

Determinants of Budgetary Slack Creation: A Study in Malaysian Local Authorities

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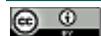
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Abstract

Local authorities are responsible in allocating the resources provided by Federal Government through budget allocation process. The effectiveness and efficiency of local authorities in utilising the resources is determined by the way they manage the public funds. It is important for the local authorities to have a high degree of accountability in order to gain public trust. Managerial behavioural issues such as budgetary slack could affect the effectiveness of the budgeting process. This study aims to examine the influence of budgetary practices, specifically budget participation, budget emphasis and budget control, on the budgetary slack creation in Malaysian Local Authorities. 200 questionnaires survey were randomly distributed in January 2017 to employees that involved in budget preparation from 99 local authorities located in Peninsular Malaysia, and 109 were responded (54.5%). Hypotheses for this study were analysed using simple linear regression. Results show that budget participation, budget emphasis and budget control influence budgetary slack creation among the Malaysian local authorities. This indicates that the propensity of the subordinates to create budgetary slack increases when subordinates have influenced and involved in the budget setting as well as the use of budget in evaluating performance. High involvement and control in budgeting process, provides opportunity to manipulate the budget. The findings in this study contribute to the public sector management accounting literature in the area of budget in Malaysian local authorities. This study could assist the local authorities to enhance their budgeting system and practices.

Keywords: Accountability; Budgetary practice; Budget participation; Budget emphasis; Budget control; Budgetary slack; Local authorities.



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1. Introduction

Local authorities are responsible in allocating the resources provided by the Malaysian Federal Government through budget allocation process. The effectiveness and efficiency of the local authorities in utilising the resources is important as it affects the Malaysian economic growth, and determined by the way they manage the public funds. It is important for the local authorities to have a high degree of accountability in order to gain trust from the public (O' Dwyer and Unerman, 2007). However, with the increase number of corruption, bribery and embezzlement of fund scandals among the public officers, the public have begun to lose trust and confidence towards the government. Of consequence, the public have placed serious attention on the accountability aspects among the public officers in making sure that their contribution in the form of taxes are used for the right purpose that is for the economic, environment and social development.

Despite the importance and significance of budget in business practices, practitioners and academics have pose a question on how budget actually works in practice and the negative and positive impacts of budget on organisations and individuals. One of the managerial behaviour issues in budgeting is budgetary slack. Merchant (1985), defined budgetary slack as "the excess of the amount budgeted in an area over that which is necessary". Although budgetary slack is considered a dysfunctional behaviour from the academic perspective, from the business perspective however, "budgetary slack can be considered as a good thing and can be acceptable if it is within the allowed range and does not conflict with the company's objectives and ambitions, also it must be as little as possible" (Elmassri and Harris, 2011). According to Lowe and Shaw (1968), subordinates commit budgetary slack because of the reward system and feeling of insecurity.

With the increasing number of bribery, corruption and embezzlement of fund scandals among the politicians and public officers, the public have demanded for greater accountability especially in handling public funds (Majid, 2017). The public are also questioning whether the local authorities have played their roles properly in managing public funds and deliver public services, and whether the public officers are accountable for their actions resulting from unfavourable budget variances and mismanagement of public funds. This is to ensure that the funds allocated are used for the benefits of the public. The public officers are expected to possess high degree of accountability in providing better services and facilities to the public within restricted budget allocated.

Based on the agency theory, managers tend to maximise their wealth at the expense of the owners (Jensen and Meckling, 1976). Therefore, owners often implement budget-based performance evaluation to measure the performance of their managers and minimize the conflict of interest between the owners and managers due to information asymmetry. However, from the perspective of the managers, they become more pressured to achieve the budgeted target when rewards and performance are linked to budget. Therefore, they tend to manipulate the information and create slack to guard themselves against unanticipated situations and thus, showing better performance (Van, 2000). The emphasis on budget as performance measurement (Hopwood, 1972), participation of subordinates in the budgeting process and controllability of managers on Chenxi (2011) provide an opportunity to create budgetary slack (Lowe and Shaw, 1968; Waller, 1988; Young, 1985). Thus this study aims to investigate how budgetary practices would cause budgetary slack creation in Malaysian Local Authorities.

