JAFA, 9(2), December 2022, 63-72 P-ISSN: 1979-6862
DOI: 10.21512/jafa.v9i2.8291 E-ISSN: 2746-6019

THE EFFECT OF COMPENSATION SCHEMES, OBEDIENCE PRESSURE, AND SELF-EFFICACY ON BUDGETARY SLACK

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ABSTRACT

Budgetary Slack is the most common problem when preparing a budget. Budgetary Slack occurs when there is a difference between the number of best budget estimates and the total budget proposed by subordinates. Several factors can affect budgetary slack, including compensation schemes, obedience pressure, and self-efficacy. This experimental study examines and analyzes the effect of compensation schemes, obedience pressure, and self-efficacy on budgetary slack. This experiment used a 2x2x2 between-subject experimental design; participant data was obtained by filling out a google form. Testing of participant data was used using Levene's test and univariate ANOVA. The conclusion is that budgetary slack is affected by the compensation scheme. Therefore, managers should be aware of the benefits and drawbacks of the pay plan that the firm will implement in advance.

***Keywords**: Compensation Scheme, Obedience Pressure, Self-efficacy, Budgetary Slack*

INTRODUCTION

Budgetary Slack is the most common problem when preparing a budget. Budgetary Slack occurs when there is a difference between the number of the company's best budget estimates and the total budget proposed by subordinates (Anthony & Govindarajan, 2007; in Baihaqi, Hatta, Masyarah, and Auditya, 2017). In general, budgetary slack is based on agency theory. Agency theory occurs when the principal (supervisor) has a relationship or cooperates with another person (agent). Several factors can affect budgetary slack, including compensation schemes (Helmayunita & Betavia, 2019; Chong et al., 2021), obedience pressure (Baihaqi et al., 2017), and self-efficacy (Candra & Helmayunita, 2019).

The first factor is the compensation scheme. This study uses two compensation schemes: truth-inducing and slack-inducing (Helmayunita & Betavia, 2019). Both types of compensation can impact an individual's behavior in achieving his target. The truth-inducing scheme will motivate individuals to estimate budget targets carefully according to individual abilities. However, individuals will be subject to fines/sanctions if the budget cannot be achieved. While slack-inducing is a compensation scheme, compensation will only be given if the individual can achieve the predetermined target; there is no penalty system.

The second factor is obedience pressure. Obedience pressure is when individuals get direct orders from other individuals' behavior and are affected by the circumstances. (Brehm and Kaasin, 1990; Lord and DeZorort, 2001; in Baihaqi, et al., 2017). In reality, in a company, when a subordinate gets pressure from his superior, there is a possibility that the subordinate will commit budgetary slack or budgetary gaps because the subordinates feel they have to obey orders from the principal (superior).

The third factor is self-efficacy, where self-efficacy is a person's

Based on the background of the research problem above, the objectives of this study are:

1. To test and analyze the effect of compensation schemes on budgetary slack.
2. To test and analyze the effect of obedience pressure on budgetary slack.
3. To test and analyze the effect of self-efficacy on budgetary slack.

Agency theory describes the relationship between shareholders as principals and management as agents (Jensen & Meckling, 1976; Tanudjaja, 2019). There are two kinds of agency theory: Positive agency research and Principle-agent research. Positive agency research is an identification that only

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focuses on conflicts between agents and superiors, so in this group, it only focuses on the goals between superiors and subordinates. Meanwhile, principle-agent research is an identification that reveals that there is a broad relationship between superiors and subordinates. An example is the relationship between a lawyer and his client.

Agency theory explains when superiors delegate their authority to subordinates to perform a task or authority to make decisions (Anthony & Govindarajan, 1998). Due to the existence of this authority, subordinates can act according to their own will without paying attention to responsibilities to the company.

Clowes and Scriven (2011:4; in Tanudjaja, 2019) state that the purpose of the budget is to improve communication and coordination between various management within a company, provide an explanation of who will be responsible for certain activities, and also provide motivation and evaluation for employees so that their performance continues to improve, as well as increasing effectiveness in the company's budgeting process.

