Participative Budgeting, Procedural Fairness, Distributive Fairness and Budgetary Slack: Evidence from Hospitality Sector in Indonesia

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Abstract

Budgets are important for owners and management in planning, controlling and serving as the basis for measuring performance. In the budgeting process, management often acts unethically, such as making budgetary slack and manipulating data. This study analyzes the direct and indirect relationship between budget participation and budgetary slack. Questionnaires were distributed to 74 respondents who work as supervisors or managers in the hospitality industry in the city of Bandung, West Java, Indonesia. The data is processed using a SEM with the help of Smart-Partial Least Square software with structural models and measurement models. This study shows that budget participation has a positive relationship with procedural fairness and distributive fairness. In addition, budget participation, procedural fairness and distributive fairness has a negative relationship with budgetary slack. Moreover, procedural fairness and distributive fairness mediate the relationship between budget participation and budget slack. This study supports the theory of budget participation and budgetary slack and has implications for budgeting practice. Hence, in the process of preparing the budget, it is very important to involve subordinates because it can reduce budgetary slack.

Keywords: *Budget Participation, Procedural Fariness, Distributive Fairness, Budgetary Slack*

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1. Introduction

Planning is important for running a business to determine what things to achieve in the future and the steps to be taken to achieve these goals. Budgeting is a part of planning (Garrison et al., 2021) that helps management and owners plan and exercise control to compare what actually happened with what was expected in the budget (Mowen et al., 2018). According to Warren and Tayler (2020), there are several behaviors that can arise in the budgeting process: the budget is set too tight, so it is difficult to achieve; the budget is set too loose, so it is easy to achieve; and the goals of a budget conflict with company and employee goals. When the budget is used as the primary tool for management to assess performance, the objective of the budget becomes a very influential decision to set performance evaluation standards and managers' salaries (Sheng, 2019). This can significantly affect the behavior of managers because their financial status and career can be affected, either positively or negatively, depending on how the budget is used (Mowen et al., 2018). On the bright side, management can be motivated to pursue predetermined targets. However, it can also make management act unethically. One of the unethical actions taken by management is creating budgetary slack and manipulating data (Klein et al., 2019; Langevin & Mendoza, 2013).

Budgetary slack occurs when management deliberately underestimates revenue or overestimates costs so that the budget can be more easily achieved (Devie et al., 2018; Mowen et al., 2018; Staley & Magner, 2007). It is a condition where the budget is set with a biased estimate of conditions that will occur in the future (Little et al., 2002; Staley & Magner, 2007). In this case, management tries to reduce the risks it faces when there is uncertainty in the future, and in the end, it is easier to meet targets and receive bonuses (Schmitz, 2020). Participation in budgeting is one of the factors that influences budgetary slack (Chong & Strauss, 2017; Mowen et al., 2018; Onsi, 1973; Schmitz, 2020; Schoute & Wiersma, 2011; Wafiroh et al., 2020). By involving lower-level managers in preparing the budget, budget goals can turn into personal goals for managers, so that budgets can be prepared in such a way as to follow the manager's wishes (Mowen et al., 2018). But some argue that a high level of participation does not lead to a higher level of slack in the budgeting process (Schmitz, 2020) and can even be used by companies to reduce the level of budgetary slack (Chong & Strauss, 2017; Onsi, 1973; Schoute & Wiersma, 2011; Wafiroh et al., 2020). Participative budgeting will lead to good communication so that a manager does not feel pressure to create a budget (Onsi, 1973). With

more and more information obtained from the participation process, the value of a budget can be more accurate and can reduce the slack that occurs. This indicates the possibility of the influence of intervening variables. This study expands the literature on budgetary slack by adding procedural and distributive fairness.

Procedural fairness is an individual's perception of fairness in the procedures and systems applied by the organization in determining the allocation process (Leventhal, 1980). Being involved in the decision-making process can satisfy someone's desire to be heard and their views considered (Chong & Strauss, 2017). Several studies have examined whether budget participation helps improve individual perceptions of procedural fairness (Klein et al., 2019; Maiga & Jacobs, 2007; Osikhena & ODIA, 2013). Participating in budgeting will also increase individuals' perceptions of fair rewards because they are involved in the budgeting process (Langevin & Mendoza, 2013). On the other hand, distributive fairness emphasizes the individual's perception of everything that is accepted as fairly distributed according to certain criteria (Schmitz, 2020). Several studies have been conducted to test whether participation in the budgeting process can increase individual perceptions of distributive fairness (Devie et al., 2018; Maiga & Jacobs, 2007; Wentzel, 2002; Zahro & Januarti, 2016). When management's perceptions of the budgeting process or the results of the distributive process are perceived as unfair, the propensity to create budgetary slack will increase (Wentzel, 2004).

Several studies have discussed budgeting in the manufacturing and distribution sectors (Chong & Strauss, 2017; Devie et al., 2018; Kohlmeyer et al., 2014; Little et al., 2002) and in the public sector (Kinnersley & Magner, 2008; Mahmudah, 2016; Ozer & Yilmaz, 2011; Staley & Magner, 2007). However, this research focuses on the hospitality industry in the city of Bandung. If compared between the hospitality industry and the manufacturing industry, managers in the hotel industry must face a more uncertain, complex and competitive working environment (Dakhli, 2021). In fact, the COVID-19 pandemic has had a considerable impact, especially on the tourism sector. Based on information from the Bandung Culture and Tourism Department (2020), there was a decrease of more than 50 percent from 8.4 million tourists in 2019 to 3.2 million tourists visiting Bandung in 2020. As the world prepares for the end of the pandemic and prepares to return to how it was before, business people in this field need to prepare strategies to increase business and profitability, one of which is a financial and cost management strategy (Afianti & Megasari, 2022). Budgeting is a form of strategy in financial

management for the future (Mowen et al., 2018). Budgeting serves to plan and control the business effectively to maximize optimal productivity and profitability (Arnold & Artz, 2018). The operational budget is one of the things that is very necessary, especially in managing the hospitality business, because it contains important information about costs that can be controlled to determine the true ability and effectiveness of managers (Dopson & Hayes, 2017).

