



# Why Accountants Under Pressure Still Be Able to Honest? Experimental Research

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**Abstract.** Social pressure causes individuals to behave in a way that deviates from company values. Individuals who experience very strong pressure from both superiors and peers will increase the individual's chances of committing unethical actions (budgetary slack). But on the other hand, several studies show that not all individuals are obedient to social pressure from others. Most individuals, especially accountants, refuse to commit unethical actions even though the threat of very severe punishment awaits. We are interested in analyzing this unique phenomenon. Using experimental research on 90 participants, we found evidence that different levels of individual locus of control can minimize the occurrence of budgetary slack. The results of this study are expected to provide consideration for stakeholders in the financial sector to consider individual personal values as one of the important variables that play a role in budgeting success in companies or organizations.

**Keywords:** Social Pressure · experimental research · locus of control · Budgetary Slack

## 1 Introduction

Budget is a financial plan that consists of a set of costs and revenue targets a responsibility center in a company, and a tool for control, coordination, communication, performance evaluation, and motivation. Thus budget provides managers with a basis for measuring efficiency, identifying problems, and controlling costs [1]). In addition, budgeting is a managerial planning tool in the form of finance and contains what activities will be carried out in a certain time period as the main basis for showing the main objectives of the operation of a government or agency [2].

Understanding of budgeting objectives and supporting information can be the basis of a manager in measuring efficiency, identifying what problems he is facing and being able to control and estimate what costs are classified as profitable and non-profitable. The budget is also an important tool in short-term planning and control which has proven to be quite effective [3]. In the budgeting process, managers can evaluate costs or performance

that were not optimal in the previous period and have the right to eliminate or improve them.

Today, in the budgeting process, managers involve more subordinates (subordinates). This will make it easier to prepare a budget because subordinates are usually more aware of the activities that occur directly [4]. In addition, the participation of subordinates in the budgeting process will increase employee work motivation, because employees feel that their ideas and ideas are accommodated and try to realize the budget targets that have been prepared can be achieved. This pattern of budget communication between superiors and subordinates is an important point of participatory budgeting.

However, in budgeting activities there are often deviations made by lower-level managers and subordinates. These deviations usually occur because the budget is the basis for measuring performance evaluation. If the budget does not match the actual expected results, the lower manager's image will be considered bad. So lower-level managers want good performance evaluations and targets are easy to achieve, so managers often do budgetary slack [5].

Budgetary slack can cause companies to experience decreased competitive advantage, lower income, and unhappy employees [6]. Meanwhile, on the other hand, social pressure causes high-potential employees to commit budgetary slack [7–9]; Social pressure causes an individual to lose direction and be confused about whether to be honest according to the company's code of ethics or follow pressure from superiors or colleagues to create budgetary slack [10].

Research by [8] is an anomaly, where although most employees who get pressure from superiors are willing to do budgetary slack, there are still some employees reject to do the instruction. The theory of social pressure is only able to explain the relationship between acts of social pressure and unethical behavior in the budget. Our research seeks to find out and analyze the phenomenon of why there are accountants who are willing to remain honest even under pressure from superiors. We suspect that the personal value factor possessed by an individual is what causes a person to be able to act honestly even though they are under threat. Individuals who have a strong internal locus of control will be better able to refrain from committing unethical acts than individuals who have weak self-control (external locus of control).

Using an experimental study on 90 participants, we sought to find out the role of locus of control on social pressure on the creation of budgetary slack. How big is the role of locus of control in mitigating the negative impact of social pressure? How do personal values affect a person in the budget decision-making process? Hopefully this research can be a reference in the literature on budgeting and behavioral accounting in general.

## 2 Literature Review

### A. *The Impact of Social Pressure on Budgetary Slack*

The budget is one of the important things in the planning and control function of management [11]. The problem that often arises in the budget planning process is the tendency of managers to make budgets that are loose and easy to reach. This is because

the achievement of targets in budgeting is considered as an indicator of the performance and success of managers [12]. On this basis, during the planning process in budgeting, managers will try to make the budget easier to achieve. As a result, managers will create budgetary gaps for the manager's personal benefit.

The creation of budget gaps occurs when managers deliberately under-perform budget targets, thereby making the budget more achievable [13]. Managers don't have to spend and sacrifice a lot of effort to achieve their budget targets. Managers tend to expend low effort to obtain compensation for achieving their budget targets. This behavior will have dire consequences in the long run terms of increased profits and costs.

