

## Journal of Contemporary Accounting

---

Volume 5 | Issue 2

---

# Peer pressure and self-statement mechanism to mitigate management behavior in budgetary slack: An experimental approach

Apriwandi

*Department of Accounting, Universitas Widyatama, Bandung, Indonesia*

apri.wandi@widyatama.ac.id

Debbie Christine

*Department of Accounting, Universitas Widyatama, Bandung, Indonesia*

debbie.christine@widyatama.ac.id

Follow this and additional works at: <https://journal.uii.ac.id/jca>

Copyright ©2023 Authors.

# Peer pressure and self-statement mechanism to mitigate management behavior in budgetary slack: An experimental approach

Apriwandi\*, Debbie Christine

Department of Accounting, Universitas Widyatama, Bandung, Indonesia

## Article History:

Received : 2023-01-09

Revised : 2023-05-29

Accepted : 2023-08-05

Published: 2023-08-29

## JEL Classification:

D23, C9

## Keywords:

Social ethics, peer pressure, self-statement, budgetary slack

## \*Corresponding Author:

apri.wandi@widyatama.ac.id

## DOI:

[10.20885/jca.vol5.iss2.art1](https://doi.org/10.20885/jca.vol5.iss2.art1)

Copyright ©2023



This is an open access under  
CC-BY-SA LICENSE

## Abstract

This study evaluates the susceptibility of management (especially management accountants) in creating budgetary slack by violating company policies. Reducing the creation of budgetary slack was evaluated by the relationship of the effects of peer pressure and perceived self-statement mechanisms within the scope of each social ethical dimension. Experimental results with 133 management accountants show that social and ethical friction can reduce the creation of budgetary slack by emphasizing peer pressure and self-assessment mechanisms. All experimental subjects could not violate company policy and it was proven by decreasing budgetary slack when faced with conditions without peer pressure and without a self-assessment mechanism. This finding provides evidence that budgetary slack is created when management is fully involved in setting the company's budget without any control from colleagues or leaders. The importance of social ethics in budgeting is raised by collegiate decisions in the team and creates a self-assessment mechanism for managers. Thus, resistance to creating budgetary slack can be increased and managers are held accountable for making budgetary decisions.

## Introduction

Budgetary slack is a phenomenon that involves the process of understating revenue and overestimating costs (Brownell & McInnes, 1986; Dunk, 1995). Budgetary slack is defined as the deliberate reporting of excess resources to make the budget easier to achieve significant budgetary slack in organizations (Merchant, 1984). However, this issue is one of the main controversial and unsolved issues in budget control and management accounting literature. Nouri (1992) explains the possible antecedents of budgetary slack so that there is ambiguity in concluding the causes of budgetary slack. Contradictory findings related to budgetary participation as a means of creating budgetary slack. Enabling the dysfunctional behavior of managers to create budgetary slack by identifying and testing the antecedent variables of budgetary slack creation.

A potentially dysfunctional consequence of slack, previous studies have investigated the conditions under which budgetary slack occurs and how to control it. Budgetary slack harms the company in the form of a decrease in performance by managers, misallocation of resources, and bias in evaluating manager performance (De Baerdemaeker & Bruggeman, 2015; Yuen, 2007). Seeing the negative impact caused by budgetary slack, researchers need to explore the causes of budgetary slack creation and the mechanisms that can mitigate it.

The factors causing the creation of budgetary slack have been carried out by empirical investigations which are basically influenced by the agency concept. The agency assumption is that the agent's behavior is based on personal interest and the agent has the opportunity to do budgetary slack. Budget participation is considered to be one of the factors causing budgetary slack, with various logical reasons placing agents given the opportunity to carry out budgetary slack (Shields & Shields, 1998; Stevens, 2002). Several previous studies (Fisher et al., 2000; Kren & Maiga, 2007) provide an analysis of the effect of information asymmetry on the negotiated budget. With budget participation, it is clear that differences in ownership of information by superiors and subordinates have an impact on budgetary slack triggered by negotiation patterns in budgeting. Another thing, subordinates have the opportunity to enter expectations of fulfilling their interests (bonuses) which aggravate the purpose of this budgetary slack.

The behavior of creating budgetary slack is not solely caused by personal interests, but budgetary slack can also be caused by requests from superiors who have personal interests. In the context of bottom-up budgeting, several previous studies (Cahyaningrum & Utami, 2015; Davis et al., 2006; Lucyanda & Sholihin, 2023; Prananjaya & Narsa, 2019) have investigated the effect of pressure from superiors on budgetary slack using compliance theory (Milgram, 1974). Milgram's theory explains that individuals tend to obey when they get pressure from their superiors even though this is not under their values and beliefs. Davis et al. (2006) found that the tendency of management accountants to make budgetary slack is influenced by pressure from superiors to make budgetary slack. The budget slack referred to in this study is the proposed cost budget is higher than their best estimation, on the other hand, the company issues policies for employees to set budgets accurately.

