

## IMPACT OF ORGANISATIONAL FACTORS ON BUDGETARY SLACK

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### ABSTRACT

*This study examines the impact of organisational factors on budgetary slack among managers in Malaysia. The organisational factors as identified in prior research are budget participation, budget emphasis, information asymmetry and power distance. Specifically, this paper focuses on the influence of these factors either individually or interactively on the occurrence of the budgetary slack. Data are collected using questionnaire from 83 managers randomly selected from companies listed in Bursa Saham excluding finance, warrant and loan sector. Factor analysis results show that there are two dimensions of power distance i.e. supervisor style and management style. Individual relationships were tested using multiple regression and interaction relationships used moderated regression. Multiple regression results indicate a negative and significant relationship between management style and budgetary slack. Moderated regression results show a significant positive relationship between two way interaction of budget participation and budget emphasis with budgetary slack, and three way interaction of budget participation, budget emphasis and information asymmetry with budgetary slack. As a whole, the results imply that high power distance (management style) decreases the budgetary slack, while high interaction of budget participation, budget emphasis, and information asymmetry increases the budgetary slack. These results indicate that management should choose the right combination of budget participation, budget emphasis, and information asymmetry, and management style to control budgetary slack. The findings of this study could assist management of companies to understand the important factors that influence budgetary slack, which in turn may lead to effective management.*

**Keywords:** *Power Distance, Budgetary Slack, Budget Participation, Budget Emphasis, Information Asymmetry*

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### INTRODUCTION

Even though the notion of budgetary slack had been discussed since 1953 by Aygris, the issue of budgetary slack is still of researchers' interest and being debated in the literature. (e.g. Church, 2012; Yang et al., 2009; Maiga & Jacobs, 2008). Lau and Eggleton (2003) indicate that there are still major

unresolved issues of budgetary slack, one of which is the issue on the factors influencing budgetary slack. Previous studies had identify three main factors affecting budgetary slack i.e. budget participation, budget emphasis and information asymmetry. The conflicting results on the direction of the relationship between these three factors and budgetary slack contribute to these unresolved issues.

General notion expressed using budgetary slack as a tool to manipulate the budget in which the presence of budgetary slack causes the budget target easy to achieve. Cyert and March (1963) has included a slack as a key component of the manager trying maximized. They say that when the organization achieves its goals, organizational resources will fill individual goals. This is consistent with agency theory which states that managers as agents are act according to its own goals and budgetary slack is one action that allows them to be rewarded easily. Presence in the form of budgetary slack so stated as undesirable and unethical (Douglas & Wier 2000) and it should be limited (Dunk 1995; Fisher et al., 2000; Fisher et al. 2002a; Nouri 1994; Young 1985). In addition, budgetary slack increased inefficiencies in resource allocation, affect the operating performance (Leibenstein 1966; Williamson 1964) and affect the reliability of the information (Nouri 1994; Govindarajan 1986). These are the negative effects due to the presence of budgetary slack.

Despite the common perception, there is also empirical evidence that says otherwise that is budgetary slack led to a positive effect (Elmassri & Harris, 2011). Budget slack is used to motivate employees, enable the work to achieve the goals of management and manage budget risk (Davila & Wouters 2004; Elmassri & Harris, 2011). It encourages innovation and creativity of employees, absorb stress, resolve conflicts and motivate employees to stay in the company (Bourgeois 1981; Cyert & March 1963). This shows that budgetary slack increase the performance of employees and organizations if appropriate circumstances.

Indirectly, this implies that the practice of budgetary slack considered leads to the undesirable situation and have potential positive impact on the organization. Onsi (1973) states budget slack is undesirable depending on the factors that affect it. Knowing the factors will control the behavior of budgetary slack. Previous studies have found that three major factors affecting the budget is budgetary slack participation (Lukka 1988; Merchant 1985, Young 1985), the emphasis of the budget (Dunk 1995; Hopwood 1972; Merchant 1985; Otley 1978) and information asymmetry (Fisher et al. 2002p; Fisher et al. 2002b; Lambert 2001).

