



## Effect of Organizational Justice on Budget Slack: the Role of Budget Emphasis as a Moderating Variable

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### ABSTRACT

This research aims to analyze the influence of organizational justice on budget slack, along with the moderating role of budget emphasis in the functional relationship between these two variables. The study sample includes 366 officer from local government units in the province of Aceh, Indonesia. Data collection was conducted through questionnaires, and the data analysis model employed moderated regression analysis. The findings reveal that organizational justice has a significant and negative impact on budget slack. Moreover, budget emphasis not only exhibits a negative influence on budget slack but also moderates the impact of organizational justice on budget slack. The negative influence of organizational justice on budget slack increases with the rise in budget emphasis.

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## **INTRODUCTION**

The phenomenon of budget slack frequently occurs within local government agencies. The primary indication of this phenomenon includes disparities between budget targets and actual budget realizations (Tanadi & Mimba, 2020; Kusnadi et al., 2022). In other words, a budget slack occurs when revenue realizations tend to exceed the budgeted targets, while expenditure realizations tend to fall below the budgeted targets (Mahasabha & Ratnadi, 2019). This is evident in the case of local government agencies (it's called "SKPD") within the Aceh government, where the ability of this public institution to realize budgets often falls short of expectations. In the context of public spending, for instance, there is consistently an excess budget remaining at the end of each fiscal year. Concurrently, there is often a discrepancy between actual revenue realizations and the predetermined revenue targets during the same period.

Theoretically and empirically, budget slack can be influenced by several factors such as organizational justice (Ozer & Yilmaz, 2011; dos Santos et al., 2022), and budgetary pressure (Lau & Eggleton, 2003). Organizational justice refers to members' assessments of the fairness they perceive within the organization where they work. In a public organization, the perception of organizational justice influences various attitudes and behaviors of employees in their work (Sotomayor, 2007; Beuren et al., 2016). The inclination to create budget slack diminishes when procedures and decision enforcement within an organization are deemed fair (Wentzel, 2004). Research conducted by Staley & Magner (2007) further strengthens empirical evidence that organizational justice, particularly procedural and interactional justice, influences budget slack.

Furthermore, budgetary pressure involves superiors urging subordinates to execute the budget effectively and achieve budget targets (Junjuran & Yulianto, 2019). Empirical studies on the direction of the impact of budget emphasis on budget slack remain controversial and have not yielded consistent conclusions. Research by Dewi et al. (2020) provides empirical evidence that budget emphasis significantly and positively influences budget slack. Previously, Pratiwi's (2019) study also found that budget emphasis affects budget slack at a 95 percent confidence level. In contrast to these researchers, studies by Junjuran & Yulianto (2019), and Donnaa & Ningsih (2020) pointed out that budget emphasis has a significant and negative impact on budget slack.

Empirical evidence regarding budget slack within the government agencies in Aceh can be associated with organizational justice and budget emphasis. This is because, in the planning and formulation of expenditure budgets, each government agency typically encourages employee involvement in these processes. Each employee inevitably perceives the level of organizational justice within their respective government agency, and this perception is assumed to influence their work behavior, including efforts to realize the budget.

Furthermore, the leaders of these agencies usually strive to ensure that each employee can achieve the budget targets set. In other words, efforts to exert budget emphasis in the form of advice, expectations, and directives from superiors to subordinates regarding budget implementation are commonly undertaken by every leader. The researchers suspect that the impact of organizational justice on budget slack may vary based on the intensity of budgetary pressure within each government agency. Therefore, unlike several studies that only consider budgetary pressure as a predictor for budget slack, this study also positions budgetary pressure as a moderator between budget slack and organizational justice.

Systematically, this paper is structured into five sections. The second section encompasses the literature review and hypothesis development. The third section covers the population and sample, operational variables, and the analytical model. Subsequently, the fourth section presents the research findings and discussions. Lastly, the fifth section comprises the conclusion, recommendations, and research implications.

## **LITERATURE REVIEW**

### **The linkages between organizational justice and budget slack**

Organizational justice reflects employees' perceptions of the fairness they experience within the organization where they work. Organizational justice is defined as employees' perceptions of the fairness with which they are treated by organizational authorities (Whitman et al., 2012). The perception of organizational justice can influence employees' attitudes and behaviors, including their interactions within the organizational environment (Beuren et al., 2016). The tendency to create budget slack diminishes when procedures and decision enforcement are considered fair (Wentzel, 2004).