Previous research has focused on formal controls to reduce budgetary gaps [14]. This control system is used to change organizational behavior patterns. This formal control is based on monetary compensation and monitoring from superiors. Supervision in the form of social pressure is a form of vertical control related to individual and team work performance [15]. Social pressure given by superiors can foster a feeling of competence to achieve organizational goals. However, it seems that this formal control has a negative effect on individual motivation (such as self-interest) which can lead to deviant behavior in organizations [16].

According to obedience theory, subordinates who are subject to the pressure they feel at work will experience psychological and behavioral changes [17]. Previous research has proven that groups that get low pressure will produce high accuracy in audit decisions. On the other hand, groups that get high pressure will behave deviantly in decision making [18]. Previous accounting studies have described the deleterious effect of high pressure on individual judgments and decisions. Individuals who are under pressure will do their jobs even if it is against their values and beliefs [19].

Previous research has proven the adverse effects of stress. High pressure affects the auditor's decision not to disclose material misstatements compared to auditors who are not under pressure [20]. On this basis, under conditions of high pressure, it will affect managerial decision making that deviates, such as the creation of budgetary slack. Therefore, we put forward the following hypothesis.

H1: Subordinates who are in high social pressure condition tend to more likely to create budgetary slack than those who are in low social pressure condition.

#### *B. The Impact of Locus of Control on Budgetary Slack*

Locus of control is related to individuals' beliefs and preferences regarding the causal relationship to events in their lives [21]. Those who have an external locus of control generally view the results of their life achievements as caused by external factors such as luck, fate, etc. Meanwhile, those who have an internal locus of control view the results of their life achievements as the result of their own actions [22]. Previous research has shown that locus of control is one of the predictor variables related to attitudes, motivation, and achievement outcomes at work [23].

Locus of control can shape individuals' views regarding their ability to achieve success [24]. Those who have an internal locus of control believe that they can control the results in their lives, so they are more confident about the results they will achieve. On the other hand, those who have an external locus of control perceive that they are victims of circumstances and therefore have a more passive role in determining the results to be

achieved [21]. On this basis, individuals who have an internal locus of control have a preference for a higher level of risk taking compared to individuals who have an external locus of control. This is supported by previous research which proves that individuals who have an internal locus of control tend to invest in high-risk financial instruments [25].

One of the goals of managers to create budgetary slack is to reduce the risk of not achieving targets due to environmental uncertainty [12]. Therefore, individuals who have an external locus of control tend to do budgetary slack. Managers will find it easier to achieve budget targets to deal with a flexible organizational environment [26]. In addition, managers will face uncertainty and conflicts of interest in the organization. In such cases, the creation of budgetary slack can also provide managers with a sense of security from environmental uncertainty.

In addition, individuals who have an internal locus of control tend to believe in their own abilities so that they are generally more successful and more productive [24]. On the basis of this behavior, managers who have an internal locus of control tend to believe that they can achieve budget targets on their own abilities. Previous research has shown that individuals who have an internal locus of control are more motivated at work and think more objectively in dealing with the work environment [23]. Therefore, we put forward the following hypothesis.

H2: Subordinates who have an external locus of control will be more likely to create budgetary slack compared to Subordinates who have an internal locus of control.

### *C. The Impact of Social Pressure and Locus of Control on Budgetary Slack*

Social pressure can be a management control in the organization. This refers to the perspective that to achieve organizational goals, individuals can influence other people or groups [27]. Therefore, employee behavior can be shaped to achieve organizational goals. Social pressure can affect an individual's ability to work [16]. This is supported by social learning theory which states that individuals learn by observing events in their environment which ultimately affect their actions and behavior [28].

However, previous research has shown that social pressure has a negative effect on individual actions and emotions [15]. High social pressure creates undesirable outcomes in the organization such as an increase in deviant actions or reduced behavior loyal to the organization [8]. High pressure can trigger employees to act in their own interests without considering the interests of the organization [29].

The creation of budgetary slack is one of the dysfunctional actions in the organization [11]. Budgetary slack can have a negative and detrimental impact on the organization. This is because managers will try to overestimate the level of costs and lower the level of income, so that their budget targets can be more easily achieved [30]. Managers who create budgetary slack tend to benefit themselves [31]. In the case of budgetary slack, conditions of high social pressure will affect the behavior of managers to work not for organizational goals, but for personal gain.

In addition, locus of control is believed to be the main variable that can affect individual attitudes and motivations at work [23]. Past research has shown that locus of control is related to job satisfaction outcomes and organizational commitment [21]. Locus of

control relates to control events influenced by themselves or external factors. In particular, locus of control can shape an individual's ability to achieve success or failure [32].