2. Local Authority in Malaysia

In Malaysia, local authority is an autonomous body under the authority of the Ministry of Urban Wellbeing, Housing and Local Government. Local authority can be classified into district council (*Malay: Majlis Daerah*), municipal council (*Majlis Perbandaran*) and city council (*Majlis Bandaraya*). As in 2017, there are 149 local authorities in Malaysia consisting of 13 city councils, 38 municipal councils and 98 district councils. Each local authority is headed by the Mayor (*Datuk Bandar*) for a council and President (*Yang Di-Pertua*) for a municipal and district. The local authorities in Malaysia have the authority to collect taxes in the form of assessment, basic amenities, collecting and managing waste and garbage, planning and developing the area under its jurisdiction and grant licenses and permits to traders. Due to the high degree of involvement in the development of the cities, municipals and districts, they become one of the important agencies in the development of the area under its jurisdiction. The local authorities are also responsible in allocating the resources provided by the Malaysian Federal Government through budget allocation process.

3. Budgetary System in Malaysia

Public sector budgeting is a process of allocating fund to each public program or activity (Setiawan and Ghozali, 2016). For example: a local authority would allocate the funds received from the central government to each program or activity that benefits the community in an area. However, the local authority may face difficulty and delay in completing, allocating and managing budget due to political intervention. Consequently, it affects the development of the area under its jurisdiction which in turn affects the economic growth of the country at the macro level.

Doh (1981), noted in his study that there have been many issues with the budgetary system in Malaysia. Among the issues are: (i) lack of trained staff, (ii) lack of support from the treasury (iii), lack of support from top level administration, (iv) over emphasised on technical aspects and (v) less attention on the importance of using budgetary system. Dean (1986), has also noted that the poor budgetary system in Malaysia is attributed by the inefficient used of data, lack of central agency support and technical difficulties to allocate overhead costs. Difficulty in determining output indicator, lack of trained staff and lack of commitment from the budget officers, managers and steering committee are also among the factors that contribute to poor budgetary system in Malaysia. Tayib and Hussin (2005) conducted research at Malaysian Public universities and they found out that budgeting system in Malaysian public universities still facing the same problems as identified by Doh (1981) and Dean (1986). In addition, high interventions from the political groups could also influence the effectiveness of the budgetary process (Setiawan and Ghozali, 2016).

In order to improve the efficiency and effectiveness of the budgeting process, the Federal Treasury of Malaysia had introduced the Modified Budgeting System (MBS) in 1990. Prior to 1990, the local authorities had relied on the Program and Performance Budgeting System (PPBS) since 1969 and the Traditional Budgeting System (TBS) prior to 1969. MBS was introduced to overcome the weaknesses of the previous budgeting system through optimization of resource allocations for better handling of funds for government projects. MBS improves program performance by adopting better management practices and consequently, increases the level of accountability among budget preparers (Din *et al.*, 2015). This is because MBS advocates a concept of 'let managers manage' using the top-down approach.

Under the top-down approach, the president and Mayor of the local authorities are given the authority and greater autonomy in financial management. Therefore, local authorities have the authority to set their own targets and prioritize their programs subject to approval from the State Treasury on the proposed achievable targets. The State Treasury would then conduct periodic evaluation to determine the performance of the local authorities against their targets. However, there are many criticisms on MBS such as focusing too much on the input and output at the expense of outcome and lack of systematic monitoring and evaluation system (Curristine *et al.*, 2015). This has led the Malaysian government to introduce a new budgetary system known as the Outcome Based Budgeting (OBB).

The greater demand for accountability, quality results and increase in public expectations on public service delivery results in government has also led the government to introduce OBB.

4. Budgetary Practices in Public Sector

Budget is “the principal way in which the entity turns its corporate objectives into a financial plan which can be used as a yardstick against which to measure its performance” (Elmassri and Harris, 2011). Budget is used for operational planning, performance evaluation, communication of goals and strategy formation as budget cannot be treated in isolation but correlated or overlapped (Hansen and Stede, 2004; Kenis, 1979). Joshi *et al.* (2003), also provided similar view when they stated that budget plays a significant role in planning, evaluation, coordination, communication and decision making. Budget is significant not only for profit-making organisations but also for non-profit organisations in estimating costs, revenue, cash inflows and cash outflows.

In the context of public sector, public budget is an important tool in achieving country’s economic and social development goals. Public budget is more important than those in private sector because of its role in ensuring fair and equal distribution of wealth to all citizens (Daw *et al.*, 2016). Therefore, it is necessary to examine the process of budget preparation and budgetary system to ensure government budget are managed effectively and efficiently and there is no manipulation or slack in the allocation of resources.