DeZoort and Lord (1997) describe the pressure of obedience to follow explicit requests from individuals at any level that refer to submission to the direction of authority. Thus, obedience pressure is a communication trait of the influential. Research by (Bishop et al., 2017) also found inconsistencies with compliance theory in motivating CFO to make mistakes in reporting. The command to change the estimate did not create a sense of pressure felt by the CFO. So that in the context of the CFO subject, the pressure may be more subtle than the pressure on subordinates or line management. They found that the CFO who received inappropriate pressure from the CEO did not make higher inventory adjustments than the control group, namely peer pressure. Furthermore, (Baird & Zelin, 2000; Huang & Chen, 2009; Mowchan et al., 2015) found that individuals who get pressure to behave unethically from their superiors refuse this pressure.

Kramer and Hartmann (2014) research strengthens the results of research by Davis et al. (2006) regarding the effect of social pressure on the tendency to create budgetary slack. However, Kramer and Hartmann (2014) explain that the research results of Davis et al. (2006) are classified as not unambiguous. In that sense, their findings found significant results, but the fact is that half the participants at that time refused to comply with their superiors. Participants choose not to do budgetary slack and provide budget suggestions honestly. This phenomenon indicates that individuals who are under pressure from their superiors to behave disobediently to norms do not necessarily comply with these pressures. When under pressure from superiors, individuals still have a preference to behave by norms. The inconsistency in the use of compliance theory in explaining individual ethical dilemmas motivates this study to examine the tendency to create budgetary slack pressure by superiors.

Researchers have realized that social norms are informal rules of behavior that can be accepted in certain social contexts. Individual preferences to behave by social norms can be explained by social norm theory (Bicchieri, 2006; Davidson & Stevens, 2013; Lucyanda & Sholihin, 2023). Social norm theory explains that there are conditions where individuals have a preference to behave under social norms (Davidson & Stevens, 2013; Lucyanda & Sholihin, 2023). Douthit and Stevens (2015) explain that individuals consider social norms such as honesty, fairness, the fulfillment of promises, and loyalty when in an ethical dilemma. Individual decisions to behave under norms can be activated by three conditions, namely contingent, empirical, and normative

expectations (Bicchieri, 2006). These three conditions provide a clear stimulus for individuals to consider the norms of each decision-making.

Accounting literature that examines social norm theory in the context of budgetary slack, escalation of commitment has developed. In the context of budgetary slack, Douthit and Steven (2015) found that the social norm activation model can reduce the tendency of subordinates to create budgetary slack. Subordinates prioritize honesty because they feel that the budget participation process is running fairly. In another context, Davidson and Steven (2013) tested the effectiveness of social norms in research related to the opportunistic behavior of managers towards investors. The results of this study indicate that the company's code of ethics can reduce the behavior of managers in terms of returns on investment to investors and improve investor confidence by principals. Furthermore, research by Davidson and Stevens (2013) found that corporate codes of ethics are more effective at mitigating the opportunistic behavior of managers when combined with the requirements for managers to make self-statements. This is in line with the explanation of social norm theory that company codes of ethics are often expressed in a general form so that it has the potential to make norms appear unclear in certain cases. Therefore, a self-statement mechanism is needed that can clarify the existing social norm stimuli.

This study uses peer pressure, namely pressure from peers in a team or organization. Peer pressure treatment is given in conditions of obedience pressure, by giving positive peer pressure. Positive pressure is the influence of peers to direct their colleagues not to do budgetary slack. Peer pressure reduces individual behavior (dysfunctional) and forms a positive social norm that can invite others to follow peer positive behavior. Peer pressure is considered to reduce the tendency of individuals to create budgetary slack when they are under pressure to obey their superiors.

Ang and Cheng (2016) use self-statement variables to mitigate escalation of commitment, and their findings provide evidence that managers' opportunistic behavior can be reduced by self-statements to continue or stop projects that are suspected of having suffered losses. These findings indicate that the conditions that allow individuals to obey the prevailing norms are influenced by the activated norms in the situation.

This study contributes to offering social norm theory in explaining that accounting compliance pressure is not absolutely influenced by the condition of being obedient to superiors. Social norm theory can encourage individuals to activate their norms which simultaneously influence their preferences. Research offers peer group ethics and self-statement mechanisms as management controls to comply with norms and mitigate the creation of budgetary slack. Furthermore, the contribution of this research to the practice of management control by asking subordinates to provide self-statements and pouring out a clear code of ethics in every budgeting process. The results of this study are expected to add to the literature for academics and practitioners in reducing the tendency of subordinates to provide wrong information and set excessive budgets from the true reason.

