Budget participation, information asymmetry, and job insecurity as a predictor of budgetary slack

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ABSTRACT

Budgetary slack occurs because of the potential difference with the revenue budget target. The difference in potential revenue with the revenue budget target indicates the occurrence of individual behavior lowering the income target to facilitate the achievement of the government budget. The purpose of this study is to empirically prove the effect of budget participation, information asymmetry, and job insecurity that trigger budgetary slack. The population of this research is officials of the Indonesian: Regional Working Unit in the province of East Java, Indonesia. The sampling technique used is proportional sampling, the research respondents were 84 people. The results show that budget participation, information asymmetry, and job insecurity have a positive effect on budgetary slack. The high budget participation of public sector employees can trigger budgetary slack. Information asymmetry motivates budget implementers to take action to reduce revenue targets and increase government spending. High job insecurity in the work environment creates pressure on employees so that budgetary slack is created.

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Introduction

A budget is a plan regarding the activities of an organization which is stated quantitatively for a certain period and in currency (Choe & Kan, 2021). The budget prepared by public sector organizations serves as a tool for planning, controlling, public policy, politics, motivation, and a tool for creating public space, so that the budget must be prepared to represent the performance of the government (Kenno et al., 2021). The budget of public sector organizations will be the main concern of the community as principals, namely by ensuring that the funds used are right on target, avoiding corruption and collusion, and being reported in a transparent and accountable manner (Choe & Kan, 2021; Coyte & Messner, 2020). In addition, the budget is also used to assess the performance of organizations and individuals in their performance targets.

Performance appraisals based on budget targets in public sector organizations result in tight budgetary pressures resulting in dysfunctional behavior that will affect the budget process in the coming period (Danil Mirza. BR & Khoirunisa, 2021). Dysfunctional behavior in budgeting aims to facilitate the achievement of budget targets, this behavior is characterized by distortions that intentionally reduce revenue targets and increase costs in the budget system. Budgetary Slack often occurs in public sector organizations, because the budget system is tight and difficult to realize.

Budgetary slack that is often encountered is the process of preparing budget targets which are relatively the same every year with greater income potential, making it easier to achieve performance targets and realization of state expenditures is not optimal (below

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100%). Budgetary slack problems occur due to inadequate attention to decision-makers, communication, budget approval processes, and non-selective leadership (Ngo et al., 2017). Based on agency theory, budgetary slack occurs because of information asymmetry between budget implementers and the public, so that public sector organizations set budgets below their capabilities. A low budget target so that it is easy to achieve will give the image that the government has increased performance and is considered good by the public. Budgetary slack in public sector organizations can be anticipated with budgetary participation policies, minimizing information asymmetry and reducing job insecurity. Budget participation is a budgeting process that involves all components of the company, especially managers in determining budget goals and budget targets (Stevens, 2002). The budgeting process can be carried out using top-down, bottom-up, and participatory methods. Budgeting is one of the means to participate in decision-making. High budget participation can reduce budgetary slack (Amir et al., 2020; Rahman & Yixuan Ying, 2020).

Information asymmetry motivates management to act as a moral hazard, one of which is indicated by the existence of budgetary slack. Budgetary slack will be greater in conditions of asymmetric information because it encourages budget implementers to make budget targets that are not transparent to the public. Information asymmetry in public sector organizations is one of the factors causing the weakness of implementing performance-based budgeting, because everyone is competing to achieve their performance targets in various ways, sometimes in unethical ways. High asymmetry will lead to high budgetary slack (Wardani, 2020; Mirza & Khoirunisa, 2021; Hussein, 2021; Nurhikmat et al., 2016; Rochmawati & Musyarofah, 2020) so that in the work line of public sector organizations must minimize asymmetry information.

