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The Influence of Budget Participation on Budgetary Slack with Organizational Commitment and Locus of Control as Moderating Variables (Case Study at RSIY PDHI Yogyakarta)

Asri Primasiwi1, Rosida Ibrahim2, Nika Esti Rahayu3
Politeknik Negeri Madiun 1, Politeknik Negeri Madiun 2, Politeknik Negeri Madiun 3
Email correspondence: asriprimasiwi@pnm.ac.id

Abstract

This study aimed to determine the effect of budgeting participation in budgetary slack on public sector organizations with organizational commitment and locus of control as a moderating variable. The data source was obtained from a questionnaire survey, using staff and managers in RSIY PDHI hospital in Yogyakarta as a sample. As a sample, 43 questionnaires were collected from 50 which were distributed. The results showed that the variables of budgeting participation did not affect budgetary slack. Meanwhile, after organizational commitment and locus of control as a moderating variable were added the result showed a significant effect. That means organizational commitment and locus of control affected budgeting participation and budgetary slack.

Keywords: *Budgeting participation; budgetary slack; commitment organization; locus of control.*

INTRODUCTION

A budget is a collection of data that contains a plan for allocating costs and revenue for the upcoming period (Fritze, 2001). This can be interpreted as a budget containing an organization's financial framework. Meanwhile, according to Mardiasmo (2009), a budget is a statement regarding the estimated performance to be achieved during a certain period expressed in financial measurements. Then according to Falikhatun (2007), a budget as a plan contains the organization's financial plans in the future, while the budget as a performance criterion functions as part of the management control process that can be stated formally. So it can be concluded that the budget is a benchmark for plans as well as a benchmark for the performance of an organization.

In public sector organizations, the budget is related to the process of determining the amount of funds allocated for each program and activity in monetary units that use public funds. This is what makes it different from the private sector budget because it is not related to the allocation of funds from the public. In the public sector, organizational funding comes from taxes and levies, profits of regional or state-owned companies, government loans in the form of foreign debt and government bonds, and other legitimate sources of funds that do not conflict with established laws and regulations (Sardjito and Muthaher, 2007).

The public sector budgeting process begins when the strategy formulation and strategic planning process is carried out (Halim and Kusufi, 2012). Therefore, the budget preparation process (budgeting) becomes very important. If the public sector organization is successful in budgeting, it is expected that the goals of the organization can be achieved.

The budgeting process involves many parties, from top management to lower management. Budgets have a direct impact on human behavior (Siegel, 1989), especially for people who are directly

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involved in budgeting. To produce an effective budget, managers need the ability to predict the future, by considering various factors, such as environmental factors, participation and preparation style (Ikhsan and Ane, 2007). When subordinates provide biased estimates to superiors, budgetary slack arises.

Several studies in the field of accounting have found that the level of budgetary slack is influenced by several factors, including the magnitude of the role or participation of subordinates in budget preparation. The results of previous studies summarized by Ikhsan and Sane (2007), which tested the relationship between subordinate participation and budgetary slack showed inconsistent results. Research conducted by Camman (1976), Dunk (1993), Merchant (1985) and Onsi (1973) showed that participation in the budget reduces the amount of budgetary slack. Meanwhile, Lukka (1988) and Young (1985), showed opposite results. The results of their studies showed that budgetary participation and budgetary slack have a positive relationship. Collins (1978) in his study concluded that budgetary participation and budgetary slack have an insignificant relationship. The inconsistency of the study according to Govindarajan (1986) allows a contingency theory approach to evaluate the uncertainty of various conditional factors that can affect the effectiveness of budget preparation on budgetary slack.

This study is a replication of the research conducted by Falikhatun (2007) and Ikhsan and Ane (2007). The difference lies in the moderating variables used by the research subjects. This study uses the locus of control and organizational commitment variables according to the suggestions put forward by Sardjito and Muthaher (2007). The reason for using the locus of control variable as a moderating variable is that locus of control is an important contingency factor to measure because it is related to the personality and motivation of the individual. Then organizational commitment remains as a moderating variable to show consistency of results with previous research. Furthermore, the subject of this study is the scope of public sector organizations. As previously explained, the budget plays an important role in public sector organizations as a reference for performance.

From several explanations and reasons that have been put forward above, this study aims to re-examine the effect of budget participation on budgetary slack with organizational commitment and locus of control as moderating variables. So that the main problem in this study can be formulated in the following two questions: does budget participation affect budgetary slack and can organizational commitment and locus of control be moderating variables in testing the relationship between budget participation and budgetary slack.

LITERATURE REVIEW

Budgetary Participation and Budgetary Slack

Budget in accounting is within the scope of management (Halim and Kusufi, 2012). Budget is a management planning tool created to achieve organizational goals so that the organization will know what to do and in which direction the policy will be made (Mardiasmo, 2009). Indrayeni and Kusufi (2012) mention several functions of budget in public sector management as a planning tool, control tool, fiscal policy tool, political tool, coordination and communication tool, performance assessment tool, motivation tool, and a tool to create public space.

