

Pengaruh Partisipasi Penganggaran terhadap Kesenjangan Anggaran dengan Komunikasi sebagai Variabel Moderasi: Studi Perusahaan di Batam (The Effect of Budgeting Participation to Budgetary Slack with Communication as Intervening Variable: Studies in Batam Companies)

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Abstract

Purpose: This study aimed at examining the effect of budgeting participation with communication as an intervening variable towards budgetary slack

Research Methodology: A quantitative approach was the method used for this analysis. The research was obtained by primary data through the online questionnaire with 255 respondents in Batam's service companies. The PLS-based structural equation modeling has been used to calculate the statistic of the data.

Results: Based on the hypothesis testing result, the result shows that budgeting participation has a significant and positive effect on budgetary slack meaning H1 is accepted. Budgeting participation has a significant and positive effect on communication meaning H2 is accepted. Communication has a significant and positive effect on budgetary slack meaning that H3 is rejected. Communication can mediate budgeting participation on budgetary slack precisely strengthen the budgeting participation towards budgetary slack meaning H4 is accepted

Limitations: This study only uses a service company in Batam as a research sample and the communication model used is [Kenis \(1979\)](#) who has modified in research [\(Ruliana, 2014\)](#)

Contribution: This study contributes to disseminating information about the influence of budgeting participation as an independent variable on budgetary slack as the dependent variable can be moderated by communication so that the company needs to consider the budgeting process and build a communication climate so that employees can improve their performance.

Keywords: Budgeting participation, Budgetary slack, Communication, Intervening variable

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1. Introduction

New global business models have changed the previous understanding of accountants' roles in modern organizations ([Fitriyanti et al., 2021](#); [Kepramareni et al., 2019](#); [Tan & Laswad, 2018](#)). Previously, accountants are considered to be scorekeepers, peanut counters, or corporate policemen ([Oussii & Klibi, 2017](#)) but currently, accountants actually fulfill a more strategic role in their organizations ([Apostolou et al., 2013](#); [Howieson, 2003](#); [Jones, 2011](#); [Kepramareni et al., 2019](#); [Tan & Laswad, 2018](#)). The

phenomenon of changing the role of accountants can be seen from the skills that are needed to become accountants, namely communication.

This research is seen from the research by [Phan et al. \(2020\)](#) located in Malaysia, Vietnam, and Indonesia where Indonesian accountants occupy a low position due to fewer communication skills than 2 other countries. This research is further confirmed by [Sumarna \(2020\)](#) which sampled at the Riau Islands Province Accounting Services Office (KJA) which states that 40% of professional accountants agree that accountants are required to have good communication skills. However, this phenomenon is not matched by the reality, according to IAI (Indonesian Accountants Association) which issues employee competency standards in Indonesia stating that communication skills are only considered as "certain competencies" to become an accountant ([Akuntansi Indonesia, n.d.](#)). This situation makes Indonesian accountants less competitive than other countries, especially ASEAN ([Phan et al., 2020](#)). Batam as an FTZ area must be seen within the framework of a national perspective, not only from the application of regional development models but as a comprehensive effort to increase global competitiveness, especially to attract investment ([Badan Pengusahaan Batam, 2011](#)).

When conducting the budgeting process, the phenomenon of budgetary slack often occurs between superiors and subordinates. Budgetary slack is the difference between the reported budget and the estimated budget in an organization. One way to reduce budgetary slack is budgeting participation. Communication is needed to prepare the financial information needed to manage a business ([Akuntansi Indonesia, n.d.](#)), especially the budget. This is confirmed by the theory of participatory communication, communication is used to involve people in making decisions, such as the budget as one example. Usually, this is done by government agencies as a result of the research by [Oginga \(2018\)](#) and [Sukandani & Istikhroh \(2016\)](#) with reasons of accountability and transparency. Meanwhile, according to [Tanase \(2013\)](#) that most companies are doing budgeting participation in order to make people in the companies for having an important role as the part of the company. The result is budgeting participation lets people have their own voices in the budgeting process.

Based on the result studies of [Baccouri & Hassouna \(2017\)](#); [Gonçalves \(2014\)](#); [Hassan et al. \(2011\)](#); [Huseno \(2017\)](#) show that budgeting participation has a negative effect on budgetary slack because several stakeholders will be involved in the budget planning process, from top-level management to lower-level management ([Gonçalves, 2014](#); [Schmidt & DeShon, 2010](#)). During the budgeting process, positive communication between superiors and allows superiors to acquire access to subordinates' confidential information, which in turn allows them to design better budget-achievement tactics, therefore, has a negative effect to create slack ([Baccouri & Hassouna, 2017](#); [Hassan et al., 2011](#); [Kren, 2003](#)). A direct positive link between environmental uncertainty and the inclination to produce slack was discovered to have the greatest effect on the propensity to create slack ([Huseno, 2017](#); [Kepramareni et al., 2020](#))

