

THE ROLE OF ORGANIZATIONAL POLITICS IN THE RELATIONSHIP OF PARTICIPATIVE BUDGETING WITH BUDGETARY SLACK AND PERFORMANCE BASED BUDGETING

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ABSTRACT

The aim of this study is to examine the effect of Participative Budgeting on Budgetary Slack with Organizational Politics as a moderating variable in the public sector; examine the effect of Budgetary Slack on Performance Based Budgeting. This study examines data using a causal model with Partial Least Square (PLS) statistical analysis tools. The data used in this study are primary data from all Regional Apparatus Organizations (OPD) in Banyuwangi Regency involved in the local government budget process. Population screening based on the criteria set so that there are 64 samples of respondents involved in the budgeting process of local government organizations in Banyuwangi. The results showed that Participative Budgeting has no effect on Budgetary Slack; Organizational politics as a moderator predictor that has a positive effect on the relationship between participative budgeting and Budgetary Slack; There is no significant relationship between Budgetary Slack and Performance Based Budgeting. The research results are expected to be a development of literature and accounting studies in the field of government budgeting. Practically, the results of the study can be used as a reference for better budgeting so as to create an effective, efficient, and economical budget and can reduce the slack that occurs.

Keyword: Budgetary slack, participative, politic, performance

ABSTRAK

Penelitian ini bertujuan untuk menguji pengaruh *Participative Budgeting* terhadap *Budgetary Slack* dengan Politik Organisasi sebagai variabel moderasi di sektor publik; mengkaji pengaruh *Budgetary Slack* terhadap *Performance Based Budgeting*. Penelitian ini menguji data menggunakan model kausalitas dengan alat analisis statistik *Partial Least Square (PLS)*. Data yang digunakan dalam penelitian ini adalah data primer dari seluruh Organisasi Perangkat Daerah (OPD) di Kabupaten Banyuwangi yang terlibat dalam proses anggaran pemerintah daerah. Penyaringan populasi berdasarkan kriteria yang ditetapkan sehingga terdapat 64 sampel responden yang terlibat dalam proses penganggaran organisasi pemerintah daerah di Banyuwangi. Hasil penelitian menunjukkan bahwa *Participative Budgeting* tidak berpengaruh terhadap *Budgetary Slack*; Politik organisasi sebagai prediktor moderator yang berpengaruh positif terhadap hubungan antara *participative budgeting* dengan *Budgetary Slack*; Tidak ada hubungan yang signifikan antara *Budgetary Slack* dan *Performance Based Budgeting*. Hasil penelitian diharapkan dapat menjadi pengembangan studi literature dan akuntansi di bidang penganggaran pemerintah. Secara praktis, hasil penelitian dapat dijadikan sebagai acuan penganggaran yang lebih baik sehingga tercipta anggaran yang efektif, efisien, dan ekonomis serta dapat mengurangi *slack* yang terjadi.

Kata Kunci: *Budgetary slack*, partisipatif, politik, kinerja

Introduction

Banyuwangi is one of the most innovative regions in Indonesia and received the Innovative Government Award in 2018 from the Ministry of Trade and Industry (Kemendagri). 341 The innovations that have been carried out certainly require budget planning as stated in the APBD which follows Law No. 21 of 2011 concerning the APBD preparation process. Budget planning is not enough to see

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the size of the budget but must consider performance achievements, results and outputs, benefits, and target groups of activities that are financed (Natsir, 2008) in order to create accountability. Budget accountability aims to show that public money is spent effectively, efficiently and economically so that it is expected to create Value for Money (Kurrohman, 2013). Budget accountability in the public sector is difficult to create because it has a large amount of slack and a weak control system that is unable to reduce this slack (Busch and Gustafson, 2002). Budgetary slack in public organizations is increasingly arising as a result of the budgetary shift from the traditional budget system to performance-based budgeting.

Budget shifting involves the participation of middle and lower level employees in budget preparation so that lower level employees can understand the tasks and strategies used but on the other hand also have a tendency to over-budget and wasteful (Nasir, 2010). The number of parties involved in budget participation raises many problems related to budget ineffectiveness in the form of pseudo-participation, target setting and budgetary slack. Setting budget targets that are too low or too high is caused by lower managers who have a tendency to budget. A budget that is too high will cause frustration for lower managers because of the difficulty of achieving the target. Meanwhile, a budget that is too low will reduce performance because lower managers lose interest in implementing the budget. Budgetary slack can occur because managers try to reduce the risk of not achieving targets by increasing expenses and reducing income. Budget participation opens up more opportunities for budgetary slack, but there is also often pseudo participation, where managers do not really agree to what has been decided because it is only a form of formality for the budget approved by lower-level managers (Mowen, 2006).