Individuals who have an internal locus of control tend to be more confident and see themselves as in control of the outcomes in their lives [22]. In addition, internal locus of control also has a positive effect on organizational commitment and performance at work [33]. On the other hand, external locus of control is associated with adverse work effects on the organization [23]. Individuals with an external locus of control feel that job insecurity is associated with environmental uncertainty [24]. One of the objectives of creating budgetary slack is to protect oneself from environmental uncertainty [31]. Individuals with external locus of control tend to create budgetary slack to avoid job insecurity. Therefore, we put forward the following hypothesis.

H3a: Subordinates who have an external locus of control when in high social pressure condition have a higher tendency to create budgetary slack than subordinates who have an internal locus of control when in low social pressure condition.

In addition, we propose an alternative hypothesis to cover other factors that can influence the decision to create budgetary slack.

H3b: Subordinates who have an internal locus of control when in high social pressure condition have a higher tendency to create budgetary slack than subordinates who have an external locus of control when in low social pressure condition.

### 3 Research Method

This study uses an experimental method to explain the relationship between variables. The experimental method is one of the best methods for explaining relationship phenomena through investigation and manipulation of variables through scenario procedures that are conditioned in such a way.

This study adopts the instrument from [34] in which the Social Pressure Variable is manipulated by applying pressure from superiors and co-workers. There are 2 scenarios in this variable, where participants who experience high social pressure will receive strong pressure from superiors and co-workers to carry out budgetary slack accompanied by threats if the participant refuses in the form of termination of employment. Furthermore, participants with low social pressure will only get encouragement in the form of suggestions from superiors and colleagues to do budgetary slack in order to make it easier to obtain bonus compensation in the future.

Furthermore, locus of control variables were measured using a questionnaire from [35], where there were 10 questions that had to be answered by respondents. The measurement results will divide the participants into 2 categories, namely internal and external locus of control. The budgetary slack variable is measured using the difference between the amount of the budget proposed and the budget that should be.

We adopt this research by adapting scenarios including the names of actors into contexts that are easily understood by research participants. This study used 103 Accounting Students as experimental participants. Participants who took part in the implementation of the experiment were students who had graduated or were currently taking cost accounting or management accounting courses. To develop this instrument, we asked

for peer-reviewed assessments and conducted a pilot test prior to conducting the experiment. At the end of the session, participants were also given a manipulation check, to test whether the participants really understood the experimental instruments that were given.

We present our experimental design on Table 1.

**Table 1.** Group Design

|                 |      | Locus of Control |          |
|-----------------|------|------------------|----------|
|                 |      | Internal         | External |
| Social Pressure | Low  | GroupA           | GroupB   |
|                 | High | GroupC           | GroupD   |

## 4 Results Dan Discussion

### A. Participants Profile

This study used data from 90 participants from 103 participants who successfully passed the manipulation check (passing rate was 88%). Participants in this study were dominated by women (64.44%), while men were a minority (35.56%). Furthermore, the majority of respondents were 20 years old (47.78%), while the rest were 19 years old (22.22%), 21 years (14, 44%), 18 years (13.33%) and 23 years (2.22%). As for the GPA category, 61.11% are students who have a GPA range of 3.5–4.00. While the rest have a GPA of 3.00–3.50 (35.56%) and a GPA of 2.5–3.00 of 3.33%.

### B. Results

We used Two-Ways ANOVA showed to test the hypothesis (see Table 2). Data showed that high social pressure had no significant effect on budgetary slack ( $F = 1.160, p = 0.284 > 0.05$ ) These results indicate that first Hypothesis (H1) is not supported. Next Data showed that external locus of control (LOC) have significant effect on budgetary slack ( $F = 18.054, p = 0.000 < 0.05$ ). These results indicate that Second Hypothesis (H2) is supported (Table 3).

On the other hand, Data for Third Hypothesis (H3) test show that Join Impact between social pressure and Locus Control had no significant effect on budgetary slack ( $F = 1.334, p = 0.251 > 0.05$ ) These results indicate that Third Hypothesis (H3) is not supported.