Budgetary Slack occurs when there is a difference between the number of the company's best budget estimates and the total budget proposed by subordinates (Anthony & Govindarajan, 2007; in Baihaqi et al., 2017). Standards are essential and closely related to the company's strategic plan for gaining profits. Therefore, the first step to preparing a budget is to have a standard or strategic plan guideline (Tanudjaja, 2019). According to Anthony and Govindarajan (2007; in Baihaqi et al., 2017), there are three indicators of budgetary slack, namely:

1. There is a difference between the budget amount and the best estimate. The number of best estimates is the budget according to the company's best circumstances and capabilities.
2. Budget targets: subordinates usually want to show their superiors the best ability they can give. One of the capabilities to be demonstrated is to meet budget targets. Subordinates will try their best to achieve this. It can be done by creating a budget gap to achieve the target. If superiors assess performance based on budget achievements achieved by subordinates, subordinates will increasingly try to achieve the budget target. The budget gap is influenced by the desire to gain recognition from superiors. Therefore, subordinates tend to be selfish to achieve the budget target as soon as possible, so subordinates will do budgetary slack.
3. Environmental conditions in question can mean a reciprocal that subordinates will receive, such as salaries, promotions, or bonuses. In order to get a high bonus/compensation, subordinates usually make a limited budget to meet the budget target (Candra & Helmayunita, 2019).

Several factors encourage someone to do budgetary slack, according to Falikhatun (2007; in Baihaqi et al., 2019) and Ones (2013; in Baihaqi et al., 2019), including:

1. People often assume that if we can achieve the budget set by the company, then our performance can be considered good,
2. *Budgetary Slack is* mainly used to go through uncertain conditions or unexpected events, such as the current COVID-19, which causes uncertain sales and production of goods. Due to these uncertain conditions, managers overcome them by doing budgetary slack to meet their targets still.
3. Budget plans are usually cut in the process of allocating resources.

Budgetary Slack is due to the unequal goals between superiors and subordinates (Chong et al., 2021). By fulfilling the boss's budget, subordinates feel pressured about it.

Several companies often do compensation. Compensation can trigger employees of a company to do their work optimally. However, few individuals become greedy and obsessed with compensation, which can eventually lead to disputes between the principal of a company and the company's agent. According to Anggraeni (2016; Helmayunita and Betavia, 2019), there are two types of compensation: slack-inducing and truth-inducing, where both schemes are often used in previous studies.

Slack-inducing is a compensation scheme where new compensation will be given if the individual can achieve the predetermined target, and there is no system of fines. Meanwhile, a truth-inducing scheme will motivate individuals to estimate budget targets carefully according to individual abilities. Suppose the individual cannot achieve the target set. Has been determined that individuals will be subject

to sanctions in fines (Helmayunita and Betavia (2019). According to Anggraeni (2016; in Helmayunita and Betavia, 2019) and Sampouw (2018; in Candra and Helmayunita, 2019), these compensations affect budgetary slack. The slack-inducing scheme affects increasing budgetary slack, while truth-inducing affects decreasing budgetary slack. Obedience pressure is a type of pressure due to social influences that occur when individuals receive direct orders from others (Lord & Dezort, 2001; in Tanudjaja, 2019). This pressure occurs because an individual owns and uses his rights and authority to give orders to others.

Milgram (1974, in Baihaqi et al., 2017) states that when a person experiences pressure, that person will continue to take all actions in an organization. However, the actions taken are not by the values or norms that apply in an organization. Subordinates will tend to do things that benefit themselves because subordinates feel that the authority or task given by their superiors is too heavy. Therefore, subordinates will feel under pressure from superiors. However, on the other hand, subordinates must obey orders from superiors; when an individual experiences the pressure of obedience from another person who has a higher position than that individual, the individual will experience a psychological change from an autonomous behavior to behavior that forms a dynamic.

Self-efficacy is a person's assessment of his abilities to achieve a predetermined level of performance. This ability assessment will affect a person's actions next (Bandura, 1986; Silfiana, 2015; in Ardiyani & Sukirno, 2017). Someone with high self-efficacy will do as much as possible to achieve the desired goals. When someone with high self-efficacy experiences failure in achieving his goals, the individual tends to be more active and tries to improve and overcome the problems and obstacles he faced before so as not to experience the same failure a second time. It is inversely proportional to someone with low self-efficacy, in which they tend to be insecure in overcoming problems and obstacles that have been experienced before, thus making it fail.

A person's high self-efficacy will make him confident in his ability to complete his work to achieve better performance. According to Abdullah (2013; in Ardiyani & Sukirno, 2017), someone who has high self-efficacy can reduce the occurrence of budgetary slack, but on the other hand, someone who has low self-efficacy will tend to create budgetary slack. This happens because someone with high self-efficacy's positive thoughts and strong motivation (Helmayunita & Betavia, 2019).