Budgetary slack can be reduced by reducing job insecurity (De Witte, 2005). Job insecurity is a condition related to a person's fear of losing his job or demotion and various other threats to working conditions associated with decreased psychological well-being and decreased job satisfaction (Schiff & Lewin, 2019). Job insecurity that arises from a person is a form of failure to gain a sense of security, causing psychological problems for employees, which will have an impact on employee organizational commitment, thus triggering employees to act defiantly. Reducing job insecurity can avoid actions that lead to budgetary slack. Research on budgetary slack has been widely studied, but there are still inconsistent results, for example, (Lakasse et al., 2021; Nurcahyono et al., 2021; Nurhikmat et al., 2016). found that the more people who participate in preparing the budget, the greater the opportunity creating budgetary slack but not with the study of (Amir et al., 2020; Maryati & Hendrawan, 2020). High asymmetry is an opportunity for management to create budgetary slack (. & Tri Wardani, 2020; Danil Mirza. BR & Khoirunisa, 2021; Nurhikmat et al., 2016), but contrary to the results of the study (Lakasse et al., 2021; Martini et al., 2018). The novelty of this research is to add a job insecurity variable because it is considered a psychological factor that is very influential on behavior that creates budgetary slack.

The purpose of this study is to empirically examine the effect of budget participation, information asymmetry, and job insecurity on budgetary slack. The implication of this research is as a form of evaluation of state asset management by avoiding budgetary slack to optimize the performance of budget implementers. This research is organized into five parts, the first part describes the background of research with the phenomenon of budgetary slack in public sector organizations. The second part discusses the theoretical basis and the formulation of research hypotheses based on the grand theory and empirical theory. The third part describes the SEM-PLS method used for data analysis and the fourth part presents the research results and discussion. And the fifth section concludes the research results.

Literature Review

Theoretical Background and Hypothesis Development

The theory used to justify this research is agency theory. Agency theory is a concept that explains the contractual relationship between the principal and the agent. The principal is the party who gives the mandate to another party, namely the agent, to carry out all activities on behalf of the principal in his capacity as a decision-maker (Morris, 1987). Agency theory explains how principals and agents involved in public sector organizations will act because they have different interests. Differences in interests give rise to agency conflicts (Hacioglu, U., & Aksoy, T, 2021). The agency relationship with the local government is that the agent carries out the planning, implementation, and reporting process on the regional budget by forming the regional government budget team. The principal plays a role in carrying out supervision in the budgeting process, the principal is the people.

Budget Participation and Budgetary Slack

Budget participation is one of the bottom-up approaches in the budgeting process with the source of budget data flow in a participatory system starting from a lower level of responsibility to a higher level of responsibility. Budget participation in the context of agency theory has dysfunctional consequences for organizations that use the system, this is based on the concept of agency theory which states that principals and agents have different preferences and goals. In addition, each act on his or her interests or the executor has a risk and effort averse nature so that management will choose to work as minimally as possible with maximum results. High budget participation in a public sector organization will increase the occurrence of budgetary slack (Lakasse et al., 2021; Nurhikmat et al., 2016; Sarwendhi, 2021; Widanaputra & Mimba, 2014).

H1: Budget participation has a positive effect on budgetary slack.

Information Asymmetry and Budgetary Slack

Information asymmetry is the difference in information obtained between one party and another in economic activities or other words is a situation when one party has more knowledge and information than the other party (Frihatni & Abbas, 2020; Palupi, 2014). The information asymmetry that occurs can be used by management to create budgetary slack, assuming the principal does not know the actions taken by management. The high information asymmetry causes the potential for higher budgetary slack as evidenced by the studies of (Danil Mirza. BR & Khoirunisa, 2021; Nurhikmat et al., 2016). The study of (Aditia & Nasution, 2020; Banding et al., 2021) also proves that information asymmetry has a positive effect on budgetary slack.

H2: Information asymmetry has a positive effect on budgetary slack

Job Insecurity and Budgetary Slack

Job insecurity is a condition related to a person's fear of losing his job or demotion and various other threats to working conditions associated with decreased psychological well-being and decreased job satisfaction. Job insecurity arises in the preparation of the budget because it is faced with a state of high budget expenditure limits and organizational/operational expenditures (Aksoy, T., & Hacioglu, U. (Eds.). 2021. et al., 2018). In addition, the budget is faced with conditions that can change at any time which can lead to insecurity or anxiety behavior when preparing the budget so that it will have an impact on the budget that is prepared. Job insecurity is defined as a person's powerlessness and/or feeling of loss of power to maintain desired continuity in threatened work conditions or situations. This multidimensional definition exists because job insecurity is caused not only by the threat of job loss but also by the loss of job dimensions (Greenhalgh, 2011). The existence of tightness in the budget process and concerns over performance reports that are considered poor and some conditions that cause sudden, crucial and urgent expenditures that are not listed in the budget items will have an impact on individual behavior in preparing the budget. If this happens, the budget preparer will feel job insecurity or work insecurity which causes the prepared budget to not follow organizational goals or not optimal (De Witte, 2005; Schiff & Lewin, 2019).

