

CHAPTER II

LITERATURE REVIEW

2.1 Literature Review

2.1.1 Agency Theory

According to Anthony dan Govindarajan (2007), agency relationship arises when one party (the principal) gives instructions to the other party (agent) to carry out a service, where the principal delegates authority to the agent to make a decision. In this case the principal delegates the authority to agent to make a decision. As a result of the delegation of authority, the agent is obliged to implement his duties well and convey the main factors that should be considered in designing incentive contracts to motivate individuals to achieve goal alignment.

According to Anthony and Govindarajan (2007), one of the key elements of agency theory is that principals and agents have different preferences or goals. Agents are assumed to accept satisfaction not only from financial compensation, but also from other aspects, such as a lot of free time, good working conditions, flexible working hours, and so on. According to Widanaputra and Mimba (2014), the agency theory explains the relationship between two parties involved in a contract which consist of an agent as the party given the responsibility of a task and a principal as the party who delivers the responsibility. In this theory, it is possible that the unintended behavior or moral hazard occurs, because all of individuals, principle and agents, want to maximize their utilities rationally. The theory

agency also describes the relationship between the manager as principals and employees as agents in the term of budgeting process. This theory also analyzes the contractual arrangement between two, or more, individuals, group, or organization (Syahrir, 2017). The principal will make a contract, while the agent will do the work with the expectation that he or she will do what the principal wants.

The budgetary slack has relation with the agency theory. The concept of budget slack can be seen through the perspective of agency theory. According to the agency theory, the budget slack occurs because of the individual interest between the manager and employees. It also determines the phenomenon that happened when the manager delegates the work to the employees to do an authority to make decision. According to this theory, the intervention of the employee in the budgeting process will influence the intended target. It means, the employee has bigger chance to do the budget slack, because they want the target become easier to be achieved (Syahrir (2017), cited in Lukka (1988)).

2.1.2 Contingency Theory

Contingency theory is often referred to a situational theory because this theory suggests leadership that depends on the situation. Contingency model or theory Fiedler (1967) saw that effective groups depend on the compatibility between the styles of leaders who interact with their subordinates so that the situation is controlling and influencing leaders. Leaders try to influence group members in relation to specific situations.

Contingency theory explains that the good contribution of a leader in a group is determined by two things, they are characteristics of leaders and a variety of conditions and situations. In order to fully understand the effectiveness of leaders, both of these must be considered. Based on contingency theory, leadership can be seen from the aspect of organization context. Fiedler said the types of variable leadership such as leader orientation and 3 situation variables.

The orientation of the leader is what the leader is in an organization, kinetic to relationships or crossings on assignments. Good situation is the extent to which the leader can control a situation, which determined by 3 situation variables, namely:

1. Leader Orientation - Members: personal relationships between leaders and its members.
2. Task Structure: the level of the task structure given by the leader to be done by members of the organization.
3. Position of Power: the level of power gained by the leader of the organization because of position.

In this study, contingency theory is used to find out effectiveness of budgeting participation on managerial performance. Factor contingencies used in this study are leadership style, organizational culture, and organizational commitment. These factors will act as a connecting variable in relation to participation managerial budget and performance.

As described above, the findings in the study show inconsistencies between researchers with one another, so the researchers concluded that there were other variables that affected budgetary participation with budgetary slack. According the opinion of Shields and Young (1993), to resolve differences from various research results can be done by using a contingency approach. The contingency approach allows other variables to act as moderating variables that influence the relationship of participation in budgeting.

2.1.3 Budgeting

2.1.3.1 Definition of Budget

Budgeting is one of the most important planning and control mechanisms firms employ (Luft & Shields, 2003; Merchant & Van der Stede, 2017). A challenging aspect of budgeting is that it often simultaneously serves multiple purposes in the firm. Specifically, in many firms, budgets are concurrently used for both planning-oriented functions like forecasting of operating activities and performance-evaluation-oriented functions like determining bonus payments (Becker, Mahlendorf, Scaffer, & Thaten, 2016; Hansen & Van der Stede, 2004).