Previous research shows that there are differences in the results of the influence of participative budgeting on budgetary slack. Mardiasmo (2018) shows that participatory budgeting has a positive effect on budgetary slack because subordinates try to protect their own interests as a result of high work involvement. In contrast to Suleman and Kahan (2016), Maiga and Jacobs (2007), Berdememaker and Bruggeman (2015), state that participatory budgeting has a negative effect on budgetary slack because participation that occurs can increase trust which leads to budget commitment. High employee commitment can reduce gaps in budgeting (Nouri, 1996).

The existence of gaps in the results of research on participatory budgeting on budgetary slack needs to be studied a lot in the hope that the use of public resources can be absorbed more efficiently. Budgetary slack is defined as the use of resources that are too excessive so that it needs to be controlled. The relationship between participatory budgeting and department performance, budgets and managerial levels is influenced by agency theory and psychology (Derfuss, 2016). Based on agency theory, the principle of participatory budgeting will delegate tasks to effort-opposing or opportunistic parties (employees) who have more knowledge to complete the task and then depend on the party's efforts and environmental influences. At this level, monitoring is costly and the head may not be able to control the agent's actions completely. The opportunistic party may then exploit the

existing information asymmetry (Bockem, 2009). Psychologically, commitment to the organization leads to lower slack. But on the other hand, participatory budgeting leads to the emergence of higher slack because subordinates try to protect their own interests as a form of paying attention to self-image due to high work involvement (Mardiasmo, 2018).

To overcome this problem, a budget-based contrast is needed, which connects the agent with the superior's objectives by presenting a bonus when the budget is achieved (Demi, 1978). In agency theory, agents have opportunistic interests, but in reality, budgeting in public sector organizations is closely related to political activities and legislative power. One of the influences on the ineffectiveness of the budgeting process in government is the existence of power mixed with self-interests (Dunk, 1993 and Razak *et al.*, 2011). Self-interest is also often associated with organizational politics (Witt *et al.*, 2004). Organizational politics affects resource allocation and negatively affects organizational performance in the private sector (Mayes and Stede, 1977 and Zahra, 1987). Emine and Mehmet (2014) state that organizational politics and organizational commitment are affected by budgetary slack. Therefore, this study examines organizational politics which is not only about self-interests but also about political activities and legislative power in the field as a moderating variable in relation to the relationship between participative budgeting and budgetary black in Banyuwangi Regency. Budgetary slack will then be assessed for its effect on. The results of this study can contribute to academics and practitioners. For academics, the results of this study are a development of literature studies regarding the field of budgeting in the government sector. For practitioners, the results of the study can be used as a reference to realize better budgeting so as to create an effective, efficient and economical budget.

Literature Review

Agency Theory

Agency theory is a theory that explains the relationship that occurs between the agent and the principal. Based on agency theory, performance-based budgeting will delegate tasks to business-opposing or opportunistic parties (employees) who have more knowledge to complete the task. At this level, supervision is costly and the head of department may not be able to control the whole. Opportunistic parties can exploit existing information asymmetries (Bockem, 2009), thus requiring budget-based contrasts to link agents with supervisor goals in the form of bonuses when targets are achieved (Sprinkle *et al.*, 2008). As part of the contrast, participative budgeting allows agents to release some private information to lead to a two-sided benefit. First, to link this information with more realistic budget targets to help allocate resources more efficiently. Second, based on budget contracts that will induce higher effort from agents (Birnberg *et al.*, 1990; Heinle, 2014; Kirby *et al.*, 1991).

Motivational and Cognitif Theory

Based on psychological theory, participative budgeting has a positive effect on firms through motivational and cognitive mechanisms (Birnberg *et al.*, 2007; Shields and Shields, 1998). Motivational mechanisms will increase trust, self-

control, and ego involvement in the organization which then leads to more openness to change and acceptance. Cognitive mechanisms involve a superior-subordinate information exchange process that results in a thorough understanding of the situation or task to be completed so that it has an impact on better performance (Chenhall *et al.*, 1998; Kren, 1992; Parker and Kyt, 2006).