Budget participation is the involvement of all parties (heads and staff) in an agency to carry out activities to achieve targets that have been set in the budget. This involvement will encourage heads or managers to be responsible for each of their tasks so that the heads will improve their performance so that they can achieve the targets that have been set in the budget. This indicates a positive relationship

between budget preparation participation and apparatus performance.

Organizational Commitment

Organizational Commitment shows strong belief and support for the values and goals that the organization wants to achieve (Mowday et al, 1997). The increase or decrease in budgetary slack depends on the extent to which individuals are more self-interested or work for the interests of the organization which is the actualization of the level of commitment they have. Managers who have a high level of organizational commitment will have a positive outlook and try harder to do their best for the interests of the organization (Porter et al, 1974).

With high commitment, the possibility of budgetary slack can be avoided. On the other hand, individuals with low commitment will prioritize themselves or their group. These individuals do not have the desire to make the organization better, so the possibility of budgetary slack if they are involved in budget preparation will be greater. On the other hand, individuals or employees with low organizational commitment will have low attention to achieving organizational goals, and tend to try to fulfill personal interests. Strong organizational commitment in individuals will cause individuals to strive to achieve organizational goals following the goals and interests of the organization (Angle and Perry, 1981; Porter et al 1974).

Locus of Control

The concept of Locus of control was first put forward by Rotter (1966), a social learning theorist. Locus of control is one of the personality variables, which is defined as an individual's belief in their ability to control their own destiny (Kreitner and Kinicki, 2005). Locus of control is divided into two, namely internal locus of control and external locus of control.

Rotter (1975) stated that internals tend to state that an event is under their own control, while externals tend to blame external factors that influence an event that befalls them. A person who has an internal locus of control will view the world as something that can be predicted, and individual behavior plays a role in it. In individuals who have an external locus of control will view the world as something that cannot be predicted, as well as in achieving goals so that individual behavior will not have a role in it.

Frame of mind

From several summaries of the explanation of the theoretical basis above, the research model in this study is described as shown in Figure 1 below.

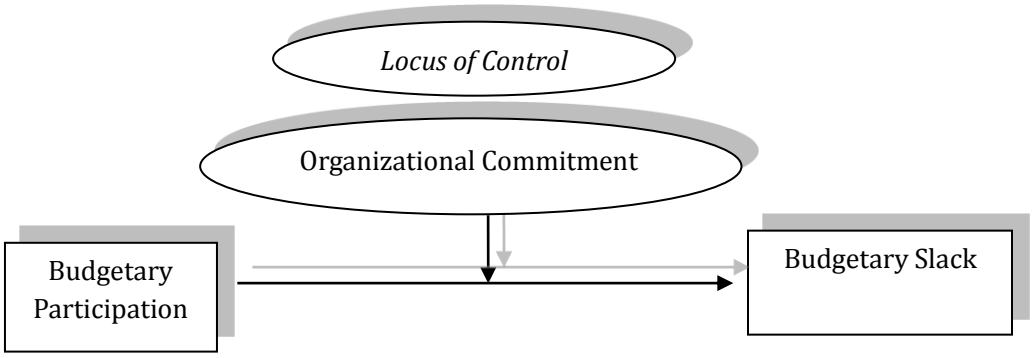


Figure 1. Research Model

Based on the framework that has been made, namely the effect of budgeting participation on budgetary slack with organizational commitment and locus of control as a moderating variable, the research hypothesis can be formulated as follows.

The Effect of budgetary participation on budgetary slack

According to Hobson et al., (2011) the purpose of budget participation from an organizational perspective is that superiors can add information from subordinates that is useful for product planning and coordination, reduce uncertainty, and thus increase profitability. Then budget participation is a solution to the problem of information asymmetry (Kren and Maiga, 2012).

If the participation of subordinates in the preparation of the budget is misused, it will cause slack. This occurs when subordinates report biased information for their interests. Budgetary Slack reflects the difference between the amount of the budget deliberately prepared by the manager and the amount of the company's best estimate (Anthony and Govindarajan, 2001).

The hypothesis stating the influence of budget participation on budgetary slack refers to Young's research (1985) and is strengthened by the opinion of Antie and Eppen (1985) namely that participation causes budgetary slack. The reason is, that subordinates involved in budget preparation tend to loosen the budget that is prepared so that it is easy to achieve, so the hypothesis developed is:

H1: Budget participation affects budgetary slack.

