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## Do Culture Prevent Slack in Your Budget?

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### Abstract:

*This research aims to determine ways for the reduction of managerial budgetary slack using the deductive approach and survey method. The purposive sampling method was used to obtain data from employees of Indonesian Government enterprises, who prepare and approve budgets. The result showed that there is a significant relationship between budgetary slack and power-distance.*

**Keywords:** Budgetary Slack, Hofstede Model, Culture

### 1. Introduction

Budget is one of management control system to ensure strategic plan working well (Anthony & Govindarajan, 2006). As a control tool, budget has limitation, such as slack. Early research on budgetary slack were conducted by Aygris on 1953 (Bakar & Amiruddin, 2014). Although slack research has been conducted for 66 years, problem related with slack is still happened and on a debate in many works of literatures (Bakar & Amiruddin, 2014; Church, Hannan, & Jason, 2012). In practice, management can use both formal and informal control system. However many previous research more focus on formal control system rather than the informal control system (Gilabert, Gago, & Naranjo-gil, 2012). This happens because the effectivity of informal control system has not been tested yet (Chong & Ferdiansah, 2014; Gago-Rodríguez & Naranjo-Gil, 2016). Whereas in practice, culture takes an important role in creating slack (Anthony & Govindarajan, 2006). Since the number of researches that takes culture into account in creating slack is still limited thus this research will focus on informal factor in a form of culture.

Based on the background above, there are some identified problems, which are:

- Does Culture influence budgetary slack?
- Does power distance influence budgetary slack?
- Does uncertainty avoidance influence budgetary slack?
- Does femininity influence budgetary slack?
- Does Collectivism femininity influence budgetary slack?

### 2. Significance of this Study

From the description on the introduction part, it can be concluded that there is an urge to find out the relation between culture and budget slack. The number of researches related to culture and slack is very limited. The first research in culture and slack was conducted by Ueno&Sekaran (1992). They were using 2 (two) culture dimensions on Hofstede model. On this research, we use 4 (four) culture dimensions to get a deeper understanding of how culture influence budget slack. Thus, this research fills the research gap by using more culture dimension compare to previous research. By using this informal control, it is expected that management can reduce budget slack.

### 3. Literature Review

According to (Anthony & Govindarajan (2006) budgetary slack is the difference between the budget proposed by working unit with management best guess. Most of the companies are using a formal control system to reduce budgetary slack, such as incentives and monitoring device (Gilabert et al., 2012; Lee, Fukuda, & Matsugi, 2015). However this type of control system is not enough, thus companies need to consider informal control system to overcome this problem (Bakar & Amiruddin, 2014).

Based on previous research, some factors influence slack, such as trust Bakar & Amiruddin (2014); Chong & Ferdiansah (2014); Delemark & Listerby (2013); Gilabert et al. (2012), culture (Ashmeade, Mccambridge, & Sullivan, 2017; Bakar & Amiruddin, 2014; Delemark & Listerby, 2013; Suhartini, 2015; Ueno & Sekaran, 1992; Ueno & Wu, 1993), work pressure Kahar, Rohman, & Chariri, (2016), the quality of information system Yang et al. (2009), honesty Blay, Douthit, & Fulmer, (2019) and management commitment (Amran & Auzair, 2013; Baerdemaeker & Bruggeman, 2015).

#### 3.1. Culture

Ashmeade et al., (2017) argue that budget slack can be seen as an ethics dilemma that affected by culture. Hofstede defines culture as a mind collective program that differentiate one group to another (Lau & Eggleton, 2004). Thus, in essence scholars believe that culture affected budget. However, result from previous research (Ashmeade et al.,

2017; Bakar & Amiruddin, 2014; Delemark & Listerby, 2013; Suhartini, 2015; Ueno & Sekaran, 1992; Ueno & Wu, 1993) are inconsistent. Some of these researchers argue that there is a significant influence between culture and slack, while other research support argument where there is no significant connection between culture and budget slack.