Contrary, the result studies of [Arista & Syofyan \(2019b\)](#); [Hati \(2019\)](#); [Hutama & Yudianto \(2019\)](#); and [Kepramareni et al. \(2020\)](#) suggested that budgeting participation has a positive effect on budgetary slack. During the budgeting process, communication could be a positive effect on budgetary slack because the party who knows information better is motivated to create budget slack by misrepresenting or concealing part of their private knowledge ([Kepramareni et al., 2019](#); [Yuen, 2004](#)). Because of a large number of stakeholders involve making the budgeting process very vulnerable to different types of irregularities, both in the form of opportunistic actions and related parties' moral hazard ([Arista & Syofyan, 2019b](#); [Hutama & Yudianto, 2019](#)) not only that it will be taking a lot of time in the process of decision making ([Salusu, 2015](#))

The difference in the results of research on budgeting participation on budgetary slack shows that budgetary participation independently is not a sufficient condition to influence budgetary outcomes ([Beck et al., 2013](#); [Church et al., 2012](#); [Maiga et al., 2014](#)) meaning that many other studies are needed to analyze the impact of other variables that affect the impact of budgeting participation on budgetary slack ([Beck et al., 2013](#); [Maiga et al., 2014](#); [Venkatesh & Blaskovich, 2012](#)).

Based on the phenomena and urgency described and the empirical gap in previous research explaining the relationship between budgeting participation on budgetary slack as with communication as an intervening variable, researchers are interested in conducting research with the title "*The Effect Of Communication And Budgeting Participation To Budgetary Slack (Studies In Batam Companies As FTZ Area)*".

2. Literature review and research hypothesis

Literature review

Budgeting participation

According to [Weil & Maher \(2005\)](#) in research by [Mohd Noor & Othman \(2012\)](#), budgeting participation is the role of top and bottom administrators in deciding which tools to include in their operational activities. Furthermore, [Arista & Syofyan \(2019\)](#) explain that budgeting participation is a mechanism within an organization that involves superiors and employees to determine budget targets for which they are responsible. It can be said that budgeting participation itself is a mechanism in which several parties are active in budget preparation and have an impact on the budget itself.

This statement is further strengthened by previous research conducted by [Oginga \(2018\)](#); [Sukandani & Istikhoroh \(2016\)](#); and [Wampler \(2007\)](#) which state that budgeting participation involves the community in budgeting as a form of democratization and accountability. Budgeting participation also shows how the level of participation and influence of a person in the budgeting process ([Kahar et al., 2016](#)). The flow of information needed by superiors and subordinates will improve performance because they have the same direction or goal so that the budget created is easier to achieve and reduces the possibility of budgetary slack ([Lestari & Ramantha, 2013](#); [Parker & Kyj, 2006](#); [Tanase, 2013](#); [Yuliansyah & Khan, 2017](#)).

The benefits of budget participation as a means of the budgeting process also have several benefits. [Kewo \(2017\)](#) stated that other benefits of budget participation are: 1) it can reduce one's pressure in the budget-making process; 2) can strengthen the relationship and cooperation between members in a group to achieve organizational/company goals; 3) can reduce inequality between parts of an organization/company in allocating its resources.

However, the results of a study conducted by ([Arista & Syofyan, 2019b](#); [Hati, 2019](#); [Hutama & Yudianto, 2019](#); [Kepramareni et al., 2020](#); [Yuen, 2004](#)) stated that budgeting participation has a positive effect on the budgetary slack. This means that budgetary participation increases the propensity to create budgetary slack. There are three (3) weaknesses of budgeting participation according to [Hansen & Mowen \(2009\)](#) in research by [Okafor & Otalor \(2018\)](#), namely setting standards that are too high or low, participation is wrongly targeted, and one of them is the budget gap itself.

[Latuheru \(2005\)](#) in research by [Kepramareni et al. \(2019\)](#) said another reason that budgeting participation has a positive effect on budgetary gaps is that someone's participation is used to see one's views and influence on someone's work, while in budget activities that are being made, one's participation can be seen by using budgeting participation. Moreover, this is coupled with the existence of quasi-participation which according to [Tanaya & Komang Ayu Krisnadewi \(2016\)](#). Pseudo-participation is an agent who seems to be counted on to follow the budget process but in reality, the agents are only gathered to approve and sign off on the budget that has been prepared.

Communication

According to [Corrado \(2004\)](#) and [Hutama & Yudianto \(2019\)](#), communication is a form of honest and open information from superiors and subordinates about the company's plans and progress, discussion of problems that arise in the company, meetings between superiors and subordinates to exchange ideas, and discuss important matters within the organization, explanations of compensation given to subordinates in connection with the implementation of their duties and responsibilities as well as explanations of economic problems that may affect the condition of the company.

Every organization communicates so that all components in it can operate in research by [Ruli Bestari \(2015\)](#). Communication skills have become indispensable for communicating knowledge to specific individuals at the right time in large organizations with thousands of workers spread across many divisions of the company ([Chen et al., 2014](#); [Kapareliotis et al., 2019](#); [Lestari & Ramantha, 2013](#)). There are no exact of what is effective communication but according to [Pramanik \(2020\)](#) can be seen from 5 aspects, namely: *Understanding*, where a person is said to understand if the recipient can carefully understand what the sender of the message means; *pleasure* is related to the feelings of people who interact with each other; *influencing attitudes*, namely with the aim of other people understanding the message conveyed and agreeing as desired; *Better relationships and actions*, namely communication, are able to provide encouragement to someone to do something as desired.

