

MANAGING INEFFICIENCY OF PARTICIPATORY BUDGETING BY INVESTIGATING THE DARK SIDE PERSONALITY OF MANAGERS

Suryadi B., Mulyaningsih H.D., Rajiani I. *

Abstract: Participatory budgeting is widely promoted as a new reform in finance management. However, regardless of its acknowledged effectiveness, the model also produces managers' moral hazard known as budgetary slack that is a propensity to underestimate the revenue but overestimate the cost. The objective of this article is to examine the relationships of human factors in budgeting process in terms of personality, budget participation, and the propensity of managers to create budgetary slack. Using the HEXACO model (*Honesty-Humility, Emotionality, eXtraversion, Agreeableness, Conscientiousness, and Openness to Experience*), Structural Equation Model is employed to prove the existence of the traits which is commonly associated with dark traits leading to unethical behavior in the workplace. A survey data from 150 respondents were used to conduct a structural equation modelling analysis. The results indicate that budget participation incrementally affects the propensity to create budgetary slack making the reform strategy to encourage manager participation to eliminate budgetary slack might not be relevant.

Keywords: personality, participation, Indonesia, budgetary slack, HEXACO model

DOI: 10.17512/pjms.2019.19.2.33

Article's history:

Received December 23, 2019; *Revised* February 13, 2019; *Accepted* March 22, 2019

Introduction

Since Indonesia has launched the Open Government Partnership (OGP) initiative, the country should enhance budgetary reform as a vital component of the national agenda in order to boost the levels of budget transparency, public participation and accountability (Sahab, 2016). Introduced in 2011, the OGP is proposed by an international, multi-stakeholder steering committee consisting of developed and developing countries including the US, Brazil, Indonesia, Mexico, Norway, Philippines, South Africa, and the United Kingdom. This agreement initiates the Indonesian government to reform public financial sector standards (Harun et al., 2015) and supported with several laws, Indonesia's budget system is no longer centralized and more performance oriented (Triggs et al., 2019).

Though participatory budgets are becoming increasingly popular in many municipalities all over the world (Schneider and Busse, 2019), however, in Brazil

* Dr. **Budi Suryadi**, Lambung Mangkurat University, Indonesia; Dr. **Hendradi Dwi Mulyaningsih**, Post Graduate Program, Universitas Islam Bandung, Indonesia; Dr. **Ismi Rajiani**, Universitas Muhammadiyah Gresik, Indonesia.

✉ Corresponding author: ismi.rajiani@umg.ac.id

✉ budisuryadi@ulm.ac.id; Hendradi.dwi@gmail.com

where the participatory budget were initiated is begun to be criticized (Franco and Assis, 2019). Thus, this concept might not be relevant to Indonesia as the application of the western innovative management concept both in business and public sectors usually due to the particular and unique management practice (Ab Rahman et al., 2018; Abbas et al., 2018) must be adjusted to the specific milieu of the country setting (Rajiani and Kot, 2018; Rajiani and Pypłacz, 2018). Harun et al., (2019) and Rakhman, (2019) suggest that management accounting and other performance measurement practices in Indonesia need to be reexamined. Both studies underscore the importance of culture as a significant part of the internal environment in organizations in the budgeting process. Though the findings are in line with the research in a developed country that national culture is positively correlated with propensity in decision making (Graham and Sathye, 2018), however, the current authors are not aware of any empirical study of the role of individual differentiation (personality). Further, though budgetary slack is a heavily researched topic in the field of management accounting (Daumoser et al., 2018), the prior research blurs our understanding of this critical topic as the research is conducted at organizational and country level. Thus, this study advances the literature by investigating the influence of personality (individual differentiation) and budgetary participation on the propensity to create budgetary slack.

Literature Review

Budgetary slack is the behavior of making underestimated revenue and overestimated cost with the purpose to make the budget target more comfortable to achieve as well as to make the performance looks excellent (Daumoser et al., 2018). Several studies have declared that creating budgetary slack is one of the behavioral consequences that may result from the use of budget. Elimination of budgetary slack described as a conscious overestimate of the costs has therefore been the objectives of various reforms and new management techniques introduced in the public sector (Moulick and Taylor, 2017). Therefore, lowering the level of budgetary slack in the case of the public sector then, therefore, has become the purpose of reforms and new management techniques in the Indonesian public sector (Damayanti, 2018).