High degree of participation in the budget process is claimed to provide an opportunity for employees to create slack in the budget. The higher the degree of participation in the budget process, the higher the propensity of budgetary slack (Lukka, 1988; Young, 1985). On the other hand, Merchant (1985) and Lal et al. (1996) found that budget participation is negatively associated with budgetary slack or budget slack is reduced as staff felt appreciated when they are allowed to participate in budget process. With regard to the effects of budget emphasis, Leavins et al. (1995) and Linn et al. (2001) results contradict those of Van der Stede (2000) whereby they found that budget emphasis was negatively associated with budget slack. With regard to the effects of information asymmetry on slack, contrary to Jaworski and Young (1992), Chow et al. (1988) found that information asymmetry is positively associated with budget slack.

The three main factors determining budgetary slack; budget participation, budget emphasis and information asymmetry shown to be related to budgetary slack, but decisions about the relationship turned out to be consistent. Indirectly, this gives room for future researchers to continue to study the budgetary slack. In addition, this study identified inconsistency as determining factors not directly affect budgetary slack. There are other factors that influence the interaction with budgetary slack. Dunk (1993) studied the relationship between budgetary participation and budgetary slack in the presence of budget emphasis and information asymmetry. He expects the interaction positive organisational factors to the budget slack, but failed to establish a relationship. Lau and Eggleton (2003) continue efforts Dunk (1993) with the same make and successful studies provide empirical evidence that there is a

negative relationship between budget participation, budget emphasis and information asymmetry budgetary slack.

In Malaysia, studies on budgetary slack still in initial stage. Mohamad Adnan and Sulaiman (2006, 2007) studies on the effect of religion, organisational and cultural on budgetary slack among Malaysian organisation. Review by Nik Nazli et al. (2003), a tendency to do budgetary slack is high for companies in Malaysia compare to companies in the United Kingdom (UK) and New Zealand. High power distance in Malaysia than in the UK and New Zealand identified as an explanation of the practice of budgetary slack. Fear of failure and the need for good image for, corresponding to the characteristics of high society, high dependency employees to the superior namely power distance (Hofstede 1991) may be invited to practice high budgetary slack.

Power distance is one of the nation's cultural dimensions presented by Hofstede (1980). Ueno and Wu (1993) study on cultural differences and budgetary slack. However, their study only on two cultural dimensions of individualism / group (individualism / collectivism) and avoidance of uncertainty (uncertainty avoidance) and the results state that only the cultural dimension of individualism / group only positively related with budgetary slack. A study by Lau and Eggleton (2004), however, took individualism / group and power distance (power distance) as proxy for the country's culture and examine its relationship with the budgetary slack. However, their study is not able to prove an individual relationship between culture and budgets slack but found a negative relationship interaction between the culture of the country, budget emphasis and information asymmetry budgetary slack.

This study is choose four organisationals of budgetary slack budget participation, budget emphasis, information asymmetry and power distance. Budget participation, budget emphasis and information asymmetry selected because previous studies found that these three factors is the main factor leading to budgetary slack. But the previous research on these three factors has never been consistent. This gives the opportunity to study confirm. Another factor which is chosen because of the power distance dimension of this culture that make the difference between Malaysia and other countries as noted in the study by Nik Nazli et al. (2003).

The study will not only examine the relationship between the organisationals directly above the budgetary slack, but the interaction between the organisationals of budgetary slack is also tested. This study continue the efforts of Dunk (1993) and Lau and Eggleton (2003, 2004) who studied the interaction the determining factors of budgetary slack.

The remainder of the paper is structured as follows. The next section discusses the literature review and development of research hypothesis. This is followed by sections that discuss method and present results. Before concluding remarks are made, the limitation and avenue of further research are presented.

## **LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT**

Budgetary slack is defined as intentional underestimation of revenues and productive capabilities and/or overestimation of costs and resources required to complete a budgeted task (Dunk & Nouri 1998). Budgetary slack is usually associated with dysfunctional behaviours; achievement of budget target without much effort, unethical behaviour, ineffective resource allocation and unreliable information.