## Literature Review

### Social Influence Pressure

Several types of pressure can create stress for an individual so that it has an impact on the individual's attitude and performance which include obedience pressure, peer pressure, and compliance pressure (Bishop et al., 2017; DeZoort & Lord, 1997). Obedience pressure and compliance pressure are pressures derived from superiors who have the influence to give direct, coercive orders to each individual under their authority. DeZoort and Lord (1997) explained that obedience pressure and compliance pressure are part of social pressure which have a negative impact on individual behavior. However, obedience pressure occurs when a leader gives direct orders to subordinates that are non-routine and forceful in company activities, while compliance pressure is pressure felt by individuals in carrying out their duties. For example, an auditor feels time and cost pressure in every job. This causes bad behavior in the audit implementation process.

The development of research on the effects of pressure in accounting is more dominated by social influence pressures. Social influence involves the influence an individual has on the attitudes and behavior of others. The accounting and psychology literature includes studies that investigate the effects of social influences, and how individual attitudes, beliefs, and/or behavior are changed by others. DeZoort and Lord (1997) synthesized the results of their research on the effect of compliance pressure on auditors. Auditors who get pressure from their bosses tend to violate professional norms or standards than auditors without pressure from their superiors. Also, Davis et al. (2006) developed research on obedience pressure in the context of budgeting and provided evidence that compliance pressure encourages management accountants to carry out budgetary slack in the form of changing proposals that are not under the actual budget.

We extend this study to examine obedience pressure and peer pressure as normative influences in the context of budgeting and reduce dysfunctional behavior in budgeting. Obedience pressure occurs when an individual in a position of authority orders other individuals to behave in a certain way by the wishes of the authority. Milgram's laboratory studies (e.g., 1963, 1974) test that compliance with those in authority has lasting impact and visibility, this is because their findings are unpredictable and their findings do not comply with the code of ethics and do not consider capacity. humans as research subjects (Fenigstein, 2015). Although many studies refute Milgram's experimental process, the idea that obedience to authority has a big influence is an element of behavior that cannot be avoided and even becomes a norm. So that it is associated with the research objectives, researchers see the context of using the Milgram concept to be replicated and meet the expectations of the subject's behavior shown in the experimental results.

### **The Effect of Obedience Pressure on Budgetary Slack**

The theory of obedience (Milgram, 1974) explains that those who are under pressure from superiors experience psychological disorders, causing individuals to obey orders and pressure from their superiors, even though this is contrary to their values and beliefs. Individuals obey pressure from their superiors because they want to stay away from possible negative consequences that they can receive and appear loyal to their superiors (DeZoort & Lord, 1997). Several previous studies have tested compliance theory in various fields of accounting (Bishop et al., 2017; Davis et al., 2006). The study found that compliance pressure from superiors can influence individuals to carry out unethical activities and behavior.

Previous research has provided evidence of a tendency for managers or subordinates to report budgets that are not under actual reports due to pressure from their superiors. Davis et al. (2006) provide evidence that when individuals (in this case management accountants) get pressure from their superiors, they tend to propose product costs that do not match the actual costs. Obeying these orders is reinforced by consequences from superiors in the form of psychological threats and threats. Individuals in this condition encourage personally to save themselves from threats from superiors to change the budget proposal. However, even though subordinates make changes to the budget proposal according to orders from their superiors, subordinates are more likely to delegate budget responsibility to their superiors. So that the results of this study do not fully answer the phenomenon that superior pressure causes a subordinate to be more responsible or committed to their proposal.

Based on the theory and some of the empirical evidence above, we argue that individuals who get pressure for compliance from their superiors tend to make budgetary slack higher than individuals who do not get pressure from their superiors. The pressure exerted by superiors makes individuals enter into agency conditions that allow individuals to delegate responsibility to their superiors so that they will obey the orders of their superiors even though this is not under the beliefs and norms that they have. The hypothesis proposed is:

H<sub>1</sub>: individuals in conditions of compliance pressure from superiors tend to make budgetary slack higher than in conditions where there is no pressure from superiors.

### Superior Pressure and Self-Statement Mechanisms on Budgetary Slack

Davidson and Steven (2013) provide evidence that social norms can be activated by a company code of ethics which is accompanied by requirements for self-statement and certification options for managers. In particular, they found that in the investment game, individuals who only read the code of conduct without signing a self-statement after reading the code of conduct had a higher tendency to behave opportunistically than individuals who read the code of ethics and signed their self-declaration. By using Bicchieri's (2006) social norm activation model, the study examines the existence of a code of ethics in improving manager behavior by activating social norms that control opportunistic behavior. Douthit et al. (2012) explained that when there is a mechanism that allows an agent to make an agreement on a certain target, it can increase the agent's behavior to keep his promises and trust the principal, thus providing equal results between the principal and the agent. Ang and Cheng (2016) tested the effectiveness of independent certification requirements as formal controls to reduce opportunistic behavior, namely mitigating commitment escalation. Her research provides evidence that the terms managers sign off on their decisions. Besides, the effectiveness of self-certification requirements in reducing opportunistic behavior cannot be generalized to other formal times and controls. This is a self-certification mechanism only at the initial decision-making stage and not at the time of monitoring the decisions that have already been taken. The hypotheses in this study are;

H<sub>2</sub>: Individuals in a condition where there is a self-statement mechanism tend to make budgetary slack lower than in a condition where there is no self-question mechanism.