The influence of organizational justice on budget slack is also supported by the empirical findings of Rismayanti et al. (2018), who conducted a study with a sample of management personnel in private universities. The study demonstrated that organizational justice, including interactional justice, can directly reduce budget slack. Additionally, prior research conducted by Ozer & Yilmaz (2011) also provided evidence that the perception of procedural justice significantly and negatively affects the tendency for budget slack.

Referring to the empirical literature explained above, the first hypothesis of our research is as follows:

H<sub>1</sub>: Organizational justice has a negative effect on budget slack.

### **The Linkages Between Budget Emphasis and Budget Slack**

Budgetary pressure can have an impact on several variables such as management performance and organizational performance (Kung et al., 2013), and even employee job satisfaction (Lau & Chong, 2002). In the context of budget implementation in the public sector, budgetary pressure can also affect the achievement of budget realizations. The effectiveness of budgeting as a control instrument depends on the characteristics of the budgeting system and the importance of top management in budgeting (Anthony & Govindarajan, 2012). Emphasizing the budget helps achieve budget goals by strengthening its connection with employee motivation in implementing programs and activities outlined in the previously prepared budget (Carolina, 2020). Budgetary pressure can impact budget slack.

Empirical research results regarding the influence of budget emphasis on budget slack have not yielded consistent conclusions. Erina & Suartana (2016) found that the impact of budgetary pressure on budget slack is positive. This implies that the higher the intensity of budgetary pressure, the larger the budget slack. In contrast to Erina and Suartana, earlier studies by Lestari & Putri (2015) and Chong & Strauss (2017) provided empirical evidence that the influence of budgetary pressure on budget slack is negative. They concluded that when the intensity of budgetary pressure increases, it significantly reduces budget slack.

Referring to the empirical literature above, the second hypothesis is as follows:

**H<sub>2</sub>: Budget emphasis has a negative effect on budget slack.**

### **The Moderating Role of Budget Emphasis in Budget Slack and Organizational Justice Nexus**

Employees' perceptions of organizational justice can impact budget slack. Employees who perceive fairness within their organization are likely to perform better (Olafsen et al., 2015). Consequently, this condition can affect their ability to achieve the established budget, ultimately influencing employees' perceptions of organizational justice and its impact on budget slack. The direction of this influence can be intervened by budgetary pressure. This is grounded in the idea that budgetary pressure can stimulate efforts to achieve the predetermined budget targets (dos Santos et al., 2022). Thus, the presence of budgetary pressure has the potential to influence the significance of the relationship between budget slack and organizational justice. Therefore, placing budgetary pressure as a moderator in the functional relationship between budget slack and organizational justice is based on theoretical and empirical foundations.

Referring to the description above, the third hypothesis (H<sub>3</sub>) can be stated as follows:

**H<sub>3</sub>: Budget emphasis moderates the effect of organizational justice on budget slack.**

Based on the theoretical basis and the aforementioned-stated hypothesis, the conceptual framework of this research is shown in Figure 1.

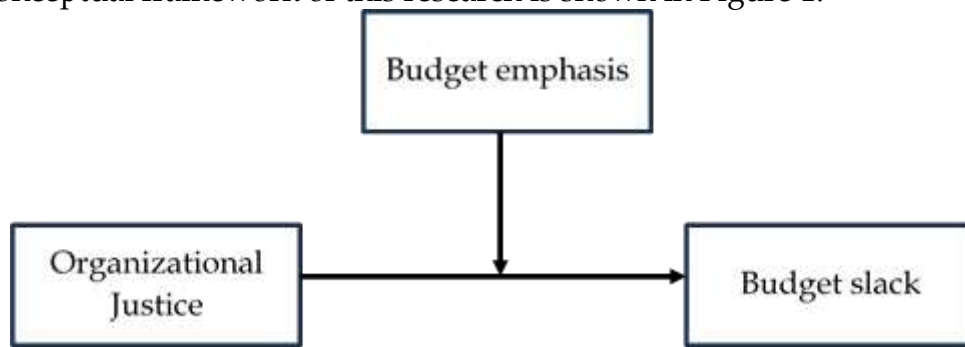


Figure 1. Conceptual Framework

## METHODOLOGY

The analysis unit of this study is the regional government work unit in Aceh. The research sample was 366 employees who worked in related work units, they consisted of the leader and secretary of local government agencies (SKPD) and an officer in the budgeting department. The operational variables of this research consist of budget slack, organizational justice, and budget emphasis. Budget slack reflects the difference between the actual budget and the estimated budget (Anthony & Govindarajan, 2005). This variable is measured using seven indicators consisting of those adopted from Sari et al. (2019), Carolina (2020), and Irfan et al. (2016), consisting of ease of budget achievement, encouragement of productivity, orientation to effectiveness, orientation to efficiency, estimated income budget, estimated cost budget and ease of realization.