According to Anggraeni (2016, in Helmayunita and Betavia, 2019), there are two types of compensation schemes: truth-inducing and slack-inducing. Truth-inducing is a scheme where compensation will be given by the amount of salary and bonuses received if the subordinates can meet the budgeted targets, but if the achievements obtained exceed or reduce the budgeted targets, they would be subject to sanctions or fees. On the other side, slack-inducing is a scheme where subordinates receive a fixed salary plus a bonus if the subordinate meets the target that has been set and is not subject to fines or sanctions if the subordinate cannot achieve it.

There are results from previous researchers regarding compensation schemes and budgetary slack. First, Elfrilina (2018, in Candra and Helmayunita, 2019) research stated that if the scheme applied is truth-inducing, the individual's opportunity to get a penalty will be more significant. As a result, budgetary slack will be carried out more often if the scheme applied is truth-inducing. In contrast to the previous research, according to Sampouw (2018, in Candra and Helmayunita, 2019), the slack-inducing scheme will make individuals tend to do budgetary slack compared to when the scheme applied is truth-inducing. Therefore, the hypothesis proposed in this study is as follows:

H1: Individuals tend to do budgetary slack when the compensation scheme provided is slack-inducing.

Milgram (1974, in Baihaqi et al., 2017) proves that when a person experiences pressure, that person will take all actions, not by the values or norms applied in a particular organization. Subordinates will tend to do things that benefit them because they feel that the authority or task given by their superiors is too heavy to do.

The research results from Grediani and Sugiri (2010; in Baihaqi et al., 2017) stated that subordinates who experience direct pressure from superiors would violate budget policies and create a higher budget than the initial budget estimate. Ones (2013; in Baihaqi et al., 2017) and Ratzarsyah (2013; in Baihaqi et al., 2017) found that management accountants under direct obedience pressure from

superiors will create budgetary slack and generate budgets that are higher than they should be. Baihaqi et al. (2017) also stated that as long as obedience pressure exists in a company, it can affect management carrying out budgetary slack. The higher the pressure, the higher the creation of budgetary slack. Therefore, the hypothesis proposed in this study is as follows:

H2: Individuals who face high obedience pressure tend to do budgetary slack than individuals who face low obedience pressure.

Self-efficacy is a person's assessment of one's abilities in achieving a predetermined level of performance. The assessment of this ability will affect the actions that a person will take next (Bandura, 1986; in Silfiana, 2015; in Ardiyani and Sukirno, 2017). Agency theory also explains phenomena when superiors delegate authority to subordinates to perform a task or authority to make decisions (Anthony and Govindarajan, 1998).

Due to the existence of this authority, subordinates can act according to their own will without regard to their responsibilities to the company. However, for someone who has high self-efficacy, this will make that person confident in his ability to complete his work to achieve better performance. It happens because of someone with high self-efficacy's positive thoughts and strong motivation (Helmayunita and Betavia, 2019). According to Abdullah (2013; in Ardiyani and Sukirno, 2017), someone who has high self-efficacy can reduce the occurrence of budgetary slack. On the other hand, someone who has low self-efficacy will tend to create budgetary slack. Therefore, the hypothesis proposed in this study is as follows:

H3: Individuals with high self-efficacy are more likely to have lower budgetary slack than individuals who have low self-efficacy.

RESEARCH METHOD

This research method uses a factorial experimental research design to examine and analyze the effect of compensation schemes, obedience pressure, and self-efficacy on budgetary slack. The population of this research is undergraduate students majoring in accounting Widya Mandala Catholic University, Surabaya, with the condition that they have passed the Management Accounting and Budgeting course.

This study uses four variables: three independent variables and one dependent variable. The independent variables used are compensation schemes, obedience pressure, and self-efficacy, and the dependent variable used is budgetary slack.

The type of data in this study is quantitative data in participant responses to experimental sheets, which are distributed directly to participants. Because the existing data sources were obtained directly by researchers from participant responses, the data in this study were classified as primary data. The experiment is a data collection technique involving researchers manipulating several variables, namely the independent variable, and observing the impact on the dependent variable. The variables to be manipulated are compensation schemes and obedience pressure. Meanwhile, self-efficacy will be measured. The variable its effect will be observed is the budgetary slack (budgetary gap).

ANALYSIS

The experimental subjects in this study were obtained from the distribution of experimental cases carried out through the Google Form. The research subjects selected for this study must meet the criteria as students of the Widya Mandala Catholic University Surabaya, Faculty of Business, Accounting Study Program, who have passed the Management Accounting and Budgeting course. Participants will be asked to assess how much they feel budgetary slack when faced with conditions of Compensation Scheme, Obedience Pressure, and Self-Efficacy. In addition, the determination of criteria in determining the subject of this experiment aims so that students who receive and fill in cases that have been disseminated can understand the case of the experiment provided. The data obtained from the results of the experiment filling is quite accurate.