Hypothesis Development

Effect of Participative Budgeting on Budgetary Slack

Budget participation is a process where individuals within the organization have an influence on the budget targets achieved. The existence of budget participation is expected to improve employee performance. If a standard or goal that is designed jointly is approved, the employees involved will have seriousness in achieving the goals that have been set with personal responsibility because employees have participated in preparing the budget. According to agency theory this budget participation will delegate tasks to parties who oppose effort and opportunistic. At this stage opportunistic parties may exploit existing information asymmetries (Bockem, 2009). It is therefore important to link this information to more realistic budget goals so that resources can be allocated more efficiently (Heinle, 2014). Research conducted by Maiga and Jacobs (2007) shows that it is important for top-level managers to have a thorough understanding of the importance of Budget Participation in increasing fairness, so as to increase trust which will lead to budget commitment which will ultimately reduce the creation of budgetary slack. Therefore, Participative Budgeting can reduce the creation of budgetary slack (Jolien De Baerdemaeker and Bruggeman, 2015). Then the hypothesis of this study is:

H₁ : Participative budgeting affects budgetary slack

The moderating effect of *Organizational Politics* on the effect of *Participative Budgeting on Budgetary Slack*

Organizational politics is a concept where employees act to meet personal needs without considering the interests of the organization. Organizational Politics is a subjective phenomenon and can change depending on past experience, demographic characteristics, organization, environment and social factors (Kacmar and Ferris, 1993). Some points that can cause common problems in the government agenda are: (1) When there is a threat to continuity between groups (group equilibrium), (2) political leadership, (3) The emergence of crises or extraordinary events, (4) The existence of protest movements including acts of violence, (5) Special problems or political issues that arise in society that attract the attention of the communication media (Anderson, 2002). These problems often involve group interests, therefore organizational politics may strengthen or weaken the relationship between participative budgeting and budgetary slack in relation to budgets in government. Managers may at times face some uncertainties and conflicts of interest. In such cases, budgetary slack can be advantageous for managers to protect themselves against such uncertainties. For companies not all managers use budgetary slack to deal with uncertainty and this can lead to wasted organizational resources so that value of money cannot occur.

Related literature suggests that centralization in an organization can increase political behavior in relation to influencing decisions. If managers feel that the resources of an organization are limited, they may act politically to obtain additional resources (Ram and Prabhakar, 2010) especially for higher budgets. They can make efforts to influence the distribution of resources and create budgetary slack (Witt *et al.*, 2004 and Zahra, 1987). Then the hypothesis of this study is:

H₂ : Organizational Politics moderates the effect of Participative Budgeting on Budgetary Slack.

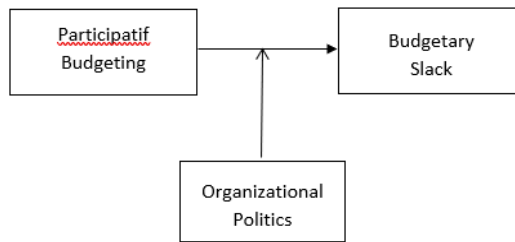
The Effect of Budgetary Slack on the Effectiveness of Performance Based Budgeting

Based on psychological theory, namely the theory of motivational mechanisms and positive mechanisms, participatory budgeting has a positive effect on performance. Participatory budgeting is also believed to reduce the creation of *slack*. *Slack* has a negative impact and a positive impact on performance. *Recovable slack* has a negative effect on performance, but reducing it will also reduce innovation because it has an impact on *manager behavior* because the existence of *slack* makes them more optimistic, making it more likely to increase innovation. Meanwhile, *slack* will be more profitable if the organization has the opportunity to make profitable investments. (E. Wiersma, 2007). The clear impact of organizational slack on performance is still unknown because it depends on the type of *slack* studied. (Bradley, 2011; Mousa, 2013; Tan, 2003) and economic conditions (Wan and Yiu, 2009).

H₃ : Budgetary Slack affects the effectiveness of Performance Based Budgeting

Conceptual Framework

The purpose of this framework is to facilitate the way of thinking about the problems discussed. The conceptual framework in this study is depicted in Figure 1 and Figure 2.



Gambar 1. Kerangka Pemikiran Model 1
 Source: Researcher Analysis



Gambar 2. Kerangka Pemikiran Model 2
 Source : Researcher Analysis

Research Methods

Type of Research

This research is a study with a Quantitative approach. Using the causality model, this study examines whether and how organizational politics has an influence on *budgetary slack* in relation to budget participation. This study uses organizational politics as a moderating variable. Researchers also use literature and empirical studies to formulate existing problems and variables.

Population and Sample

The population of this study is the non-village Daerah Apparatus Organization in Banyuwangi. Samples are individuals involved in the local government budget process. The samples involved in the budgeting process and become research respondents in each SKPD there are head of SKPS, head of field, and budget compilation team.

Operational Definition and Measurement of Variables

Budget participation is defined as the extent of managers involvement in the budgeting process and the extent of their influence on budget objectives and their accountability (Kenis, 1979). This variable is measured using a questionnaire adapted from Milani (1975). This questionnaire consists of 6 measurement items. The answer scale consists of a 7-point likert scale 1 (strongly disagree) to 7 (strongly agree).