However, there are empirical evidences that proved the opposite effect. Budgetary slacks do motivate employees and lead to achievement of organisation's goal (Davila & Wouters 2004). It also encourages employees' innovation and creativity, absorbed tension and resolved conflicting goals (Bourgeois 1981; Cyert and March 1963). In addition, Yang et al. (2009) find the relationship between budget slack and innovation performance to be an inverse, U-shaped curve which means too little budget slack is as bad for innovation performance as too much budget slack. However, Onsi (1973)

stated that dysfunctional behaviour of budgetary slack depends on the factors contributing to it and by knowing these factors, control could be done to reduce the dysfunctional behaviour of budget slack.

Previous research that linked culture with budgetary slack is Ueno and Sekaran (1992). The study identifies the role of culture in budgetary control practices in the U.S. and Japan. These studies assume that two-dimensional culture which are individualism and uncertainty avoidance is able to explain and understand any differences that may exist in the practice of budgetary control for two countries, Japan and the United States. The results show that the culture of individualism is higher in the U.S. than in Japan where there is greater use of communication and coordination. This creates more traction in the budget and there is greater effect on short-term performance assessment than in Japanese companies.

Results of the survey by Ueno and Sekaran (1992) show that the country's culture plays an important role in the practice of budgetary control in general, and particularly in budgetary slack. This gives more room for future research taking into account the culture of the country as one of the main factors. This will also give more exposure to managers involved in international business to understand so that they can prepare themselves when they have to operate in different countries. Accordingly, the study by Nik Nazli et al. (2003), using a sample of Malaysian companies, found that budget participation is high and the propensity to create budgetary slack is very high compared with the companies in the United Kingdom and New Zealand. High power distance in Malaysia than in the UK and New Zealand is identified as an explanation of the practice of stretching the budget. Fear of failure and the need for good image corresponds with power-distance society of employees dependent on their superior (Hofstede 1991) contributed to increase budgetary slack.

Based on the discussion above, the expected power distance is one of the main organisational factors of budgetary slack in Malaysia and expected environmental range of this power has a positive relation with budgetary slack. This study is also expected to provide additional empirical evidence for the literature on budgetary slack.

Beside power distance, previous research had identified the organisational factors of budgetary slack, of which, the main factors are budget participation, budget emphasis and information asymmetry. These three organisational factors receive much conflicting results on the direction of their relationship with budgetary slack.

The research on budgetary slack's organisational factors could be traced back to Onsi (1973). Onsi (1973) provides opportunities to subsequent research to explore more on these organisational factors. Using experimental method, Young (1985) found that budget participation is positively associated with budgetary slack, contradicting with Onsi (1973). Merchant's (1985) result on budget participation on the other hand, is consistent with Onsi (1973). However, his result on budget emphasis is negatively associated with budgetary slack as opposed to Onsi. This demonstrates there are conflicting results on the direction of the relationship between organisational factors and budgetary slack. Research in 1980's focus on the relationship between organisational factors and budgetary slack individually.

Interaction effects of organisational factors started to be incorporated in the next decade. Proposed by Dunk (1990) as an explanation for inconsistent results of individual relationship of organisational factors to budgetary slack, his research examined three way interactions between budget participation, information asymmetry and budget emphasis on budgetary slack. However, the results are different from the hypothesized positive relationship, which further widens the controversy on the direction of relationship between organisational factors and budgetary slack. The effect of two way interactions of organisational factors (information asymmetry and budget emphasis) was also discussed by Dunk and Perera (1997). Although the interaction effects of organisational factors were introduced, most of the research in this decade still examined the relationship between organisational factors and

budgetary slack individually. Inconsistent results on organisational factors of budget participation and budget emphasis are exhibited in the research by Leavins et al (1995) and Lal et al (1996).