The spread of experimental cases conducted and disseminated through Google Form consists of 4 scenarios randomly shared through Zoom intermediaries in attended classes and have previously made appointments with lecturers who will teach in the class. When entering the class for the first time, the first thing to do is to introduce themselves and the purpose of participants filling out the questionnaire that will be given. After introducing themselves, participants are invited to work on the Google Form that has been distributed.

Randomization of scenarios is based on participant attendance. Attendance with the absentee number of 1-10 will work in scenario A, absentee number of 11-20 will work on scenario B, absentee numbers in the order of 21-30 will work on scenario C, and absentee from numbers 30-40 will work on scenario D. The time given to work on the questionnaire to collect the answers is about 10-15 minutes. In addition to spreading through classes, Google Forms is also distributed via personal chat, where participants are asked to choose their preferred fruit. If they choose pineapples, they will get scenario A. Choosing bananas means they will get scenario B, choosing papaya means they will get scenario C, and choosing rambutan means they will get to work on scenario D.

Experimental deployment takes four days. This experimental study consisted of 96 participants. Out of the 96 participants, 10 participants did not meet the requirements of this experimental research, so the data obtained for processing in this experimental study came only from 86 people.

Table 1. Tests of Between-Subjects Effects Compensation Scheme

Source	Type III Sum of Squares	Df	Mean Square	F	Sig.
Corrected Model	80,193a	1	80,193a	9,983	0.002
Intercept	1351,914	1	1351,914	168,289	0.000
Compensation	80,193	1	80,193	9,983	0.002
Scheme	674,795	84	8,033		
Error	2123,000	86			
Total	754.988	85			
Corrected Total					

Source: Data Processing Results

Table 2. Tests of Between-Subjects Effects Pressure Obedience

Source	Type III Sum of Squares	Df	Mean Square	F	Sig.
Corrected Model	3,386a	1	3,386a	,378	0.540
Intercept	1358,735	1	1358,735	151,854	0.000
Obedience	3,386	1	3,386	,378	0.540
Pressure	751,602	84	8,948		
Error	2123,000	86			
Total	754.988	85			
Corrected Total					

Source: Data Processing Results

Table 3. Tests of Between-Subjects Effects Self Efficacy

Source	Type III Sum of Squares	Df	Mean Square	F	Sig.
Corrected Model	22,635a	1	22,635a	2,596	0.111
Intercept	1089,240	1	1089,240	124.934	0.000
Cell-Efficacy	22,635	1	22,635	2,596	0.111
Error	732,353	84	732,353		
Total	2123,000	86			
Corrected Total	754.988	85			

Source: Data Processing Results

Table 1 shows that the first hypothesis yields α the significance level for the compensation scheme variable 0.002. It can be said that the effect of compensation schemes on the intensity of a manager doing budgetary slack is proven to have a significant effect <0.05. The value of 0.002 can also indicate that the first hypothesis in this study is accepted. The average results for each category show that the slack-inducing compensation scheme is greater than the truth-inducing scheme.

Table 2 shows that the second hypothesis yields α the significance level for the obedience pressure variable of 0.540. It can be said that the effect of obedience pressure on the intensity of a manager doing budgetary slack is proven not to have a significant effect > 0.05. The value of 0.540 can also indicate that the second hypothesis in this study is rejected. The average results in each category indicate that high obedience is greater than the pressure of low obedience.

Table 3 shows that the third hypothesis yields α the significance level for the self-efficacy variable 0.111. It can be said that the effect of self-efficacy on the intensity of a manager doing budgetary slack is proven not to have a significant effect > 0.05. The value of 0.167 can also indicate that the third hypothesis in this study is rejected. The average results in each category indicate that high self-efficacy is greater than low self-efficacy.

CONCLUSION

This study examines the effect of the Compensation Scheme, Obedience Pressure, and Self Efficacy on Budgetary Slack. The first hypothesis in this study shows that the compensation scheme affects budgetary slack. It shows that the compensation scheme provided by the company will affect how an individual will behave.

The second hypothesis in this study shows that obedience pressure does not affect budgetary slack. Obedience pressure is also uncontrollable and related to the individual's ability to respond to it. The inability of obedience pressure to affect budgetary slack is possible because this research still needs to improve in research methods and participant selection.