Drawing on organization hypothesis, scientists customarily believe that participation will prompt slack creation (Mahlendorf et al., 2015) as when managers are permitted to involve in budgetary support they will make slack since it empowers them to achieve their objectives with insignificant exertion while expanding their interest (Kruis and Widener, 2014). In Indonesia, practically, a provincial government budget is created by executives who will then be approved by legislative members. The budget usually becomes a focal point to evaluate the achievement of executives by comparing the budget estimation with the realization (Widanaputra and Mimba, 2014). Critical work of Dunk (1990) argues the following century organizations will become more participative in functional

relationships and because employees' level of attachment with their profession is profoundly connecting, budget participants' tendency to create budgetary slack will be low. Nevertheless, the unique and specific business environment in Indonesia is unlikely to support Dunk's (1990) initial assumptions as up to this point 75 regional heads and 144 legislative members have been detained by the Indonesian Corruption Eradication Commission due to budget fraud participation (Surbakti, 2018). Base on this empirical finding, the first hypothesis is formulated as follows: *Hypothesis 1: Managers participating in budget setting is positively related to budgetary slack creation.*

More recent research in the economic and psychology literature has focused on personality traits, and in the accounting area, personality has been proven to significantly affect the tolerated level of participative budgeting (Mahlendorf et al., 2015).

One of the most popular designs for personality qualities is the Five Factor Model (FFM) of personality (McCrae, 2015). The five components in the FFM incorporate Neuroticism, Extraversion, Openness to experience, Agreeableness and Conscientiousness. Lately, nonetheless, an elective six-factor of personality structure has risen: the HEXACO model (Ashton and Lee, 2014). The six elements in the HEXACO model are *Honesty-Humility, Emotionality, eXtraversion, Agreeableness, Conscientiousness, and Openness to Experience.*

Most importantly, the primary differentiation in the HEXACO model, as opposed to the FFM, is the *Honesty-Humility* (HH) factor. Individuals scoring high in *Honesty-Humility* (HH) are considered avoiding fraud, stealing or cheating, and tending to be genuine in their interpersonal relationship. The HEXACO model then gains popularity in explaining the dark side of personality traits in explaining the criminal behavior from the trait of *Honesty-Humility* and *Conscientiousness* (Lee and Aston, 2014) and these two basic personality dimensions found in the HEXACO model are related to budgetary slack (Boster et al., 2018).

Previous studies have found a negative correlation between the HH factor and counterproductive work behavior such as unethical business decisions (de Vries et al., 2017) and cheating behavior (Kleinlogel et al., 2018). This way, our hypothesis reflects a consistent, parsimonious prediction of the relation between HH and slack. We thus hypothesize as follows:

Hypothesis 2: Managers with lower Honesty-Humility scores will include budgetary slack when participating in budget setting.

Conscientiousness is a job-related factor; typical aspect of the factor including organization, diligence, perfectionism, and prudence (Lee and Ashton, 2014). Individuals scoring high in Conscientiousness possess a high degree of self-discipline, and carefully reexamine the consequences of their behaviors contradictory to individuals score low in Conscientiousness which are less likely to evaluate risks and the immediate consequences (Boster et al., 2018). Van Gelder and De Vries (2016) assert that the Conscientiousness factor is negatively associated with criminal behavior choice at work. Further, in the criminology

studies, one of the most vital mediators of Conscientiousness is perceived risk (Van Gelder and De Vries, 2016) as individuals scoring high in Conscientiousness will avoid criminal conduct because their perceived risk of punishment outweighs the benefits of the conduct. We thus hypothesize the following:

Hypothesis 3: Managers with lower Conscientiousness scores will include budgetary slack when participating in budget setting.

Methodology

This research operates quantitative methods to confirm the personality traits of public sector managers who likely practice budgetary slack when involved in budget setting. Samples of 150 managers taking part in the budget-making were obtained from 11 (eleven) regencies and 2 (two) municipalities in Indonesia. The common practice is that executives compose the local government budget who will then ask for approval from the legislative member. The budget setting was initiated at lower rank employees acting as a task force.

Conditioned this way, the authors applied purposive random sampling by intentionally selected executives participated in budget allocation. The purposive sampling technique is a non-probability sampling that is commonly used when one wants to examine precisely what needs investigating (Oliver and Jupp, 2006).

Path analysis with Partial Least Square was employed to investigate the relationship of personality, participatory budgeting, and budgetary slack propensity. Since PLS is acknowledged for the capability of processing small sample sizes and few indicators, a sample numbered 100 to 200 is usually an excellent point of departure to conduct path modeling (Hair et al., 2012).

