism to Slack Budgetary Behaviour

Idealism affects negatively to slack budgetary behaviour with significance value of 0,011 (<0,05). [4] The theory of deontology is supported by this research employing imperative categorical approach which define that one action can be said to be correct or proper if and only if it is done universally consistent (Brooks and Dunn, 2014). Decision making and

ethical behaviour are two ethics to fulfil and peremptory. Every individual in the company should hold idealism concept in making any decision in line with universally accepted moral values. A high idealism makes one individual become more professional in completing their responsibilities and following the rules. A good form of ethics is by not doing any slack budget in the first place. [14] Management accountants must comply professional ethical standards (Mastilak, 2018).

Individuals with high idealism tend to complete their duty responsibly and professionally and also following the rules given by the company. [12] Those idealists will do as what they should do and doing nothing which might bring harms to the company and also will do less slack budgetary behaviour (Ismail and Rasheed, 2019). Idealists tend to make a compulsory budget arrangement for the company and decisions proper to the real condition of the company. The higher the idealism, the lower the tendency of doing a slack budgetary behaviour. [6], [10] The result of the test supports the research done by Douglas and Wier (2000), Harvey (2015). [9] The result of the research shows different conclusion with the research done by Hariningtyas and Aisyah (2015).

C. *The Effect of Budgetary Emphasis to Slack Budgetary Behaviour*

Based on the statistics, it explains that budget emphasis can positively affect slack budgetary behaviour within 0,000 (<0,05) significance level. [2] Based on the theory of obedience, those individuals with power possesses the authority to rule over the other and influence them. The higher authority has the power to manage and rule the employees and such conditions usually be called as Legitimate Power. The manager will push their employees to do as they say (Armando, 2019).

Budget should actually give more challenge which can be achieved. Budgeting can be too high to achieve and it makes the employees feel frustrated and less motivated. More pressures from the authorities may influence the employees to do some kind of slack budgeting behaviour to achieve their target. Every employee might feel pressured by the authority and do activities which break the rules. Pressure that leads into breaking rules activities will hamper their objectives in achieving their target. Slack budgetary behaviour will be done for the sake of avoiding pressures and hoping to work peacefully. The bigger the pressures, the bigger the chance of slack budgetary behaviour done by the employees. [1], [16] Such result supports the research done by Apriwandi and Pratiwi (2019) and Ngo et al (2017). [17] The result of this research simply different from the research done by Ningsih and Indira (2020).

D. *Variable Control*

The control of age variables goes into negative directions in this research, in which the older the employees, the less slack budgetary behaviour to be done. It is happened because slack budgetary behaviour is a kind of activity that needs more comprehensible understanding. Even further, the age of a

person can never be a measurement of how well their understanding compared to the others.

The control variable of working experience goes into a more positive direction on how the higher level somebody's working experience, therefore the bigger the slack budgetary behaviour might happen. This variable can be more appropriate to measure somebody's motivation in doing slack budgetary behaviour. The higher level of working experience shows how well somebody has worked and more comprehensive understanding in doing slack budgetary behaviour.

VI. CONCLUSION

This research aimed to find empirical evidences about the effect of Slack Inducing scheme, idealism, and budget emphasis to the budget slack behaviour. Slack inducing scheme positively affect slack budgetary behaviour. This result supports the agency theory. Slack inducing scheme gives more space to the agent in committing the budgetary slack because there is no punishment stated when the target budget is not achieved. Idealism can positively affect slack budgetary behavior. This research supports deontology theory through categorical imperative. Those idealist individuals will actually finish their responsibility professionally and being obedient to the rules, more over they will avoid budget slack from the very first place. Budgetary emphasis positively affects slack budgetary behavior. These theories support the theory of obedience. The authorities will push the employees harder through budgetary emphasis in order to make them do such disfunction behavior through budgetary slack.

ACKNOWLEDGEMENT

All praise and thank to God Almighty who always bestow His grace that this research can be done well. We thank the Director, and P3M State Polytechnic of Kupang for the chance and helps during the research. Another gratitude would be given to parties that cannot be mentioned one by one for every motivations and spirit to finish the research.