Budget emphasis refers to the extent to which superiors rely heavily on or emphasize predetermined and predetermined budget targets as performance criteria. This variable is measured with five indicators consisting of control, performance standards, skills in achieving targets, performance improvement and rewards. Furthermore, organizational justice relates to employees' perceptions of the level of fairness with which they are treated by organizational authorities (Whitman et al., 2012; Akram et al., 2019). This variable is measured using eight indicators consisting of salary fairness, reward fairness, performance appraisal fairness, fairness in procedures, fairness in regulations, fairness in information communication, fairness in interpersonal treatment and fairness in decisional things.

In accordance with the conceptual framework as in Figure 1, this research places budget emphasis as a moderating variable in the functional relationship between budgetary slack and organizational justice. In analyzing the influence between variables involving moderating variables, the analysis model often used by researchers is hierarchical regression (Helm & Mark, 2012). The use of this analytical model in testing moderating effects in relationships between variables is also supported by several researchers such as Rocconi (2013) and Lu (2018). The application of hierarchical regression in estimating the effect of organizational justice on budgetary slack by involving budget emphasis as a moderator variable is carried out through three stages of the regression process.

Adopting the opinion of Helm & Mark (2012), the stages of the regression process are as in Model 1, 2, and Model 3.

**Table.1 The Regression Process Are asin Model 1, 2, and Model 3.**

Basic model	$BS = \beta_0 + \beta_1OJ + \mu_1$	1
	$BS = \beta_0 + \beta_1OJ + \beta_2BE + \mu_2$	2
Interaction model	$BS = \beta_0 + \beta_1OJ + \beta_2BE + \beta_3OJ*BE + \mu_3$	3

Model 1 is called the first basic model to estimate the effect of organizational justice (OJ) on budget slack (BS). The estimated coefficient in this model ( $\beta_1$ ) represents the main effect of the independent variable on budget slack. The influence of OJ on budget slack is based on the significance of the estimated coefficient. For instance, when  $\beta \neq 0$  (p-value < 0.05), it means that organizational justice has a significant effect. The opposite interpretation applies if  $\beta_1 = 0$  (p-value < 0.05).

Model 2 is called the second basic model which not only produces an estimated coefficient of organizational justice (OJ) but also an estimated coefficient of budget emphasis (BE) as a moderator variable ( $\beta_2$ ). In this model,  $\beta_1$  and  $\beta_2$  represent the influence of organizational justice after adding budget emphasis as a moderator variable. Meanwhile,  $\beta_2$  shows the "main effect" of the moderator variable. If  $\beta_2 \neq 0$  (p-value < 0.05) it means that the moderator variable has a significant effect, and vice versa if  $\beta_2 = 0$  (p-value > 0.05) it has no significant effect on budget slack.

Furthermore, Model 3 is an interaction model which includes interaction variables in the previous model. This model is a moderated regression model that explains whether the moderator variable changes the strength or/and direction of the effect of organizational justice on budget slack as the dependent variable (Momen et al., 2019). The estimated coefficient of the interaction variable between organizational justice and budget emphasis (OJ\*BE) is represented by  $\beta_2$ . The existence of a moderating effect can be seen from the influence of interaction variables. If this effect is statistically significant, it indicates the moderating role of the moderator variable (Kalmaz & Giritli, 2020). This means that if  $\beta_3 = 0$  (p-value < 0.05) (in Model 3), it means that budget emphasis moderates the influence of organizational justice on budget slack. The opposite interpretation applies if  $\beta_3 = 0$  (p-value > 0.05). The moderating effect of the moderator variable consists of three possibilities, namely strengthening, weakening, or changing the direction of the relationship between variables (Gardner et al., 2017).