[Chen et al. \(2014\)](#); [Hopwood \(1976\)](#); and [Parker & Kyj \(2006\)](#) also define budgeting as a communicative financial process that requires a person to have special skills and dedication to complete the task so that the flow of information circulation or communication climate can be in a good setting that affects internal communication. According to ([Chen et al., 2014](#); [Effendy, 2009](#); [Sastrawan et al., 2020](#)) internal communication itself can be classified into vertical and horizontal communication. Vertical communication can also be classified into sub-units such as upward communication and downward communication. The foundation of organizational communication is the delivery of true meaning to the recipient of the information. Organizational communication is basically the reception and delivery of various organizational messages by a person or group of people from both formal and informal groups ([Amaludin, 2020](#); [Pramanik, 2020](#)).

In budgeting participation, participatory communication theory is used as the theory of communication that involves people in the decision-making process ([Oginga, 2018](#)). The purpose itself is sharing knowledge and insight that needed an equal two-way flow of information. Furthermore, a good communication climate will bring good productivity ([Riski & Widiana, 2020](#)). This theory is commonly used for a government agency ([Oginga, 2018](#)) but it can also be used for business entities ([Tanase, 2013](#)). The final result of the participatory communication theory is not only to exchange information but it could ensure the outcome of the goals of development intuitive ([Cheng, 2012](#); [Oginga, 2018](#)).

Budgetary slack

Budgetary slack is the discrepancy between the stated budget and the budget based on estimates in an organization. Attitudes and motivation ([Brownell & Mc Innes, 1986](#); [Karsam, 2015](#); [Pratama, 2013](#)), decentralization ([Gul et al., 1995](#); [Nasution, 2017](#); [Noor & Othman, 2012](#)), budget sufficiency, organizational commitment ([Nouri & Parker, 1998](#); [Perdani, 2019](#)), functional area ([Brownell, 1985](#)), and locus of control have all been studied as factors that cause budgetary slack ([Frucot & Shearon, 1991](#); [Riantari & Sari, 2019](#)).

However, in the study of budgeting participation on budgetary slack, the factors stated above are employed as independent variables and intervening variables. Even so, many studies utilize additional factors, although they are seldom used, such as communication ([Baccouri & Hassouna, 2017](#); [Hassan et al., 2011](#); [Kepramareni et al., 2020](#); [Kren, 2003](#); [Yuen, 2004](#)), and environmental uncertainty ([Govindarajan, 1986](#); [Huseno, 2017](#); [Kepramareni et al., 2020](#); [Kren, 1992](#)).

According to [Asmariansi \(2016\)](#) and [S.Dunk \(1993\)](#), budgetary slack has the following characteristics:

- a) Budgetary standards do not stimulate higher production.
- b) Budgeting is simple to apply.
- c) There are no limitations that must be considered, particularly the expense constraints.
- d) There are no specific requirements in the budget
- e) Budgets are not conducive to efficiency.
- f) The budget's main objectives are simple to meet.

Agency theory

The connection between principals and agents is described by agency theory, which has roots in economic theory, decision theory, sociology, and organizational theory ([Hati, 2019](#); [Robert &](#)

[Govindarajan, 2005](#); [Wiyarsi & Budhi, 2012](#)). Furthermore, agency theory, according to [\(Ikhsan dan Ishak, 2005; Kepramareni et al., 2020\)](#), is a theory that analyzes the connection between parties who have functional and structural links, such as principals and agents.

The agency relationship occurs when one party (principal) hires another party (agent) to execute a service, and the principal delegated decision-making authority to the agent [\(Robert & Govindarajan, 2005\)](#) in research by [Hati \(2019\)](#). When principals and agencies interact in economic activity, agency theory predicts what conflicts will arise.

According to [Robert & Govindarajan \(2005\)](#) in research by [Hati \(2019\)](#), who use shareholders as principals and managers as agents, whereas [Jensen & Meckling \(1976\)](#) in research by [Muliansyah et al. \(2017\)](#) uses managers as principals and employees as agents, the determination of who is the principal and who is the agent varies based on the sample analyzed.

According to agency theory, opportunistic behavior has been at the core of budgetary slack [\(Gago-Rodríguez & Naranjo-Gil, 2016; Hutama & Yudianto, 2019; Perdani, 2019\)](#). Opportunism is described as a deliberate attempt to gain an advantage for oneself by dishonesty or insincerity in commercial transactions as a result of unethical activity. Budgetary slack can occur in agency theory as a result of bonding and monitoring costs that give the agent sufficient control over certain resources that can be exploited to satisfy personal preferences at the expense of the organization [\(Leitner, 2009; Okafor & Otalor, 2018; Otalor & Oti, 2017\)](#). Furthermore, agency theory explains how information asymmetry between principals and agents can cause budgetary slack [\(Endenich & Trapp, 2017; Kepramareni et al., 2019\)](#).