In the following decade, new organisational factors such as business strategy and business achievement (Van der Stede 2000) and reputation and ethic (Douglas 2002) are introduced. The focus of the research in this decade is more towards three way interaction of organisational factors, for example (1) interaction effects of budget participation, budget emphasis and asymmetry information on budgetary slack (Lau & Eggleton 2003) (2) uncertainty, budget participation and control system (Kren 2003) and (3) budget emphasis, asymmetry information and culture (Lau & Eggleton 2004). Beside this, individual relationship between organisational factor and budgetary slack were also examined for example, budget emphasis (Van der Stede 2000; Linn et al 2001), asymmetry information (Douglas & Wier 2000; Fisher et al 2002a; Fisher et al 2002b) and budget participation (Linn et al 2001).

Research in Malaysia on budgetary slack is still in early stage. The newest studies in Malaysia is Mohamad Adnan and Sulaiman (2007; 2006) and Nik Nazli et al. (2003). Mohamad Adnan and Sulaiman (2007; 2006) studies on factors influencing budgetary slack in Malaysia. The factors include organisational, religious and culture. Nik Nazli et al. which examined implementation of budget at general. Their study shows budgetary slack in Malaysia is higher than in New Zealand and USA. Though the reasons for this difference are not clear, it is possible that cultural factors may account for the difference (Nik Nazli et al., 2003). Malaysia ranks very high on Power Distance (Hofstede, 1991). According to Hofstede (1991) in large Power Distance societies, employees tend to be dependent on their superiors and bosses have the ultimate authority. Thus, the fear of failure and need to 'look good' on the part of employees are paramount. As such, participative budgeting may lead to a higher propensity to create budget (Nik Nazli, 2000).

The above discussions indicate power distance, budget participation, budget emphasis and asymmetry information are the main factors contributing to budgetary slack due to inconsistent results of the direction of the relationship. The effects of interactions between organisational factors are emphasized in the research as one possible explanation to these inconsistent results. Thus, it offers an avenue for further research on organisational factors of budgetary slack within the perspective of interactive effects.

## **Hypothesis Development**

Over the years slack has been viewed as an agency, organizational behaviour and ethical issue (Hobson et al., 2011; Ozer & Yilmaz, 2011). The premise of agency theory is that agents are self-interested, risk averse, rational actors who always attempt to exert less effort and project high capabilities and skill than they actually have. Given compensation or reward as depending on budget attainment, managers (i.e. agents) will build a slack in the budget as to ensure the budget targets are achieved. (Lowe & Shaw 1968; Schiff & Lewin 1968, 1970; Waller 1988)

Participation in budget gives opportunity for employee to do slack (Young 1985). Lowe and Shaw (1968) stated that employee do budgetary slack to protect their own interest and this action is economic rational behaviour. This is also supported by Lukka (1988) which argued that a high degree of participation gives subordinate managers the opportunity to contribute directly to the creation of slack and vice versa. This leads to hypothesis as follows:

### **H1: Budget participation is positively associated with budgetary slack**

Emphasis on meeting budget target as a criterion for evaluation of subordinates' performance (high budget emphasis) may be associated with high job-related tension (Hopwood, 1972). In situation of high budget emphasis, employee will find a way to protect themselves from risk of not achieving the budget target (Lukka 1988). Budgetary slack is one of the solutions for this situation. Onsi (1973)

reported a positive relationship between employees' need to create slack and emphasis on budget. Camman (1976) results are also consistent with Onsi (1973) showing that when managers used budget emphasis, the responses of their employees are defensive. These findings suggest as Merchant (1985) proposed that the budgetary slack is positively related to budget emphasis. This leads to second hypothesis as follows:

**H2: Budget emphasis is positively associated with budgetary slack**

High information asymmetry will give opportunity for employee to do a slack without being detected by the managers. In this situation, the ability of managers to detect slack is low. Merchant (1985) concluded that the ability of superiors to detect slack may also influence their employee to create slack. This leads to the third hypothesis as follows:

**H3: Information asymmetry is positively associated with budgetary slack**

According to Williams and Seaman (2001), high power distance reduces trust on individual. Low trust will increase control on employees. Employees will have conflict of interest and try to get good performance evaluation and try to protect themselves by doing budgetary slack. According to Hofstede (1991) in high power distance society, employees fear of failure and need to look good to their manager. This leads to fourth hypothesis as follows:

**H4: Power Distance is positively associated with budgetary slack**

Budget participation give opportunities to employee do budgetary slack. Consequently, subordinate managers may react favourable to budgetary slack or tend to increase the creation of slack when there is a high job related tension due to high budget emphasis. The creation of budget slack also increased when there is high budget emphasis coupled with opportunity to participate in budget. This leads to the fifth hypothesis as follows:

**H5: Interaction between budget participation and budget emphasis is positively associated with budgetary slack**

Dunk (1993) shows that participation alone does not affect budgetary slack and Dunk (1993) suggests there may be other factors associated with participation will lead to budgetary slack. Budget participation gives opportunity to employee to do slack and the opportunity become wider with information asymmetry. Budget emphasis gives reason why employee do budget slack. Thus, the above discussion suggests that high participation with high budget emphasis and high asymmetry information is likely to give rise to high budgetary slack. This leads to the sixth hypothesis as follows:

**H6: The interaction between budgetary participation, budget emphasis and information asymmetry is positively associated with budgetary slack.**

Budget participation and information asymmetry give opportunity to employees to do budgetary slack while budget emphasis and power distance gives reason why employees do a budgetary slack. Thus, the above discussion suggests that high participation with high budget emphasis, high asymmetry information and high power distance is likely to give rise to high budgetary slack. This leads to the seventh hypothesis as follows:

**H7: The interaction between budgetary participation, budget emphasis, information asymmetry and power distance is positively associated with budgetary slack.**

## METHOD

### Sample Selection

A total of 150 companies were randomly selected from companies listed in Bursa Malaysia on 15 November 2005<sup>1</sup>. Listed companies in Bursa Malaysia is chosen as sampling frame because of their big size, they employ more workers and have high paid up capital. Therefore, it is expected that the companies use formal budget and control to guide operations. From these 150 companies, 450 managers were chosen as sample respondent. Each company is given three questionnaires together with a cover letter and self-addressed envelope for the questionnaire to be returned directly to the researchers. First reminder letters were sent one week after sending the questionnaires followed by second reminder letter two weeks later. Telephone calls also were used to solicit higher response.

From a total of 450 questionnaires sent to managers, 83 questionnaires were returned, which yielded a response rate of 18.44 per cent. All questionnaires returned are valid to analyse.

### Variables Measurements

A five point likert scale is used to measure all items of the research variables. These items are anchored by (1) low usage and (5) high usage.

#### *Budgetary Slack*

This study uses measurement suggested by Van der Stede (2000), which measures budgetary slack with five items: (1) succeed in submitting budgets that are easily attainable, (2) budget targets induce high productivity in the department, (3) budget targets require costs to be managed carefully in the department, (4) budget targets have not caused employees to be particularly concerned with improving efficiency in the department, (5) whether the budget is very easy to attain, attainable with reasonable effort, attainable with considerable effort, practically unattainable or impossible to attain. From factor analysis, first and second items are excluded because factor loading is less than 0.5.

#### *Budget Participation*

Budgetary participation is the means by which subordinate managers influence plans and their means of implementation, thereby sharing in the decision making process with their superiors on matters that affect their areas of responsibility (Milani, 1975). This study adopts Milani's measurement of budget participation on (1) the importance of employees involvement in setting the budget, (2) the kind of reasoning provided to employees by their superior when the budget is revised, (3) the frequency of discussion related to budget initiated by superior with the employees, (4) the influence that employees have on final budget, (5) the importance of employees contribution to the budget, and (6) the frequency of discussion with employees related to budget is initiated by superior when budgets are being set. From factor analysis, all the items are valid.