The third hypothesis in this study shows that Self Efficacy does not affect budgetary slack. The inability of self-efficacy to affect budgetary slack is possible because this research still needs to improve in research methods and participant selection. Self-efficacy is also not something that can be controlled and has different results for everyone. Self-efficacy is also related to psychological factors that are difficult to control and change quickly.

There are several limitations in this research, including:

1. Due to the COVID-19 pandemic, data collection was diverted using Google Forms. It causes the distribution of questionnaires carried out directly by the researchers by distributing questionnaires randomly, experiencing delays.
2. Several variables can affect budgetary slack, but in this study, the researchers only tested three variables, including compensation schemes, obedience pressure, and self-efficacy.

Based on the conclusions and limitations above, some suggestions given by the researcher are as follows:

1. Further research can collect participants in one zoom room if the process of filling out the questionnaire is still done online. This can make it easier for researchers to oversee the collecting of data by participants.
2. Further research should use other variables that can affect budgetary slack. Further researchers can examine the effect of individual capacity on budgetary slack based on Basyir (2016) research.

The implications of the results of this study indicate that the Compensation Scheme affects Budgetary Slack. Therefore, managers should understand in advance the advantages and disadvantages of the compensation scheme that the company will apply. Such as the slack-inducing scheme, which does not seem to burden employees but can be misused by irresponsible individuals by doing budgetary slack to achieve the budgeted targets.

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Appendix

Hypothesis 1:
Levene's Test of Equality of Error Variances (compensation scheme)

F	df1	df2	Sig.
5,231	1	84	0,025

Source: processed data (2021)

Tests of Between-Subjects Effects- Compensation Schem
Dependent Variable: Budgetary Slack

Source	Type III Sum of Squares	df	Mean Square	F	Sig.	Hypothesis
Corrected Model	80,193a	1	80,193a	9,983	0,002	Accepted
Intercept	1351,914	1	1351,914	168,289	0,000	
Scheme	80,193	1	80,193	9,983	0,002	
Compensation	674,795	84	8,033			
Error	2123,000	86				
Total	754,988	85				
Corrected Total						

R Squared = 0,106 (Adjusted R Squared = 0,096)
Source: processed data (2021)

Categorial average- Compensation Scheme

Compensation scheme	Mean	Std. Deviation	N
Truth Inducing	3,00	2,509	42
Slack Inducing	4,93	3,113	44
Total	3,99	2,980	86

Source: processed data (2021)

Hypothesis 2:
***Levene's Test of Equality of Error Variances* (obedience pressure)**

F	df1	df2	Sig.
0,028	1	84	0,867

Source: processed data (2021)

Tests of Between-Subjects Effects-Obedience Pressure
Dependent Variable: Budgetary Slack

Source	Type III Sum of Squares	df	Mean Square	F	Sig.	Hypothesis
Corrected Model	3,386a	1	3,386a	,378	0,540	Rejected
Intercept	1358,735	1	1358,735	151,854	0,000	
Obedience pressure	3,386	1	3,386	,378	0,540	
Error	751,602	84	8,948			
Total	2123,000	86				
Corrected Total	754,988	85				

R Squared = 0,004 (Adjusted R Squared = -0,007)
Source: Processed data(2021)

Average Category Pressure Adherence

Compensation scheme	Mean	Std. Deviation	N
Low obedience pressure	4,18	2,995	45
High obedience pressure	3,78	2,988	41
Total	3,99	2,980	86

Source: processed data (2021)

Hypothesis 3

***Levene's Test of Equality of Error Variances* (*Self Efficacy*)**

F	df1	df2	Sig.
0,065	1	84	0,799

Source: processed data (2021)

Tests of Between-Subjects Effects Self Efficacy

Dependent Variable: Budgetary Slack

Source	Type III Sum of Squares	df	Mean Square	F	Sig.	Hypothesis
Corrected Model	22,635a	1	22,635a	2,596	0,111	Rejected
Intercept	1089,240	1	1089,240	124,934	0,000	
Sel-Efficacy	22,635	1	22,635	2,596	0,111	
Error	732,353	84	732,353			
Total	2123,000	86				

Corrected Total	754,988	85				

R Squared = 0,030 (Adjusted R Squared = 0,018)
Source: processed data (2021)

Categorical average-Self Efficacy

Compensation Scheme	Mean	Std. Deviation	N
High Self Efficacy	4,34	2,838	58
Low Self Efficacy Total	3,25	3,181	28
	3,99	2,980	86

Source: Processed data (2021)