Research hypothesis

The effect of budgeting participation on budgetary slack

According to [Arista & Syofyan \(2019\)](#); [Kepramareni et al \(2020\)](#); and [Yuen \(2004\)](#), there is a positive relationship between budgeting participation and budgetary slack. According to [Hansen & Mowen \(2009\)](#) in research by [Otalor & Oti \(2017\)](#) state that budgeting participation has three (3) flaws: setting requirements that are too high or low, and including slack in the budget.

Agency theory is required to grasp the link between budgeting participation and slack. The theory of agency predicts disputes that arise when principals and agents interact in economics. The agency relationship occurs when one party (principal) hires another party (agent) to execute service and delegates decision-making responsibility to the agent [\(Hati, 2019; Robert & Govindarajan, 2005\)](#). In this study, the author utilizes managers as principals and employees as agents [\(Hati, 2019; Otalor & Oti, 2017; Robert & Govindarajan, 2005\)](#)

As a result of bonding and monitoring expenses, agents have sufficient control over specific resources to exploit personal preferences to the detriment of the organization [\(Jensen & Meckling, 1976; Leitner, 2009; Otalor & Oti, 2017\)](#). Asymmetry of information between principals and agents also causes budgetary slack, according to agency theory. This can occur due to the principal's opportunistic behavior, which disadvantages the agent.

If we consider the manager as the principal, budgetary slack might result from bonding and monitoring expenses that provide agents adequate control over particular resources to satisfy personal preferences at the expense of the business [\(Jensen & Meckling, 1976; Leitner, 2009; Otalor & Oti, 2017\)](#). [Tanaya & Komang Ayu Krisnadewi \(2016\)](#) found that the events will be pseudo participation. Staff that appears to count yet does not. They are normally gathered, signed, and accepted with a budget.

Budgeting participation also occurs when superiors with good market information and high positions do not share information with subordinates as agents, causing budgetary slack [\(Endenich & Trapp, 2017; Kepramareni et al., 2019\)](#). Managers can directly benefit from this budget gap by receiving bonuses or additional revenue.

Budgetary slack occurs as a result of bonding and monitoring expenses gives agents ample control. One of them is allowing subordinates to create budget gaps without their superiors seeing because budget gaps are hard to detect amid strong information asymmetry ([Baccouri & Hassouna, 2017](#); [Kepramareni et al., 2019](#); [Maiga & Jacobs, 2007](#))

Also, due to information asymmetry, subordinates who have more information in the field can lie about the actual information because it is not recognized by the company's monitoring system ([DB, 2013](#); [Horngren et al., 2003](#); [Riantari & Sari, 2019](#)).

H₁: Budgeting participation has a significant and positive effect on budgetary slack in Batam Companies as The FTZ area

The effect of communication on budgetary slack

Budgeting participation is defined as "a means of engaging with and influencing management in the budgeting process" ([Mah 'd et al., 2013](#)). This allows supervisors to gather sensitive information from subordinates and build better budgeting strategies. As a result of budgeting participation, [Oginga \(2018\)](#); [Tanase \(2013\)](#); and [Wampler \(2007\)](#) claim that communities become more democratic and accountable. Budgeting participation allows superiors and subordinates to communicate, increasing happiness and productivity. Allowing individuals to openly voice their thoughts, share information, and clarify differing points of view can help improve communication between superiors and subordinates ([Gago-Rodríguez & Naranjo-Gil, 2016](#); [Lau & Tan, 2006](#)).

According to [Eddy Olajide Omolehinwa \(2013\)](#) and [Otalor & Oti \(2017\)](#), budgeting participation is usually linked to behavioral concerns caused by employees providing incorrect information to supervisors. When subordinates are allowed to participate in the budget process, they can use hidden knowledge to attain results that benefit their interests, especially when the budget goals are the basis for variable remuneration ([Otalor & Oti, 2017](#)). As a result, employees tend not to declare their actual skills because they can utilize them to negotiate better conditions and relieve pressure ([Faria & Maria, 2013](#)).

H₂: Budgeting Participation has a significant and positive effect on Communication in Batam Companies as The FTZ area

The effect of communication on budgetary slack

These include budgetary slack variables such as information asymmetry ([Baccouri & Hassouna, 2017](#); [Maryati & Hendrawan, 2020](#); [S.Dunk, 1993](#)), uncertainty environmental ([Ayounik Mahasabha & Ratnadi, 2019](#); [Govindarajan, 1986](#); [Huseno, 2017](#); [Kren, 1992](#); [Sudirman et al., 2018](#)), and budget clarity ([Hutama & Yudianto, 2019](#); [Kenis, 1979b](#); [Pratama, 2013](#); [Siswiraningtyas & Yuhertiana, 2021](#)). Those three variables show that poor communication between superior and subordinate is an issue. [Yuen \(2004\)](#) states that "Budgeting systems are multidimensional and operate in such a diversity of circumstances that it is vital to comprehend the intricate network of interdependencies among variables,". Moreover, according to [Hassel & Cunningham \(1993\)](#) in research by [Karsam \(2015\)](#) state that communication and influence can be examined as different factors. Thus, communication may be a factor affecting budget slack.