Most of the previous research was using Hofstede model to see the connection between culture and budget slack. This model was invented by Hofstede in 1980 (Hofstede, 2011). However, this dimension is evolving and currently, there are 6 (six) cultural dimension within this model, which consist of: power distance, uncertainty avoidance, individualism-collectivism, masculinity-femininity, long term-short term orientation and indulgence-restraint. In the 2000s Hofstede did a survey and assign a score on each dimension for countries around the world (Minkov & Hofstede, 2012). The score shows that each country has a different score that reflects different culture relative to other countries (Hofstede, 2011). From the description above, a hypothesis can be formulated as follow:

- $H_{01}$ : Culture does not influence budget slack
- $H_{a1}$ : Culture does not influence budget slack

### 3.2. Power Distance

The first dimension is Power distance. According to (Hofstede, 2011; Mangundjaya, 2013; Ueno & Sekaran, 1992) power distance relates to human inequality. The source of this inequality is varied, it may come from the age difference, social status, job position and educational level. Countries with high power distance values like Indonesia and Malaysia will have a certain characteristic where they believe that societies are unequal (Hofstede, 2011; Hofstede Insights, 2019). Thus it is expected that in office, subordinates will be told what to do and follow all direction from higher management level (Minkov & Hofstede, 2011). On addition, management is also expected to act as a controller (Mangundjaya, 2013). In the contrary, countries in low power distance is more egalitarian. This condition can be seen from work condition in low power distance countries, where subordinates can express disagreement to their superintendent freely. Study conduct by Bakar & Amiruddin (2014) found that power distance positively affect budget slack

From the description above, a hypothesis can be formulated as follow:

- $H_{02}$ : Power distance does not influence budget slack
- $H_{a2}$ : Power distance does not influence budget slack

### 3.3. Uncertainty Avoidance

The second dimension is uncertainty avoidance. This dimension reflects how society deals with the unknown future (Lau & Eggleton, 2004).

In a low uncertainty avoidance society, people relatively has a low tendency to obey the rules and procedure, because they more tolerate to whatever happens in the future. That is why sometimes management skips some required steps in the budgeting process because for them, the process is not easy and time-consuming. On the contrary, according to Delemark & Listerby (2013); Ueno & Wu (1993), management in a high uncertainty avoidance will put longer time and effort in budgeting process because they do not want to take the risk in the future. Therefore they tend to create smaller slack compare managers from countries that have low uncertainty avoidance. However, study conduct by Ueno & Wu (1993) found that uncertainty avoidance does not influence budget slack.

From the description above, hypothesis can be formulated as follow:

- $H_{03}$ : Uncertainty avoidance does not influence budget slack
- $H_{a3}$ : Uncertainty avoidance does not influence budget slack

### 3.4. Individualism-Collectivism

The third dimension is Individualism-collectivism. It describes the relationship between one individual and another in one environment. Mangundjaya (2013) defines individualism as (collectivism) as a psychological state where people prioritize their needs as individuals rather than others, while in collectivist culture, goals of the group are more important than individual goals.

Triandis (1988) argue that the individualism-collectivism paradigm relies upon three factors, these are: (1) the number of member groups; (2) the degree of each member's sphere of influence; and (3) the scope of that influence. Based on this conceptualization, it can be concluded that the smaller the number of groupings that affect people's behaviour, the higher the degree and scope of influence of these groups will be (Triandis, 1988).

Ueno & Sekaran (1992) said that there are certain characteristics to differentiate between individualism and collectivism. Individualism tends to be more egoist, disloyal, competitive and more independent (Ueno & Sekaran, 1992). On the other hand, people in collectivist culture are relatively loyal and willing to sacrifice their own will and prioritize group will. Both individualism and collectivism have its own benefit and drawback, the most important things to consider by management is how to align these cultures into their control system. For example, a company that placed in a collectivist culture is advised to give compensation in collective, because in collectivist culture the success of a department is more important than the success of each individual under that department. A Study by Ueno and Sekaran (1992) found out that people in individualist culture is tend to create slack.

According to the study developed by Hofstede Insights (2019) countries in Asia are more collective than western countries. People like to do everything in a group thus it is expected that their performance is not represented by an individual but in a group.