### Peer Pressure and Statement Mechanisms Mitigate Compliance Pressures in Creating Budgetary Slack

Peer pressure has an effect when individuals are supervised by other individuals, especially their colleagues (Schwering, 2017). Young's (1985) research concluded that social effects can be a means of control for organizations to prevent managers from misusing internal information and social pressure is negatively related to budgetary slack. Chong and Khudzir's (2018) research results show that budgetary slack is lower when supervised by peers than when there is no peer supervision. So that the role of supervisors in monitoring the budgeting process and budget execution affects budgetary slack behavior.

Peer pressure is a condition of individuals who tend to change their attitudes or behavior as a form of an effort to conform to the norms that apply in the group. Basically, peer pressure is a part of social pressure to follow the behavior or expectations of peers (DeZoort and Lord, 1997). Peer pressure comes from equal individuals and the same group, not from instructions from authority figures. Compliance that does not require requests and directions from other individuals, whether from peers, superiors, or subordinates, asserts that peer pressure arises from colleagues or friends in the same environment to avoid differences with others (Bishop et al., 2017). It is predicted that positive peer pressure can mitigate the tendency of individuals to be in budgetary slack even though they are subject to obedience pressure from their superiors. Hypothesis is;

H<sub>3</sub>: Individuals in a condition where there is peer pressure and self-statement, individuals perform lower budgetary slack than in conditions where there is no peer pressure or self-statement.

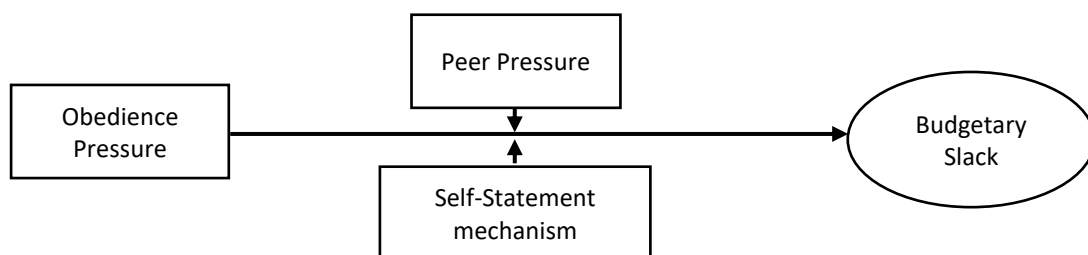


Figure 1. Research model

Note: Solid lines indicate the direction tested in the hypothesis. Hypothesis 1 (H<sub>1</sub>) predicted direct effects. We propose hypothesis 1 that obedience pressure affects the creation of budgetary slack.

Hypothesis 2 (H<sub>2</sub>) and Hypothesis 3 (H<sub>3</sub>) are interaction hypotheses that link peer pressure and self-statements to weaken the relationship of obedience to the creation of budget slack. The prediction is that the higher the peer pressure and self-statement, the smaller the budgetary slack.

## **Experimental Method**

### **Experimental Setting and Design**

This research was conducted with an experimental method with a 2x2x2 within-subject factorial design. The independent variables used were obedience pressure, peer pressure, self-statement mechanism. This independent variable is manipulated in several groups. The obedience pressure and peer group pressure were manipulated under conditions of high and low pressure, while the self-statement mechanism was manipulated by asking the subject to sign a self-statement and no self-statement. The dependent variable is the budgetary slack as measured by the budget proposal given by each subject after receiving the experimental treatment.

### **Participants and Procedures**

The subjects of this research were students of the Master of Accounting study program and the Master of Economics and Business Management, Gadjah Mada University, and Muhammadiyah University Yogyakarta. The criteria for participating participants are students who have or are taking the course management control systems and management accounting. One hundred and thirty-three accounting and management master students participated voluntarily. All participants completed the experiment and all data could be further analyzed. The subject acts as an accountant who holds a position as an operational manager who has direct responsibility to the finance director.

This experiment was carried out in several stages and the estimated processing time was 30 minutes, and the experiment was using web design. The web base is used to make it easier to find subjects and experiments can be carried out simultaneously through coordination via Whatsapp and email messages. This study uses a budgeting case that has been developed (DeZoort dan Lord, 1997), but this research has developed with a narrative and additional information in accordance with the objectives of this study. Each treatment in this experiment was given randomly and the probability that all subjects received treatment.