#### *Budget Emphasis*

It refers to tight budget control (Anthony & Govindarajan, 1994) and accordingly when budget control is tight, performance is measured predominantly on the basis of attaining budget goals (Van der Stede, 2000). Although most studies adopt the measurement developed by Hopwood (1972), this study utilizes Van de Stede (2000) since the latter's measurement is more specific with regard to the high emphasis of the subordinates to achieve budget target and consistent with the given definition. Budget

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<sup>1</sup> The sampling framework excludes companies from financial, warrant and loan sector. High possibility that this sector does not practice budgetary slack since this sector is under Banking and Financial Institution Act (BAVIA)

is emphasised because of the following: (1) it is reminder by superiors of the need to meet budget targets, (2) superiors judge performance predominantly on the basis of attaining budget goals, (3) Control over the department by superiors is principally through monitoring how well the budget is on target, (4) superiors achieving the budget is an accurate reflection of whether the employees are succeeding in their work, (5) not achieving the budget has a strong impact on employees performance as rated by the superiors, (6) Employees promotion prospects depend on their ability to meet the budget, and (7) In the eyes of the superiors, not achieving the budget reflects poor performance. From factor analysis, all the items are valid.

#### *Information Asymmetry*

Information asymmetry arises when subordinates (agents) are in possession of information that affects the decision process between subordinates and superiors (principals). The research used revised instrument of Jaworski and McInnis (1988) suggested by Ramaswami et. al (1997). Respondents are asked on the information possessed by them compared to their principal with regards (1) Employees know more about how to accomplish the work they normally encounter, (2) Employees are intimately familiar with the day-to-day decisions related to their work, (3) Employees have developed a better working knowledge of their job, (4) Employees can assess their performance more adequately after completing the activities, (5) Employees can specify the most important variables to monitor in their work, (6) Employees can specify the performance objectives to cover the range of activities they perform. From factor analysis, all the items are valid.

#### *Power Distance*

Hofstede (1980) defined power distance as the difference between the extent to which the superior can determine the behaviour of the subordinate and the extent to which the subordinate can determine the behaviour of the superior. Measurement of power distance uses three questions used by Hofstede (1980) and two additional questions. The three questions from Hofstede are: (1) Employees are frequently afraid to express disagreement with their superior, (2) employees perceive that their superior decision making style is more autocratic than persuasive, (3) employees prefer autocratic style of decision making from their superior than the persuasive way. Two additional questions are: (4) employee expects to be consulted than to be told by the superior, (5) employee's company hierarchy is seen to be more exploitive than reflecting natural differences. From factor analysis, the items are divided into two dimensions. First dimension is manager style which is represented by items (1) and (2). Second dimension is management style which includes items (4) and (5). Item no (3) is excluded.

The Cronbach Alphas of the variables under study are (1) budgetary slack 0.74 (2) budget participation 0.89 (3) budget emphasis 0.95 and (4) information asymmetry 0.92. (5) power distance (manager style) 0.69 and management style 0.59.

## **FINDINGS AND DISCUSSIONS**

### **Respondent Profile**

Nearly all the respondents are subordinate managers, with mean age of below forty years. They have been holding their current position on average less than five years, and most of them (83.1 %) are interested to continue working in the same company in the next five years. More than half of the respondents have at least diplomas.

Summary descriptive statistics for independent and dependent variables are presented in Table 1.



Table 3: Descriptive statistics of independent and dependent variables

Variables	Min	Max	Mean	Median	Std dev
budgetary slack	1.00	5.00	2.65	2.67	0.83
budget participation	1.33	4.50	3.07	3.00	0.79
budget emphasis	1.00	4.71	2.90	3.00	0.87
information asymmetry	2.00	4.83	3.60	3.67	0.65
Power Distance- Manager Style	1.00	5.00	2.60	2.50	0.86
Power Distance-Management Style	1.00	5.00	2.70	2.50	0.77

### Hypotheses Testing

The results of testing hypotheses 1 to 4 are presented in Table 2. The finding suggests that hypotheses 1 to 3 are rejected. Budget participation, budget emphasis and information asymmetry do not have a significant relationship individually with budgetary slack. Hypothesis 4 expects positive relationship between power distance and budgetary slack. Result from factor analysis, shows power distance is divided into two dimensions; manager style and management style. There is no significant relationship for manager style but for management style, the result shows negative relationship and significant. This result is opposite of the hypothesis stated before.