5. Budgetary Practices and Accountability

Accountability is defined as “some individual, small group or organisation has certain “rights” to make demands over the conduct of another, as well as seek reasons for actions taken” (Goddard, 2004). Sinclair (1995) stated that:

... in the context of a relationship with an institution or person which or who is in a position to enforce their responsibility by calling them to account for what they (and/or their subordinates) have or have not done ... subject to an institution’s or a person’s oversight, direction or request that they provide information on their action or justify it before a review authority..

In other words, people have the right to hold others to be accountable for any actions that they make regardless of their position or status as long as they are involved in the activity. That is, the people are accountable to themselves and also to the others in every action because accountability is a kind of condition to participate in the social world (Goddard, 2004). Sinclair (1995), identified five forms of accountability namely, political, public, managerial, professional and personal. In the context of a government, the key accountability relationships are those between the citizens and public officers, between politicians and public servants and among public officers such as how legislators can scrutinize the actions of public officers and held them accountable for their mistake (Mulgan, 2000). In the context of budgeting, accountability is defined as the duty of a government towards its citizens especially in answering questions on how public funds and resources are spent by reporting information to the public so that the public can use the information to assess their performance (Wong and Welch, 2004). Apart from that, Goddard (2004) and Ahrens and Ferry (2015) stated that budgeting plays a significant role in shaping accountability due to its nature and the information content it has. Bracci (2014) in his study found that those individuals that involved or participated in the budgeting processes are held accountable for their action and decision made.

Government needs to disclose all information on government budget and expenditure programs to the public in order to promote government accountability (Schaeffer and Yilmaz, 2008). Accountability will promote public trust, which is essential in facilitating government to carry out its duties and responsibilities (Denhardt and Gray, 1998). When public have trust towards the government, they would be more willing to contribute to the government. For example: tax is the main source of income to the government in most countries. Yet, the citizens and businesses try to evade tax because they have loss trust and confidence towards the government and they know that the tax collected would be used for unnecessary activities such as political agenda and not for their benefits. As consequence, the government’s revenue in the form of tax is reduced and hence, affects government spending.

6. Budgetary Slack Creation

Even with the importance and significance of budget in business practices, practitioners and academics have pose a question on how budget actually works in practice and the negative and positive impacts of budget on organisations and individuals. Yuen (2004), noted that the way operational budget is prepared and executed have significant effects not only on the attitudes and behaviours of those involved but also impacts performance. One of the managerial behaviour issues in budgeting is budgetary slack. Merchant (1985), defined budgetary slack as “*the excess of the amount budgeted in an area over that which is necessary*”. Although budgetary slack is considered a dysfunctional behaviour from the academic perspective, from the business perspective however, “budgetary slack can be considered as a good thing and can be acceptable if it is within the allowed range and does not conflict with the company’s objectives and ambitions, also it must be as little as possible” (Elmassri and Harris, 2011). Superiors may also accept budgetary slack if it is used to motivate and coordinate subordinates or as a risk management practices especially during high market uncertainty (Elmassri and Harris, 2011).

Despite the aggressive actions taken by the Malaysian Anti-Corruption Commission (MACC) to combat corruptions, the Corruption Perceptions Index (CPI) score has further reduced from 50/100 to 49/100 with Malaysia ranked at 55th out of 176 countries in 2016 as compared to 54th in 2015. According to Datuk Azam Baki, MACC Deputy Chief Commissioner, ccorruption in Malaysia is getting serious and based on MACC statistics, 665 investigation papers were filed against government officers last year and as of February 2017, MACC have detained 548 civil servants for corruption (Majid, 2017). With the increasing number of bribery, corruption and embezzlement

of fund scandals among the politicians and public officers, the public have demanded for greater accountability especially in handling public funds. The public are also questioning whether the local authorities have played their roles properly in managing public funds and deliver public services. The public are also questioning whether the public officers are accountable for their actions resulting from unfavourable budget variances and mismanagement of public funds. This is to ensure that the funds allocated are used for the benefits of the public. Therefore, the public officers must possess high degree of accountability in providing better services and facilities to the public within restricted budget allocated.

According to [Lowe and Shaw \(1968\)](#), subordinates commit budgetary slack because of the reward system and feeling of insecurity. This is because owners often used the budget based performance evaluation to monitor and control the managers' behaviour and measure performance. The emphasis on budget as performance measurement has led the managers to create budgetary slack in order to meet their targeted budget so they can avoid from being penalized. [Hopwood \(1972\)](#), claimed that subordinates have a high tendency to falsify accounting records when they are being assessed under the budget constrained style compared to other evaluation methods such as profit conscious style and a non-accounting style because they want to achieve their budgeted target.

