

Effect of Budgeting Factors on Budgetary Slack in Indonesia Universities

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Keywords: Budgetary slack, participation, accountability, information asymmetry, individual behaviour.

Abstract: This study aims to investigate the effect of budgeting factors on budgetary slack in Indonesia Universities. A quantitative research methodology is used in this study. We used 63 respondents with structural position universities in Indonesia. A questionnaire was conducted, and structural equation modelling was used to test the proposed models among the constructs and related hypotheses. This research found that accountability has a significant effect on Budgetary Participation, Information Asymmetry and Individual Behavior, but no significant effect on Budgetary Slack. Budgetary participation has no significant effect on Information Asymmetry. Information Asymmetry has no significant effect on Individual Behavior. Individual behaviour has no significant effect on Budgetary Participation. Budgetary Participation and Information asymmetry have no significant effect on Budgetary Slack, but Individual behaviour has a significant effect on Budgetary Slack when preparing to budget in universities. This paper contributes to existing research on budgetary slack in extent on previous work by identified the factors affecting the budgetary slack. The most factor affects the budgetary slack is participation among individual who gives information to budgeting and asymmetry information. The findings of this study suggest that universities should give target that the department or division to achieved.

1 INTRODUCTION

The budget has a vital role in carrying out the university's strategic plan, which is a benchmark for accountability and performance. It is expected that the budget can be adjusted to the needs of each part under its control. Based on input from each section, all information is obtained and does not result in information asymmetry, thereby reducing budgetary slack. Budgeting that involves all parties will influence individual behaviour in organising to implement a strategic plan to achieve the stated vision and mission.

The budget can reflect economic and social policies in the form of decisions to determine what funds are used to use (Lewis, 2006). The budget is the basis for financial negotiations with funders, which describes the expected cost of an activity package when the activities are carried out, so there is a change from the top part of the Mango budget (2006). Hansen et al. (2003) stated that the budget aims to increase long-term profit in a relatively short period which is used for various purposes including planning and coordinating various organisational

activities, allocating resources, and motivating, but their use is far from perfect. Concern about using the budget for planning and performance evaluation. Budgets inhibit the allocation of organisational resources for their best use and encourage decision making.

Kahar et al. (2016) get strong evidence in analysing the relationship between participatory budgeting and budgetary slack. There is a relationship between participatory budgeting on individual performance and job satisfaction as an intervening variable. According to Fitri (2004), Budget control lacks the presence of information asymmetry and budgeting participation. The way managers are involved in the strategy process determines the creation of slack budgets. When trying to influence the behaviour of subordinate budgeting managers, top management must take a holistic approach and consider the elements of the planning process (Baerdemaeker, 2015). Strategic Business Unit Managers participate in determining the objectives of their specific unit budget and have several levels of influence on their final budget. The use of budget refers to the use of budget information

by business unit managers to measure unit performance (Hoque et al., 2016).

Chong et al. (2015) stated that budgetary slack causes subordinates to be honest in disclosing personal information about performance. When budgets are applied to innovation policies, managers will have simple policies, not only to improve efficiency but also to improve product quality. Budgetary slack has an impact on the quality of customer relations and organisational performance (Chen et al., 2016).

Previous studies examined the factors that influence budgeting for budgetary slack with different outcomes except for budgetary participation factors. The difference between this research and the previous one is combining the factors used in the previous research into one using the Structural Equation Model. This study examines the effect of budgetary participation, accountability, information asymmetry, and individual behaviour as a factor in budgeting in universities in Indonesia against budgetary slack.

2 LITERATURE REVIEW

2.1 Budget

Budget is a vital economic policy instrument that reflects policy priorities in the form of a decision to determine the funds to be used (Lewis, 2006). Budgeting is used to achieve objectives such as the planning and coordination of the various activities of the organisation, the allocation of resources power, motivating employee (Hansen et al., 2003). A university budget is a must and essential to do to achieve the goals of the university. It is also an indicator to measure the achievements of a study program and the university as a whole.

2.2 Budgetary Slack

Duck et al. (1998) stated that slack is intent to establish income and ability of production are much lower, or fees and use of sources of power are much higher. Slack is the difference between the amount that is budgeted to cost and expense that should (Duck and Perera, 1997). Chow et al. (1988) stated that slack as the difference between performance is expected with that reported in the budget.