H3: Job insecurity has a positive effect on budgetary slack.

Research and Methodology

This study uses a quantitative research paradigm with a comparative causal approach, by examining the causal relationship between the variables of budget participation, information asymmetry, and job insecurity on budgetary slack. The population of this research is the officials of the Indonesian: Regional Working Unit in the province of East Java, Indonesia. The sampling technique used is proportional sampling. Researchers take representatives from each group in the population whose number is adjusted to the number of subject members in each of these groups. The sample of this study amounted to 84 respondents. The measurement of this research variable uses indicators that have been developed by previous researchers. The indicators used are shown in table 1.

Table 1: Variable measurement

Variable	Indicator	Source
Budget slack	1. Standards set	Mahadewi, 2014) Likert scale 1-5.
	2. Budget achievement	
	3. Demand for budget responsibilities	
	4. Budget targets	
	5. Achievement of budget targets	
Budget Participation	1. Participation in budget preparation	Dewi dan Erawati (2014) Likert scale 1-5.
	2. The magnitude of the influence on the determination of the final budget	
	3. Give opinion	
	4. Frequency for making suggestions	
	5. Satisfaction in budget preparation revision	
Job insecurity	1. Threats to work and job features	Greenhalgh dan Resenblatt (1984) Likert scale 1-5.
	2. Job Dissatisfaction	
	3. Increased psychological disorders	
Information Asymmetry	1. Company operating activities	Suartana (2010) Likert scale 1-5.
	2. Input-out	
	3. Performance potential	
	4. Working techniques	
	5. Impact of external factors	

The data used in this study are primary, namely data collected directly from the respondents of the research object. The data collection method used was a survey using a questionnaire. The questionnaire that this research uses is an indicator of previous research. This

research data analysis method uses Structural Equation Modeling-Partial Least Square (SEM-PLS). According to (Hair et al., 2014), PLS is appropriate to reduce data, namely by determining the minimum number of factors needed to calculate the maximum proportion of the total variance represented. Model evaluation is carried out in two stages of evaluation of the measurement model (outer model) and evaluation of the structural model (inner model). The measurement model is used to test the validity and reliability of the instruments in the research model.

An instrument is said to be valid if it has a loading factor value above 0.70 and AVE above 0.05 for a reflective construct and has a p-value below 0.05 and a VIF value below 3.3 for formative constructs (Sekaran & Bougie, 2019). An instrument is said to be realistic if it has a Composite Reliability and Cronbach's Alpha value above 0.7 (Ghazali and Latan, 2015). Inner model testing is done to test the relationship between latent variables. The hypothesis is accepted if it has a path coefficient (β) > 0 and p-value < 0.05.

The research model is:

$$\eta_1 = (\gamma_{11} * \xi_1) + (\gamma_{12} * \xi_2) + (\gamma_{13} * \xi_3) + \zeta_1$$

Definitions:

ξ_1 (Ksi 1)	=	Exogenous Variable Budget Participation
ξ_2 (Ksi 2)	=	Job insecurity exogenous variables
ξ_3 (Ksi 3)	=	Exogenous Variables Information Asymmetry
η_1 (Eta 1)	=	Endogenous Variables Budgetary Slack
γ_{11} (Gamma 11)	=	The coefficient of the effect of the exogenous variable Budget Participation on the endogenous variable Budget Slack
γ_{12} (Gamma 12)	=	The coefficient of the effect of the exogenous Job Insecurity variable on the endogenous variable Budget Slack
γ_{13} (Gamma 13)	=	The coefficient of influence of exogenous variables Information Asymmetry on endogenous variables Budgetary Slack
ζ_1 (Zeta 1)	=	Probability of model error on endogenous variables Budgetary Slack

Analysis and Findings

Research result

The respondents of this study were officials of the Regional Apparatus Work Unit in East Java, Indonesia, which consisted of 6 agencies, 13 services, 1 unit, 5 sub-districts, 1 government division, 1 assembly secretariat at a provincial level, and 1 inspectorate. The demographics of the respondents are shown in table 2.

