

## The effect of budget goal clarity and budget participation on budgetary slack: information asymmetry as moderation in SKPD Palangka Raya City

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ARTICLE HISTORY	ABSTRACT
<p>Received: July, 31<sup>st</sup> 2024                      Revised: August, 15<sup>th</sup> 2024                      Accepted : September, 25<sup>th</sup> 2024</p> <p><b>Keywords :</b>                      budget goal clarity,                      budgetary participation,                      Budgetary Slack,                      information asymmetry,                      public sector accounting</p>	<p><i>This study examines the influence of budget goal clarity and budgetary participation on budgetary slack, with information asymmetry as a moderating variable. The research was conducted on 60 respondents from 20 Regional Work Units (SKPD) in Palangka Raya City. Using multiple regression and moderated regression analysis, the results show that budget goal clarity negatively affects Budgetary Slack, while budgetary participation positively affects it. Information asymmetry moderates both relationships, strengthening the effect of budget goal clarity and weakening the effect of budgetary participation on Budgetary Slack. These findings imply the importance of clear budget goals, managed participation levels, and minimized information asymmetry in reducing Budgetary Slack. The study contributes to the understanding of budgetary practices in local government units and provides insights for improving budget management in the public sector.</i></p>

### INTRODUCTION

A budget is a statement of estimated performance to be achieved over a certain period expressed in financial terms (Güngör Göksu, 2023). Public sector budgeting is an activity that includes planning, ratification, implementation, and accountability in public sector organizations to improve the performance of bureaucratic organizations (Alsharari, 2022). However, the Budgetary Slack phenomenon often occurs in the budgeting process.

Budgetary Slack is a budgeting process in which there is intentional distortion by lowering budgeted revenue and increasing budgeted costs to quickly achieve budget targets (Mohd Sairazi et al., 2021). Budget gaps arise when a manager underestimates revenue or deliberately inflates costs. Several factors affect Budgetary Slack, including budget target clarity, budget participation, and information asymmetry (Tyas & Mardiati, 2021). Budget target clarity is the extent to which budget objectives are set clearly and specifically so that the budget can be understood by the person responsible for achieving the budget target (Alsharari, 2022).

Budget participation is the extent of the involvement and influence of individuals in determining and preparing budgets within their division or section (Amir et al., 2021). Budget participation is a budgeting approach that allows managers who will be responsible for budget performance to participate in budget development (Alhasnawi et al., 2023). Meanwhile, information asymmetry is a condition that indicates an imbalance of information between management and outsiders (Unsal, 2022). Information asymmetry is a condition where management as a party controls more information than investors or creditors. In public sector

accounting, this information asymmetry can lead to accounting fraud between local governments and local parliaments with information differences or inconsistencies in budget preparation resulting in inappropriate capital expenditure budgets in regional apparatus organizations (OPD) (Jadiyappa et al., 2021).

The phenomenon of Budgetary Slack has become a concern in public sector budgeting practices. For example, as reported by *lenteratoday.com*, the Golkar faction of the Palangka Raya DPRD highlighted the realization of regional expenditure in the 2023 APBD which only reached 53.5% or Rp.531 billion of more than Rp 1.24 trillion. Until July 31, 2023, the budget realization was only around 53.50% of the predetermined target. This shows an indication of Budgetary Slack in the budgeting process and budget realization at the regional level.

Based on this background, this study aims to analyze the effect of budget target clarity and budget participation on Budgetary Slack with information asymmetry as a moderating variable. The case study was conducted at the Regional Work Unit (SKPD) in Palangka Raya City. The results of this study are expected to contribute to the development of theory and practice related to public sector budgeting, especially in efforts to minimize the occurrence of Budgetary Slack. In addition, this research is also expected to be a consideration for local governments in preparing and implementing more effective and efficient budgets

## **LITERATURE REVIEW**

### **Agency Theory**

Agency theory is a condition in which there is a separation between owners (principals) and managers (agents), which can lead to agency problems due to information asymmetry (Moloi et al., 2020). Agency theory is a contractual arrangement between two or more parties, where the principal makes a contract with the agent to act according to the principal's wishes (Macho-Stadler & Pérez-Castrillo, 2021). In the context of government, the public acts as the principal while the local government is the agent (Zeemering, 2021).