The budget is a guideline for actions to be implemented by the government which includes plans for income, expenditure, transfers, and financing measured in units of rupiah, which are arranged according to certain classifications systematically for one

period (PP No. 71 of 2010), while the definition of budget based on Governmental Accounting Standards Board (GASB) cited by Bastian (2006:164) is financial operations plan, which includes estimation of proposed expenditures, and sources of income that are expected to finance it in a certain period of time. Anthony and Govindarajan (2007) stated that the budget is an important tool for effective planning and short-term control in the organization.

2.1.3.2 Function and Benefits of the Budget

The main functions of the public sector budget according Mardiasmo (2009) are:

1) Budget as a planning tool

Public sector budgets are made to plan what actions will be taken by government, what costs are needed, and what results are obtained from government spending.

2) Budget as a coordination and communication tool

The public budget is a tool of coordination between parts of the government, so that it can detect inconsistencies of a work unit in achieving organizational goals.

3) Budget as a controlling tool

The budget provides details on government revenue and expense so that expenditure can be accounted for to the public. Without a budget, the government cannot control wasteful expenditures.

4) Budget as a motivational tool

The budget can be used as a tool to motivate manager and staff to work economically, effectively, and efficiently in achieving set organizational goals and objective.

5) The Budget as a political tool

The budget is used to decide priorities and financial needs of these priorities. In the public sector, the budget is a political document as a form of executive commitment and legislative agreement on the use of public funds for family purposes.

6) The Budget as a fiscal policy tool

Budget as a fiscal policy tool is used to stabilize the economy and encourage economic growth because through this budget it can be seen the direction of government fiscal policy so that economic predictions and estimates can be carried out.

7) The Budget as a performance assessment tool

The budget is a form of commitment from the budget holder (executive) to the giver of authority (legislative). Executive performance will be assessed based on the achievement of budget targets and the efficiency of budget execution. As a tool for assessing management performance, the budget serves as a planning control tool.

8) Budget as a tool for creating public spaces

Public budgets should not be ignored by cabinets, bureaucrats and DPRDs. Communities, NGOs, and various community organizations must be involved in the public budgeting process. Organized community groups will try to influence the government budget for their interests.

The benefits of the budgeting process according to Garisson and Noreen (2000: 343) are as follows:

- 1) The budget is a communication tool for management plans through the organization.
- 2) The budget forces managers to think about and plan for the future.
- 3) The budgeting process is a resource allocation tool in parts of the organization so that it can be used as effectively as possible.
- 4) The budget coordinates the activities of the entire organization by integrating plans from various parts.
- 5) The budget determines goals and objectives that can be used to evaluate performance in another time.

2.1.3.3 Budgeting Process

Budgeting according to Anthony and Govindarajan (2007), needs to involve the budget department which has the function of

issuing procedures and forms for budgeting, coordinating and publishing annually corporate level basic assumptions that will be the basis for the budget (for example: assumptions about the economy), ensuring that information is properly delivered by interrelated organizational units, providing assistance to budget makers in preparing their budgets, analyzing proposed budgets and providing recommendations, first to budget makers and then to senior management, handling the process of making budget revisions during the year it coordinates the work of the budget department in the lower echelons (for example: the business unit of the budget department) and analyzes the reported performance of the budget, interprets the results, and makes a summary report for the budget senior management.

In budgeting, an organizational unit is needed to coordinate various types of budget proposals from various centers of accountability. The organizational unit is known as the budget committee. The budget committee carries out a role for each budget. Usually, the budget committee must also approve the large budget revisions made during the year (Anthony and Govindarajan, 2007).