The data for personality was administered with HEXACO standard questioners developed by Lee and Ashton (2014). A mean score in the range of 1.0 and 3.0 was interpreted as low Honesty-Humility (HH) / Conscientiousness. Participation and propensity to include budget slacks were evaluated using multiple-item scales adapted from Ajibolade and Akinniyi (2013) and verified for reliability. Similarly, a mean score between 1.0 and 3.0 was understood as low propensity/participation, and mean scores greater than 3.0 denoted high propensity/participation.

Results and Discussion

The inner model of this research is depicted in Figure 1.

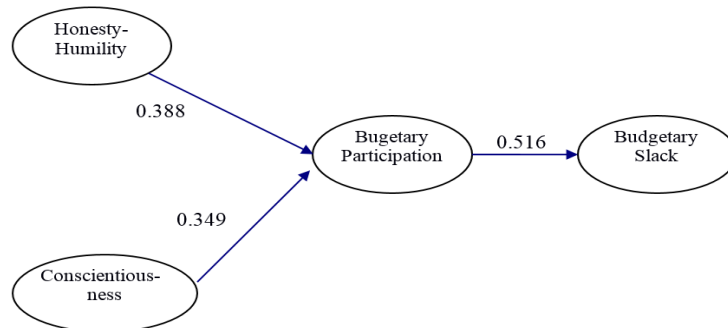


Figure 1. Inner Model

PLS-SEM requires reflective measurement models to assess reliability and validity by examining the average variance extracted (AVE). The value of 0.50 and higher denotes a sufficient degree of validity as this figure indicates that the latent variable justifies more than half of indicators' variance (Hair et al., 2012).

The summary for reflective outer models of the research is displayed in Table 1.

Table 1. Average Variance Extracted (AVE)

Latent Variables	Indicators	Outer Loadings	Average Variance Extracted
Honesty – Humility	Sincerity (a tendency to be genuine in an interpersonal relationship)	0.824	0.853
	Fairness (a tendency to avoid fraud and corruption)	0.878	
	Greed- Avoidance (a tendency to be uninterested in possessing lavish wealth, luxury goods, and signs of high social status)	0.899	
	Modesty (a tendency to be modest and unassuming)	0.812	
Conscientiousness	Organization (a tendency to plan and organize things)	0.869	0.794
	Diligence (a tendency to work hard to achieve goals)	0.747	
	Perfectionism (a tendency pay much attention to small details)	0.814	
	Prudence (a tendency to make a decision carefully)	0.747	
Budgetary Participation	Subordinates' involvement	0.791	0.764
	Budget inclusion from head of the department	0.753	
	Supervisor' acceptance of the budget variation	0.782	
	Solicitation from another member when composing a budget	0.731	

Budgetary Slack	Standards set in the budget induces high productivity	0.692	0.681
	Budgets attainability	0.681	
	Ability to monitor costs because of budgetary constraints	0.675	
	Difficulty in achieving targets incorporated into budgets	0.677	

Table 1 shows that all values of Average Variance Extracted (AVE) are larger than 0.5 denoting high levels of convergent reliability among all four reflective latent variables (Hair et al., 2012). The score for the path coefficient and p-values in the inner model are displayed in Table 2.

Table 2. The path coefficient

No.	Variables	Path Coefficient	R ²	P-Value	Conclusion
1.	Honesty – Humility → Budgetary Participation	0.388	0.31	0.00	Significant
2.	Conscientiousness → Budgetary Participation	0.349	0.27	0.00	Significant
3.	Budgetary Participation → Budgetary Slack	0.516	0.42	0.00	Significant

The result reveals that the low Honesty–Humility traits - those who will flatter others or pretend to like them to obtain favors, are willing to gain by cheating or stealing, want to enjoy and to display wealth and privilege, and consider themselves as superior and as entitled to privileges that others do not have (Ashton et al., 2014) - positively involve in budgetary slack creation when given opportunity to participate in budget setting. The path coefficient for this construct is 0.388, and the p-value is 0.00. Similarly, low Conscientiousness traits indicated with having difficulties to be organized, doing only the minimum amount of work needed to get by, not paying much attention to small details, and preferring to do whatever comes to mind, rather than sticking to a plan, also positively involve in budgetary slack creation when given opportunity to participate in budget setting. The path coefficient for this construct is 0.349, and the p-value is 0.00.