### **Budgetary Slack**

Budgetary Slack is a budgeting process in which there is intentional distortion by lowering budgeted revenue and increasing budgeted costs so that budget targets can be easily achieved (Hussain, 2023). Budget gaps arise when a manager underestimates revenue or deliberately inflates costs. Budgetary Slack can be measured by indicators of performance standards, limited budget amounts, and high demands (Park & Jang, 2021).

### **Clarity of Budget Objectives**

Budget target clarity is a financial operation plan that includes an estimate of proposed expenditures and expected funding sources to finance within a certain period (Karaev et al., 2022). Clarity of budget goals is the extent to which budget objectives are set clearly and specifically so that they can be understood by the person responsible for their achievement (Alhasnawi et al., 2023). Indicators of budget target clarity include accountability, activity field planning, results, and level of control (Alsharari, 2020).

### **Budget Participation**

Budget participation as the level of involvement and influence of individuals in determining and preparing budgets within their division or section (Panday & Chowdhury, 2020). Budget participation is a budgeting approach that allows managers who are responsible for budget performance to participate in budget development (Alhasnawi et al., 2023). Indicators of budget participation include participation in budget preparation, satisfaction in budget preparation, the need to provide opinions about the budget, and the frequency of superiors asking for opinions or suggestions (Huang et al., 2021).

### **Information Asymmetry**

Information asymmetry as a condition that indicates an imbalance of information between management and outsiders (Komalasari & Nasih, 2020). Information asymmetry is a condition in which management as a party has more information than investors or creditors (Kalıpçı Çağırın et al., 2021). Indicators of information asymmetry include management having better information, management knowing more about work potential, understanding information, assessing external factors, and management knowing more about technical performance (Aben et al., 2021).

### **Previous Research**

Several previous studies have examined the fact that budget target clarity has a negative effect on Budgetary Slack (Manik, 2020). Other research stated that budget participation has a positive effect on Budgetary Slack (Nasution, 2020).

### **Research Hypothesis**

Based on the theoretical review and previous research, the following hypothesis is formulated:

H1: Budget Goal Clarity has a negative effect on Budgetary Slack

H2: Budget Participation has a positive effect on Budgetary Slack

H3: Information asymmetry moderates the effect of budget goal clarity on budgetary slack.

H4: Information Asymmetry moderates the effect of Budget Participation on Budgetary Slack.

## **RESEARCH METHODS**

This study uses a quantitative approach with a type of causal research to test the cause-and-effect relationship between independent, dependent, and moderation variables (Sugiyono, 2017). Primary data was obtained through questionnaires distributed to 60 respondents from 20 Regional Work Units (SKPD) in Palangka Raya City, including the Head of Section, Treasurer, and Head of Section. The sampling technique used purposive sampling.

The research variables consist of budget target clarity (X1) and budget participation (X2) as independent variables, Budgetary Slack (Y) as the dependent variable, and information asymmetry (M) as a moderating variable. Data analysis uses descriptive statistics, validity tests, reliability tests, and hypothesis testing. The validity test uses Pearson's product-moment correlation, while the reliability test uses Cronbach's Alpha with a minimum limit of 0.6 (Ghozali, 2016). Hypothesis testing includes multiple linear regression analysis and Moderated Regression Analysis (MRA). The multiple linear regression model used is:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$$

While the MRA model used is:

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3M + \beta_4X_1M + \beta_5X_2M + e$$

Where:

- Y = Budgetary Slack
- X1 = Clarity of budget objectives
- X2 = Budget participation
- M = Information asymmetry
- a = Constant
- β = Regression coefficient
- e = error

Hypothesis testing also includes the t-test to test the partial effect of the independent variable on the dependent variable, as well as the coefficient of determination analysis (Adjusted R2) to measure how far the model's ability to explain variations in the dependent variable (Ghozali, 2016).