In budgetary slack, subordinates are allowed to provide information related to its work on the standards specified which later would become the

basis of the evaluation of performance that can improve the satisfaction of work and performance (Young, 1985). Schriff and Lewin (1970) stated budgetary slack is the mechanism that is used managers to set a budget that can be in trying to accomplish as a way managers to achieve its interests alone. To conclude, a mechanism should achieve individual interests to establish a budget. They are achieved if there is a difference between the amount of budget and the expected expenditures.

Budgetary slack associated with budgetary participation, namely the participation of managers or subordinates in participating in the preparation of the budget can influence the outcome and process of budgeting (Duck, 1995). Stevens (1998) in Fitri (2004) stated that budgetary slack occurs because of the asymmetry of information, the uncertainty of performance, the interests of personal and conflict between agent and principal. Slack is created by lower-level managers who know the conditions in the field so that managers can set targets that can be achieved (Van der Stede, 2000). The inconsistency in the results of research before giving ideas for researchers to give a contribution to the research.

2.3 Accountability

Kilby (2004) stating accountability is divided into two so that rating giver (upward accountability) and vote by the community (downward accountability). Their demands of accountability would lead to control over the budget that is tight so that directors and managers will be careful in preparing the budget related to the reports that should they accountable (Van der Stede, 2001). Hopwood (1972) in Otley and Fakiolas (2000) stating the demands will be accountability rigour in the assessment of performance-based budget (rigid budgetary control syle). The results of previous studies are negatively related, and some are positively related. Dunk (1993) and Van der Stede (2001) find increased social pressure on achieving budget targets reducing the amount of slack. Thereby also control which emphasises on the results of the end, will lead to declining slack. However, Merchant (1985) found the relationship positive between budgetary slack with accountability through control strict of top management. Structural in the University High will seek to be careful in preparing the budget because it relates to the budget that must be accounted for. Hanson (1996) and Van der Stede (2001) have found that accountability has a positive effect to budgetary participation, but Ebdon et al., (2016) found that no significant relationship between accountability and

budgetary participation. Young (1985) and Van der Stede (2001) found that accountability has a positive effect on asymmetry information. Commann (1979) found that accountability has a positive effect on individual behaviour, but Otley (1978) found no effect between accountability and individual behaviour. Van der Stede (2001) An overview back to the budget in detail and the achievement of the target budget requires a level of participation that is higher to go on an exchange of information to carry out control over the budget. So it can be said that the higher the accountability, the higher the need for participation. Their control is tight against the budget required information that is sufficient so that their tendency to conceal information. The university has supervision from various parties so that the structure will be more careful in preparing the budget because of accountability.

2.4 Budgetary Participation

Individual participation in the preparation of the budget is used to see how much opportunity is given to choose the desired action. The most contributions of activity budgeting are when a subordinate or subordinates participate in the preparation of the budget. Therefore, employees feel concerned with the attainment of the target budget. According to Atkinson et al. (2001), budgetary participation is determination budgets are together to agree on a target budget. Welsch et al. (2000) budgetary participation has impacted positively, namely reducing the asymmetry of information within the organisation and increase the commitment of individuals within the organisation to achieve the target that is specified. Bianca et al. (2017) state that the relationship between participation and performance matrix forms the perspective of individuals participating in budgeting to encourage better employee performance. The relationship between participation and budget performance shows a good relationship (Stammerjohan and Lopez, 2008). The results of previous studies were varied. Some findings have had negative participation results on budgetary slack, and some have the opposite. The results which stated positively related means participation caused a decrease in budgetary slack. These findings are stated in research (Fitri, 2004), (Van der Stede, 2001), (Dunk 1998), while those who argue otherwise state participation provides a slack opportunity. Young (1985) find that a subordinate who participates will set a standard that is relatively easy to achieve. Onsi (1973) budgetary participation

has a positive effect to budgetary slack, Young (1985) has a negative effect, Dunk (1993) has a negative effect, Daumoser (2018) has a positive effect, and Kahar et al. (2016) budgetary participation harm budgetary slack with job satisfaction. Browell and McInnes (1986) found that budgetary participation harms asymmetry information, but Van der Stede (2001) found a positive relationship between them. Previous study History of the hypothesis of the research is seeing the effect of budgetary participation impacting positively on budgetary slack which means increasingly higher levels of participation will lead to a further reduction in budgetary slack.