Budgetary slack is defined as the use of resources that are too excessive so that it needs to be controlled (Davila, 2005; Merchant, 1989; Van der Stede, 2000). This variable uses 3 items used by Hughes and Kwon (1990) and Krent (1993). This item scale was adapted from Merchant (1985). Merchant initially used 4 scale items which were later evaluated by Hughes and Kwon (1990) who suggested removing one item to improve the reliability of the scale.

Organizational politics is a concept where employees of a specific organization act in their own self-interest without considering the interests of the organization itself (Mintzberg, 1983). The organizational politics questionnaire was adapted from Kacmar and Ferris (1991) with 9 items. However, due to the fact that there is a lot of mutual coordination between the budget preparer and the legislature / ruler, there are additional political items for group interests, namely the extent to which respondents are involved in supporting the political party in power for decision making as many as 3 items.

Effectiveness performance based budgeting implementation is information related to performance effectiveness to direct the budgeting process and influence the allocation of available resources both directly and indirectly, to manage the effectiveness of public sector organizations, improve decision making on budgeting and resource allocation so as to save costs, increase transparency and accountability (Curristine, 2005). Using a questionnaire developed by Achyani and Cahya (2011) consists of 10 question items with a Likert scale of 1-7.

Analysis Technique

Partial Least Square

This study examines the influence between research variables using the causality model. Hypotheses were tested using *Partial Least Square* (PLS) testing. According to Hartono and Abdillah (2014) PLS is a variant or component-based *Structural Equation Modeling* (SEM) equation model using SmartPLS.

Outer Model Measurement

Used to measure formative and reflective indicators. In this study, only reflective indicators were measured. Factor loading is the basis for reflective indicators. Factor loading >0.70 is highly recommended but $0.40-0.60$ is considered sufficient (Ghozali, 2006). Chin (1998) argues that for early stage research of measurement scale development $0.30 - 0.67$ is considered sufficient. This study uses an *outer loading* value of 0.70 .

Then test the quality of the instrument, namely validity and reliability. Using AVE (Average Variance Extracted) and variables are declared valid if the AVE value is >0.5 . Composite reliability is used to measure reliability. The reliability test is used to measure the consistency of respondents in answering questions in the questionnaire. The variable is declared reliable if the composite reliability >0.7 .

Inner Model Measurement

By using the adjusted value R^2 the inner model measurement is used to measure the relationship between variables and the level of influence of the relationship between all variables in the system being built. Then each model can be classified at the strong (≤ 0.70), medium (≤ 0.45) and weak (≤ 0.25) levels. Predictive relevance is used to calculate the relationship between the systems built (Q^2) which has the purpose of predictive validity on the independent variable and is declared good when it has more than zero. Q^2 more than zero. In this study, the hypothesis is accepted if the direction of the variable relationship or the coefficient shown by the original sample value is in line with what is hypothesized and the t statistic value is more than 1.96 (*one tailed*) and less than 0.05 or 5% for the value of the *probability value* (p-value).

Hypothesis Test

Direct Effect Testing

Based on the objectives of this study, the design of the hypothesis test made is the hypothesis test to assess the effect of independent variables separately. A confidence level of 95% is used so that the level of precision or limit of inaccuracy is $\alpha = 5\%$. Then it can be concluded:

- If the p value $> \alpha$, then H_1 accepted and H_a rejected.
- If the p value $< \alpha$, then H_1 rejected and H_a is accepted.

Testing the Effect of Moderating Variables

Moderating variables are variables that can strengthen or weaken the direct relationship between the independent variable and the dependent variable. To test the effect through moderating variables, the equation model used is:

$$Y = a_0 + a_1X_1 + a_2X_2 + a_3X_1 * X_2 + e$$

Result and Discussion

Result

Descriptive Analysis of Respondent Characteristics

Descriptive analysis of respondents provides an overview related to the condition of respondents as additional information to support understanding of the research results. In this study, descriptive analysis of respondents describes the gender, age, position and last education of respondents presented in table 1.