According to Blocher et al. (2001), budgeting can be done in two ways, namely:

- a) Top down or authoritative budgeting in top down budgeting, top management determines overall goals in a budget period, while compiling the entire operating budget to achieve that goal. Authoritative sharing often reduces commitment from lower-level managers and workers responsible for implementing the budget because this authoritative budget is not communicating simply gives orders. Nevertheless, this budgeting can provide control of decision making that is better than participatory budgeting.
- b) Bottom-up or participatory budgeting is the opposite of authoritative or top down budgeting. Participatory budgeting is a good communication tool because it allows top management to understand the problems faced by its employees, and vice versa. So that this method can increase the commitment of employees to achieve budget goals. However, if it is not controlled properly, participatory budgets can lead to budget targets that are easily achieved or not in line with the organization's strategy or budget target.

Thus, it can be concluded that budgeting is a process that cannot stand alone because it requires cooperation from various parts and special departments are needed in its preparation. Budgeting also requires careful consideration so that the budget

revision process is not needed in its journey due to under-consideration at the time of initial preparation.

2.1.4 Budgetary Slack

Anthony and Govindarajan (2007: 86) stated that there are two main approaches in budgeting, namely from top to bottom and a bottom-up approach. From the top-down budget formulation, senior management sets the budget for the lowest level. With budgeting from the bottom up, lower level managers participate in determining the size of the budget. Another approach is a combination of the two approaches, they are the participation approach, and budget makers prepare the first draft budget for their areas of responsibility, which is a bottom-up approach. But they do this based on guidelines set at a higher level, which is a top-down approach. Budgetary slack is the difference between the budget amount and the best estimation (Anthony and Govindarajan, 2007). According to Suartana (2010) in Rukmana (2013), budget slack is the process of budgeting that is found to be deliberate distortions by lowering budgeted revenues and increasing budgeted expenses.

According to Hansen and Mowen (2009: 448), the budget slack arises when a manager estimates low income or raises costs deliberately. Budget slack is also defined as the express incorporation of budget amounts that make it easier to attain (Dunk, 199 in Rukmana, 2013).

Employees tend to make budget slack in order to make the budgeting process easier to be accomplished. Dunk (1993) in Sinaga (2013) also said that the employee who makes the budget slack is influenced by the manager's policy to evaluate the employee's performance by the budget accomplishment. Budgetary slack occurs when a manager deliberately makes an excessive demand on resources exceeding the real budget needs or manager deliberately state their productivity lower than their actual productivity (Widanaputra & Mimba, 2014). A manager can also make a budget slack by estimating the lower revenue and estimating bigger amount of cost. In the other hand, the manager stated too much amount of input needed to produce one unit of output.

2.1.5 Participative Budget

The budget participation is a process in which the budgeted is both involved in and has influence over the setting of budget amounts (Anthony and Govindarajan, 2007). By the participative budget, the senior manager has a right to review and criticize the proposed budget that is done by the lower level manager. The senior manager should do that in order to ensure that budgeted do not "play games" with the budgeting systems. If there is change in the budget that is done by the superior, he or she should inform the budgeted with the reasonable excuses.

Participative budgeting is often related with the occurrence of budget slack. In the participative budget, there is the cooperation between

agent and principal in making decision in the budgeting process. According to Maiga (2017) in participative budgeting, if budget attainability is viewed as the output from a relationship, then an individual's ability and effort to achieve budget can be viewed as inputs.

Participation in budgeting is an effective way to create harmony in the objectives of each unit of responsibility with overall organizational goals. Participation will lead to positive communication because with participation, there will be an exchange of ideas with each other's (Priyetno, 2018). It means, managers who have big participation in the budgeting process have bigger chance to make budget slack because when they involve too much in the budgeting process, they will protect their career by making the budget easier to be accomplished in the sake of their image (Rukmana, 2013).

2.1.6 Budget Emphasis

Another factor that is considered to trigger budgetary slack is the budget emphasis. It can be happened if the performance of subordinates is determined by the budget that has been prepared, and then the subordinates will try to improve their performance by making a budget that is easily achieved.