Based on the agency theory, managers tend to maximise their wealth at the expense of the owners ([Jensen and Meckling, 1976](#)). Therefore, owners often implement budget-based performance evaluation to measure the performance of their managers and minimize the conflict of interest between the owners and managers due to information asymmetry. However, from the perspective of the managers, they become more pressured to achieve the budgeted target when rewards and performance are linked to budget. Therefore, they tend to manipulate the information and create slack to guard themselves against unanticipated situations and thus, showing better performance ([Van, 2000](#)).

6.1. Budget Participation and Budgetary Slack Creation

Budgetary participation refers to the involvement of managers in the budgeting process ([Kenis, 1979](#)). Previous studies have shown the positive impacts of participative budgeting towards managerial performance, job satisfaction, organisational commitment and motivation ([Abata, 2014](#); [Chenhall and Brownell, 1988](#); [Nouri and Parker, 1998](#); [Shields and Shields, 1998](#)). However, [Yahya et al. \(2008\)](#) in their study conducted at Malaysian Ministry of Defence (MINDEFF) and also in the study by [Elmassri and Harris \(2011\)](#) that was carried out in a state-owned Egyptian petroleum company, argued that budget participation also creates dysfunctional behaviours such as budgetary slack. [Lukka \(1988\)](#), [Young \(1985\)](#) and [Jaya and Rahardjo \(2012\)](#) showed that participative budgeting and budgetary slack creation have a positive correlation.

On the other hand, [Merchant \(1985\)](#) and [Dunk \(1993\)](#) who conducted their study at manufacturing companies found out that budgetary participation reduces budgetary slack. In addition, [Kahar et al. \(2016\)](#) in their study at Government Agencies in Indonesia also found similar finding that budgetary participation have negative effect on budgetary slack. However, [Karsam \(2013\)](#) found that there is no direct influence between participative budgeting and budgetary slack in his study conducted at 'Yayasan Pendidikan dan Koperasi' in Banten, Indonesia.

[Nouri and Parker \(1998\)](#) and [Setiawan and Ghazali \(2016\)](#) proposed that budgetary participation can influence managers' performance. Budgetary participation provides an opportunity for the subordinates to be part of the budgetary process. Such participation leads the managers to have higher organisational commitment which in turns leads to positive outcomes such as higher job performance and organisational performance. [Yahya et al. \(2008\)](#) found positive relationship between budgetary participation and managers' performance. By participating in budgeting process, managers can gain knowledge, experience and exposure on budget management which eventuate to improved performance. However, participation of subordinates in the budgeting process can also provide an opportunity to create budgetary slack ([Lowe and Shaw, 1968](#); [Waller, 1988](#); [Young, 1985](#)).

Other studies have proposed that budget participation reduces budgetary slack in a relatively predictable setting ([Merchant, 1985](#)). However, [Dunk \(1993\)](#) argued that even though high participation in budgeting process could create an opportunity for the managers to create budgetary slack, that does not necessarily mean that they would commit slack due to high moral, ethicality and career advancement considerations. This includes accountability, task clarification and self-discipline.

Based on the concept of accountability, managers are held accountable for any actions that they have made ([Mulgan, 2000](#)). Therefore, when managers participate or involve in the budget setting process, they are held accountable for every decision. For example: the amount of each item under budget, how they allocate the resources, and any unfavourable differences between targeted budget and actual outcome even though the items are not within their control. In order to minimise unfavourable budget variances, they tend to create budgetary slack.

6.2. Budget Emphasis and Budgetary Slack Creation

Budget is useful for financial planning and also for measuring the performance. However, the use of budget to measure performance results in budgetary slack creation. Managers create budgetary slack due to pressure to show better performance and feeling insecurity of losing their job ([Lowe and Shaw, 1968](#)). That is, the more emphasis placed on meeting the budget goals, the more pressure the managers would have and thus increase tendency to create budgetary slack.