At the beginning of the experimental preamble, the experimental subjects were told their role as the operational line manager in charge of providing a unit budget proposal. After the experimental subjects received information about their roles, the subjects received an order memo from their superiors to increase the proposed budget ceiling from \$ 250 million to \$ 300 million. There are other things listed in the memo which contain an affirmation of the order and punishment if it is not carried out (ie, not getting a bonus and postponing promotion). At this stage the subjects were asked to write down the latest budget proposal after they received the order memo.

A few minutes later, the subjects communicated with their peers via chat asking for suggestions for implementing the order to change the budget proposal. In this case, peers give advice not to change the proposal and other conditions colleagues ask to change the proposal. At this stage the subject was asked to write a budget proposal based on the consideration of conversations with colleagues. Each experimental procedure and scenario has gone through a pilot process using the subjects of doctoral students at Gadjah Mada University. The pilot test aims to ensure that the experimental procedures and instruments are understood by the subject and the treatment is internalized.

Subsequent treatment is given randomly to the subject, namely a self-statement containing responsibility for all budget proposals. In this condition, two conditions were formed (namely; the subject signed and did not sign a self-statement). Finally, the subject is asked to write a budget proposal after receiving the self-statement mechanism treatment or not.

## Results and Discussion

### Descriptive Statistics

Table 1 displays the value of N or the amount of data studied by 133 samples. Descriptive statistics reported included gender, study program, education level, age, and work experience of all subjects. Gender as the demographic category of experimental subjects had a mean or mean value of 0.6541 and 87 male and 46 female subjects. Subjects came from the accounting study program (69) and non-accounting (64) with a mean value of 1.4812, besides that the average level of education for the Master (118) subject and P.hD (15) with a mean value of 2.1128. Based on the age of the subject, the average age is dominated by over 25 years, and overall the subject already has work experience in organizations with an average value of 1.4586. Participant demographics can be presented in table 1 and table 2 which present all the demographic data of participants in this experiment.

**Table 1.** Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Gender	133	.00	1.00	.6541	.47745
Study Programs	133	1.00	2.00	1.4812	.50154
Level of Education	133	2.00	3.00	2.1128	.31752
Obedience Pressure	133	1.00	2.00	1.4812	.50154
Peer Pressure	133	1.00	2.00	1.5639	.49777
Self-Statemen	133	1.00	2.00	1.4962	.50188
Budgetary Slack	133	2500.00	3000.00	2726.3158	234.16348
Age	133	2.00	3.00	2.0526	.22414
Experience	133	1.00	3.00	1.4586	.55747
Valid N (listwise)	133				

**Table 2.** Participant Demographics

	Categorical	Frequency	Percent
Gender	Female	46	34.6
	Male	87	65.4
	Total	133	100.0
Study Program	Accountant	69	51.9
	Non-Accountant	64	48.1
	Total	133	100.0
Level of Education	Master	118	88.7
	Doctor	15	11.3
	Total	133	100.0
Age	>25 year	126	94.7
	>35 year	7	5.3
	<25 year	76	57.1
	Total	133	100.0
Work experience	>5 year	53	39.8
	<5 year	4	3.0
	Total	133	100.0



## Hypothesis Test

### Tests of obedience pressure and peer pressure

Table 3, Panel A presents the Anova test results for H1 and H2. Regarding H1, it is revealed that there is a significant difference in the value of budgetary slack due to the existence of obedience pressure with a p-value  $<0.05$  ( $F = 26.476$ ), and the conclusion of hypothesis 1 is supported. Thus, the existence of obedience pressure still dominates significantly the causes of budget slack. Furthermore, table 3 presents the results of hypothesis testing 2 which predict the interaction of obedience pressure and peer pressure. The results show that hypothesis 2 is convincingly supported, with a p-value  $<0.05$  ( $F = 119,941$ ). These results provide evidence that the budgeting process can reduce the level of budgetary slack through a budgeting process that involves peers. The existence of peers has an influence on the work team to behave under organizational requirements and set a reasonable budget and ultimately reduce the value of budgetary slack. Additional analysis showed that the value of Adjusted R Squared = 0.693 (70%) the dependent variable was influenced by the compliance pressure and peer pressure treatments. This finding is consistent with the research objective to predict peer pressure to reduce the value of budgetary slack.