2.5 Information Asymmetry

Asymmetry of information is a condition that there is a party which gained the advantage on the cost of the others because it has information that is better than with the others (Scott, 2003). Asymmetry of information in university higher among parties that provide funding to the program of study that is preparing the budget for implementing the program is planned. Parties have information that is either not need to take the opportunity to perform budgetary slack because the life of the parties are sufficiently provided information bias or hide most of the information which they possess in pure, 2004. The donor fund has a standard maximum of the costs arising that can be proposed in the budget by a percentage certain of the total cost of the program (Lewis, 2006) as the maximum budget is used to pay salaries not be more than 50% of the total budget. Fitri (2004) found that information asymmetry did not have a significant impact on budgetary slack. Daumoser (2018) asymmetry information has a positive effect on budgetary slack. Young (1985) has no significant effect (2016), Dunk (1993) has a positive effect, and Chong and Ferdiansah (2011) result negative effect, tested with trust factor and Chong (2016) asymmetry information has a negative effect with leader's reputation variable. Young (1985) and Chow et al. (1988) found that asymmetry information harms individual behaviour. In Universities, each program of study is to know the conditions are encountered. Setting a budget that is stiffer than on enabling structural perform budgetary slack.

2.6 Individual Behaviour and Budgetary Slack

George and Jone (2002) state that behaviour is a collection of feelings, beliefs and thoughts about how to act about work and the organisation where he works. Young (1985) find a subordinate who has behavioural avoid the risk will increase the slack. In universities, regulations regarding the budget are more rigid and so individual behaviour encourages individuals to achieve university goals. There is a final sacrifice between budget and trust, and there is a contrary sacrifice between budget and distrust. Trust motivates managers to invest their efforts, while distrust encourages middle managers to reduce their efforts (Susana, 2016). Scheiff and Lewin (1970) and Brownell and Melnnes (1986) found that individual behaviour has a positive effect on budgetary participation. Chrch (2018) and Chong (2016) their research result individual behaviour harms budgetary slack.

3 METHODOLOGY

The research sample is structural in Higher Education in Indonesia involved or participating in the preparation of the budget such as deans, vice deans, head of study programs and heads of laboratories. This study uses a questionnaire survey method using a four-point Likert scale. Of the 75 questionnaires sent, only 63 were returned.

Table 1: Demographics of the respondents

Descriptions	Respondent	%
Gender		
- Women	35	56%
- Men	27	43%
Statu		
-PTN	39	62%
-PTS	24	38%
Structural Position		
-Dean	9	14%
-Vice Dean	2	3%
-Head of study Program / Head of lab	52	83%

Universitas Indonesia	GU	16
Universitas Padjadjaran	GU	3
Univesitas Gajah Mada	GU	2
Unversitas Jember	GU	1
Universitas Negeri Malang	GU	3
Universitas Sumatera Utara	GU	1
Universitas Negeri Makasar	GU	2

Universitas Negeri Medan	GU	1
Universitas Airlangga	GU	2
Universitas Halu Oleo	GU	2
Politeknik Manado	GU	1
Universitas Mataram	GU	2
Universitas Bengkulu	GU	2
Universitas Negeri Jakarta	GU	2
Politeknik UNS	GU	1
Universitas Atmajaya	PU	2
Universitas Mercu Buana	PU	2
Universitas Perbanas	PU	2
Universitas BSI	PU	2
Universitas Pamulang	PU	1
YKPN	PU	1
Politeknik TEDC	PU	2
Politeknik Harapan Bersama	PU	1
Politeknik LPP Yogya	PU	3
Universitas Pakuan	PU	2
Universitas Trisakti	PU	2
STIESIA	PU	2

3.1 Operationalisation of Variables

This study uses SEM with the LISREL8 application program. Minimum data of five respondents for the Maximum Likelihood or ten respondents for the estimation of Weighted Least Square has been fulfilled in this study. Latent variables (endogenous and exogenous latent) are vital variables that are the focus of this study which are abstract concepts that can only be observed indirectly and imperfectly through their influence on the observed variables (Wijayanto, 2016). Endogenous latent variables are variables that are bound to at least one equation in the model even though in other equations are independent variables. Endogenous variables in this study are budgetary slack, budgetary participation, information asymmetry and individual behaviour. Exogenous latent variables are free variables in all equations, namely demands accountability. Indicators are variables that are observed and can be measured empirically.