Many studies have examined the relationship between budget emphasis and budgetary slack creation. However, the results are not consistent. For example: [Abu Bakar et al. \(2014\)](#) who carried out their study at 150 listed companies in Bursa Malaysia found that budget emphasis does not have a significant direct relationship with budgetary slack creation but needs the interaction from other variables such as budget participation and information

asymmetry. However, Merchant (1985) and Van (2000) reported negative associations between budget emphasis and budgetary slack creation. On the other hand, Linn *et al.* (2001) found that budget emphasis is positively associated with budgetary slack. Onsi (1973) findings are consistent with Linn *et al.* (2001). Lu (2011), in his study conducted at public hospital suggested that top management should not look at budget figure or budget ratio only, but also need to negotiate and listen to their reason in order to prevent any dysfunctional decision made by budgeting managers.

6.3. Budgetary Control and Budgetary Slack Creation

Budget consists of items that are under the control of managers and items that are not within their controls. The problem arises when uncontrollable items are included in the performance measurement and managers are held accountable for items that are not within their control. In order to avoid being penalized due to unfavourable budget performance and to avoid being held accountable for items in the budget, managers tend to create budgetary slack. Based on the principle of budget controllability, managers should be held accountable and should be evaluated based only on items that are within their control (Henttu-Aho, 2016). Of consequence, this minimises the budgetary slack creation on uncontrollable items. Despite the reduction in budgetary slack creation on uncontrollable items, managers could create budgetary slack on controllable items since the control items are included in their performance measurement and they are held accountable for unfavourable budget outcome on those items. Besides that, controllability principle of budget also results in managers tending to ignore uncontrollable items since they are not held accountable for those items and are not used to measure their performance (Chenxi, 2011).

Under responsibility accounting system where individual are responsible to budget and the results, flexible budget is more preferred than tight budget since it offers more controllability over budget. In other words, the performance evaluation should exclude non-controllable items. The use of budget constrained style for performance measurement results in increased tension among managers. The situation becomes worst when they are held accountable for uncontrollable items in their budget. Thus, increase the propensity of the managers to create budgetary slack. Choudhury (1986), argued that budgetary slack can protect managers against unpredicted situation that are not within their control. However, Lal and Abdulla (1996) and Antle and Demski (1988) argued that managers should be evaluated and held accountable only for items that are within their control or directly traceable to them. This can reduce budgetary slack creation for uncontrollable items. Demski (1976), suggested that dysfunctional behaviour may occurs when managers are evaluated based on performance of controllable items and rewards are linked with the performance of these items.

A limited number of empirical studies has examined whether budget control (principle of controllability) influences budgetary slack creation. Bol *et al.* (2015), found a significant positive relationship between controllability principle and the tendency of managers to make discretionary adjustment. Their study indicated that managers tend to make discretionary adjustment when compensation follows the controllability principle.

7. Hypotheses

In sum, high involvement, emphasis and control in budgeting process, provide opportunity for employees to create budgetary slack in Malaysian local authorities. Thus the following hypotheses are proposed for this study:

H1: High involvement of managers in the budgeting process will increase tendency of budgetary slack creation.

H2: More emphasis placed on meeting the budget goals would increase tendency to create budgetary slack.

H3: Tight budgetary control practices may increase managers' tendency to create budgetary slack.

8. Methodology

Data for this study is randomly collected using a questionnaire survey to employees in 99 local authorities located in peninsular Malaysia. Out of 200 questionnaires distributed, 109 have responded (54.5%), however only 106 were usable. The population for this study is the budget preparers in the Malaysian local authorities. Budget preparers are identified as public officers that are involved in the budget preparation and in the budget setting of the Malaysian local authorities. For this study, those who are involved in the budget preparation and in the budget setting for their departments and organisations are selected as respondents. Respondents' information was drawn from the List of Local Authorities provided by the Ministry of Urban Wellbeing, House and Local Government of Malaysia.

Questionnaire had been design to include all the variables in this study (i.e., budget participation, budget emphasis, budget control and budgetary slack). Items measurement for variables were adopted from various studies, i.e.; Milani (1975) and, Swieringa and Moncur (1972) to measure budget participation; Lal and Abdulla (1996) to measure budget emphasis, budget control and budgetary slack creation. Items were measured using 6-point likert scale ranging from '1' as very little to '6' as very much. Hypotheses was analyses using multiple regressions in order to examine whether budget participation, budget emphasis and budget control could influence of budgetary slack creation in the local authorities.