Table 1. Analysis of Respondent Characteristics

Classification Basis	Sub-classification	Frequency	
		Absolut	Percentage
Gender	Male	39	60,93 %
	Female	25	39,07 %
Age	< 25 years	3	4,68%
	25-35	8	12,5%
	36-45	10	15,62%
	46-55	33	51,56%
	>55	10	15,62%
Last Education	High School	0	0%
	D3	2	3,12%
	S1	46	71,87%
	S2	16	25%
Position	S3	0	0
	Head of OPD	5	7,81%
	Head of Field	13	20,31%
	Budget Compilation Team	33	51,56%
	Other files	13	20,31%

Source : Data processing result 2020

Table 1 shows that most of the respondents are male as many as 39 people or 60.93% of the total respondents. Men tend to be more courageous in taking risks and making quick decisions. The age level of respondents affects the level of maturity in carrying out the budgeting process. Most of the respondents involved in the budgeting process in Banyuwangi have an age range of 46-55 years with 33 people or 51.56% of the total respondents. The data shows that the budgeting process is carried out by experienced individuals and has a greater level of maturity in setting budget targets. The last level of education is also an important factor in the decision-making and budgeting process. Most respondents have a bachelor's degree, which indicates that the budgeting process in Banyuwangi is carried out by individuals who have qualified knowledge. Position has an important role in the budget preparation process and most respondents are the budget preparation team as much as 51.56%.

Descriptive Analysis of Respondents' Answers

Descriptive analysis of respondents provides an overview of the average (mean) answers for each indicator, average (mean), and standard deviation of answers to each variable. Table 2 shows a description of the answers of 64 respondents for each indicator regarding all research variables.

Table 2 show the average respondent's answer to participative budgeting is greater than 5.364. The findings indicate that participative budgeting is well implemented by respondents. Indicator X1.6 is the indicator with the highest average, indicating that budget-related discussions have often been held in the ranks of the budget preparers of regional apparatus organizations in Banyuwangi. Regarding budgetary slack, the average respondent's answer was 4.218, which means that the budget gap is moderate. The highest value indicator is Y1.2 which indicates a reasonable level of constraint on budgeting is acceptable. In the organizational politics, the average respondent's answer is 3.2200, indicating that the existence of personal or group interests carried out by individuals in the budgeting process is low. Indicator M1.6 is the indicator with the

highest value which indicates that not messing up the situation in the organization is the best choice. In performance based budgeting, the average value of respondents is greater than 5.78 shows that effectiveness this variable is high. Indicator Y2.1 is the indicator with the highest average value, which means that the implementation of performance-based budgeting improves program effectiveness in regional apparatus organizations in Banyuwangi.

Table 2. Frequency of Respondents' Answers

Variable	Indicator	Number of Respondents' Answers							Mean
		1	2	3	4	5	6	7	
Participative Budgeting	X1.1	1	3	2	6	14	19	19	5,53125
	X1.2	0	3	1	9	17	18	16	5,46875
	X1.3	0	7	3	5	11	21	17	5,359375
	X1.4	2	5	3	11	14	19	10	4,984375
	X1.5	1	2	4	11	13	20	13	5,265625
	X1.6	3	1	0	7	11	25	17	5,578125
		Total							32,1875
	Average value							5,364583	
Budgetary Slack	Y1.1	6	5	9	15	13	13	3	4,171875
	Y1.2	2	2	6	12	17	18	7	4,90625
	Y1.3	8	12	10	15	9	8	2	3,578125
		Total							12,65625
	Average value							4,21875	
Organizational Politics	M1.1	29	21	2	7	3	1	1	2,078125
	M1.2	23	14	6	10	6	5	0	2,640625
	M1.3	8	17	16	18	3	1	1	2,96875
	M1.4	9	20	13	17	1	1	3	2,9375
	M1.5	10	10	12	20	7	6	0	3,296875
	M1.6	0	0	5	5	11	28	15	5,671875
	M1.7	4	5	11	20	9	12	3	4,140625
	M1.8	9	17	12	10	9	4	3	3,265625
	M1.9	3	4	9	20	13	11	4	4,328125
	M1.10	19	15	5	15	6	4	0	2,78125
	M1.11	26	19	7	8	3	1	0	2,15625
	M1.12	12	31	9	10	1	1	0	2,375
	Total							38,64063	
	Average value							3,220052	
Performance Based Budgeting	Y2.1	0	0	0	3	15	23	23	6,03125
	Y2.2	0	0	0	6	12	28	18	5,90625
	Y2.3	0	0	1	9	13	23	18	5,75
	Y2.4	0	0	3	14	12	21	14	5,453125
	Y2.5	0	0	2	13	12	22	15	5,546875
	Y2.6	0	0	0	10	12	23	19	5,796875
	Y2.7	0	0	0	6	12	21	25	6,015625
	Total							40.5	
	Average value							5,785714	

Source : Data processing result 2020

Outer Model Test Results

Each variable is tested using convergent validity by looking at item reliability (validity indicators). Variables are assessed based on the correlation between item score/component score as indicated by the factor loading value. After

going through the outer model and inner measurement tests, hypothesis testing is then carried out. Some indicators that do not meet the outer loading are eliminated to obtain results that can represent the entire variable. Then test the quality of the instrument, namely validity and reliability. The AVE value of the final iteration of models 1 and 2 is shown in tables 5 and 6. Reliability tests are shown in tables 7 and 8 and the results of all variables have met the validity and reliability tests.