When there is a moderating effect of budget emphasis on the functional relationship between budget slack on the one hand, and organizational justice on the other hand, the next step is to calculate the marginal effect of the independent variable on various scores of budget emphasis. Through partial derivation of Model 3, the marginal effect of organizational justice on budget slack at various levels of budget emphasis score, as in Model 4 (Huynh & Tran, 2021).

$$\frac{\partial BS}{\partial OJ} = \beta_1 + \beta_3B$$

**RESEARCH RESULT**

The validity test is intended to test whether the measurement scale created can measure what it is supposed to measure. The validity test used in this research is item validity, namely, to find out whether the statement items contained in the research questionnaire are valid or not. Testing the validity of the questionnaire is based on comparing the Pearson correlation value (*r* test) with the critical value *r* (*r* table) at a 95% level of confidence (Wijaya & Kloping, 2021). If the *r* test > *r* table, then the statement item in a particular variable is declared valid. Conversely, if the *r* test < *r* table, then the item in a particular variable is declared invalid (Odom & Morrow, 2006).

To test the reliability of the questionnaire used in data collection, a questionnaire reliability test was carried out. The reliability benchmark is Cronbach's alpha value obtained through statistical calculations (Wijaya & Kloping, 2021). The questionnaire is declared reliable if Cronbach's alpha is above 0.70. On the other hand, if the Cronbach's alpha is below 0.70 then the questionnaire does not meet the reliability requirements. For more details regarding the result of the validity and reliability test, see Table 2.

**Table 2. The Result of the Validity and Reliability Test**

Variables	Item	Validity test			Reliability test	
		R test	<i>R</i> table	Justification	<i>Cronbach alpha</i>	Justification
<i>Budget slack</i>	BS1	0.903	0.148	Valid	0.959	<i>Reliable</i>
	BS2	0.784				
	BS3	0.900				
	BS4	0.840				
	BS5	0.879				
	BS6	0.592				
	BS7	0.900				
	BS8	0.816				
	BS9	0.555				
	BS10	0.818				
	BS11	0.912				
	BS12	0.561				
	BS13	0.905				
	BS14	0.845				
<i>Budget emphasis</i>	BE1	0.671	0.148	Valid	0.911	<i>Reliable</i>
	BE2	0.840				
	BE3	0.827				
	BE4	0.808				
	BE5	0.748				
	BE6	0.630				
	BE7	0.789				
	BE8	0.667				
	BE9	0.774				
	BE10	0.657				

<i>Organizational justice</i>	OJ1	0.597	0.148	Valid	0.781	<i>Reliable</i>
	OJ2	0.585				
	OJ3	0.800				
	OJ4	0.567				
	OJ5	0.807				
	OJ6	0.581				
	OJ7	0.527				
	OJ8	0.513				

Source: Primary data (Processed), 2023

The reliability test results for the measurement instrument yielded Cronbach's alpha values of 0.959 for budget slack and 0.911 for budget emphasis. Both statistical values exceed 0.70, indicating that the questionnaires employed to measure budget slack and budget emphasis are considered reliable. Furthermore, the Cronbach's alpha value for organizational justice is 0.781. This statistical value also indicates that the data collection instrument used to measure organizational justice is considered reliable.

As previously explained, this research operationalizes three constructs consisting of budget slack, budget emphasis, and organizational justice. The result of descriptive statistics and the correlation matrix across variables are presented in Table 2.

**Table.3 The Result of Descriptive Statistics and Correlation Matrix**

Descriptive Statistics			
Parameter of descriptive statistics	Budget slack	Budget emphasis	Organizational justice
Minimum	2.640	2.400	2.880
Maximum	4.930	4.700	4.630
Mean	4.052	3.595	3.851
Std. Dev	0.617	0.595	0.445
n	366	366	366
Correlation matrixs			
Budget slack	1.000		
Budget emphasis	-0.875 (0.000)	1.000	
Organizational justice	-0.460 (0.000)	0.408 (0.000)	1.000

Source: Primary data (Processed), 2023.

Table 3 above indicates a negative relationship between budget slack and organizational justice, as evidenced by a correlation coefficient of -0.460. Similarly, the relationship between budget slack and budget emphasis is also negative, with a correlation coefficient of -0.875. This suggests that an increase in organizational justice and budget emphasis is associated with a decrease in budget slack.