Table-1. Measurement Items

Variables	Item
Budget Participation	The portion of the budget I am involved in setting The amount of reasoning provided to me by a superior when the budget is revised The frequency of budget-related discussion with the superiors initiated by me The amount of influence I feel I have on the final budget The importance of my contribution to the budget The frequency of budget-related discussion initiated by superior when budgets are being set The quality of budget setting when working my superior in preparing the budget The quality of budget setting when working my subordinate in preparing the budget
Budget Emphasis	To evaluate the forecasting ability of the directors/managers. Timely recognition of problem. To improve next period's budget. To control direct costs. To control overheads. To provide control information to directors/managers.
Budget Control	Directors/Managers are held responsible for only controllable items. Budget includes items not under the control of directors/managers. Our workplace practices responsibility accounting
Budgetary Slack	Directors/Managers usually build slack. Directors/Managers try to build as much slack as possible for extra resources. Directors/Managers build slack to meet future uncertainty. Directors/Managers build slack to do things that otherwise cannot be done.

9. Results and Discussion

9.1. Respondents Profile

Profile of 106 respondents are analysed based on their gender, educational level, current job position, number of years working in the organisation and number of years in current position. Detail profiles are depicted in [Table 2](#).

Table-2. Frequency Distribution of Demographic Profile

Demographic Variable	Frequency	Percentage (%)
Gender		
Male	24	22.6
Female	82	77.4
Total	106	100.0
Age		
21 - 30 years	28	26.4
31 - 40 years	54	50.9
41 - 50 years	16	15.1
51 and above	8	7.5
Total	106	100.0
Educational level		
SPM/MCE/STPM/HSE	19	17.9
Diploma / Certificate	46	43.4
Bachelor	39	36.8
Master	2	1.9
Doctorate (PHD)	0	0
Total	106	100.0
Grade of current position		
Grade 'JUSA'	0	0
Grade 53 - 54	0	0
Grade 45 - 52	3	2.8
Grade 41 - 44	9	8.5
Grade 17 - 40	94	88.7
Total	106	100.0
Number of years working in the organisation		

Less than 1 year	4	3.8
1 – 5 years	26	24.5
6 – 10 years	37	34.9
11 – 15 years	18	17.0
16 – 20 years	8	7.5
21 – 25 years	6	5.7
More than 25 years	7	6.6
Total	106	100.0
Number of years in current position		
Less than 1 year	11	10.4
1 – 5 years	36	34.0
6 – 10 years	31	29.2
11 – 15 years	11	10.4
16 – 20 years	8	7.5
21 – 25 years	2	1.9
More than 25 years	7	6.6
Total	106	100.0

9.2. Descriptive Statistics

As depicted in Table 3, the skewness and kurtosis for budget participation, budget emphasis, budget control and budgetary slack are between 2 and -2. According to George and Mallery (2010), the data of this study is considered normal as the range of skewness and kurtosis for all variables are between 2 and -2. Cronbach alpha values are all above 0.5. Instrument is considered reliable if the value of Cronbach's alpha is more than 0.5 (Setiawan and Ghozali, 2016).

The overall mean score of budget participation, budget control and budget emphasis are 4.06, 3.46 and 4.50 respectively. It indicates that there is a high degree of involvement and influence of budget preparers in the budget setting, the budget also has been used extensively to measure and evaluate the performance in the Malaysian local authorities and, subordinates that involve in budget setting are held responsible for controllable items in the budget. Overall mean score for budgetary slack of 3.705 indicates that managers and directors in local authorities have high tendency or prone to build slack. According to Tagwireyi (2012), local authorities might need to build slack as it is difficult to get additional funds from federal government immediately due to the existence of bureaucracy in the budgeting process. This can avoid delay in government project due to delay in getting additional funds from the federal government to cover expenditures which are not anticipated.

Table-3. Descriptive Statistics

No.	Variables	Mean	Standard Deviation	Cronbach Alpha	Skewness	Kurtosis
1	Budget Participation	4.06	1.25	0.970	-0.378	-0.131
2	Budget Control	3.46	1.074	0.630	0.134	0.072
3	Budget Emphasis	4.50	1.034	0.943	-0.868	1.320
4	Budgetary slack	3.705	1.230	0.924	- 0.114	- 0.364
	N= 106					

9.3. Regression Analysis

Pearson correlation analysis was conducted to determine the relationship between variables (budget participation and budgetary slack, budget emphasis and budgetary slack and budget control and budgetary slack) prior to multiple regression analysis. In this study, all these correlations are statistically significant and have positive correlation (see Table 4).