The moderating effect of organizational commitment on budgetary participation and budgetary slack

Nouri and Parker (1996) argue that the increase or decrease of budgetary slack depends on whether individuals choose to pursue their interests or work for the interests of the organization. According to them, high commitment makes individuals care about the fate of the organization and try to make the organization better and budget participation opens up opportunities for subordinates to create budgetary slack for their interests if employee commitment to the organization is at a low level.

According to Angle and Perry (1981); Porter et al (1974) and Nouri and Parker (1996) it can be concluded that the level of organizational commitment of a person can affect their desire to create budgetary slack. High organizational commitment will reduce individuals to do budgetary slack. Conversely, if the commitment of subordinates is low, then their interests are prioritized, and they can do budgetary slack so that the budget is easy to achieve. In the end, the success of the budget target is expected to increase their performance assessment because they are successful in achieving the goal. So the second hypothesis of this study is:

H2: Organizational commitment moderates the effect of budget participation on budgetary slack.

Moderating effect of locus of control on budgetary participation and budgetary effect

Individuals who have an external locus of control are identified as relying more on others and seeking and choosing more profitable situations. They tend not to want to learn and feel no need to choose information. Meanwhile, individuals who have an internal locus of control are identified as relying more on themselves and are also identified as preferring skills rather than just profitable situations. So it is easier for them to improve their performance, they will pay more attention and be ready to learn about the environment around them.

Based on the theory, individuals who have an external locus of control will depend on others and seek and choose more profitable situations. While individuals who have an internal locus of control rely more on themselves and it is easier for them to improve their performance. So the third hypothesis

is:

H3: Both external and internal locus of control will moderate the effect of budget participation on budgetary slack.

RESEARCH METHOD

1. Methods

In this study, the authors used a quantitative approach. Creswell (2010) states that the quantitative approach is the measurement of quantitative data and objective statistics by conducting scientific calculations sourced from a sample of people to answer several questions. The population of this study was hospital employees in the Yogyakarta area. The questionnaire was distributed randomly to several hospitals. However, by the specified deadline, only one hospital was willing to send back the questionnaire, namely the PDHI Islamic Hospital in Yogyakarta. The sample of this study was all employees from the manager level to staff who play a role in preparing the budget.

2. Data collection method

To measure the opinion of the questionnaire, a Likert scale was used. The questionnaire used in this study uses 5 alternative answers with the following scores: 1 = STS (Strongly Disagree); 2 = TS (Disagree); 3 = N (Neutral); 4 = S (Agree); 5 = SS (Strongly Agree)

3. Operational and variable measurements

The variables in this study were measured using instruments adopted from previous studies. The variables of this study consist of four variables, namely budget participation, budgetary slack, organizational commitment and locus of control. The explanation related to the variables used can be seen in table 1 below:

Table 1. Operational Variables

No	Variables	Dimensions	Indicator	Measurement	Source
1	Budget Participation (PA)	Manager involvement in budget preparation	How much involvement do managers have in budget preparation?	Ordinal scale with Likert scale technique	Milani (1975) which was adopted by Dunk (1993), Wartono (1998), and Hidayati (2004)
2	Budgetary Slack (SA)	the difference between the budget amount prepared by the responsibility center manager and the company's best estimate	Difference between budget and realization	Ordinal scale with Likert scale technique	Dunk (1993) which was later adopted by Wartono (1998)
3	Organizational	strong belief and support for	Good	Ordinal scale with Likert scale	Mowday et al., (1979) adapted

	Commitment (KO)	the values and goals the organization wants to achieve	assessment of the organization	technique	to the local government context by Darma (2004) and Dwianasari (2004)
4	Locus of control (LOC)	an individual's belief in whether or not they can control events or incidents that befall them	16 statements submitted in the questionnaire	Ordinal scale with Likert scale technique	Rotter (1966)

Source: previous research, data processed 2014

4. Data Analysis method

Data Quality Test

The instruments or measuring tools used in this study are based on instruments that have been used in previous studies that have been tested for their validity and reliability. However, this study re-tests its reliability and validity. Reliability is determined by calculating the Cronbach alpha coefficient of each instrument in one variable. An instrument can be said to be reliable if it has a Cronbach alpha coefficient that is getting closer to one. The validity test in this study uses the correlation calculation (Pearson correlation) between the scores of each question item and the total score of the question. Based on the results of the reliability and validity tests of the instruments used in this study are presented in the table below.

Table 2. Validity and Reliability Test Results

Variables	Number of Items	Cronbach's Alpha	Information
Budget Participation	6	0.884	Valid
Budget Slack	6	0.533	Valid
Organizational Commitment	15	0.604	Valid
Locus of control	16	0.680	Valid

Source: processed data, 2014

Classical Assumption Test

The classical assumption test used in this study is multicollinearity. Multicollinearity is tested by looking at the VIF (Variance Inflation Factor) value. The VIF tolerance value limit is 10 and a value less than 10 indicates that the regression model is free from multicollinearity problems. The VIF value of each variable is budget participation of 1,401, budgetary slack of 1,231, organizational commitment of 1,131, and locus of control of 1,363.