After thorough stakeholder dialogue, finance managers and line managers implement and monitor the budget to ensure the objectives are met ([Chen et al., 2014](#)). Employees better comprehend and embrace company goals when they are communicated clearly and convincingly, according to [Merchant \(1998\)](#) in research by [Karsam \(2013\)](#), Communication can also help eliminate budget slack by clarifying goals and making targets more acceptable to subordinates. The reason is that budgeting participation could conduct a good management control system in order to achieve organizational targets ([Sastrawan et al., 2020](#))

[Baccouri & Hassouna \(2017\)](#) claim that communication reduces budget slack. They argue that when superiors set budgets without consulting subordinates, the budgets are unlikely to be implemented. Budgeting is a communicative finance process that demands specialized abilities and dedication to complete; thus, the flow of information sharing could be helpful for internal communication ([Chen et](#)

[al., 2014](#); [Hopwood, 1976](#)). Communication can distribute information and help make decisions. Employees and stakeholders, like business partners, increasingly have diverse skills.

According to [\(Baccouri & Hassouna, 2017; Kren, 2003; Rifqi et al., 2017\)](#), positive communication between supervisors and subordinates lessens the pressure to increase slack. According to [Kepramareni et al. \(2020\)](#) and [Yuen \(2004\)](#), communication reduces budgetary slack. Individual managers build budgetary slack by misrepresenting or omitting personal information due to knowledge asymmetry. They bring new ideas and abilities to the table.

H₃: The communication has a significant and negative effect on Budgetary Slack in Batam Companies as The FTZ area

The effect of communication as the intervening variable on budgetary participation towards budgetary slack

According to [Fitriyanti et al. \(2021\)](#) and [Phan et al. \(2020\)](#), communication and influencing skills are desirable in three Southeast Asian countries. Communication abilities are deemed a "special competence" by the IAI (Indonesian Accountants Association). Communication is required to prepare financial data for management ([Akuntansi Indonesia, n.d.](#)). Budgeting participation is one of the methods for budgeting.

[Mah 'd et al. \(2013\)](#) define budgeting participation as "a way of communicating and influencing management in the budgeting process" also [Gago-Rodríguez & Naranjo-Gil \(2016\)](#) and [Lau & Tan \(2006\)](#) also highlight that during the budgeting process, individuals can openly voice their perspectives, share information, and clarify diverse points of view before reaching an agreement that meets all stakeholders' shared expectations. As a result, stakeholders can better understand budget targets and expectations. It will reduce budgetary slack ([Perdani, 2019](#)).

But, [Kepramareni et al. \(2019\)](#) and [Yuen \(2004\)](#) said that information asymmetry encourages individual managers to build budgetary slack by misrepresenting or suppressing part of their private knowledge. They also believe they can do it because of their influence ([Perdani, 2019](#)). Because budgeting can be used to bargain for better results and lower the pressure to reach objectives, employees are less likely to show their genuine skills ([Faria & Maria, 2013](#)). So, according to agency theory, self-interest will push the subordinate to create budgetary slack ([Abdullah & Brink, 2017](#)).

H₄: Communication can mediate budgeting participation on budgetary slack

3. Research methodology

Data analysis method

The Partial Least Square (PLS) technique will be utilized with Smart PLS 3 software as the analysis tool to process the data acquired from the questionnaires so that the results may be analyzed. There are two models like the outer model and the inner model. Afterward, descriptive statistics is also used to provide a description of the link of the independent, intervening, and dependent variables with examining the characteristics of respondents such as age, gender, job position, and duration of employment.

To begin, descriptive statistics were utilized in this research to describe the independent and dependent variables that were collected in the field. Data from more than 30 questionnaires are included in the descriptive analysis ([Sekaran Uman; Bougie Roger, 2016](#)). This study was performed to describe the relationship between the independent, intervening, and dependent variables while looking at respondent characteristics such as age, gender, work position, and length of employment.

Secondly, the outer model. The aim of this test is to ensure that the measurement model is valid and reliable. According to [Mardiana & Faqih \(2019\)](#), the three indicators that must be evaluated are (1) convergent validity is to measure the model is bias-free; (2) discriminant validity is to measure the model is consistent; and (3) composite reliability is to measure the model is reliable. The number for model is classified as valid and reliable should be above 0.60.

Thirdly, the inner model. The aim of this test is to see the analysis model, and the proposed hypothesis can be accepted or not in this study. Several indicators, such as the R-square test (R^2) for explaining the effect of certain independent variables on the dependent variable, whether it has a substantive effect or not ([Ghozali & Latan, 2015](#); [Marliana, 2020](#)) and Predictive Relevance (Q^2) for knowing how well the model and its parameter estimations create the observed values, can be used to evaluate the inner model.

Lastly, hypothesis testing entails putting the hypotheses to the test and determining if the independent variables have a linear positive or negative effect on the dependent variable. On Smart PLS 3 software, we apply the bootstrapping method to compare the T statistic and the T table, as well as the probability value. With the criteria, the p-value with 5% alpha is less than 0.05 and t-statistics > t-table. The t-table value for 5% alpha is 1.96.