**Table 3.** Results of hypotheses tests

Panel A: ANOVA Budgetary Slack= Obedience Pressure (OP) and Peer Pressure (PP)					
	Partial SS	df	MS	F	Sig.
Obedience Pressure (OP)	445729.058	1	445729.058	26.476	0,000
Peer Pressure (PP)	1900203.584	1	1900203.584	112.869	0,000
OP * PP	2019264.207	1	2019264.207	119.941	0,000
Corrected Total	7237894.737	132			
<i>a. R Squared = .700 (Adjusted R Squared = .693)</i>					
Panel B: ANOVA Budgetary Slack= Obedience Pressure (OP) and Self-Statement (SS)					
Obedience Pressure (OP)	667977.391	1	667977.391	32.356	0,000
Self-Statement (SS)	1652329.374	1	1652329.374	80.037	0,000
OP * SS	1688613.318	1	1688613.318	81.795	0,000
Corrected Total	7237894.737	132			
<i>b. R Squared = .632 (Adjusted R Squared = .623)</i>					

### Tests of Social Norm Activation

We use the Buccheri social norm activation model to predict the self-assertion mechanism as a measure to enable corporate codes of conduct to be effective. In particular, the self-assertion mechanism for managers on every decision they make is a form of controlling for opportunistic behavior. Hypothesis 3 predicts that the self-statement mechanism affects the opportunistic behavior of managers in the budgeting process as indicated by the creation of budgetary slack. In the experimental setting, subjects were asked to sign a self-declaration certificate and without signing the certificate separately and check their responses to the main mechanism on the hypothesis testing results. We examined various behaviors outside of the main effects of the experiment by designing a questionnaire to capture the activation of social norms. Table 3, Panel B presents the results of hypothesis testing. ANOVA analysis revealed that the interaction value of obedience pressure and self-statement mechanism has a value of  $p < 0.05$  ( $F = 81.795$ ), this result provides confidence that the self-statement mechanism can activate social norms which have an impact on reducing the value of budgetary slack. This result provides evidence that the subject (manager) gets pressure from superiors but has a smaller budget gap when the manager has to sign a self-statement certificate than when there is no self-statement. As for the additional analysis, the value of Adjusted R Squared = 0.623 (62%) the dependent variable is influenced by the self-statement mechanism treatment.

## Discussion

Hypothesis 1, The results of testing hypothesis 1 indicate that the pressure from superiors makes subordinates tend to make budgetary slack higher than the condition where there is no pressure for superior compliance. This finding is in line with research by Davis et al. (2006) which found that the tendency of individuals to make budgetary slack is influenced by pressure from their superiors. Also, this study is in line with the compliance theory which explains that individuals who are under pressure for compliance from their superiors tend to slack off the budget and delegate responsibility for their actions to their superiors.

Obedience pressure is an attempt by an individual with the authority to suppress other individuals as a form of legitimate power (Lord & DeZoort, 1997). Legitimate power of a leader in the power that gives authority or authority to a leader to give orders and be obeyed by his subordinates. Compliance pressure in this study is in the form of pressure from superiors, namely the finance director, to the accounting manager to increase the number of budget proposals based on the coercion of the finance director. On the other hand, the company has a new policy that calls for the budget to be set as accurately as possible. The findings of this study indicate that the role of superior pressure has more of an impact on managers rather than adhering to company policies to make accurate budgets. This is reinforced by the delegation of responsibilities by subordinates for the budget proposal given. Even though superiors apply pressure to change the budget amount and subordinates make changes on the grounds of responsibility from the superiors. This delegation of responsibility provides evidence that budgetary slack is still greater even in conditions of pressure from superiors. Thus, the findings of this study provide evidence that the tendency of individuals to create budgetary slack is caused by pressure from their superiors and is strengthened by the delegation of responsibility to superiors for budgetary slack.

Hypothesis 2 predicts that individuals who provide self-statements regarding the budgeting process and budget execution are under pressure from their superiors to create budgetary slack. The expectation of this prediction is that budgetary slack can be reduced in behavior and in number when the budget maker states personally that he is responsible for budget decisions. The self-statement mechanism is formed to activate individual social norms. This study is inconsistent with the research of Davis et al. (2006), Lord and DeZoort (1997), which provides evidence that subordinates commit budgetary slack and responsibility for their actions are delegated to their limitations. This study provides evidence that with the self-statement mechanism, each manager is responsible for budgetary slack and the amount is relatively lower than there is no self-statement mechanism.

These findings provide an explanation that the existence of a self-statement mechanism can reduce the impact of obedience to orders from superiors to carry out budgetary slack. The perspective of social norm theory explains that individuals will make decisions that consider ethics if there is a stimulus that activates them (Bicchieri, 2006; Lucyanda & Sholihin, 2023). The stimulus given depends on the individual norms that have passed (Douthit & Stevens, 2015; Gago-Rodríguez & Naranjo-Gil, 2016). The existence of a self-statement mechanism provides an opportunity for managers to emphasize the morale of every decision they make. So that budget proposals that contain budgetary slack can be minimized and can be justified. Encouragement in individuals to obey superiors and take into account the prevailing norms as a way to minimize budgetary slack.

Hypothesis 3 predicts that individuals who get peer pressure will tend to be lower in budgetary slack than individuals who do not get peer pressure. Table 4 shows empirical evidence of a significant influence between peer pressure and budgetary slack ( $p = 0.001$ ). The results of this study are consistent with research by Ang and Cheng (2016); Chong and Khudzir (2018); Davis et al. (2006); DeZoort and Lord (1997); Nouri and Kyj (2013); and Schwering (2017) which states that the existence of peer pressure can reduce manager dysfunctional behavior. The ideal budgeting

process provides space for individuals or teams to provide budget proposals and mutual agreement occurs and directly suppresses personal motives in making these proposals.