Table 2: Demographics of respondents

Description	Frequency	Percentage
Gender		
Man	52	61,9%
Woman	32	38,1%
Total	84	100%
Agency		
Service	39	46,4%
Board	30	35,7%
districts	15	17,9%
Total	84	100%
Work experience		
< 5 years	15	17,8%
5 – 10 years	23	27,3%
10 – 20 years	35	41,6%
>20 years	11	13,3%
Total	84	100%

Source: processed data, 2021

Based on table 2, the majority of respondents were male, namely 52 people or 61.90%, while the number of female respondents was 32 people or 38.09%. So it can be concluded that most of the respondents are male. Based on the agency, the majority of respondents came from the Office, namely 13 offices with a total of 39 respondents or 46.4%, and from 10 agencies as many as 30 respondents or 35.7%, while from the district there were 5 sub-districts with a total of 15 respondents or 17.9%, it can be concluded that most of

the respondents came from the service. Based on working-age, research respondents are dominated by employees who have worked between 10-20 years.

Linearity Test

PLS works on a linear program so that the nominal to ratio data scale can be analyzed in PLS, with the condition that the data pattern must be linear so that the hypothesis test in PLS can be estimated correctly according to the linear program. In general, the linearity test aims to test whether the form of the relationship between the independent variable and the dependent variable is linear or non-linear.

Table 3: Linearity test results

Variable Relationship			P-Value Linearity
Budget Participation	□	Budget slack	0,000
Job insecurity	□	Budget slack	0,000
Information Asymmetry	□	Budget slack	0,000

Source: processed data, 2021

Based on table 3, the budgetary participation relationship has a linearity value of 0.000 indicating the relationship pattern of the variable is stated to be linear, the significance value of Job Insecurity is 0.000, which means that the relationship pattern of the variable is stated to be linear, the significance value of the information asymmetry variable is 0.000, which means the relationship pattern of the variable is declared to be linear. Based on these data, each variable has a linear relationship, so it is feasible to analyze using PLS.

Measurement Model (Validity and reliability)

The purpose of the measurement model is to describe how well the indicators in this study can be used as instruments for measuring latent variables. The test results of the measurement model are shown in table 4.

Table 4: Validity and reliability test results

Variable	Validity			Reliability	
	Loading factor	AVE		Composite reliability	
Budget slack	0,885	0,656	Valid	0,884	Reliable
Budget Participation	0,848	0,560	Valid	0,862	Reliable
Job insecurity	0,866	0,606	Valid	0,883	Reliable
Information Asymmetry	0,868	0,696	Valid	0,873	Reliable

Source: processed data, 2021

Based on the table above, it can be seen that all indicators have a Loading Factor value of 0.50 (Valid), and factor extraction for each construct produces an AVE value of 0.50 (Valid). The results of the reliability calculation show that all Composite Reliability (CR) values 0,70 (Reliable), thus it can be concluded that all these latent variables have fairly good and proper indicators.

Model Fit

The goodness of fit is used to assess whether the SEM-PLS model is good and can be continued in testing and data analysis. The results of the goodness of fit test are shown in table 5.

Table 5: The goodness of fit test results

No.	Indicators	Result	Conclusion
1.	Average path coefficient (APC)	0,329, P<0,001	Model fit
2.	Average R-squared (ARS)	0,771, P<0,001	Model fit
3.	Average adjusted R-squared (AARS)	0,763, P<0,001	Model fit
4.	Average block VIF (AVIF)	2,936	Ideal
5.	Average full collinearity VIF (AFVIF)	3,578	Acceptable
6.	Tenenhaus GoF (GoF)	0,697	Ideal

Source: processed data, 2021

Based on the model fit indicators, all indicators have met the predetermined prerequisites, so it can be concluded that this research model is good and can be continued with hypothesis testing.

Inner Model Test

This section deals with the evaluation of the coefficients or parameters that indicate a causal relationship or the effect of one latent variable on another latent variable. A causal relationship is declared insignificant if the p -value < 0.05 ($\alpha=5\%$). The test was carried out with the help of the Warp PLS program application, the estimation results of the path value of the structural model were obtained. The results of the inner model test are shown in table 6.