As explained in the research methods section, the appliance of multiple linear regression in this research consists of two basic models and one interaction model. The basic model consists of Model 1 and Model 2. Model 1 tests the functional relationship between budget slack and organizational justice. Model 2 adds budget emphasis (as an independent variable) into Model 1. Furthermore, Model 3 is an interaction model that adds the interaction between budget emphasis and organizational justice (BE\*OJ) into Model 2. Because of this, Model 3 often be known as moderated regression analysis (MRA). Estimation results using the ordinary least squares (OLS) approach for each model are shown in Table 3.

**Table 4. The Result of the Estimated Coefficient of Regression and Moderated Regression Analysis**

Constant and independent variables	Dependent Variable: <i>Budget slack</i>					
	<i>Basic model</i>				<i>Interaction model</i>	
	Model 1		Model 2		Model 3	
	Estimate coefficient	<i>p-value</i>	Estimate coefficient	<i>p-value</i>	Estimate coefficient	<i>p-value</i>
Constant ( $\beta_0$ )	6.510 [26.032]	0,000	7.791 [55.922]	0,000	3.112 [3.562]	0,000
OJ ( $\beta_1$ )	-0.638 [-9.895]	0,000	-0.172 [-4.596]	0,000	1.044 [4.591]	0,000
BE ( $\beta_2$ )	-	-	-0.855 [-30.456]	0,000	0.472 [1.915]	0.056
BE*OJ ( $\beta_3$ )	-	-	-	-	-0.343 [-5.419]	0,000
R <sup>2</sup>	0.212		0.778		0.795	
Adj. R <sup>2</sup>	0.210		0.777		0.793	
F hitung ( <i>p-value</i> )	97.902 (0,000)		637.353 (0,000)		467.890 (0,000)	
DW	1.718		1.932		1.954	

Source: Primary data (Processed), 2023.

Model 1 indicates that organizational justice has a significant negative impact on budget slack, with an estimated coefficient ( $\beta_1$ ) of -0.638 ( $p$ -value < 0.05). A substantial increase in organizational justice can effectively reduce budget slack. In other words, the tendency for budget slack to occur in government agencies at both the provincial and municipal levels in Aceh is closely related to employees' assessments of organizational justice. Therefore, the first hypothesis ( $H_1$ ) asserting that organizational justice has a negative effect on budget slack is supported.

The negative influence of organizational justice on budget slack indicates that an increase in organizational justice contributes to a decrease in budgetary slack. The better employees assess organizational justice in their workplace, the lower the occurrence of budget slack. Conversely, a less favorable assessment of organizational justice may lead to an increase in budget slack. The emergence of budget slack is closely associated with employees' attitudes and behaviors towards the budget, including behaviors during budget implementation activities.

Employees' assessments of organizational justice can directly impact their behavior at work (Klein et al., 2018). Employees who perceive a lack of organizational justice are likely to exhibit behaviors that are less favorable to the organization, including behaviors that facilitate the occurrence of budget slack. On the other hand, relatively good organizational justice can foster attitudes and work behaviors that reduce the likelihood of budget slack.

The negative influence of organizational justice on budget slack serves as a crucial signal that employees are highly sensitive to an organization's ability to foster a sense of justice for all its members. This finding aligns with the perspective of Heupel & Schmitz (2015), asserting that employees who perceive high levels of organizational justice will build trust, ultimately leading to a reduction in budget slack. The concept of organizational justice in this context includes fairness in salary and compensation, communication, interpersonal relationships among employees, and procedural justice. This discovery is consistent with Ozer & Yilmaz's (2011) study which involved a sample of 465 managers working in various public organizations in Turkey. Their conclusion highlighted that procedural justice has a significant negative impact on the tendency to create budget slack.

Model 2 represents the second baseline model, which involves adding budget emphasis as a predictor variable for budget slack. As illustrated in Table 3, the estimated coefficient for budget emphasis on budget slack is -0.855 (p-value < 0.05). This can be interpreted as budget emphasis having a significant negative impact on budget slack. The higher the intensity of budget emphasis, the lower the tendency for budgetary slack to occur. Conversely, a decrease in the intensity of budget emphasis may increase the potential for employee behaviors leading to the creation of budget slack. Based on the statistical evidence presented, the second hypothesis (H<sub>2</sub>) asserting that *budget emphasis* has negative effects on *budget slack* is accepted. This finding contradicts the results of Anthonius's (2022) study, which demonstrated that budgetary emphasis does not affect budget slack.