REFERENCES

- [1] Apriwandi dan Pratiwi, Y.M. 2019. The Influence of Social Pressure, Responsibility and Procedural Fairness Towards the Creation of Budgetary Slack: An Experimental Research. *Global Business and Management Research: An International Journal*, 11 (1): 9 – 21
- [2] Armando, N.M. 2019. *Psikologi Komunikasi Edisi Ketiga*. Tangerang: Universitas Terbuka.
- [3] Brigham, E.F. dan Houston, J.F. 2019. *Dasar-Dasar Manajemen Keuangan Edisi 14 Buku 1*. Terjemahan oleh Ali Akbar Yulianto. Jakarta: Salemba Empat.
- [4] Brooks, L.J. dan Dunn, P. 2014. *Etika Bisnis dan Profesi untuk Direktur, Eksekutif, dan Akuntan*. Terjemahan oleh Kanti Pertiwi. Jakarta: Salemba Empat.
- [5] Chong, V.K. dan Law, M.B.C. 2016. The Effect of A Budget-Based Incentive Compensation Concept on Job Performance, The Mediating Role of Trust- In-Supervisor and Organizational Commitment. *Journal of Accounting and Organizational Change*, 12 (4): 590 – 613
- [6] Douglas, P.C. dan Wier, B. 2000. Integrating Ethical Dimensions into a Model of Budgetary Slack Creation. *Journal of Business Ethics*, 28: 267 – 277.

- [7] Forsyth, D.R. 1980. A Taxonomy of Ethical Ideologies. *Journal of Personality and Social Psychology*, 39 (1): 175 – 184.
- [8] Hansen, S.C. dan Stede, W.A.V.D. 2004. Multiple Facets of Budgeting: An Exploratory Analysis. *Management Accounting Research*, 15 (4): 415 – 439.
- [9] Hariningtyas, R.A. dan Aisyah, M.N. 2015. Pengaruh Asimetri Informasi terhadap Senjangan Anggaran pada Penganggaran Partisipatif dengan Orientasi Etika sebagai Variabel Moderating. *Jurnal Nominal*, 4 (2): 73 – 87.
- [10] Harvey, M.E. 2015. The Effect of Employee Ethical Ideology on Organizational Budget Slack: An Empirical Examination and Practical Discussion. *Journal of Business and Economics Research*, 13 (1): 83 – 90.
- [11] Helmayunita, N. dan Betavia, A.E. 2019. Pengaruh Skema Kompensasi, Self Efficacy dan Penalaran Moral terhadap Slack Budgeting. *Jurnal Aplikasi Akuntansi*, 4 (1): 77 – 96.
- [12] Ismail, S., & Rasheed, Z. (2019). Influence of Ethical Ideology and Emotional Intelligence on the Ethical Judgement of Future Accountants in Malaysia. *Meditari Accountancy Research*, 27(6), 805–822
- [13] Laporan Tahunan Annual Report Bank NTT 2020. (Online), (http://www.bpdntt.co.id/template/front/archive/LAPORAN_TAHUNA_N_BANK_NTT_2020.pdf), diakses 25 Januari 2022.
- [14] Mastilak, M. C., Matuszewski, L., Miller, F., & Woods, A. (2018). Self-Fulfilling Prophecy? An Examination of Exposure to Agency Theory and Unethical Behavior. *Research on Professional Responsibility and Ethics in Accounting*, 21, 111–152
- [15] Munandar, A., Shauki, E.R. dan Diyanty, V. 2019. The Role of Pay Scheme and Ethics Level for Decreasing Budgetary Slack: Experiment Setting. *Advances in Economics, Business, and Management Research*, 89: 57 – 62.
- [16] Ngo, Q.H., Doan, T.N.N., dan Hyunh, T.N. 2017. A Study on Managers' Creation of Budgetary Slack in Emerging Economies: The Case of Vietnam. *Asian Journal of Accounting Research*, 2: 15 – 28.
- [17] Ningsih, S. dan Indira, D.S. 2020. Budgetary Participation Effect, Budget Emphasis, and Information Asymmetry on Budgetary Slack. *Opcion*, 36 (27): 882 – 897.
- [18] Nurcahyo, I.O. dan Ahmar, N. 2012. Idealisme, Relativisme, dan Kreativitas Akuntan. *The Indonesian Accounting Review*, 2 (1): 73 – 90.
- [19] Palupi, M. dan Mulyatno, C.B. 2014. Interaction Effects of Reward Scheme and Identity on Budgetary Slack: The Perspective of Morality. *South East Asia Journal of Contemporary Business, Economics, and Law*, 5 (1): 38 – 43.
- [20] Rodriguez, S.G. dan Gil, D.N. 2016. Effects of Trust and Distrust on Effort and Budgetary Slack: An Experiment. *Management Decision*, 54 (8): 1908 – 1928.
- [21] Searfoss, D.G. 1976. Some Behavioral Aspects of Budgeting for Control: An Empirical Study. *Accounting, Organizations and Society*, 1 (4): 375 – 385.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial 4.0 International License (<http://creativecommons.org/licenses/by-nc/4.0/>), which permits any noncommercial use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if changes were made.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.