According to Anggasta and Martini (2014: 517), budget emphasis occurs when the budget is used as a performance benchmark and control tool. Budget emphasis can be measured by several indicators, namely: the

budget as a means of controlling (monitoring) performance, the budget as a measure of performance, the budget is set according to performance to achieve budget targets, the budget sets improves performance, gets rewards from superiors when the budget target is reached, and there is compensation when the budget target is reached

Budget emphasis is an encouragement from superiors to subordinates to implement a well-made budget, when an organization uses the budget as a performance benchmark, subordinates will try to improve their performance in two ways: first, improve performance, so that the budget realization is higher than it has been budgeted. While the second way is to make the budget easy to achieve or by loosening the budget, for example by lowering the income and increasing the cost, so the budget is easy to achieve, in this case will lead to budgetary slack.

2.1.7 Commitment the Organization

Commitment to the organization is defined as a level of acceptance of work on the goals of an organization and has a willingness to remain within the organization (Mathis, 2001 in Dewi and Erawati , 2014). If the individual pursues low organizational commitment, then the individual will try to slack the budget to make it looks good. Commitment is the attitude of someone who shows loyalty or loyalty to something. Ghozali (2013) revealed that commitment is:

- a) Trust and recognition of the goals and values of the organization or profession.
- b) Willingness to find the right effort for organization or profession.
- c) The desire to maintain a unity of membership in an organization or profession.

Strong organizational commitment within the individual will cause the individual to strive to achieve organizational goals in accordance with the goals and interests of the organization while the low organizational commitment in the individual will cause the individual to be more concerned with his personal interests compared to the interests of the organization (Mukaromah, 2015).

Commitment will make organizations be more productive and profitable (Luthans, 2015). Achieving organizational goals is important for individuals with high organizational commitment. Otherwise, for individuals or employees with low organizational commitment will have low attention to achieving organizational goals, and tend to try to meet personal interests. Individuals who have strong organizational commitment in themselves will cause these individuals to strive to achieve organizational goals in accordance with the goals and interests of the organization (Luthans, 2015) and will have a positive outlook and try their best for the sake of organization (Luthans, 2015). High organizational commitment makes individuals care about the fate of the organization and

tries to make the organization be better, and the possibility of a budget slack can be avoided.

2.2 Review of Previous Studies

Research on the effect of budget participation on budgetary slack with various moderating variables has been carried out. Putra, et al (2015) conducted a study with the title of the analysis of the Effect of Budget Participation, Asymmetry Information and Budget Emphasis on Gaps (Study on SKPD of the Buleleng Regency Government). The purpose of this study was to determine the effect of budget participation, information asymmetry and budget emphasis on budget slack both partially and simultaneously. This research took place at the SKPD of Buleleng Regency. The population in this study is the manager of the work unit or structural official involved in the budgeting process in each department or agency in the Buleleng Regency Regional Work Unit. The sample research method is purposive sampling so that a sample of 12 people per SKPD was obtained. The method used in collecting data is survey by distributing questionnaires. The technique used in this study is multiple analysis, t test and f test. The results showed a significant and positive effect on budget participation on the budget slack. Asymmetry information has a significant and positive effect on budget slack. Budget emphasis has a significant and positive influence on budget slack. Budget participation, information asymmetry and joint budgetary emphasis significantly influence budget slack.

The study was conducted by Apriantini, et al. (2014) with the title Effect of Budget Participation on Budget Gaps with Budget Emphasis and Organizational Commitment as Moderating Variables (case studies on the Buleleng district government agencies). The purpose of this study was to determine the effect of budget participation on the budget gap with emphasis on budget and organizational commitment as a moderating variable in the Buleleng district government services. The population used in this study amounted to 323 people, where the number of samples amounted to 75 people. Data analysis techniques used were validity test, moderated regression analysis (MRA), and coefficient of determination (R^2). The results of this study indicate that there is a positive and significant influence between budgeting participation on the budget slack. There is a positive and significant interaction between the budget emphasis on the relationship between budget participation and the budget slack, there is a negative and significant interaction between organizational commitment and the relationship between budget participation and the budget slack.