Population, sample, and sources of data

The population chosen by the researcher is all services companies located in Batam City as an area of FTZ area. The population was sorted from the website Ministry of Industry Republic of Indonesia where there are 110 services companies ([Pengusahaan Batam, 2020](#)). The previous research by [Hati \(2019\)](#) used hotel managers in Batam as population and a service company is chosen because the growth of service companies in Batam is rising than the manufacturing company since the financial crisis in 2011 ([Badan Pengusahaan Batam, 2011](#)).

Samples of the companies were selected using the purposive sampling method. The criteria of the sample are Superior and Subordinates in Batam’s service companies which use budgeting participation as the budgeting method. The exact number of the sample can be shown with the Slovin formula is 258 respondents (85 companies x 3 respondents from each company like 1 manager and 2 staffs). But, 1 company could not participate because that company is a subsidiary of a Singapore-based corporation. Therefore, only 255 respondents could be obtained by this research.

This is quantitative research that focuses on hypotheses by evaluating statistical data and using research variables. This study relies on data from primary sources such as surveys generated by researchers and gathered by distributing questions to respondents through email using the Google Forms application system. We utilize the Likert scale because it is a multi-category scale on which respondents may express their opinions, actions, or feelings regarding a given issue.

Table 1. Variable operation definition

Variable	Dimension
Budgeting Participation (X) (Asmariyani, 2016 ; Ken Milani, 1975); Miyati, 2014)	1. Contributions 2. Changes 3. Influence 4. Discussion.
Communication (Z) (Effendy, 2009 ; Kahn & Katz, 1966 ; Pace & Faules., 2010 ; Robins, 2001 ; Ruliana, 2014)	5. Upward Communication 6. Downward Communication 7. Horizontal Communication
Budgetary Slack (Y) (Bakar, 2014 ; Carolina, 2020 ; Rodgers & Palanca, 2006 ; Sari & Lucky, 2019 ; Van Der Stede, 2000)	1. Budget Standards 2. Budget Achievements 3. Tight Budget 4. Budget Efficiency 5. Budget Target

4. Result and discussion

Respondent profile

Based on gender, the majority of respondents in this study were men. Because there is a difference in budgeting participation between men and women, this could be because the number of male and female employees is different from the beginning. According to [Sinaga et al. \(2018\)](#), communication maintains

the relationship between status and dominance because of male dominance; thus, the budgetary slack caused by males is more substantial than women, which is consistent with the findings research of [\(Abdullah, 2013\)](#).

Based on the age, the majority of the study's participants were aged 25-29. This age group is deemed mature enough to make sensible judgments like budgeting. [Eliza \(2020\)](#) confirms that statement. However, as described by [Sopiah \(2008\)](#), communication in this age group is difficult due to changes in business models and communication skills, therefore, the low influence of Indonesian workers compared to other ASEAN countries ([ILO, 2014](#); [Komariah, 2015](#)), and the pandemic COVID-19 cause the changes of communication climate ([Kartikawangi & Dahesihsari, 2020](#)). The impact is budgetary slack increase.

Based on the duration of employment, the majority of respondents in this study were employees with less than 5 years of service. With fewer than five years of employment, there is still minimal experience were making decisions such as budgeting becomes riskier because of the uncertainty environmental ([Govindarajan, 1986](#); [Kren, 1992](#)) like changes of business model and communication skills ([Kartikawangi & Dahesihsari, 2020](#); [Komariah, 2015](#)) and lacking understanding of communication climate's company ([Cartono & Maulana, 2019](#)). The impact is that the research by [Ujjanti \(2019\)](#) who stated that senior employees will likely more create budgetary slack is rejected.

Based on the job position, the majority of the respondents in this study were employees therefore the theory of [Purwantini & Suratno \(2007\)](#) was adopted because work position had no bearing on budgeting participation. But, organizational barriers as described by [Festinger \(1950\)](#) have formed as a result of the hierarchical distance, which caused them to misunderstand one other's roles and expertise for communication messages within the organization. As a result, there is a budgetary slack.

Descriptive statistics analysis

Budgeting participation (X) The highest respondent's assessment is on item BP2 with the statement *"I give a good and logical reason when budget revisions are made"* with a score of 3.949, while the lowest respondent's assessment is on item BP5 with the statement *"I have great influence over final budget setting"* with a score of 3,600. It can be easily concluded that budgeting participation provides the opportunity for both subordinates and managers or superiors to provide outstanding and logical explanations when modifying the budget, but it has little influence on the ultimate budget setting.

Communication (Z) The highest respondent's assessment is on item DC8 with the statement *"The more a team member understands his job, the easier it is to achieve goals/targets"* with a score of 4.196, while the lowest respondent's assessment is on item UC14 with the statement *"Superiors are open to giving reasons to subordinate when changes cannot be made"* with a score of 3.784. It can be easily concluded that communication aids in understanding their job and achieving goals/targets. The communication barrier, on the other hand, is that superiors and managers are unwilling to provide explanations to subordinates when adjustments are not possible.