## RESEARCH RESULT

### Analysis of Results

#### Respondent Characteristics

This research involved 60 respondents from 20 SKPDs in Palangka Raya City. The characteristics of the respondents are presented in the following table:

**Table 1.** Respondent Characteristics

Characteristics	Category	Frequency	Percentage
Gender	Male	36	60,0%
	Female	24	40,0%
Age	21-30 years old	17	28,3%
	31-40 years old	30	50,0%
	41-50 years old	13	21,7%
Education	Diploma	13	21,6%
	S1	40	66,6%
	S2	7	11,8%
Position	Head of Section	20	33,33%
	Treasurer	20	33,33%
	Section Head	20	33,33%

#### Descriptive Statistics

This study has four variables: Budget Goal Clarity (X1), Budget Participation (X2), Information Asymmetry (M), and *Budgetary Slack* (Y). The following are the results of descriptive statistical analysis of data on each variable:

**Table 2.** Descriptive Statistics of Research Variables

	N	Minimum	Maximum	Mean	Std. Deviation
Total_X1	60	24.00	40.00	29.9833	7.05064
Total_X2	60	27.00	45.00	37.0000	5.72831
Total_M	60	21.00	35.00	24.9167	4.74535
Total_Y	60	30.00	50.00	46.1500	5.67129

### Validity and Reliability Test

The validity test results show that all statement items are valid with a Pearson Correlation significance value <0.05. The reliability test resulted in a Cronbach's Alpha value > 0.6 for all variables, indicating that the research instrument is reliable.

**Table 3.** Reliability Test Results

Variables	Cronbach's Alpha	Description
Budget Goal Clarity (X1)	0,991	Reliable
Budget Participation (X2)	0,986	Reliable
Information Asymmetry (M)	0,983	Reliable
<i>Budgetary Slack</i> (Y)	0,990	Reliable

### Multiple Linear Regression Analysis

In this study, multiple regression analysis was used to determine whether or not there was an effect of the independent variables (*Budget Goal Clarity* (X1) and *Budget Participation* (X2)) on the dependent variable (*Budgetary Slack* (Y)).

**Table 4.** Multiple Linear Regression Analysis Results

Variables	Coefficient	t-count	Sig.
Constant	48,320	10,973	0,000
Budget Goal Clarity (X1)	-0,438	-3,922	0,000
Budget Participation (X2)	0,296	2,155	0,035
R Square		0,213	
Adjusted R Square		0,185	

Based on the results of multiple linear regression analysis, the regression equation is obtained:

$$Y = 48.320 - 0.438X1 + 0.296X2$$

### Moderated Regression Analysis (MRA)

**Table 5.** Moderated Regression Analysis (MRA) Results

Variables	Coefficient	t-count	Sig.
Constant	-146,226	-3,345	0,002
Budget Goal Clarity (X1)	-4,636	-8,435	0,000
Budget Participation (X2)	8,368	6,615	0,000
Information Asymmetry (M)	6,584	4,132	0,000
X1 M	0,117	7,027	0,000
X2 M	-0,252	-6,647	0,000
R Square		0,686	
Adjusted R Square		0,657	

Based on the MRA results, a regression equation is obtained:

$$Y = -146.226 - 4.636X1 + 8.368X2 + 6.584M + 0.117X1M - 0.252X2M$$

### Hypothesis Testing

The hypothesis to be proposed in this study relates to whether or not there is a significant influence between the independent variables (*Budget Goal Clarity* (X1) and *Budget Participation* (X2)) on the dependent variable (*Budgetary Slack* (Y)) using moderating variables (*Information Asymmetry* (M)). The following is a hypothesis test from the SPSS

output:

H1: *Budget Goal Clarity* has a negative effect on *Budgetary Slack*

Results: Accepted ( $\beta = -0.438$ , Sig. =  $0.000 < 0.05$ )

H2: *Budget Participation* has a positive effect on *Budgetary Slack*

Results: Accepted ( $\beta = 0.296$ , Sig. =  $0.035 < 0.05$ )

H3: Information asymmetry moderates the effect of budget goal clarity on *budgetary slack*.

Results: Accepted ( $\beta = 0.117$ , Sig. =  $0.000 < 0.05$ )

H4: Information Asymmetry moderates the effect of *Budget Participation* on *Budgetary Slack*

Results: Accepted ( $\beta = -0.252$ , Sig. =  $0.000 < 0.05$ ).