Rukmana (2013) stated that the participative budgeting is does not significantly influence the budgetary slack because not all of the level of organization that is observed implement the participative budgeting. By this means, there are some moderating factors that can influence the relationship between participative budgeting and budget slack. From the different findings, the moderating variable, in this research is attitude, can

be included for determining the influence of participative budgeting toward budgetary slack.

Rahmiati (2013) conducted a study on the Effect of Budget Participation on Budgetary Slack with Information Asymmetry and Organizational Commitment as moderating (empirical studies in the regional government of Padang city). This study aims to examine: 1) the effect of budget participation on budgetary slack. 2) The effect of budget participation on budgetary slack with asymmetric information as moderating. 3) The effect of budget participation on budgetary slack with organizational commitment as moderating. The populations in this study are all the Regional Work Units of the Padang city. The analytical method used is Moderated Regression Analysis (MRA). The results of the study prove that: 1) budget participation has a significant negative effect on budgetary slack 2) asymmetric information has a significant positive effect on the relationship between budget participation and budgetary slack and 3) organizational commitment does not significantly influence the relationship between budgetary participation and budgetary slack.

Triana et al (2002) conducted a study entitled The Effect of Budget Participation, Budget Emphasis, and Locus of Control on Budget Slack (Survey of Star Hotels in Jambi City). This study aims to determine the effect of budget participation, budget emphasis, and locus of control on budget slack carried out in two-star hotels, three and four in Jambi city. The data collection was done by distributing questionnaires to 47

respondents consisting of middle to lower managers using multiple regression analysis. The results of the study indicate that simultaneous budget participation, budget emphasis, and locus of control have an influence on the budget slack. Based on the t test, partially budgetary participation and budget emphasis have an influence on the budget slack, while partially there is no effect of locus of control on the budget slack. The results of previous research can be summarized in the table as follows:

Table 2.1
Summary of Previous Studies

Title and Author	Variables	Location	Results
Effect of Budgeting Participation on Budgetary Slack with Ethics, Organizational Culture, Opportunistic Behavior and Environmental Uncertainty as Moderating Variables. (Asih, Astika, dan Putri, 2016)	Independent: Budgeting participation Moderation: Ethics, Organizational Culture, Opportunistic Behavior and Environmental Uncertainty Dependent: Budgetary Slack	Jembrana Distict	Ethics is not able to moderate the influence of budgetary participation on budgetary slack. Organizational culture does not moderate the influence of budgetary participation on budgetary slack. Opportunistic Behavior does not moderate the effect of budgeting participation on budgetary slack. Environmental Uncertainty is able to strengthen the influence of budgeting participation on budgetary slack.
Analysis of the Effect of Budget Participation, Asymmetry Information and Budget Emphasis on Budgetary Slack (Study on Buleleng Regency Government SKPD) Putra et al (2015)	Independen: Budget participation, Asymmetry Information and Budget Emphasis Dependent: Budgetary Slack	Buleleng Bali	Budgetary Slack, information asymmetry and budget emphasis partially or jointly have the same significant effect on budget slack
The Effect of Budget Participation on Budget	Independent: Budget	Buleleng Bali	1) there is a positive and significant influence