Table-4. Correlation Matrix

Variables	Budget participation	Budget emphasis	Budget control	Budgetary slack
Budget participation	1			
Budget emphasis	0.525**	1		
Budget control	0.029	0.182	1	
Budgetary slack	0.243*	0.231*	0.425**	1

* Correlation is significant at the 0.05 level (2-tailed)

**Correlation is significant at the 0.01 level (2-tailed)

In regression analysis, multicollinearity issues need to be addressed. Multicollinearity arises when all predictive variables are not independent (highly correlated). As a result it could increase the standard errors of regression coefficients and increase the probability to reject the significance test statistics (Yoo et al., 2014). There are numerous ways to examine multicollinearity. In this study, multicollinearity was tested by looking at the value of

tolerance and Variance Inflation Factor (VIF). To ensure that there is no multicollinearity issue, the value of tolerance should be more than 0.1 and the value of VIF should be less than 10.

As depicted in Table 5, multicollinearity does not exist since the value of tolerance for all variable are above 0.1 and the VIF also less than 10. Thus, it could be assumed that budget participation, budget emphasis, budget control and budgetary slack are independent from one another.

Table-5. Tolerance and VIF

Independent variable	Dependent variable	Tolerance	VIF
Budget participation	Budgetary slack	0.720	1.389
Budget emphasis	Budgetary slack	0.697	1.435
Budget control	Budgetary slack	0.961	1.041

Multiple regression analysis was conducted to test the research hypotheses of this study, as the data met all the assumptions for regression analysis. Regression analysis was performed based on the following linear regression model equation:

$$\text{Budgetary slack} = \alpha + \beta_1 (\text{budget participation}) + \beta_2 (\text{budget emphasis}) + \beta_3 (\text{budget control}) + \varepsilon$$

Where α = constant

β_1 = Regression coefficient of budget participation

β_2 = Regression coefficient of budget emphasis

β_3 = Regression coefficient of budget control

ε = error

9.4. Hypotheses Testing

Hypotheses for this study are analysed using regression analysis. Results are presented in the Table 6 below:

Table-6. Regression Analysis Result

Variables	Budgetary Slack		
	Beta	T	Sig.
Budget participation (H1)	0.202	2.014	0.012*
Budget emphasis (H2)	0.058	0.468	0.017*
Budget control (H3)	0.470	4.647	0.000**
R²		0.236	
Adjusted R²		0.213	

**Significant at p -value = 0.01

*Significant at p -value = 0.05

First hypothesis of this study is to test whether high involvement of subordinate in the budget preparation and budget setting could create opportunity for them to create budgetary slack. Regression result shows the value of beta for budget participation is 0.202. $\beta_1=0.202$, indicating that budgetary slack increases on average by 0.202 for a unit increase in budget participation, net of the effects of changes due to budget control and budget emphasis. The p -value =0.012 (p -value < 0.05), proves that budget participation influences the local authorities to create budgetary slack. Therefore, H1 is supported. This finding is consistent with studies by Young (1985), Lukka (1988) and Jaya and Rahardjo (2012).

This study also examines whether the budget emphasis to measure the performance can influence or pressure subordinates to create budgetary slack in order to show better performance (H2). Based on the table, the value of beta for this hypothesis is 0.058. $B_2= 0.058$, indicating the budgetary slack increases on average by 0.058 for a unit increase in budget emphasis, net of the effects of changes due to budget control and budget participation. The p -value is 0.017 (p -value < 0.05). Thus, H2 is supported. This result proves that budget emphasis influences the intention of subordinates to create budgetary slack, and consistent with findings Onsi (1973) and (Linn *et al.*, 2001).

Final hypothesis is to examine whether budget control can influence the local authorities to create budgetary slack (H3). The value of beta of budget control is 0.470. $\beta_3= 0.470$, indicating the budgetary slack increases on average by 0.470 for a unit increase in budget control, net of effects of changes due to budget participation and budget emphasis. As depicted in table, this hypothesis is supported (p -value < 0.05). This indicate that budget control provide an opportunity for subordinates to create budgetary slack. This finding is consistent with study by Bol *et al.* (2015).

9.5. Findings

Hypotheses testing found that budget participation, budget emphasis and budget control significantly influenced subordinate to create budgetary slack. According to Abu Bakar *et al.* (2014), the results are consistent with the principle of agency theory whereby agent will act upon their interest at the expense of principal and will take the opportunity to safeguard their interest. The pressure or tensions to safeguard their interest (job, position and reward) and avoid being held responsible cause them to do more slack in the budget. The situation becomes worse when the degree of budget participation is high since it will provide more opportunities for subordinates to create slack in the

budget. High involvement of subordinates in budgeting process indicates that they have accessed to organisation's budget and thus, provides opportunity to manipulate the budget. These results are consistent with Young (1985), Lukka (1988) and Jaya and Rahardjo (2012).