Budgetary slack (Y) The highest respondent's assessment is on item BS2 with the statement *"The budget target drives productivity in each department."* with a score of 4.067, while the lowest respondent's assessment is on item BS1 with the statement *"I always succeeded in proposing a budget that is easy to achieve"* with a score of 3.647. It can be easily concluded that budget targets promote productivity in each department, but budgetary slack has been created since subordinate involvement in presenting an easy-to-achieve budget is low.

Outer model test

Convergent validity

Based on the results of the tests we did, there were several results including there are questionnaire items that fail because they do not meet the standard factor loading limit, which is 0.50. In Communication (Z) of the remaining 45 items, 40 items then the Budgetary Slack (Y) construct of the

remaining 6 items is 4 items. Then, retesting the construct validity was carried out so that all of the indicator items were above the standard loading factor value above > 0.5 which can still be declared valid (Falikhatun, 2007).

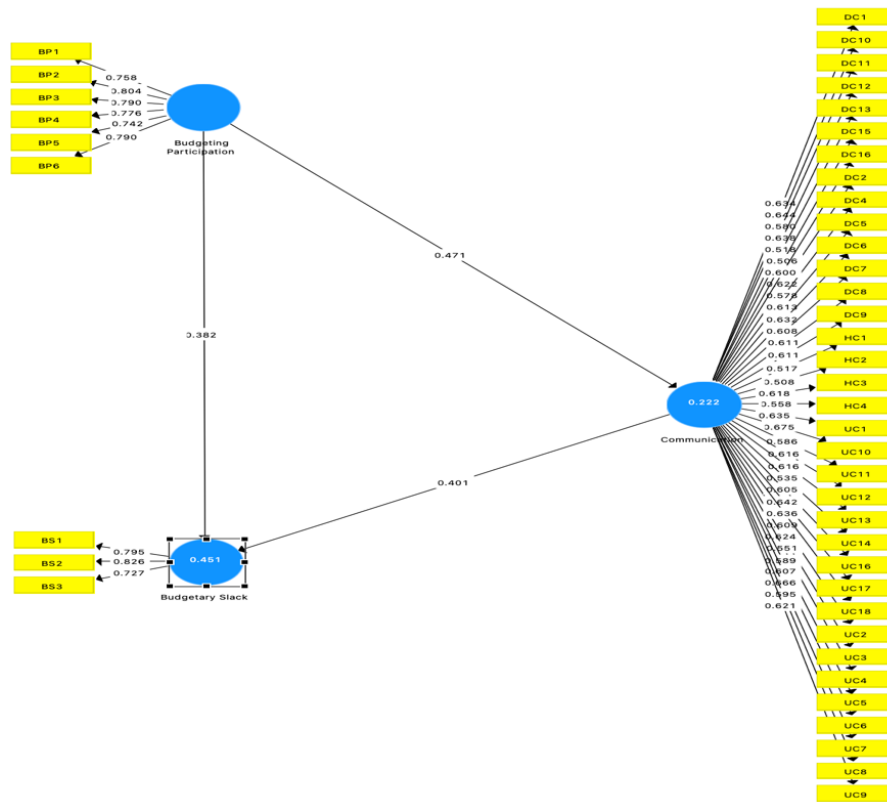


Figure 1. Convergent validity

Discriminant validity

Table 2. Fornell-Larcker criterion value

	Budgetary Slack (Y)	Budgeting Participation (X)	Communication (Z)
Budgetary Slack (Y)	0.783		
Budgeting Participation (X)	0.558	0.776	
Communication (Z)	0.570	0.475	0.639

Based on the results of the Fornell-Larcker criterion test, it can be seen the discriminant validity requirements have been met.

Composite reliability

Table 3. Composite reliability value

Variable	Composite Reliability Value
Budgeting Participation (X)	0,901
Budgetary Slack (Y)	0,827
Communication (Z)	0,952

Based on the results of the composite reliability value for all constructs above 0.60 is shown in the table above. As a result, it can be stated that all constructs are reliable

Inner Model Test

R-Square Test (R^2)

Table 4. R-Square value

Variable	R Square Value
Budgetary Slack (Y)	0,451
Communication (Z)	0,222

Budgetary Slack (BS) has a value of 0.439 in the table above, suggesting that Budgeting Participation and Communication may explain 43.9 percent of Budgetary Slack (BS), with the remainder influenced by other factors. Communication (C) has a value of 0.219 in the table above, suggesting that Budgeting Participation may explain 21.9 percent of Communication (C), with the remainder influenced by other factors.

Prediction Relevance Test (Q^2)

$$Q^2 = 1 - (1 - R_1^2)(1 - R_2^2)$$

$$Q^2 = 1 - (1 - 0.451)(1 - 0.222)$$

$$Q^2 = 1 - 0.438$$

$$Q^2 = 0.562$$

Based on these calculations, the value of Q^2 obtained is 0.562, indicating that the model form is good.