Slack and Organizational Commitment as Moderating Variables (Case Study in Buleleng District Government Offices) Apriantini, et al (2014)	participation Dependent: Budgetary slack Moderating: Budget emphasis and organization commitment		between budgeting participation (2) there is a positive and significant interaction between the budget emphasis on the relationship in budget participation and the budget slack (3) there is a negative and significant interaction effect between organizational commitment to the relationship in participation budget with a budget slack
The Effect of Budget Participation on Budget Slack with Locus of Control and Organizational Culture as Moderating Variables (Sinaga, 2013)	Independent: Budget participation Moderation: Locus of Control and Organizational Culture Dependent: Budgetary slack	Pematang Siantar City	Budget participation has a significant negative effect on budgetary slack in Pematang Siantar municipal work unit. The influence will be stronger when individuals adhere to internal Locus of control at the Pematang Siantar City Regional Work Unit. People-oriented organizational culture has no influence on the relationship between budget participation and budgetary slack.
The Influence of Budget Participation and Asymmetry Information on the Emergence of Budget Slack (Empirical Study in Padang City Government) Rukmana (2013)	Independent: Budget participation and information asymmetry Dependent: Budgetary slack	Padang	1) there is no significant effect of budget participation on the budget slack 2) there is a significant effect of asymmetric information on the budget slack
The Effect of Budget Participation on Budgetary Slack with Asymmetry Information and Organizational Commitment as Moderating (Empirical Study in Padang City Local Government)	Independent: Budget participation Dependent: Budgetary Slack Moderating: Information on Asymmetry and Organizational Commitment	Padang	1) budget participation has a significant negative effect on budgetary slack 2) asymmetric information has a significant positive effect on the relationship between budget participation and budgetary slack 3) organizational

Rahmiati (2013)			commitment does not have a significant effect on the relationship between budget participation and budgetary slack
Effects of Budget Participation, Budget Emphasis, Information Asymmetry on Budgetary Slack on Samarinda City SKPD. (Kusniawati & Lahaya, 2017)	Independent: Budget Participation, Budget Emphasis, and Information Asymmetry Dependent: Budgetary Slack	Samarinda City	Budget participation has a negative but not significant effect on budgetary slack in the SKPD of Samarinda City. Budget emphasis has a significant positive effect on budgetary slack on Samarinda City SKPD. Information asymmetry has a positive but not significant effect on budgetary slack on Samarinda City SKPD.
Effects of Organizational Commitment and Environmental Uncertainty in the Relationship between Budget Participation and Budgetary Slack (Kartika, 2010)	Independent: Budget Participation Moderation: Organizational Commitment and Environmental Uncertainty Dependent: Budgetary Slack	Semarang	Budget Participation has a positive and significant influence on budgetary slack in Private General Hospitals in Semarang City. Organizational commitment does not have a significant influence on the relationship between budget participation and budgetary slack. Environmental uncertainty has a significant influence on the relationship between budgetary participation and budgetary slack and has a regression coefficient that shows negative results.
Effect of Budget Budget Participation Emphasis and Locus of Control Budget (survey on star hotels in Jambi City) (Triana et al, 2012)	Independent: Budget participation, budget emphasis, and locus of control Dependent: budgetary slack	Jambi	1) partially budgetary participation and budget emphasis have an influence on budget slack 2) while in partially participation, there is no influence of locus of control on budget slack

2.3 Hypotheses Development

2.3.1 Effect of Participative Budget on Budgetary Slack

In agency theory, budget participation is a collaborative process between agents and principals in making decisions related to regional budgeting. The meaning of participation is the involvement of SKPD in compiling the Regional Budget (Dewi and Yasa, 2014). However, in the presence this budget participation is expected to cause budgetary slack. Budgetary slack is an action that degrades the productivity capability because of an agent through their participation in budgeting they have opportunities inside determine the standard of work (Young, 1985 in Dewi and Yasa, 2014).

If the involvement of employees in the preparation of the budget is misused to fulfill their personal desires and interests, it will cause slack, especially if the performance assessment is determined based on the achievement of the budget. Employees usually make an effort to determine income that is too low and the cost is too high. With this, employees can easily reach the budget target. The formulation of the hypothesis which states the effect of budget participation on budgetary slack refers to research done by Rukmana (2013), which stated that participation in planning of budgeting organization be able to create some negative behavior such as, establish the standard or target is too high or too low, the emergence slack budgeting, and the existence of false participation. Based on this description, the following hypothesis can be formulated:

H₁: Budget participation has a negative effect on the budget slack

2.3.2 Effect of Budget Emphasis on Budgetary Slack

Budget emphasis is a pressure from superior on subordinate to implement well-made budgets, when an organization uses the budget as a performance benchmark, subordinates will seek to improve their performance in two ways: first, improve performance, so that budget realization is higher than which has been budgeted, the second way is to make the budget easy to achieve or by loosening the budget, for example by lowering the income and raising costs, so the budget is easy to achieve, in this case it will cause budgetary slack.