From the description above, hypothesis can be formulated as follows:

- H<sub>04</sub>: Individualism (collectivism) does not influence budget slack
- H<sub>a4</sub>: Individualism (collectivism) does not influence budget slack

### 3.5. Masculinity-Femininity

The fourth dimension of in this research is masculinity-femininity. According to (Delemark & Listerby, 2013; Ueno & Wu, 1993) the dimension of masculinity and femininity refer to the dominant value in doing a job and social activities. Some nation is more masculine compared to others. Lau & Eggleton (2004) argue in a masculine culture, men are more dominating while women are more nurturing, thus women usually take nurturing job such as a nurse, baby sitter, kindergarten teacher while men usually take jobs such as technician, electrician and builder. Furthermore, either masculine or feminine society has its characteristic. For example in masculine society, people have higher need to perform better in comparison with women's societies which promote cooperation and the quality of life (Ashmeade et al., 2017; Delemark & Listerby, 2013; Ueno & Sekaran, 1992). Since people in masculine society has strong needs to prove that they are well performed thus they tend to create slack in budgeting. However, previous research conducted by Suhartini (2015) showed that the dimension of masculinity-femininity does not influence on budget slack.

From the description above, a hypothesis can be formulated as follows:

- H<sub>05</sub>: Masculinity (femininity) does not influence on budget slack
- H<sub>a5</sub>: Masculinity (femininity) does not influence on budget slack

### 3.7. Indonesian National Culture

Indonesia is an island nation that consists of 16.056 islands (Kompas, 2018). There are 5 biggest islands in Indonesia, which are: Sumatra, Java, Kalimantan, Sulawesi and Papua. Each island surely has different culture and characteristic. According to Mangundjaya (2013), Indonesia is multi ethnics, but in general, it can be concluded that Indonesia characteristic are describe as follow:

#### 3.7.1. High Power Distance

Hofstede insight (2019) gives a score of 78 to Indonesia. This high score is affected way of communication between the superintendent and subordinates. Sometimes, people find that direct communication is not effective to solve a problem, because they found that verbal communication is quite offensive (Hofstede insight, 2019). In many cases, the problem is handled through discussion and there should be a mediator along with the discussion. High power distance society is also caused low trust, because subordinates expect to be told what to do and all of the power is central to higher-level management. Thus, in the budgeting process, high power distance society is more likely creating slack.

#### 3.7.2. Low Uncertainty Avoidance

Indonesia has a score of 48 for uncertainty avoidance dimension (Hofstede Insights, 2019). This score is considered low. In low uncertainty avoidance society like Indonesia, people tolerant ambiguous conditions that might happen in the future (Mangundjaya, 2013). In the budgeting process, low uncertainty avoidance society tends to create slack, because they do not put rigorous effort to minimize slack. They do not worry about budget slack risk in the future.

#### 3.7.3. Collectivism

Indonesia is a collectivist society, it can be seen from a low score of (14) for individualism (Hofstede Insights, 2019). In a collectivist society, people are expected to do almost everything together. Thus, most of the companies in Indonesia prioritize teamwork rather than individual work. As an influence, compensation is given based on team performance.

#### 3.7.4. Femininity

Indonesia scores 46 on this dimension and it considered as low masculine (Hofstede Insights, 2019). In Indonesia, work conflict will be solved through compromise and negotiation. While effective management is the manager that not only supportive but also consider all of the working unit's involvement in decision-making process.

## 4. Methodology

### 4.1. Population and sample

This research adopts the deductive approach through a survey. The population of this research is an employee of Indonesian Government Enterprise located in Jakarta and Bandung. 17 companies join the survey represented by 65 samples. Using purposive sampling are use under criteria: respondents have to take a role in the budgeting process.

### 4.2. Research Instrument

To increase validity, questionnaire that has been tested by Bakar & Amiruddin (2014); Ueno & Wu (1993) are being used. There are three parts of this instrument. The first part of the questionnaire is asking about basic information of respondents followed by 4 statements to measure power distance, 4 statements to measure uncertainty avoidance, 4 statements to measure collectivism, and the last 4 statements to measure femininity. Respondents are asked to whether they agree with the 16 statements using a seven-point Likert scale ranging from 1 (strongly disagree) to 7 (strongly agree). The questionnaire was processed using SPSS 24. Before running regression, we run the classic assumption test.