### **Coefficient of Determination**

The Adjusted R Square value in the multiple linear regression model is 0.185, indicating that 18.5% of the variation in *Budgetary Slack* can be explained by Budget Goal Clarity and Budget Participation. After being moderated by Information Asymmetry, the Adjusted R Square value increases to 0.657, indicating that 65.7% of the variation in *Budgetary Slack* can be explained by the model.

### **Discussion**

#### **The Effect of *Budget Goal Clarity* on *Budgetary Slack***

The results showed that budget target clarity had a negative and significant effect on *Budgetary Slack* ( $\beta = -0.438$ , Sig. =  $0.000$ ). Hypothesis 1 is accepted. The results of this study are in line with research before which state that Budget Goal Clarity has a negative effect on *Budgetary Slack* (Namazi & Rezaei, 2024). Because with a clear budget it can be used as a direction so that budget implementation does not deviate from what has been determined so that it can reduce *Budgetary Slack*. This indicates that the clearer the budget objectives, the lower the tendency for *Budgetary Slack* to occur. The clarity of budget goals helps employees understand budget objectives better, thereby reducing the opportunity to make budget gaps.

#### **The Effect of *Budget Participation* on *Budgetary Slack***

*Budget* participation has a positive and significant effect on *Budgetary Slack* ( $\beta = 0.296$ , Sig. =  $0.035$ ). Hypothesis 2 is accepted. The results of this study are in line with research conducted before which state that Budget Participation has a positive effect on *Budgetary Slack*. This may be due to the tendency of individuals to secure their position by setting budget targets that are easier to achieve (Namazi & Rezaei, 2024).

#### **Information Asymmetry as a Moderator of the Effect of Budget Goal Clarity on *Budgetary Slack***

The results of the MRA analysis show that information asymmetry moderates (strengthens) the effect of budget target clarity on *Budgetary Slack* ( $\beta = 0.117$ , Sig. =  $0.000$ ). Hypothesis 3 is accepted. The results of this study are in line with research before which state that Information Asymmetry can moderate *Budget Goal Clarity* on *Budgetary Slack*. This indicates that when there is high information asymmetry, the effect of budget target clarity in reducing *Budgetary Slack* becomes stronger.

### **Information Asymmetry as a Moderator of the Effect of *Budget Participation* on *Budgetary Slack***

Information asymmetry is proven to moderate (weaken) the effect of budget participation on *Budgetary Slack* ( $\beta = -0.252$ , Sig. = 0.000). Hypothesis 4 is accepted. The results of this study are in line with research before, which states that Information Asymmetry can moderate Budget Participation on Budgetary Slack. This finding shows that when there is high information asymmetry, the effect of budget participation on increasing *Budgetary Slack* becomes weaker. Overall, this study's results confirm the importance of paying attention to budget targets' clarity, participation in budget preparation, and information asymmetry in an effort to reduce *Budgetary Slack* in SKPD in Palangka Raya City.

### **CONCLUSION**

This study shows that budget target clarity significantly negatively affects Budgetary Slack, while budget participation has a significant positive effect. Information asymmetry is proven to moderate both relationships, where information asymmetry strengthens the effect of budget goal clarity and weakens the effect of budget participation on Budgetary Slack. These findings imply the importance of clarifying budget targets and managing the level of participation in budget preparation, as well as minimizing information asymmetry to reduce the occurrence of Budgetary Slack in SKPD in Palangka Raya City. However, this study has limitations in terms of geographical coverage limited to one city and the use of survey methods that are prone to respondent bias.

For future research, it is recommended to expand the geographical coverage to several regions to improve the generalization of the results. The use of mixed methods by combining quantitative and qualitative approaches can provide a deeper understanding of the Budgetary Slack phenomenon. In addition, future research can consider other variables, such as organizational commitment, leadership style, or organizational culture, as moderating or mediating variables. For practitioners, the results of this study can be used as a reference in designing a more effective budgeting system by paying attention to clarity of objectives, level of participation, and better information management.

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