This study uses questions developed by Maria (2007), the higher the score, the greater the information asymmetry and accountability. Onsi (1993) individual behaviour shows the higher the score, the greater the pressure perceived by individuals and influence behaviour. Eight questions for Budgetary Participation, eight questions for Accountability Demands, six questions for information asymmetry, five questions for individual behaviour and nine questions for budgetary slack.

The pretest is done for all observed variables and all latent variables with Cronbach's alpha value of 0.768 means that all questions in the questionnaire

can be understood by respondents. Internal consistency reliability test results to see the correlation and consistency between items are getting better because the coefficient is close to 1 (Sekaran, 2003).

4 ANALYSIS AND RESULTS

4.1 Confirmatory Test (*Confirmatory Analysis*)

Testing using the Confirmatory Factor Analysis (CFA) or also called the measurement model match test is carried out to test the validity and reliability as well as the contribution given to the observed variables in measuring latent variables. The measurement model match test is carried out on each latent variable that is related to several observed variables separately through an evaluation of the validity and an evaluation of the reliability of the measurement model. An evaluation of the validity of the observed variables is carried out regarding the standardised loading factor. Meanwhile, the evaluation of the reliability of the measurement model is done by referring to the value of the Construct Reliability (CR) and Variance Error (VE) of the measurement model. After evaluating the validity and reliability of the measurement model, indicators that have excellent reliability and validity are obtained.

Table 2: Confirmatory Test Results.

Item	Loading Factor ≥ 0.50	AVE ≥ 0.50	Construct Reliability ≥ 0.70
BP1	0,69	0,425	0,772
BP2	0,71		
BP3	0,05		
BP4	0,94		
BP5	0,79		
BP7	0,24		
IA1	0,87		
IA2	0,85		
IA3	0,87		
IA4	0,81		
IA5	0,53		
IA6	0,81		
IB1	0,78	0,270	0,512
IB2	0,31		
IB4	0,61		
IB5	0,05		
BS1	0,76		
BS3	0,10	0,306	0,766
BS4	0,49		
BS6	0,27		
BS7	0,23		
BS9	0,34		
AK1	0,86		
AK2	0,36		
AK3	0,60		
AK4	0,45		
AK5	0,60		
AK6	0,37		
AK7	0,54		
AK8	0,48		

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AK5	0,60		
AK6	0,37		
AK7	0,54		
AK8	0,48		

Based on the results of the CFA test shows that most of the indicators in the research sub-variables are valid because they have a loading factor value ≥ 0.7 . Besides, three research variables have met the standard values of both Construct Reliability (CR) and Variance Extracted (VE) values, which are more significant than 0.7 for CR and greater than 0.5 for VE. Thus this shows that all items in the variable have the same answer in measuring the latent / construct variable so that it can be used for further analysis.

4.2 Overall Model Fit

4.2.1 Absolute Measurement Model Match

The results of the Absolute Measurement Model match size can be seen in the following table:

Table 3: Absolute Measurement Model Match Size Results.

Measurement (GOF)	Target of Fit	Result	Level of fit
Absolute Fit Measure			
Statistic Chi Square (X^2) P	Lower than $P \leq 0,05$	520,76 $P=0,001$	Poor fit
RMSEA	RMSEA $\leq 0,08$	0,067	Good fit
	$0,08 \leq$ RMSEA $< 0,10$		
	RMSEA $\geq 0,10$		
GFI	0,0 – 1,0	0,63	Marginal fit
AGFI	$\geq 0,9$	0,56	Marginal fit

CFI	≥ 0,95	0,92	Good fit
NFI	≥ 0,9	0,74	Marginal fit
NNFI	≥ 0,9	0,91	Good fit
IFI	≥ 0,9	0,92	Good fit
RFI	0,0 – 1,0	0,71	Marginal fit

Based on the results above, it appears that four GOF sizes show an excellent fit match, 4 GOF sizes that are marginal fit, and 1 GOF size that is a poor fit. Therefore it can be concluded that the overall fit of the model in this study is a good fit. Based on these results, it can be concluded that the measurement model generally meets the suitability requirements, and it is decided to move forward in the next step, namely the interpretation of the estimated results.

Based on these results, it can be concluded that the measurement model generally meets the suitability requirements, and it is decided to move forward in the next step, namely the interpretation of the estimated results. The following figure shows the path diagram of the estimation results of the model based on the LISREL output.