5. Results and Discussion

5.1. Respondent's Profile

Most of the respondents of this questionnaire has been working in Indonesian Government Enterprise for more than 7 years. From 17 companies, 7 companies are located in Bandung while the other 10 companies are located in Jakarta. Based on figure 1 below, it can be seen that Len Industri and Dirgantara Indonesia takes the biggest portion of respondents.

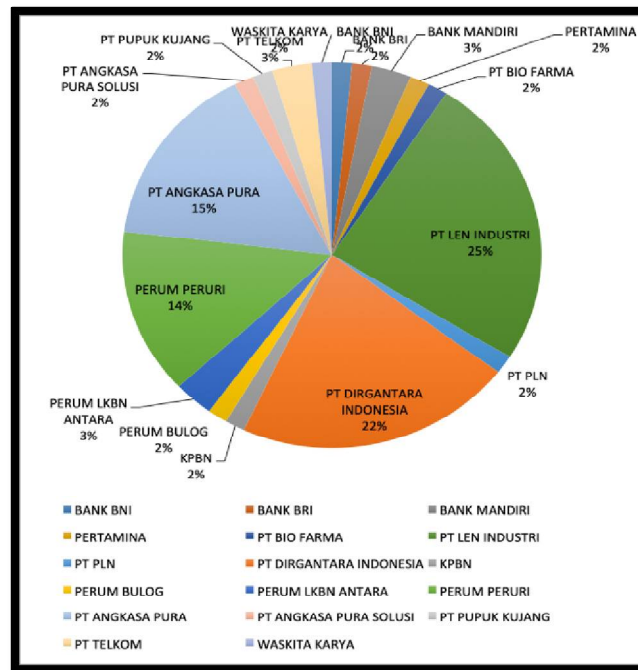


Figure 1: Respondent's Profile

5.2. The Classic Assumption Test

Before running regression, it is important to run the classic assumption test, including: normality test, multicollinearity test and heteroscedasticity test. The aim of these test is to ensure that all of data satisfy statistical requirement that should be meet before running multiple regression analysis.

5.2.1. Normality Test

We are using One-Sample Kolmogorov Smirnov for normality test. The result on figure 2 shows that all of the data are normally distributed, because the value of significance is 0.2, which is higher than the level of significance used in this research. Thus, it can be concluded that met the first statistical requirement.

|                          |                    |            |
|--------------------------|--------------------|------------|
| N                        |                    | 65         |
| Normal Parameters        | Mean               | 0.00000000 |
|                          | Standard Deviation | 2.96733307 |
| Test Statistics          |                    | 0.089      |
| Asymp. Sig. (2 - tailed) |                    | 0.200      |

Table 1: One Sample Kolmogorov Smirnov Test

5.2.2. Multicollinearity Test

Tolerance and VIF value are useful to determine whether the data experience multicollinearity problem or not. Based on table 2 below, it can be seen that all of tolerance value is not more than 0.1 and all of VIF values are less than 10. Thus, it can be concluded that there is no multicollinearity problem.

| Variable              | Tolerance | VIF   |
|-----------------------|-----------|-------|
| Power Distance        | 0.939     | 1.065 |
| Uncertainty Avoidance | 0.851     | 1.175 |
| Collectivism          | 0.783     | 1.277 |
| Femininity            | 0.610     | 1.640 |

Table 2: Multicollinearity Test

### 5.2.3. Heteroscedasticity Test

In this research, we are using scatterplot to ensure that the regression model has no heteroscedasticity problem. Figure 2 below, shows that all of the spots are spread and does not form a certain pattern. Thus, it can be concluded that this data meets the last statistical requirement.