This study provides evidence that the effectiveness of budgetary slack has decreased in the presence of peer pressure from peers or teammates. However, this study shows the amount of budgetary slack can be suppressed even though the subject gets pressure from superiors. So that the effort to eliminate budgetary slack is something that is not easy, this finding has a contribution to reducing the behavior of budgetary slack by reducing the number of budgetary slack.

## **Conclusion**

This study is to examine the effect of superior compliance pressure and self-statement mechanisms on individual tendencies in making budgetary slack. The results of the study provide evidence that pressure for superior compliance is one of the factors that influence the tendency of individuals to make budgetary slack. The results showed that budgetary slack tends to be higher in conditions of pressure from superiors than there is no pressure from superiors. This finding is in line with Milgram's 1974 theory which explains that individuals carry out orders from their superiors even though these orders are contrary to personal or procedural systems in the organization.

The self-statement mechanism can mitigate the tendency for budgetary slack to occur. The results of this study indicate that budgetary slack tends to be higher in conditions where there is no self-statement mechanism than there is a self-statement mechanism. Self-statement that is meant in this study is the individual signing a self-statement that emphasizes legally his responsibility in decision making. This self-statement can activate an individual's sense of responsibility for the decisions taken. The results of this study are consistent with the theory of social norms (Bicchieri, 2016) which explains that individual norm-abiding behavior will be activated when given a clear stimulus. Individuals who sign self-statement letters explicitly and formally acknowledge that they are responsible for the decisions taken (Ang & Cheng, 2016).

This study has limitations. First, this research can generalize the research results which is quite limited. This is due to the use of experimental subjects who are students. The use of students as wean managers has been subject to a long debate. The two case materials used in this study have gone through a modification process from previous studies so that this instrument is a simplification of the real business situation. Therefore, individual decisions may only apply while the experiment is taking place. Third, the variable self-statement mechanism is tested in the first decision making. In the condition of repeated decision making, self-statements may have a different effect. Subsequent research can test the self-statement mechanism in repeated decision-making scenarios.

## **References**

- Ang, N., & Cheng, M. M. (2016). Does self-certification encourage or reduce opportunistic behavior? *Behavioral Research in Accounting*, 28(2), 1–16. <https://doi.org/10.2308/bria-51468>
- Baird, J., & Zelin, R. (2000). The effects of information ordering on investor perceptions: An experiment utilizing presidents' letters. *Journal of Financial and Strategic Decisions*, 13(3), 71–80.
- Bicchieri, C. (2006). *The grammar of society: The nature and dynamics of social norms*. New York, NY: Cambridge University Press.
- Bishop, C. C., Dezoort, F. T., & Hermanson, D. R. (2017). The effect of CEO social influence pressure and CFO accounting experience on CFO financial reporting decisions. *Auditing*, 36(1), 21–41. <https://doi.org/10.2308/ajpt-51507>
- Brownell, P., & McInnes, M. (1986). Budgetary participation, motivation, and managerial