The model goodness of fit is measured with the Stone–Geisser Q-square test for predictive relevance (Chin, 2010) with the formula:

$$Q^2 = 1 - (1 - R_1^2) (1 - R_2^2) \dots (1 - R_n^2) \quad (1)$$

Thus, the Q-square predictive relevance is calculated as follows:

$$Q^2 = 1 - (1 - R_1^2) (1 - R_2^2) (1 - R_3^2) \quad (2)$$

$$1 - (1 - 0.31) (1 - 0.27) (1 - 0.42) = 1 - (0.69) (0.73) (0.58) = 1 - 0.292 = 0.708 \text{ (70.8\%)}$$

Since Q-squares is higher than 0.5, the predictive relevance requirement is satisfactory.

Discussion

Consistent with Hypothesis 1, a positive relationship between budget participation and the propensity to create budget slack existed. This result is possibly justified that Indonesian managers think budgetary slack is probably required to address the imbalance of power that prevails within Indonesia public sector organization for the budget is usually perceived and served as a political contract between the government and the House of Representative. Also, when there is any possibility to create indicators of performance assessment based on budget absorption, executives tend to create slack because it helps to save them from evaluation unfairness caused by imperfect performance measures or evaluation abuse by House of Representative. Although some studies in other countries have confirmed that budgetary slack could be beneficial for organizations (Church et al., 2019), it is generally seen as a severe impediment to the use of organizational budget in an efficient manner. For years, accounting scientists have sought to understand the nature of budgetary slack, as the behavior of inducing slack in the budget is highly relevant to the achievement of internal economic efficiency in an organization (Daumoser et al., 2018).

Although Indonesia has widely implemented the policies and programs of public administration reform (Abbas et al., 2018) as required in Open Government Partnership, the implementation of participatory budgeting is not as simple as planned. The non-existence of performance-related reward and punishment system in local government makes a well-performing with low-performing executives receives the same rights in terms of benefits and honorariums. Therefore, during budget allocation an executive does not think about the impact on performance appraisal and budget participation does not positively influence the budgetary slack against the seminal work of Dunk's (1990) initial assumptions.

This situation is intensified by the power distance culture, which is a genuine issue in Indonesia (Rajiani and Pypłacz, 2018). Under the new concept, budgeting is believed to most effective when lower-level managers actively participate and meaningfully engage in the budgeting process as participation adds credibility to the budgeting process and creates more significant commitment and accountability toward the budget. However, participation requires "fair and objective" communication about the business from subordinates and lower-level managers to their hierarchies (Horngren et al., 2015). However, ironically, in case of Indonesia, the participation frequently provides subordinates with an opportunity to build budgetary slack into their standards of performance (Putra et al., 2019) even though budget controls systems on local government are rigorous.

The second hypothesis proves that managers with lower Honesty-Humility (HH) scores will include budgetary slack when participating in budget setting. This is in line with criminology literature providing further evidence that HH is negatively correlated with participation in criminal behaviors and high HH individuals are not tempted by the prospect for material gain or deterred by the risk of punishment (Van Gelder and De Vries, 2016). The third hypothesis also proves that managers

with lower Conscientiousness scores will include budgetary slack when participating in budget setting. Another factor from the HEXACO-PR-I scale, Conscientiousness (CO), is also reputed to be driven by perceptions of risk and punishment. CO is associated with task-oriented endeavors, such as working, planning, and organizing, as well as the promotion of economic gains (Ashton et al., 2014). The criminology literature has described this as task-oriented conscience (DeVries et al., 2017), and has generally found a negative relation between CO and criminal conduct. CO has been found to operate through rational choice; individuals high in CO are less inclined to engage in criminal conduct because they perceive the risks of discovery and sanction outweigh the rewards (Van Gelder and De Vries, 2016). Thus, the ability to recognize people whose score low in Honesty-Humility (HH) and Conscientiousness (CO) is a point of departure in reducing the budgetary slack by not involving them in budgetary planning.

Conclusion

The signing of Open Government Partnership (OGP) initiative does not encourage the changes in serving and working culture in the government institutions. Values and cultures still run in the same ways: outdated, not customer oriented, slow, rigid, and collusive. In this case, most local governments are highly bureaucratically fragmented and internally fiercely resistant to change. The budget uses to be more beneficial for societies are still out of reach.