Tabel 3. Estimation of Outer Loading Final Iteration Model 1

Variabel	Indikator	Nilai <i>Outer Loading</i>
Participative Budgeting	X1.1	0,982
	X1.4	0,844
	X1.5	0,796
Budgetary Slack	Y1.1	0,886
	Y1.3	0,916
Organizational Politics	M1.1	0,704
	M1.2	0,798
	M1.8	0,585
	M1.10	0,751
	M1.11	0,818

Source : Data processing result 2020

Tabel 4. Estimation of Outer Loading Final Iterasi Model 2

Variabel	Indikator	Nilai <i>Outer Loading</i>
<i>Budgetary Slack</i>	Y1.2	1,000
<i>Performance</i>	Y2.1	0,835
<i>Based Budgeting</i>	Y2.2	0,724
	Y2.3	0,855
	Y2.4	0,867
	Y2.5	0,903
	Y2.6	0,770
	Y2.7	0,835

Source : Data processing result 2020

Based on Table 3 and Table 4, all indicators have an *outer loading* factor value of more than 0.5. Therefore, it can be concluded that all indicators in the table are appropriate to reflect each of the related variables.

Tabel 5 Final Iteration AVE Value Model 1

Variabel	Nilai <i>Average Variance Extracted (AVE)</i>
<i>Participative Budgeting</i>	0,770
<i>Budgetary Slack</i>	0,812
<i>Organizational Politics</i>	0,541

Source: Data processing result 2020

Tabel 6. Final Iteration AVE Value Model 2

Variabel	Nilai <i>Average Variance Extracted (AVE)</i>
<i>Budgetary Slack</i>	1
<i>Performance Based Budgeting</i>	0,687

Source: Data processing result 2020

Based on the results contained in tables 5 and 6, all variables have an AVE value greater than 0.5. So it can be concluded that all variables are declared valid. Then after the variable is declared valid, reliability testing is carried out on all variables used in this study. Using composite reliability and cornbach's alpha the reliability of the variables was tested. The reliability coefficient value must be >0.70 while Cornbach's Alpha >0.6. Tables 7 and 8 show the results of the reliability measurement.

Tabel 7. Reliability Test Result Model 1

Variabel	Cronbach's Alpha	Composite Reliability
<i>Partisipative Budgeting</i>	0,899	0,909
<i>Budgetary Slack</i>	0,769	0,896
<i>Organizational Politics</i>	0,788	0,853

Source : Data processing result 2020

Tabel 8. Reliability Test Result Model 2

Variabel	Cronbach's Alpha	Composite Reliability
<i>Budgetary Slack</i>	1	1
<i>Performance Based Budgeting</i>	0,936	0,939

Source : Data processing result 2020

Based on the results contained in tables 7 and 8, it can be seen that all variables have a composite reliability value above 0.7 and a cornbach's alpha value above 0.6. These results indicate that the variables are reliable and reliable variables to be used in the further analysis process.

Hypothesis Test Result

Based on the results of testing the *inner model* (structural model), a hypothesis test is carried out which has the output of the *t-Statistic* and *r-square* parameter coefficients. This hypothesis testing was carried out with the help of SmartPLS (*Partial least square*) 3.0 software. To see a hypothesis accepted or not, among others, by paying attention to the significance value between constructs, *t-statistics* and *p-values*. These values can be seen from the results shown by *bootstrapping*. In this study, *rules of thumb* were used in the form of t-statistics >1.96 with a *p-value* significance level of 0.05 (5%) and a positive beta coefficient. The results of this research hypothesis test are shown in tables 9 and 10.