- performance. *Accounting Review*, 61(4), 587.  
<http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=4479014&site=ehost-live>
- Cahyaningrum, C. D., & Utami, I. (2015). Do obedience pressure and task complexity affect audit decision? *Jurnal Akuntansi dan Keuangan Indonesia*, 11(1), 92–105.  
<https://doi.org/10.21002/jaki.2015.06>
- Chong, V. K., & Khudzir, N. F. (2018). The effect of mutual monitoring and need for achievement on budgetary slack in a team-based environment. *Advances in Accounting Behavioral Research*, 21.
- Davidson, B. I., & Stevens, D. E. (2013). Can a code of ethics improve manager behavior and investor confidence? An experimental study. *Accounting Review*, 88(1), 51–74.  
<https://doi.org/10.2308/accr-50272>
- Davis, S., DeZoort, F. T., & Kopp, L. S. (2006). The effect of obedience pressure and perceived responsibility on management accountants' creation of budgetary slack. *Behavioral Research in Accounting*, 18(1), 19–35. <https://doi.org/10.2308/bria.2006.18.1.19>
- De Baerdemaeker, J., & Bruggeman, W. (2015). The impact of participation in strategic planning on managers' creation of budgetary slack: The mediating role of autonomous motivation and affective organisational commitment. *Management Accounting Research*, 29, 1–12.  
<https://doi.org/10.1016/j.mar.2015.06.002>
- DeZoort, F. T., & Lord, A. T. (1997). A review and synthesis of pressure effects research in accounting Reproduced with permission of the copyright owner. Further reproduction prohibited without permission. *Journal of Accounting Literature*, 16, 28–85.
- Douthit, J. D., & Stevens, D. E. (2015). The robustness of honesty effects on budget proposals when the superior has rejection authority. *Accounting Review*, 90(2), 467–493.  
<https://doi.org/10.2308/accr-50937>
- Douthit, J. D., Kearney, L., & Stevens, D. (2012). Can agent cheap talk mitigate agency problems in the presence of a noisy performance measure? an experimental test in a single- and multi-period setting. *Journal of Management Accounting Research*, 24(1), 135-158.
- Dunk, A. S. (1995). The joint effect of participative budgeting and managerial interest in innovation on departmental performance. *Scandinavian Journal of Management*, 11(1), 75–85.  
[https://doi.org/10.1016/0956-5221\(94\)00030-L](https://doi.org/10.1016/0956-5221(94)00030-L)
- Fenigstein, A. (2015). Milgram's shock experiments and the Nazi perpetrators: A contrarian perspective on the role of obedience pressures during the Holocaust. *Theory & Psychology*, 25(5), 581–598. <https://doi.org/10.1177/0959354315601904>
- Fisher, J. G., Frederickson, J. R., & Peffer, S. A. (2000). Budgeting: An Experimental the Effects of Negotiation. *The Accounting Review*, 75(1), 93–114.  
<https://doi.org/10.2308/accr.2000.75.1.93>
- Gago-Rodríguez, S., & Naranjo-Gil, D. (2016). Effects of trust and distrust on effort and budgetary slack: an experiment. *Management Decision*, 54(8), 1908–1928. <https://doi.org/10.1108/MD-10-2015-0480>
- Huang, C. L., & Chen, M. L. (2009). The effect of attitudes towards the budgetary process on attitudes towards budgetary slack and behaviors to create budgetary slack. *Social Behavior and Personality*, 37(5), 661–671. <https://doi.org/10.2224/sbp.2009.37.5.661>
- Kramer, S., & Hartmann, F. (2014). How top-down and bottom-up budgeting affect budget slack

- and performance through social and economic exchange. *Abacus*, 50(3), 314–340. <https://doi.org/10.1111/abac.12032>
- Kren, L., & Maiga, A. (2007). The intervening effect of information asymmetry on budget participation and segment slack. *Advances in Management Accounting*, 16.
- Lucyanda, J., & Sholihin, M. (2023). The effect of gender and code of ethics on budgetary slack ethical judgment: experimental evidence from Indonesia. *Journal of Economics, Finance and Administrative Science*. <https://doi.org/10.1108/JEFAS-05-2021-0044>
- Merchant, K. A. (1984). Influences on departmental budgeting: an empirical examination of a contingency model. *Accounting, Organizations and Society*, 9(3), 291–307.
- Milgram, S. (1974). *Obedience to authority: An experimental view*. New York, NY: Harper & Row.
- Mowchan, M., Lowe, D. J., & Reckers, P. M. J. (2015). Antecedents to unethical corporate conduct: Characteristics of the complicit follower. *Behavioral Research in Accounting*, 27(2), 95–126. <https://doi.org/10.2308/bria-51186>
- Nouri, H. (1992). The effects of budgetary participation on job performance: A conceptual model and its empirical test. *Dissertation Temple University Graduate Board*.
- Nouri, H., & Kyj, L. (2013). An experimental examination of the combined effects of normative and instrumental commitments on budgetary slack creation: Comparing individuals versus group members. *Advances in Management Accounting*, 22, 225–260. [https://doi.org/10.1108/S1474-7871\(2013\)0000022014](https://doi.org/10.1108/S1474-7871(2013)0000022014)
- Prananjaya, K. P., & Narsa, N. P. D. R. H. (2019). Obedience pressure and tax sanction: An experimental study on tax compliance. *Jurnal Akuntansi dan Keuangan*, 21(2), 68–81. <https://doi.org/10.9744/jak.21.2.68-81>
- Schwering, A. (2017). The influence of peer honesty and anonymity on managerial reporting. *Journal of Business Economics*, 87(9), 1151–1172. <https://doi.org/10.1007/s11573-017-0861-9>
- Shields, M. D., & Shields, J. F. (1998). Antecedents of participative budgeting. *Accounting, Organizations and Society Organizations Society*, 23(1), 49–76.
- Stevens, D. E. (2002). The effects of reputation and ethics on budgetary slack. *Journal of Management Accounting Research*, 14(1), 153–171. <https://doi.org/10.2308/jmar.2002.14.1.153>
- Young, S. M. (1985). Participative budgeting: The effects of risk aversion and asymmetric information on budgetary slack. *Journal of Accounting Research*, 23(2), 829–842. <https://doi.org/10.2307/2490840>
- Yuen, D. (2007). Antecedents of budgetary participation: Enhancing employees' job performance. *Managerial Auditing Journal*, 22(5), 533–548. <https://doi.org/10.1108/02686900710750793>