Hypothesis Testing

H1 tested using a simple linear regression model. The equation used is SA = a + b1PA + e, where SA = budgetary slack, a = constant, b = regression coefficient, PA = budget participation and e = other influencing variables. Based on research conducted by Ikhsan and Ane (2007) the moderating

hypothesis was tested using MRA (Moderate Regression Analysis) therefore H2 and H3 in this study were also tested using MRA. The equation used in this study is:

1. SA = a + b1PA + e
2. SA = a + b1PA + b2KO + e
3. SA = a + b1PA + b2KO + b3PA*KO + e
4. SA = a + b1PA + b2LOC + e
5. SA = a + b1PA + b2LOC +b3PA*LOC + e

Information:
SA: budgetary slack
PA: budget participation
KO: organizational commitment
LOC: locus of control
a: intercept
b: slope

The assessment as a basis for ensuring both contingency variables as moderator variables or not is: If equations (2) and (3) are not significantly different, namely b3=0 and b2≠0, then KO is not a moderator variable. The KO variable is a pure moderator variable, if equations (1) and (2) are not different, but different from equation (3), namely b2≠0; b3≠0, the KO variable is classified as a quasi moderator, if equations (1), (2) and (3) are each different, namely b2≠0 and b3≠0.

If equations (4) and (5) are not significantly different, namely b3=0 and b2≠0, then LOC is not a moderator variable. The LOC variable is called a pure moderator, if equations (1) and (4) are not different, but are different from equation (5), namely b2≠0; b3≠0. The LOC variable is classified as a quasi-moderator variable if equations (1), (4), and (5) are each different, namely b2≠0, and b ≠0.

FINDING AND DISCUSSION

There are three hypotheses in this study. The first hypothesis is tested using linear regression analysis. While testing the second and third hypotheses using moderated regression analysis (MRA). The results of the hypothesis testing are summarized in the table below:

Table 3. Results of Linear Regression Analysis and Moderated Regression Analysis (MRA) Results

Hypothesis	Regression Equation	F Value	sig	Results	Conclusion
H1	SA = 2.78 + 0.97PA	0.881	0.35	PA does not affect SA	rejected
H2	SA = 0.729 + 0.019PA + 0.718KO SA = 5.088 – 1.235PA – 0.602KO + 0.378PA*KO	2.434	0.043	Quasi moderator	accepted
H3	SA = 2.161 + 0.056PA + 0.225LOC SA = -8.298 + 3.037PA + 3.279LOC -0.864PA*LOC	2,803	0.05	Quasi moderator	accepted

Source: processed data, 2014

Hypothesis Test Results 1

Hypothesis 1 testing is done using linear regression analysis. From the output of the regression analysis in table 4.1, the results obtained are that the significance is 0.35. This result indicates that

budget participation has no effect on budgetary slack, although the coefficient of determination shows a positive value. This finding supports the results of research conducted by Collins (1978) that budget participation and budgetary slack have an insignificant relationship.

Results of Hypothesis Test 2 and 3

For interaction testing, it is necessary to prepare interaction data between budget participation variables and each moderating variable. The interaction of budget participation variables with organizational commitment variables is stated in moderate 1. The interaction of budget participation variables with the locus of control variables is stated in moderate 2. Hypothesis testing 2 to and hypothesis 3 is carried out using moderated regression analysis (MRA).

From the output displayed in Table 4.1. above, in testing hypothesis 2, the results obtained that organizational commitment is a quasi-moderator in the relationship between budgetary slack and budget participation. The SPSS output display from the hypothesis 2 test produces a significance level of 0.043 indicating a probability of significance less than 0.05, so it can be said that budget participation, organizational commitment, and moderator 1 together affect budgetary slack.

Hypothesis test 3, in the fourth equation, also shows that the locus of control is a quasi-moderator variable in the relationship between budgetary slack and budgetary participation. The significance value of 0.05 shows that budgetary participation, locus of control, and moderator 2 together affect budgetary slack.

CONCLUSIONS

Based on the output produced, it shows that budget participation does not have a significant effect on budgetary slack. However, after adding a moderating variable, the results show a degree of significance smaller than the level of significance set. So it can be concluded that hypotheses 2 and 3 are supported, namely the variables of organizational commitment and locus of control become moderating variables between budget participation and budgetary slack

LIMITATION & FURTHER RESEARCH

Some limitations of this study include the moderating variables included, only being quasi-moderator variables. Second, the scope of this study is very small. The sample used in this study only came from one hospital so the results limit the generalizability of the research results. So research is needed in public sector organizations with a wider scope. These three studies have not determined the direction of specific influence between variables. Is it positive or negative. So that further research can test more specifically the relationship between variables.

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