Table 2: Multiple Regression for testing Hypotheses 1-4

Variables		Coefficient	Std. Error	T-value	P-value
Constant	b <sub>0</sub>	4.881	1.587	3.076	0.003
Budget Participation (BP)	b <sub>1</sub>	0.101	0.462	0.218	0.828
Budget Emphasis (BE)	b <sub>2</sub>	0.261	0.387	0.674	0.502
Information Asymmetry (IA)	b <sub>3</sub>	0.555	0.485	1.145	0.256
Power Distance –Manager Style(PD-1)	b <sub>4a</sub>	0.099	0.323	0.306	0.760
Power Distance –Management Style(PD-2)	b <sub>4b</sub>	-0.905	0.343	-2.637	0.010

R<sup>2</sup> = 0.131, Adjusted R<sup>2</sup> = 0.075, n = 83, F<sub>5,83</sub> = 2.324 (p = 0.051)

The regression model used to analyse the data for testing Hypothesis 5 to 7 are:

$$H5: Y = b_0 + b_1 BP + b_2 BE + b_3 BP \times BE$$

$$H6: Y = b_0 + b_1 BP + b_2 BE + b_3 IA + b_4 BP \times BE + b_5 BP \times IA + b_6 BE \times IA + b_7 BP \times BE \times IA$$

$$H7: Y = b_0 + b_1 BP + b_2 BE + b_3 IA + b_4 PD + b_5 BP \times BE + b_6 BP \times IA + b_7 BP \times PD + b_8 BE \times IA + b_9 BE \times PD + b_{10} IA \times PD + b_{11} BP \times BE \times IA + b_{12} BP \times BE \times PD + b_{13} BP \times IA \times PD + b_{14} BE \times IA \times PD + b_{15} BP \times BE \times IA \times PD$$

Where Y = budgetary slack; BP = budget participation; BE = budget emphasis; IA= information asymmetry; PD = power distance

Table 3 shows interaction hypothesis which covered three hypotheses, hypothesis 5, 6 and 7. Table summarizes the results of the interaction between organisational factor and budgetary slack .

Table 3 Result of Hypothesis 5,6 and 7

<b>Hypothesis</b>	<b>Interaction</b>	<b>T-Value</b>	<b>P-Value</b>	<b>R<sup>2</sup></b>	<b>Result</b>
5	Budget Participation and Budget Emphasis	3.516	0.001	0.167	Positive and Significant. Accepted
6	Budget Participation, Budget Emphasis and Information Asymmetry	2.001	0.048	0.219	Positive and Significant. Accepted
7a	Budget Participation, Budget Emphasis, Information Asymmetry and Power Distance (Manager Style)	-1.786	0.079	0.328	Negative and not significant. Rejected
7b	Budget Participation, Budget Emphasis, Information Asymmetry and Power Distance (Management Style)	-0.794	0.430	0.325	Negative and not significant. Rejected

Hypothesis 5 states that the interaction of budget participation and budget emphasis is positively associated with budgetary slack. Table 3 presents the result of two way interaction between budget participation and budget emphasis affecting budgetary slack. The results indicate that coefficient  $b_3$  of the two-way interaction is highly significant (est. = 1.247;  $p < 0.001$ ) and positively related to budgetary slack. The  $R^2$  is 16.7%. The result shows that budget participation and budget emphasis individually do not affect budgetary slack. However, interaction between them is positively associated with budgetary slack and hypothesis H5 is supported.

Hypothesis 6 states that the interaction of budget participation, budget emphasis and information asymmetry is positively associated with budgetary slack. Table 3 presents the result of three way interaction between budget participation, budget emphasis and information asymmetry affecting budgetary slack. The results indicate that coefficient  $b_7$  of the three-way interaction is highly significant (est. = 1.229;  $p < 0.048$ ) and positively related to budgetary slack. The  $R^2$  is 21.9%. The result shows that budget participation, budget emphasis and information asymmetry individually do not affect budgetary slack. However, interaction between them is positively associated with budgetary slack and hypothesis H6 is supported.