Tabel 9. Hypothesis 1 and 2 Test Result (Model 1)

Hipotesis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistic ([O/STDEV])	p-values	Test Result
<i>Participative Budgeting (X1) → Budgetary Slack (Y1)</i>	0,228	0,178	0,166	1,374	0,170	Rejected
<i>Moderating Effect 1 → Budgetary Slack (Y1)</i>	0,047	0,042	0,154	0,305	0,760	Rejected
<i>Organizational Politics (M) → Budgetary Slack (Y1)</i>	0,568	0,564	0,080	7,089	0,000	Approved
R-Squared			0,329			

Source : Data processing result 2020

Tabel 10. Hypothesis Test Result (Model 2)

Hipotesis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistic ([O/STDEV])	p-values	Test Result
<i>Budgetary Slack (Y1) → Performance Based Budgeting (Y2)</i>	0,218	0,218	0,234	0,934	0,351	Rejected
R-Squared			0,048			

Source: Data processing result 2020

Discussion

Participative Budgeting on Budgetary Slack

Budget participation is a process where individuals within the organization have an influence on the budget targets achieved. The existence of budget participation is expected to improve employee performance. This is based on the idea that if a standard or goal that is designed jointly is approved, the employees involved will have seriousness in achieving the goals that have been set with personal responsibility because employees have participated in preparing the budget. According to agency theory this budget participation will delegate tasks to parties who oppose effort and opportunistic. At this stage opportunistic parties may exploit the symmetry of information that already exists (Bockem, 2009). It is therefore important to link this information to more realistic budget goals so that resources can be allocated more efficiently (Heinle, 2014). This research contributes to budgetary slack in the public sector. The results showed empirical evidence that participative budgeting has no effect on budgetary slack. Previous research shows that there are research gaps. Participative budgeting can have a positive impact on budgetary slack (Mardiasmo, 2018) but can also have a negative impact on budgetary slack (Jolien and Bruggeman, 2015). Based on agency theory, participation can provide opportunities for subordinates to carry out budgetary slack because subordinates are given the authority to fill the budget. However, the existence of other factors from individual employees has the possibility that budgetary slack will not occur. There is a gap from previous research. So it cannot be concluded the effect of participative budgeting and budgetary slack. In this study, participative budgeting did not have a significant effect on budgetary slack.

The Banyuwangi district government itself based on the 2018 local government financial report has various strategic plans such as the construction of Banyuwangi Airport development, organizing the Banyuwangi Festival and building a pier platform. Regional autonomy, one of which is related to regional development, is expected to encourage innovation and increase regional potential.(Wasana and Halim, 2018). This certainly has implications for budget policies, although it is not yet known exactly the effect of participative budgeting on budgetary slack, it is hoped that there will be better policies related to participative budgeting in the public sector that can better control slack considering that there are many budgets that must be carried out for development in Banyuwangi District.

Participative budgeting has been considered to have several advantages in the budgeting process, namely increasing performance positively and inducing higher effort from agents, resulting in a better understanding of the situation or task being completed so as to produce better decisions because they are involved in the budgeting process. (J. G. Birnberg *et al.*, 2007; J. G. Birnberg *et al.*, 1990; Heinle, 2014) does not have a significant impact on the high and low budget gaps that occur in the public sector. There needs to be a review by decision makers and public sector budgeting on how regional apparatus organizations can control budget gaps in their agencies. Pseudo participation also needs to be minimized so that budget participation becomes better so that budget gaps can be controlled.

Organizational Politics Moderates the Effect of Participative Budgeting and Budgetary Slack

Organizational politics is a subjective phenomenon and can change depending on past experience, demographic characteristics, organization, environment and social factors (Kacmar and Ferris, 1993). The results showed that political organization moderates the effect of participative budgeting on budgetary slack. The results of this study support Emine (2017) that the higher Organizational Politics related to personal interests will result in an increase in the tendency to create budgetary slack in the public sector. Political organizations related to budgeting often involve group interests, therefore organizational politics can encourage the creation of budgetary slack in relation to budgets in government. Managers can face several uncertainties and conflicts of interest at any time. The results of this study are in accordance with agency theory that the more parties involved will cause slack due to differences in interests between groups.

Related literature suggests that increased centralization in an organization can increase political behavior in relation to influencing decisions. When considering that the best examples of centralized organizations are public organizations, experiencing more political behavior in public organizations becomes more likely. If managers feel that the resources of an organization are limited, they may act politically to obtain additional resources (Ram and Prabhakar, 2010) especially for higher budgets. They can make efforts to influence the distribution of resources and create Budgetary Slack (Witt *et al.*, 2004 and Zahra, 1987).

This study provides results that Organizational Politics as a moderating predictor variable or can be referred to as an independent variable, where Organizational Politics has a positive effect on Budgetary Slack. The use of political tactics is believed to occur in both private and public organizations and can lead to Slack. This is in accordance with the research of Emine and Mehmet (2014) where the higher the organizational politics in the public sector, the higher the tendency to create budget constraints in the public sector.