This study demonstrates how individual differentiation can be used to prevent potential budgetary slack within local government in Indonesia. Specifically, this study examines the selection of appropriate people included to participate in a budget set to prevent wastage in a budget. However, though this paper introduces new techniques to lessen budgetary slack, this article does not show how to apply the model in organizations. Accordingly, this research gap should be addressed in how to organize internal operations applied to the practice of public finance management to reduce the propensity of budgetary slack.

References

- Ab Rahman Z.N., Ismail N., Rajiani I., 2018, *Challenges for managing non-technological innovation: a case from Malaysian public sector*, "Polish Journal of Management Studies", 17(1).
- Abbas E.W., Hadi S., Rajiani I., 2018, *The prospective innovator in public university by scrutinizing particular personality traits*, "Polish Journal of Management Studies", 18(2).
- Ajibolade S.O., Akinniyi O. K., 2013, *The influence of organisational culture and budgetary participation on propensity to create budgetary slack in public sector organisations*, "British Journal of Arts and Social Sciences", 13(1).
- Ashton M.C., Lee K., De Vries R.E., 2014, *The HEXACO Honesty-Humility, Agreeableness, and Emotionality factors: A review of research and theory*, *Personality and Social Psychology Review*, 18(2).

- Boster Ch., Busko N., Schuldt M., *Personality Effects in Participative Budgeting: An Experimental Investigation*, Salisbury, MD 21080.
- Chin W.W., 2010, *Bootstrap cross-validation indices for PLS path model assessment*, Springer.
- Church B.K., Kuang X.J., Liu Y.S., 2019, *The effects of measurement basis and slack benefits on honesty in budget reporting*, *Accounting, Organizations and Society*, 72.
- Damayanti R.A., 2018, *Restoration of budget control: how it should be? a case study of the local government of Indonesia*, *Accounting Finance Review*, 3(3).
- Daumos C., Hirsch B., Sohn M., 2018, *Honesty in budgeting: a review of morality and control aspects in the budgetary slack literature*, *Journal of Management Control*, 29(2).
- De Vries R.E., Pathak R.D., Van Gelder J.L., Sing G., 2017, *Explaining unethical business decisions: the role of personality, environment and states*, *Personality and Individual Differences*, 117.
- Dunk A.S., 1990, *Budgetary participation, agreement on evaluation criteria and managerial performance: a research note*, *Accounting, Organizations and Society*, 15(3).
- Franco S.H.R., Assis W.F.T., 2019, *Participatory Budgeting and Transformative Development in Brazil*, Geoforum.
- Graham P., Sathye S., 2018, *National differences in capital budgeting systems: A comparison between Indonesian and Australian firms*, *Asian Journal of Business and Accounting*, 11(1).
- Hair J.F., Sarstedt M., Ringle C.M., Mena J.A., 2012, *An assessment of the use of partial least squares structural equation modeling in marketing research*, *Journal of the Academy of Marketing Science*, 40(3).
- Harun H., Mir M., Carter D., An Y., 2019, *Examining the unintended outcomes of NPM reforms in Indonesia*, *Public Money & Management*, 39(2).
- Harun H., Van-Peursem K., Eggleton I.R., 2015, *Indonesian public sector accounting reforms: dialogic aspirations a step too far?*, *Accounting, Auditing & Accountability Journal*, 28(5).
- Horngren Ch.T., Datar S.M., Rajan M., 2015, *Cost Accounting. A Managerial Emphasis*, Pearson Education.
- Kleinlogel E.P., Dietz J., Antonakis J., 2018, *Lucky, competent or just a cheat? Interactive effects of Honesty-Humility and moral cues on cheating behavior*, *Personality and Social Psychology Bulletin*, 44(2).
- Kruis A.M., Widener S.K., 2014, *Managerial influence in performance measurement system design: A recipe for failure?*, *Behavioral Research in Accounting*, 26(2).
- Lee K., Ashton M.C., 2014, *The dark triad, the Big Five, and the HEXACO model*, *Personality and Individual Difference*, 67(2).
- Mahlendorf M.D., Schäffer U., Skiba O., 2015, *Antecedents of participative budgeting—a review of empirical evidence*, *Advances in Management Accounting*, Emerald.
- McCrae R.R., 2015, *A more nuanced view of reliability: specificity in the trait hierarchy*, *Personality and Social Psychology Review*, 19(2).
- Moulick A.G., Taylor L.L., 2017, *Fiscal slack, budget shocks, and performance in public organizations: evidence from public schools*, *Public Management Review*, 19(7).
- Oliver P., Jupp V., 2006, *Purposive Sampling*, *The SAGE dictionary of social research methods*.