Budget based performance evaluation also increases the subordinates' tendency to create budgetary slack. Kahar *et al.* (2016), stated that feeling insecurity of losing job and pressured to meet or exceed the performance standards results in subordinates involve in this behavioural problem especially when the rewards are linked with the budget. Increased in tension among subordinates could increase the likelihood of subordinates to build budgetary slack.

Budget control is also positively related to budgetary slack creation. Under responsibility accounting system where individual are accountable for the performance and the results reporting, controllability of budget are preferred. Under controllability of budget, subordinates are held accountable for items within their control (Bol *et al.*, 2015). This shows that the subordinates will be rewarded and be penalized based on the items under their control. Thus, they tend to create slack on those items.

Nik *et al.* (2003), in their study found that the tendency to do budgetary slack in Malaysia is higher compare to United Kingdom (UK) and New Zealand because of high power distance. Power distance can be defined as to what extent less powerful employees can accept that power is distributed unequally in the organisation (Abu Bakar *et al.*, 2014).

In the context of public sector, high power distance means superiors have the ultimate authority, subordinates tend to depend on their superiors, fear of failure and feel the importance to look good, may result in subordinate to build slack in the budget. Thus, high degree of participation, emphasis on budget and budget control may results in subordinate practices high budgetary slack especially in the situation of high power distance.

For local government, budgetary slack would cause the stakeholder faced difficulties in decision making. Since the financial report may not reflect the actual performance of organisation (or manager might make decision at the expense of stakeholder), stakeholders may make a decision that could consequently give negative effect on them.

10. Conclusions

Budgetary slack is one of the managerial issues faced by the stakeholders. The stakeholder faced difficulties since the financial report may not reflect the actual performance of organisation or manager might make decision at the expense of stakeholder. This may results in stakeholders making decision that could affect them negatively. Therefore, they demand greater accountability and transparency in budgeting process and financial reporting, however, manager in some way are freed from accountability to all stakeholders and is answerable to none (Buchholz and Rosenthal, 2004).

Accountability is important in the public sector since they are responsible to manage and handle public funds. Goddard (2004), revealed in his study that budgeting system is the main mechanism to achieve accountability since annual budget embodied all policies, objective and plan of organisation, and the nature of budget which supported all accountability relationships (political accountability, organisational accountability, member-manager accountability, structural accountability, public accountability and professional accountability). Ahrens and Ferry (2015), also stated that budgeting plays a significant role in shaping accountability. High involvement of public officers in budgeting contributed to accountability.

Budget can be used to measure performance. However, too much emphasis on budget as performance measurement increases the likelihood to create budgetary slack among subordinates. The intention of subordinates to create slack arises primarily from the fact that they are held accountable for meeting the targeted budget. Therefore, the emphasis on budget as performance measurement can enhance the accountability among local authorities since any unfavourable budget outcome would results in subordinates needing to justify on the decision taken and being penalized if it resulted from their ignorance and negligence. Subordinates are also held accountable on items within their controls. They will become more careful and thoughtful when managing budget items under their control. Thus, controllability budget enhances the accountability among local authorities since they are responsible only for items under their control and they would be evaluated based on controllable items.

Budgetary slack is a dysfunctional behaviour from the academic perspective, but from the business perspective, it can be used as a risk management practices in the event of high uncertainty. However, the negative impact of budgetary slack is more than the positive impact. Thus, strong internal control system and high budget transparency is needed to minimise budgetary slack in organisation. In the context of accountability, the findings indicate that current budgetary system is still not strong enough to promote accountability among public officers. MBS have been replaced with OBB to enhance accountability in public sector. Despite government action and initiative, budgetary slack creation in public sector still occurs and the number of public officer arrested due to corruption, embezzlement of fund and bribery keep on increasing throughout the year. Thus, it could be assumed that current budgetary system still not strong enough to reduce budgetary slack creation and promote accountability. Findings from this study could provide helpful insight for local authorities to improve their budgetary practices that can enhance accountability and at the same time minimise budgetary slack creation among public officers.

Acknowledgement

We wish to thank the Institute of Quality and Knowledge Advancement and the Institute of Research Management and Innovation for their support in funding this project.

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