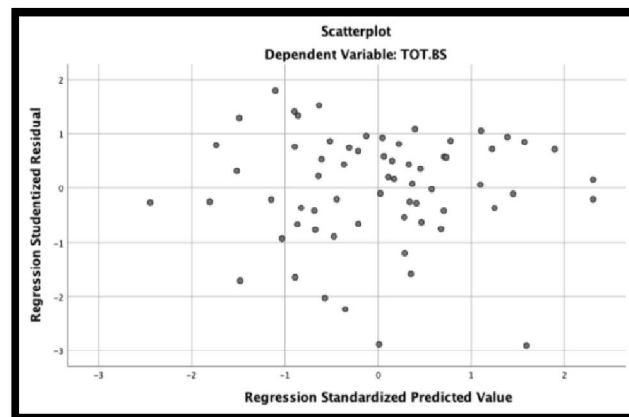


Figure 2: Heteroscedasticity Test

### 5.3. Regression

| Variable              | t     | Significance |
|-----------------------|-------|--------------|
| Power Distance        | 5.815 | 0.019        |
| Uncertainty Avoidance | 0.086 | 0.771        |
| Collectivism          | 0.334 | 0.565        |
| Femininity            | 0.133 | 0.717        |

Table 3: t test Result

| Variable | F     | Significance |
|----------|-------|--------------|
| Culture  | 1.612 | 0.183        |

Table 4: F test Result

After running the test, it can be seen from table 3 that power distance is the only dimension that influences budgetary slack. High power distance society will rely control to the highest management level. While the other dimension such as uncertainty avoidance, collectivism and femininity does not influence budgetary slack. Our analysis shows that power distance is a dominant factor among the other three dimensions. Thus, these three

#### 5.3.1. Justification for $H_{01}$ (Culture)

The first variable on this research is the culture that formed by all of the culture dimensions. From all of the culture dimensions tested in this research, the only dimension that affects budget slack is Power distance. dimensions are insignificant. Besides, when all of the culture dimensions are tested in simulation, the F test showed that the relationship between culture and budget slack is also insignificant.

#### 5.3.2. Justification for $H_{02}$ (Power Distance)

The second variable on this research is power distance. The sample of this research has a unique characteristic. Since it is owned by the Indonesian Government, the Indonesian Government Enterprises are expected to do not only the company's mission but also Government mission. According to Hofstede Insights (2019); Mangundjaya (2013) Indonesian society has high power distance. This condition makes the Government has high power over the enterprise. Our observation shows that there is a condition where Indonesian Government Enterprise should operate Government mission, even when no budget arranged for that activity or when the activity creates slack. For example, Perum Bulog supposed to provide cheap rice for Indonesian people that live in poverty and Pupuk Kujang should provide cheap fertilizer for farmers. The result of this research is aligned with research conducted by Bakar & Amiruddin (2014).

#### 5.3.3. Justification for $H_{03}$ (Uncertainty Avoidance)

Dimension uncertainty avoidance is the third variable in of this research. As companies owned by the government, the risk of uncertainty in the future is not as big as private companies. Under Government rules, all of the operational activities Indonesian Government Enterprises are guaranteed by Government and are relatively safe from bankruptcy. For example, under Government Regulation Number 32 Year 2006, Perum Peruri is obliged to print money and there are no companies other than Perum Peruri can print money. Thus, their operational activities are unobstructed and management are not interested in creating budget slack. This result is aligned with research conducted by Ueno & Sekaran (1992).

#### 5.3.4. Justification for $H_{04}$ (Collectivism)

The fourth variables in of this research is Collectivism. In Indonesia people tend to work together as a team, this is the reason why Indonesia has a very low score of individualism. However, in the budgeting process, this characteristic is not affecting slack significantly. Power distance is overruled collectivism, where management needs to consider and facilitate central government mission. This research is not aligned with research conducted by Ueno & Sekaran (1992).

### 5.3.5. Justification for H<sub>05</sub> (Femininity)

Femininity as the last variables on this research also has no significant influence on budgetary slack. The characteristic of femininity that prioritizes teamwork, negotiation and compromise are not affecting in the budgeting process. This happens because most of the budgeting process in Indonesian Government Enterprises are strict and less flexible compared to private companies. The result of this research is aligned with research conducted by (Suhartini, 2015).

## 6. Conclusion and Suggestion for Future Research

Our research showed that power distance influences budgetary slack. Since the sample of this research is unique, thus for Future research, we suggest doing research using private companies and using a larger sample to see whether the finding is consistent with this research.

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