As indicated by the estimated coefficients above, the direction of the influence of budget emphasis on budget slack is negative. The tendency for budgetary slack in government agencies with relatively high levels of budget emphasis is lower compared to those with relatively low levels of budget emphasis. Conversely, in government agencies with relatively low levels of budgetary emphasis, the tendency for budget slack is relatively higher. This finding is consistent with the empirical study conducted by Chong & Strauss (2017), which also demonstrated that budgetary emphasis has a negative impact

on budget slack. Furthermore, their findings concluded that an increase in the intensity of budgetary emphasis significantly contributes to a decrease in budget slack. In contrast, this finding contradicts the results of Ngo et al. (2017) in Vietnam and the empirical study conducted by Dewi et al. (2020), both of which found that budget emphasis significantly encourages an increase in budget slack.

Model 3 represents an interaction model, involving the addition of the interaction between budget emphasis and organizational justice as predictors for budget slack. As shown in Table 4.8, the interaction between budget emphasis and organizational justice (BE\*OJ) has a significant negative impact on budget slack, with an estimated coefficient of -0.343 (p-value < 0.05). This indicates that budgetary emphasis significantly moderates the influence of organizational justice on budget slack. Referring to these statistical results, the third hypothesis (H<sub>3</sub>), which asserts that budget emphasis moderates the influence of organizational justice on budget slack, is supported. In other words, the presence of budget emphasis influences the impact of organizational justice on budget slack.

A moderating variable essentially is a variable that can differentiate the influence of one variable on another. Thus, it can be interpreted that the impact of organizational justice on the intensity of budget slack in government agencies differs at the various score levels of budgetary emphasis. The differentiation in the impact of organizational justice on budget slack based on the level of budgetary emphasis can be identified through the calculation of the marginal effect of that independent variable. Through partial derivation of Model 3, the marginal effect of organizational justice on budget slack is calculated in the equation below.

$$\frac{\partial BS}{\partial OJ} = 1.044 - 0.343 * BE$$

The evaluation of the marginal effect of organizational justice on budget slack is conducted at the minimum, maximum, and mean values of budget emphasis. As seen in Table 2, the minimum and maximum values of budget emphasis are 2.400 and 4.700, respectively, with a mean value of 3.595. By incorporating these three statistical values into Model 4 above, the marginal effect of organizational justice on budget slack is observed, as presented in Table 4.

**Table.5 Marginal Effect Organizational Justice at the Various Score Levels of Budget Emphasis.**

<i>Score of budget emphasis</i>		<i>Marginal effect</i>
Minimum	2.400	0.222
Maximum	4.700	-0.566
Mean	3.595	-0.188

Source: Authors computation, 2023.

At the minimum score of budget emphasis, the marginal effect of organizational justice on budget slack is positive at 0.222 points. Conversely, at the average and maximum score of budget emphasis, the marginal effects of organizational justice on budget slack are negative at -0.188 and -0.566 points, respectively. The marginal effects inform that at the lowest level of budget emphasis, the effect of organizational justice on budget slack is positive. In contrast, at the highest intensity of budget emphasis, the influence of organizational justice on budget slack is negative. In other words, the higher the intensity of budget emphasis, the greater the negative impact of organizational justice on budget slack.

## **CONCLUSIONS AND RECOMMENDATIONS**

The phenomenon of budget slack is often present in public budget management in government agencies in Aceh, both at the provincial and district/city levels. This study aims to predict budget slack using two main variables: organizational justice and budget emphasis. The research reveals that organizational justice has a positive and significant impact on budget slack. The better employees' perceptions of organizational justice and the higher the intensity of budget emphasis, the lower the budget slack. Additionally, the presence of budget emphasis moderates the influence of organizational justice on budget slack. The effect of this independent variable on budget slack varies based on the level of budget emphasis. The negative effect of organizational justice on budget slack increases as the intensity of budgetary pressure rises. Conversely, this negative influence diminishes as the intensity of budget emphasis decreases.

Based on the above conclusions, the heads of government agencies (SKPD) in Aceh need to enhance organizational justice and the intensity of budget emphasis. Operationally, improving organizational justice can be achieved by focusing on distributive justice, such as salary and compensation fairness, and procedural justice by ensuring fairness for every employee regarding implementation and standardized procedures in the workplace.

## **ADVANCED RESEARCH**

Still conducting further research to find out more about the Effect of Organizational Justice on Budget Slack: the Role of Budget Emphasis as a Moderating Variable

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