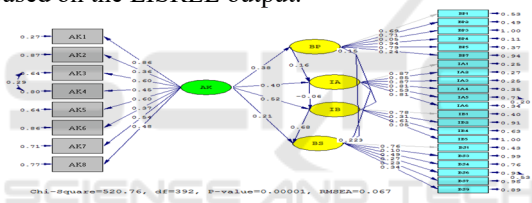


Figure 1: Standardised Solution Model SEM.

4.3 Structural Model Analysis

The structural model analysis is related to the coefficients or parameters that show the effect of the relationship between latent variables and other latent variables. The following is a picture of the results of basic model research.

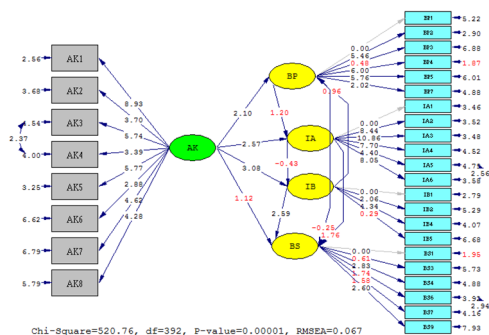


Figure 2: T-Value Model SEM.

Based on the picture above, the results of the structural model analysis are summarised in the following table:

Table 4: Structural Model Analysis Results.

Path	T-Value	Cut off Value	Conclusion
AK → BP	2,10	1,96	hypothesis accepted
AK → IA	2,57	1,96	hypothesis accepted
AK → IB	3,08	1,96	hypothesis accepted
AK → BS	1,12	1,96	hypothesis rejected
BP → BS	-0,25	1,96	hypothesis rejected
BP → IA	1,20	1,96	hypothesis rejected
IA → BS	1,76	1,96	hypothesis rejected
IA → IB	-0,43	1,96	hypothesis rejected
IB → BS	2,59	1,96	hypothesis accepted
IB → BP	0,96	1,96	hypothesis rejected

Accountability has a significant effect on Budgetary Participation, Information Asymmetry and Individual Behavior, but accountability has no significant effect on Budgetary Slack. Universities obtain funds from the public, have governance, vision and mission that must be achieved and obeyed by the entire academic community and overseen by many parties, especially for state universities. So this research shows that accountability has an influence on participation in budgeting which is the basis of all activities and achievement of the university's vision, mission, goals and strategies. Accountability will give more transparent information influence in the preparation of the budget, and accountability does not affect the behaviour of individuals in the preparation of the budget.

This research found that Budgetary Participation has no significant effect on Information Asymmetry. Information Asymmetry has no significant effect on Individual Behavior. Individual behaviour has no significant effect on Budgetary Participation. Budgetary Participation and Information asymmetry have no significant effect on Budgetary Slack, but Individual behaviour has a significant effect on Budgetary Slack in Universities.

5 CONCLUSIONS

This research found that accountability has a significant effect on Budgetary Participation, Information Asymmetry and Individual Behavior, but no significant effect on Budgetary Slack. Budgetary participation has no significant effect on Information Asymmetry. Information Asymmetry has no significant effect on Individual Behavior. Individual behaviour has no significant effect on Budgetary Participation. Budgetary Participation and Information asymmetry have no significant effect on Budgetary Slack, but Individual behaviour has a significant effect on Budgetary Slack in preparing to budget in universities in Indonesia.

The researcher did not separate the type of Universities and the structural level that filled out the questionnaire and the number of respondents in each university which was not balanced between government university and Private University. The sample does not represent the number of Universities in Indonesia, causing the SEM model to become less fit. Marginal results may be due to errors in measurement because many questions are ultimately not used.

Future studies can examine the measurement variables in order to get better measurements. Increase the number of respondents representing all universities in Indonesia so that the research results are improved.

Separating types of Universities, namely Government Universities (BHMN, BLU and Satker) and Private Universities as well as structural that fill out the Dean's questionnaire, deputy dean, head of the study program and head of the laboratory and separate the size of Universities because in determining the budget each university has a different policy.

This paper contributes to existing research on budgetary slack in extent on previous work by identified the factors affecting the budgetary slack. The most factor affects the budgetary slack is participation among individual who gives information to budgeting and asymmetry information. The findings of this study suggest that universities should give target that the department or division to achieved.

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