The concept where employees of a specific organization act for personal interests and in this study also concerns the group without considering the interests of the organization itself affects the tendency to do budgetary slack but does not significantly moderate the relationship between participative budgeting and budgetary slack. This relationship is positive where the higher the organizational

politics of an organization, the more slack will be caused. Indicates the need to emphasize organizational politics in the public sector in order to reduce the occurrence of slack in the public sector. The existence of personal or group interests but not on the basis of organizational interests makes aspects of power behavior that have been mixed with material personal interests (Mintzberg, 1983 and Razak *et al.*, 2011). The use of the budget is not only used for the benefit of the organization but also for the benefit of oneself and a group of people so that opportunistic interests occur. So it is necessary to further monitor the project to be carried out with existing budgeting including in the public sector.

Budgetary Slack Affects the Effectiveness of Performance Based Budgeting

The next empirical study analyzes whether budgetary slack affects the effectiveness of performance based budgeting. The results of this analytical test indicate that budgetary slack has no effect on performance based budgeting. This result is in accordance with previous research which states that there is no clear impact between budgetary slack and performance. This is because the effect depends on the type of slack studied (Bradley, 2011; Mousa, 2013; Tan, 2003) and economic conditions (Wan and Yiu, 2009) of course this can be a further study for further research.

Budget slack has several types and purposes. Slack as a resource with possible purposes in the private sector is to protect the main business and against competitors difficult economic conditions and other environmental shocks. Slack is also used to redirect the organization's strategy by investing in products and market investments. This is the view of slack as a resource (Daniel, 2004). In the public sector, the tendency to create slack has a different motivation than earning profit. In practice, budgetary slack is not only a preventive measure but also to gain power, especially for budget controllers (Mardiasmo, 2018). Performance based budgeting aims to create budgets and resource allocations that are 3e (effective, efficient, economical) and increase transparency and accountability. In fact, empirical evidence shows that there are difficulties and challenges in obtaining these goals simultaneously (Gault and Gil-Garcus, 2018). This study itself provides results that low or high budgetary slack is not able to indicate that performance based budgeting is effective or not. Low budgetary slack does not necessarily increase the effectiveness of performance based budgeting and vice versa.

Conclusion

Based on the results of *statistical* testing and discussion of research, the conclusions that can be drawn in this study are as follows:

1. Participative budgeting has no effect on budgetary slack. This indicates that although participative budgeting has been implemented properly and many employees in the public sector are involved in budget preparation, it does not have a significant impact on the high and low budget constraints that occur in the public sector.
2. Organizational politics moderates the relationship between participative budgeting and budgetary slack but as a predictor moderator variable. This indicates that specific organizational politics act for personal or group interests

without considering the interests of the organization itself affect the tendency to create budgetary slack but do not significantly moderate the relationship between participative budgeting and budgetary slack. This relationship is positive where the higher the organizational politics of an organization, the more slack will be caused.

3. Budgetary slack has no effect on performance based budgeting. This indicates that low or high budgetary slack is not able to indicate that performance based budgeting runs effectively or not. Low budgetary slack does not necessarily increase the effectiveness of performance based budgeting and vice versa.

Limitation

The data examined in this study are only non-district regional apparatus organizations so there are limitations in generalizing the dimensions of the public sector as a whole. The literature related to budgeting consists of many arguments and variables and this study only models some of the variables. Other effects that may influence the budgeting process such as participative strategic planning, the level of supervision, the level of employee motivation and its relationship with organizational politics and performance were not examined in this study, which may be a direction for future research. This study is also limited to the use of one type of slack so that the results of the study still cannot be made appropriate conclusions.

Suggestion

New measures are needed that can encourage the creation of 3E (effective, efficient, economical). Organizational politics involving personal and group interests must also be suppressed in order to reduce slack and create budget effectiveness. Budgetary slack also need to be regulated in such a way because not necessarily with a small gap can increase the effectiveness of performance based budgeting in the public sector, and further supervision is needed about the project to be carried out with existing budgeting in the public sector. Future research can set subjects not only in districts but also in provinces and central government organizations in order to generalize the dimensions of the public sector as a whole. Perhaps the use of other variables that are thought to be associated with budgetary disparities and performance in the public sector could be used such as participative strategic planning, level of supervision, level of employee motivation and its relationship with organizational politics and performance. Further analysis of the positive and negative impacts of budget constraints in the public sector can also be studied in future research as well as the types of slack that arise in the public sector.

Implication

These findings are important because they contribute as a reference for better budgeting so as to create a 3e budget (effective, efficient, economical) in the public sector. For academics, the results of this study are used as a development of literature and accounting studies in the field of government budgeting. For the government, budget policy holders and budget controllers in the public sector, the findings of this study remind managers both at the top and bottom levels about the implementation of participatory budgets that involve many individuals in budget preparation in order to contribute more effectively in reducing *slack* and saving existing resources.

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