Hypothesis testing

Table 5. Bootstrapping

Hypothesis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values	Meaning
H ₁ : BP -> BS	0.382	0.383	0.064	5.956	0.000	Accepted
H ₂ : BP -> C	0.471	0.480	0.062	7.604	0.000	Accepted
H ₃ : C -> BS	0.401	0.403	0.059	6.765	0.000	Rejected
H ₄ : BP -> C -> BS	0.189	0.194	0.043	4.347	0.000	Accepted

The result of analysis from hypothesis testing are:

H₁: The budgeting participation has a significant and positive effect on budgetary slack in Batam Companies as The FTZ area

Respondents who are dominated by men aged 25-29 years with a sample of subordinates and superiors at service companies in Batam city show that equality of rights between women and men has not occurred in Batam as a whole and there are differences in the ability to solve and analyze problems. Although the age of 25-29 is considered to have rationality in decision making, there is a lack of understanding of the scope of work, it made them in the situation environmental uncertainty by [Govindarajan \(1986\)](#) and [Kren \(2003\)](#) so that the decisions taken are at risk of causing budgetary slack.

Because the respondents are dominated by staff and the duration of employment is less than 5 years. It can be seen from the dominance of the staff that their contribution to budgeting participation is less important and the duration of employment of fewer than 5 years causes a lack of experience in the scope of work concerned so that the contribution of staff in budgeting participation is not so important. This condition can create opportunities for other parties to form budgetary slack for their personal interests.

Therefore, the research by [Hati \(2019\)](#) and Ira [Abdullah \(2013\)](#) states that budgeting participation increases budgetary slack is acceptable.

H₂: Budgeting Participation has a significant and positive effect on Communication in Batam Companies as The FTZ area.

Budgeting participation involves the community in preparing budgets as a form of democratization and accountability because communication between superiors and subordinates can be facilitated by allowing individuals to openly express their opinion but it doesn't mean that communication does not make superiors and subordinates share information openly and final decisions that should be mutually agreed upon because superiors tend not to be open when a change occurs. The other reason because the absence of informal channels makes it difficult to open information between superiors and subordinates but it happened because of COVID-19 Pandemic that more focus on formal communication.

H₃: The communication has a significant and negative effect on Budgetary Slack in Batam Companies as The FTZ area.

Respondents who are dominated by men aged 25-29 years with a sample of subordinates and superiors at service companies in the Batam indicate that men view communication as a way to build and maintain a relationship of status and dominance with statements that do not support upward communication for information disclosure. and problems solved without upward communication. In addition, the age of 25-29 years is associated with how he responds to stimuli such as communication made by individuals where there is a difference in responses between superiors and subordinates in processing information causing the formation of uncertain environments that lead to bad communication climate and which risks forming decision making, therefore, budgetary slack.

In addition, because the respondents are dominated by employees and the duration of employment is less than 5 years. It can be seen from the dominance of the staff that upward communication for disclosure of the information is poor and has no effect in determining the final budget target, resulting in the failure of subordinates to submit budgets that are easily accessible. The duration of employment which is less than 5 years also states the importance of communication to help subordinates understand what work they do so that subordinates can achieve budget targets but the events that occurred in 2020-2021 were the covid-19 pandemic which changed how the shape of business organizations changed and the climate communication that takes place. The COVID-19 pandemic causes challenges, pressures, and uncertainties due to unexpected disruptions in their work so that this causes budgetary slack

H₄: Communication can mediate budgeting participation on budgetary slack

Communication could strengthen the budgeting participation towards budgetary slack. Superiors rarely ask subordinates' opinions in the budgeting process and employees can only provide opinions when asked even though the budgeting process requires more opinions and information so as to reduce budgetary slack and the difference in response between superior and subordinates in processing information because of the reason is upward communication for poor information disclosure. Therefore, subordinate failure in proposing an easy-to-reach budget with the final result. Subordinates were forced to believe the budget made is indeed easy to achieve because subordinate has no influence in the process of determining the final target budget, this process can be used by superiors informing budgetary slack for their personal interests.

5. Conclusions

1. Budgeting participation has a significant and positive effect on budgetary slack in Batam Companies as an FTZ area.
2. Budgeting Participation has a significant and positive effect on Communication in Batam Companies as The FTZ area.

3. Communication has a significant and positive effect on Budgetary Slack in Batam Company as the FTZ area
4. Communication can mediate budgeting participation on budgetary slack. Communication could strengthen the budgeting participation towards budgetary slack in Batam Company as the FTZ area

Limitations

1. Future research is predicted to be able to conduct research in other areas with a wider range of companies, not just service companies, because the results may differ if a sample of respondents from other industries is used, resulting in more comprehensive results.
2. This research utilizes [Kenis \(1979\)](#) communication model, which divides communication into three forms (upward, downward, and horizontal) to avoid discrepancies in results when compared to other models that divide communication into two types (vertical and horizontal).

Suggestions

1. Because studies with communication variables as intervening variables are rather rare, researchers can use the communication variable as an intervening variable in examining budgeting participation on budgetary slack.
2. As an input to Batam's service companies on how to improve their company budgeting and communication climate in order to ensure the success of the business entity

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