### C. Discussion

The results of the first hypothesis test show that subordinates who are in conditions of high social pressure do not have a tendency to create budgetary slack compared to subordinates who are in conditions of low social pressure. Previous research has shown that social pressure can foster feelings of competence to achieve goals [17]. Therefore, high pressure can increase the motivation and performance of subordinates. Employee

**Table 2.** Participants Profile

| <b>Sex</b>         | <b>Total</b> | <b>%</b>    |
|--------------------|--------------|-------------|
| Male               | 32           | 35,56%      |
| Female             | 58           | 64,44%      |
| <b>Grand Total</b> | <b>90</b>    | <b>100%</b> |
| <b>Age</b>         | <b>Total</b> | <b>%</b>    |
| 18                 | 12           | 13,33%      |
| 19                 | 20           | 22,22%      |
| 20                 | 43           | 47,78%      |
| 21                 | 13           | 14,44%      |
| 23                 | 2            | 2,22%       |
| <b>Grand Total</b> | <b>90</b>    | <b>100%</b> |
| <b>GPA</b>         | <b>Total</b> | <b>%</b>    |
| 2,50–3.00          | 3            | 3,33%       |
| 3.00–3.50          | 32           | 35,56%      |
| 3,50–4.00          | 55           | 61,11%      |
| <b>Grand Total</b> | <b>90</b>    | <b>100%</b> |

**Table 3.** Two Ways ANOVA Results

| <b>Source</b>                      | <b>df</b> | <b>Mean Square</b> | <b>F</b> | <b>Sig</b> |
|------------------------------------|-----------|--------------------|----------|------------|
| Social Pressure                    | 1         | 1114184,360        | 1,160    | 0,284      |
| Locus of Control                   | 1         | 17338821,692       | 18,054   | 0,000      |
| Social Pressure * Locus of Control | 1         | 1281135,726        | 1,334    | 0,251      |
| <i>Error</i>                       | 86        |                    |          |            |

performance is one of the obstacles that are often faced by superiors [36]. Organizations need to pay welfare costs in the form of compensation to improve employee performance [37]. To reduce the welfare costs, superiors try to apply high pressure to improve performance and prevent fraudulent actions [38].

Social learning theory states that individuals will imitate the actions of their role models [39]. On the basis of this theory, subordinates will imitate the actions of their superiors and assume that social pressure is an acceptable action by the organization. In addition, cultural background can influence employees' perceptions of social pressures [38]. Asian cultures view pressure as a natural action. This is influenced by the perspective of Asian culture which views that there are differences in hierarchical status between superiors and subordinates [40]. Therefore, social pressure cannot be seen as having a completely negative impact.

The results of the second hypothesis test indicate that subordinates who have an external locus of control tend to create budgetary slack compared to subordinates who have an internal locus of control. Those who have an internal locus of control tend to be more motivated and optimistic in their work environment [21]. This is because they see that their work is an effort of themselves. In addition, individuals who have an internal locus of control tend to be committed to the organization [41]. This makes them will tend to precede the interests of the organization than the interests of individuals.

On the other hand, individuals who have an external locus of control tend to minimize risk [42]. They perceive that the results achieved are beyond their control. One of the objectives of creating budgetary slack is to minimize the risk of budget targets not being achieved, as a result of the uncertainty of the organizational environment [17]. With budgetary slack, budget targets can be more easily achieved, so as to minimize the risk of not achieving budget targets.

The results of the third hypothesis test indicate that subordinates who have an external locus of control when under conditions of high social pressure do not tend to create budgetary slack compared to subordinates who have an internal locus of control. In addition, subordinates who have an internal locus of control when under conditions of high social pressure are less likely to create budgetary slack than when under conditions of low social pressure. This is because, in Asian cultures, subordinates normalize pressure from superiors [38]. They view that this is a privilege owned by superiors [32]. Thus, the employee's locus of control has no interaction effect on social pressure.

## 5 Implication and Future Research

This research contributes by providing answers to the question why not everyone who receives social pressure to commit fraud at a company is willing to comply with these demands, even though they are under threat [8]. This research attempts to provide an answer that personal values, in this case locus of control, contribute to the individual decision-making process in corporate budgeting. Individuals who have an internal type of locus of control are suspected of having better self-control which can prevent them from taking unethical actions and even harming the company. The existence of social pressure given, makes individuals lose control over decisions that should be made. Individuals who have an internal locus of control will try to restore control over their self-control by refusing to comply with social pressure received. The results of this study can be used as a reference for management accounting literature, especially in the field of budgeting and decision making.

This study uses a simple case instrument that can be easily understood by the participants. Future research can adopt this instrument case by using a sample of accountants in companies and more complex cases. Future research can also use other types of personal values such as religiosity, moral reasoning, etc. Future research can also be enriched by using the mixed method by combining the use of secondary data, like company financial reports and surveys of respondents.



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