Table 6: Summary of inner model test results

Variable	Path coefficient	p -value
Budget Participation	0,304	0,002
Job insecurity	0,460	0,000
Information Asymmetry	0,223	0,016

Source: processed data, 2021

Discussion

The Budget Participation variable has an influence (path coefficient) on budgetary slack of 0.304 with a p -value of 0.002. Because the p -value < 0.05 , the statistical hypothesis states that H_0 is rejected, or in other words, H_1 is accepted. Budget participation has a positive effect on budgetary slack. The results of the study indicate that the more individuals who participate in budget preparation, the higher the intensity of budgetary slack or employee participation in the budget, will make employees free to determine what will be achieved for their interests, not the interests of the organization or institution (Ariani & Budiasih, 2021). The results of this study are linear with the studies of (Lakasse et al., 2021; Nurhikmat et al., 2016; Sarwendhi, 2021) in their research showing the results that the more individuals who participate in budgeting, the higher the chance of budgetary slack.

The information asymmetry variable has an influence (path coefficient) on budgetary slack of 0.46 with a p -value of 0.000. Because the p -value < 0.05 , the statistical hypothesis states that H_0 is rejected, meaning that information asymmetry has a significant effect on Budgetary Slack. The condition of information asymmetry means that employees are more technically familiar with work and employees have a better understanding of what can be achieved in their respective areas of responsibility, so that indirectly there is a decrease in budgetary slack because the budget is right on target. Actions are taken by employees as parties who have an interest in budget planning, reporting consistency against expected performance targets, or unifying the relationship between inputs and outputs of a program by existing realities, resulting in a decrease in budgetary slack. The results of this study are linear with the studies of (Aditia & Nasution, 2020; Banding et al., 2021; Maryati & Hendrawan, 2020; Rochmawati & Musyarofah, 2020) that information asymmetry has a positive effect on budgetary slack.

The job insecurity variable has an influence (path coefficient) on budgetary slack of 0.223 with a p -value of 0.016. Because the p -value < 0.05 , the statistical hypothesis states that H_0 is rejected, meaning that job insecurity has a significant effect on budgetary slack. The results of linear research with the study of (GÜNAY, 2021; Roczniowska & Richter, 2021) that budget implementers when working with budgets feel the direct impact of the budget and will affect the behavior of budget implementers (De Witte, 2005; Greenhalgh, 2011; Schiff & Lewin, 2019). The budget limits the actions of lower-level managers as budget implementers as well as a performance measurement tool. This causes employees to feel budget tightness and anxiety over poor performance reports because performance is measured based on the achievement of targets and the efficiency of budget execution. The path coefficients in the structural model, as well as the weight value of the manifest variable factors in the measurement model, can be described through the path diagram of the measurement model and the structural model below:

Figure 1: Path Diagram of Measurement Model and Structural Model

Based on the path diagram above, it can be seen that in general the value of the coefficient of determination or $R^2 = 0.764$, meaning that the ability of the model constructed to describe the budgetary slack variable is 76.4%. The rest is the influence of other variables outside the variables that have been determined according to the research objectives. In detail, the budgetary slack variable is more dominantly influenced by information asymmetry, with the highest path coefficient of 0.491, whereas among the indicators whose dominant role in measuring the construct of information asymmetry is work technique with the highest factor loading of 0.866.

Conclusion

Based on the analysis and discussion, it can be concluded that budgetary participation, job insecurity, and information asymmetry have a positive effect on budgetary slack. So that the more individuals who participate in budgeting, the intensity of the emergence of budgetary slack will also be higher. The higher the job insecurity and perceived by the individual, the greater the risk for budgetary slack and high asymmetry, the higher the opportunity for budgetary slack. Budgetary slack can be minimized by reducing budgetary participation consisting of company management, reducing job insecurity felt by employees to continue to think positively, and the need for better supervision to reduce information asymmetry. The limitation of the research is that the researcher only conducts research in one province, so it cannot be used to justify one country. In addition, due to the Covid-19 pandemic, questionnaires were distributed online so the response rate was low. Suggestions for further research are to expand the sampling area and add several variables that are relevant to the research objectives, so that the research results are better.

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