Findings from the study show that when information asymmetry is high with high budget participation and budget emphasis, the occurrence of budgetary slack increases. The result is consistent with agency theory whereby agents (managers) are self-interested and will take any opportunity to secure their interest. With high degree of participation, it increases employees' opportunities to create directly the slack in the budget. More opportunities of creating slack existed when employees have more information compared to their superior. This situation will allow employees to do budget slack without the risk of being detected by their superior because in high information asymmetry, superiors'

ability to detect slack is low (Merchant 1985; Lal et al. 1996). Accordingly, when emphasis in the budget is high, it encourages employees to do more slack in budget to secure goal achievement.

The result is further strengthened by the explanation of sample profile. On average, the respondents hold their current position less than five years and mostly are interested to continue to work in the same company in the next five years. Therefore, there is a high possibility of natural acts of agent among them to secure their interest by creating slack in the budget.

Hypothesis H7 states that the interaction of budget participation, budget emphasis, information asymmetry and power distance is positively associated with budgetary slack. Table 3 present the result of four way interaction between budget participation, budget emphasis, information asymmetry and power distance (dimension manager style and management style) affecting budgetary slack. The results indicate that there is no significant interaction relationship and hypothesis H7a and H7b are not supported.

## CONCLUSIONS

The objective of this study is to examine the individual relationship and interaction between budget participation, budget emphasis, information asymmetry and power distance on budgetary slack. This study suggests budget participation, budget emphasis and information asymmetry individually does not affect budgetary slack but two-way interaction between budget participation and budget emphasis and the three-way interaction between budgetary participation, budget emphasis and information asymmetry is positively associated with budgetary slack.

The results of this study show that budgetary slack is contingent upon the interaction between budget participation, budget emphasis and information asymmetry in a positive manner. The results provide evidence that managers (i.e. agents) have the tendency to build slack in their budget whenever opportunities arise to secure their compensation prospects. By participating in budget process, managers have opportunity to directly build a slack in the budget. The tendency to build budget slack is greater when their information on subordinate capabilities exceeds that of their superiors and budget target is the main indicator for evaluating their performance.

The result also shows that management style and one dimension of power distance have an impact on budgetary slack. However, this dimension does not have a positive relationship but it has a negative relationship which indicates that part of power distance will reduce budgetary slack. This is a new discover for Malaysian managers. This result also shows that autocratic style will reduce budgetary slack in Malaysia.

This study gives important implications to both theory and practice. Theoretically, the findings of this study are consistent with agency theory which underlies the conceptual model of this study. Agency theory states that high budget participation with high information asymmetry will increase budget slack if budget emphasis is also high. This is because participation in budget and information asymmetry gives opportunity to the workers to do budget slack without being detected by their superiors, to make sure they achieve the budget targets when budget emphasis is high.

This study also gives additional empirical evidence which highlights national culture factor and power distance as one of the main factors of budgetary slack in Malaysia. There are two dimensions of power distance in this study; manager style and management style. Only management style has a significant negative relationship with budgetary slack. More autocratic management style will decrease the budgetary slack.

Practically, for management to control budgetary slack, management has to control the level of participation and emphasize on budget and information asymmetry simultaneously. Thus, management

needs to choose the right combination of organisational factors to control the budgetary slack in order to gain effective management. Management can also increase autocratic management style to reduce budgetary slack.

The results of the study may be subject to a number of possible limitations. Firstly, many companies in Malaysia consider disclosing information as requested in the survey questionnaire as confidential and thus are unwilling to cooperate. This results in a low response rate (18.44%). However, the sample size received is considered enough for a meaningful statistical analysis to be undertaken.

Secondly, although the sample for this study is selected from various industries, there is no attempt to study the industrial influence on the current findings. If the sample collected is large enough, consideration of industrial influence would provide a valuable insight. Thirdly, measurements of management style (power distance) are based on the definition of power distance only. Cronbach alpha is also low (0.58) and it will reduce the reliability for this variable.

Finally, the results of this study should be interpreted with care as it is conducted in one country only, i.e., Malaysia. Different results may be found in different countries with different political settings and culture.

Future studies may use field study in multinational companies to study the budgetary slack issue. Studying multinational companies may provide an interesting venue as these firms possess complex organisation structure and multi-racial staff that operates in different countries and with different culture.

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