- Putra P.Y.P., Albab F.N.U., Swara C.C.A., 2019, *Reflections on individual personal values in the budgetary slack phenomenon*, "The Indonesian Journal of Accounting Research", 22(1).
- Rajiani I., Kot S., 2018, *The prospective consumers of the Indonesian green aviation initiative for sustainable development in air transportation*, Sustainability, 10(6).
- Rajiani I., Pyplacz P., 2018, *National culture as modality in managing the carbon economy in Southeast Asia*, "Polish Journal of Management Studies", 18(2).
- Rakhman F., 2019, *Budget implementation in a risky environment: evidence from the Indonesian public sector*, Asian Review of Accounting, 27(2).
- Schneider S.H., Busse S., 2019, *Participatory budgeting in Germany—a review of empirical findings*, "International Journal of Public Administration", 42(3).
- Shahab N., 2016, *Indonesia: one map policy*, Open Government Partnership.
- Surbakti R., 2018, *Parpol dan Korupsi di Daerah (Political Party and Corruption in the Region)*, Harian Kompas.
- Triggs A., Kacaribu F., Wang J., 2019, *Risks, resilience, and reforms: Indonesia's financial system in 2019*, Bulletin of Indonesian Economic Studies, 55(1).
- Van Gelder J.L., De Vries R.E., 2016, *Traits and states at work: lure, risk and personality as predictors of occupational crime*, Psychology, Crime & Law, 22(7).
- Widanaputra A.A., Mimba N.P.S.H., 2014, *The influence of participative budgeting on budgetary slack in composing local governments' budget in Bali province*, Procedia-Social and Behavioral Sciences, 164.

ZARZĄDZANIE NIEDOSTATKAMI BUDŻETU PARTYCYPACYJNEGO PRZEZ BADANIE CIEMNEJ STRONY OSOBOWOŚCI MENEDŻERÓW

Streszczenie: Budżetowanie partycypacyjne jest szeroko promowane jako nowa reforma zarządzania finansami. Jednak niezależnie od potwierdzonej skuteczności, model wytwarza także pokusę nadużycia menedżerów zwaną zastojem budżetowym, czyli skłonność do niedoszacowania przychodów i przeszacowaniem kosztów. Celem tego artykułu jest zbadanie relacji czynników ludzkich w procesie budżetowania pod względem osobowości, udziału w budżecie i skłonności menedżerów do tworzenia luki budżetowej. Używając modelu HEXACO (Uczciwość, pokora, emocjonalność, ekstrawersja, ugodowość, sumiennosc i otwartość na doświadczenie), model równania strukturalnego jest wykorzystywany do udowodnienia istnienia cech, które są powszechnie związane z ciemnymi cechami prowadzącymi do nieetycznego zachowania w miejscu pracy. Dane ankietowe od 150 respondentów wykorzystano do przeprowadzenia analizy modelowania równania strukturalnego. Wyniki wskazują, że udział budżetu stopniowo wpływa na skłonność do tworzenia luki budżetowej, co sprawia, że strategia reform zachęcająca menedżerów do wyeliminowania zastoju budżetowego może nie mieć znaczenia.

Słowa kluczowe: osobowość, uczestnictwo, Indonezja, luz budżetowy, model HEXACO.

通过调查经理人的黑暗人格来管理参与预算的不足

摘要: 参与式预算作为一种新的财务管理改革被广泛推广。然而, 无论其公认的有效性如何, 该模型还会产生管理者的道德风险, 即预算松弛, 即低估收入但高估成本的倾向。本文的目的是从人格, 预算参与以及管理者创造预算冗余的倾向角度来考察预算过程中人为因素之间的关系。使用 HEXACO 模型(诚实 - 谦卑, 情绪, eXtraversion, 宜人, 尽责和开放经验), 结构方程模型被用来证明特征的存在, 这些特征通常与导致工作场所中不道德行为的黑暗特征相关联。来自 150 名受访者的调查数据被用于进行结构方程模型分析。结果表明, 预算参与会逐渐影响创造预算松弛的倾向, 因此鼓励经理参与消除预算冗余的改革策略可能并不重要。

关键词: 人格, 参与, 印度尼西亚, 预算松弛, HEXACO 模型。