It is supported by agency theory that organizational conditions can affect budgetary slack, where the principal as the chairman is more concerned with productivity and efficiency by making a cut-off on the budget that is submitted by the agent as subordinates. While the agency has its own interests to facilitate the achievement of their targets. Chairman urges subordinates to carry out efficiency in carrying out operating activities by reducing the burden and increasing the company's revenue. Budget targets that are too difficult will to reach affect subordinates to take short-term actions that are easily achieved, so that the applied budget emphasis encourages subordinates to do slack, and it results the budget that has been prepared in each unit is easily achieved.

The results of this study are supported by Putra, et al. (2015) who

found that budget emphasis in performance research encourages budget slack. The research conducted by Dunk (1993) is supported by Kusniawati and Lahaya (2017) research and Triana and Putra (2012) who stated that budget emphasis has an influence on budgetary slack. According to Dunk (1993) the higher the budget emphasis, the higher also budgetary slack that might occur. Research results of Kusniawati and Lahaya (2017) also shows a positive influence between emphasis budget and budgetary slack because the target budget is used as a refusal measure the performance of subordinates. Based on the description above, it can be formulated hypothesis as follows:

H₂: The Budget Emphasis has a positive effect on the budget slack

2.3.3 Effect of Organizational Commitment on the Relationship Between Budget Participation and Budget Slack

Commitment to the organization is defined as a level of acceptance of work on the goals of an organization and has a willingness to remain within that organization (Mathis, 2001) in Dewi and Erawati (2014). If the individual pursues a personal interest, then the individual will try to slack the budget to make it look good. High commitment makes individuals concerned with the fate of the organization and tries to make the organization a better direction and budget participation opens opportunities for subordinates to create budgetary slack for their benefit if employee commitment to the organization is at a low level (Jaya, 2014).

With the existence of high commitment, the possibility of budgetary slack can be avoided. From the results of the study Latuheru (2005) states that the higher organizational commitment will lead to the decreasing tendency of individuals participating in budgeting to do budgetary slack. The higher the level of organizational commitment the more negatively influences the relationship between budgetary participation and budgetary slack, which means that the higher the organizational commitment, the lower the tendency of managers participating in budgeting to create budgetary slack. Therefore, the following hypothesis can be formulated:

H₃: Organization Commitment has a negative effect with the relationship between budget participation with budgetary slack

2.3.4 Effect of Organizational Commitment on the Relationship Between Budget Emphasis to Budgetary Slack

When an organization uses the budget as one of the performance benchmarks, the subordinates will try to improve their performance in two ways, the first, increase performance, so that the realization of the budget is higher than the budgeted, whereas the second way is to make the budget easy to achieve or in other words loosen the budget in a way, for example by lowering the income target by raising the cost of the company, so that the budget is easy to achieve, in this case it will cause budgetary slack (Armaeni, 2012).

The results of the study by Aprianti et al. (2014) stated that there is a positive and significant interaction effect between budget emphasis on relationships and budgetary participation with budgetary slack. Aprianti et.al.(2014) study also shows that the higher the level of organizational commitment, the positive relationship between budgetary emphasis and budgetary slack, which can be interpreted that the higher the organizational commitment, the higher the tendency of managers who participate in budgeting to create budget slack.

Based on this explanation, a hypothesis can be formulated as follows:

H4: Organizational commitment has a positive effect on the relationship between budget emphasis to budget slack

2.4 Conceptual Framework

This research aimed to find out and analyze the influence of budget participation and budget emphasis on budget slack through organizational commitment as a moderating variable. Hence, the conceptual framework of this study pictured as follows:

Figure 2.1 Conceptual Framework