Operational budgets are used in predicting the revenue, expenditure and profit that will be generated in a period. Establishing the rates of rooms sold and managing costs effectively is essential to determining the profitability of the hotel operated (Dopson & Hayes, 2017). Based on a study conducted by Steed and Gu (2009), most hotels prepare annual budgets established based on previous year's achievements and structured based on monthly and departmental formats. For the profit center department, it typically covers all revenue and expenditure, while for the cost centre department, it usually only covers projected expenses for a certain period (Chibili, 2017). Therefore, control is important in budgeting in the hospitality industry because the budget is also used as one of the performance measurements to determine the bonuses to be allocated (Steed & Gu, 2009). By involving subordinate participation in budgeting practices in the hospitality, it is one way to influence positive behavior (Dakhli, 2021) as well as avoid budgetary slack (Garrison et al., 2021).

In the private sector, generally, the budget is information that is closed to the public because it is a company secret, while in the public sector the information is open and can even be accessed by the public so that it can be seen and discussed (Arifin, 2017). With the lack of control exercised by independent parties in preparing the budget, researchers are interested in conducting research on the private sector, especially the hospitality industry. This research focuses on how the effect of budget participation on budgetary slack is mediated by procedural and distributive fairness. There is still limited study that examine directly the effect of procedural and distributive fairness on budgetary slack (Little et al., 2002; Ozer & Yilmaz, 2011; Setin et al., 2021; Wentzel, 2004). By discussing more deeply the fairness factor in budgeting, it is hoped that it can contribute to the literature and policymakers understanding of the budgeting process.

2. Literature review

2.1. Budget Participation

Budget participation allows subordinates to participate in voting opinions so that they can influence the budget setting process (Mowen et al., 2018; Schmitz, 2020). Participation can make subordinates provide better information to superiors with the aim that budgets can be prepared more accurately (Nouri & Parker, 1998). In a nutshell, budget participation is the participation of subordinates in preparing budgets where quality information is provided by subordinates to superiors thereby encouraging managers to make better budget decisions. Budget participation encourages subordinates to provide more in-depth information, because often top management is not involved in detail in day-to-day operations. Meanwhile, top management has a major role in formulating strategy. By involving lower-level managers, it can encourage top-level managers to make optimal plans (Garrison et al., 2021). Providing employees with opportunities through budget participation can enable them to understand strategy and expectations, enabling them to perform tasks more effectively (Nguyen et al., 2019).

2.2. Procedural Fairness

Procedural fairness is an individual's perception of the fairness of procedures and systems implemented by organizations in determining the allocation process (Leventhal, 1980). Procedural fairness is a term used for the view that fairness is used in procedures to control and manage a process (David, 2021). This concept places more emphasis on one's views when assessing a procedure. One of the methods used in assessing procedural fairness is when procedures in making budgetary decisions provide opportunities for employees to be involved in voicing opinions and making appeals and of course procedures are made consistently, accurately and impartially for personal gain (David, 2021; Staley & Magner, 2007). There are two perspectives on how employees can assess procedural fairness (Langevin & Mendoza, 2013). The first is when employees will focus on long-term rather than short-term results, because the long term is more favorable for them. In this view, it focuses on material results such as rewards. Second, when employees pay attention to the fairness of budgeting procedures because they want to be treated as fairly as possible because they show their values

in an organization. In this view, the focus is on psychological outcomes such as self-confidence and recognition from the group.

There are six rules that individuals use in determining the allocation procedure according to Leventhal (1980). Consistency rule believes that procedures are applied consistently over time. Bias-suppression rule believes that at all points of allocation, self-interest that benefits one person should be prevented. Accuracy rule believes that in the process of determining allocations, all of the information should be processed with minimum errors. Correctability rule suggests an opportunity to change or change the rules that have been set. Representativeness rule states that in determining the allocation, it must represent the group of people involved in the organization. Ethicality rule is based on ethical rules which state that the distribution procedure must represent basic morals and ethical values accepted by individuals.

2.3. Distributive Fairness

Distributive fairness is an individual view that rewards, punishments or resources are distributed fairly according to certain criteria (Leventhal, 1980). The main concept of distributive fairness is "fair share". Employees will perceive it as fair when the allocation of salaries, rewards, and promotions is appropriate and distributed according to what they do (Maiga & Jacobs, 2007; Schmitz, 2020; Sheng, 2019). In other words, distributive fairness can be felt when what is done and what is received is balanced (David, 2021). The difference between what is received and what is normally received is an unfair condition for employees (Magner & Johnson, 1995). In measuring the level of distributive fairness, there are three ways that need attention; must reflect a need, according to expectations, and the budget can be properly accepted (Magner & Johnson, 1995).

2.4. Budgetary Slack

Budgetary slack occurs when management underestimate revenue and/or overestimate costs to make the budget easier to achieve (Devie et al., 2018; Mowen et al., 2018; Staley & Magner, 2007). Managers often plan concessions to avoid future unforeseen circumstances (Warren & Tayler, 2020). Often the budget is made by reducing its productive ability when its performance will be evaluated (Young, 1985). In the private sector, managers will focus on

income and costs, whereas in the public sector they usually only focus on costs, because usually the public sector does not focus on income. The budgetary slack can be seen from two perspectives. The good thing is, budgetary slack can make management better prepared when facing bad things in the future. Bad things make management act unethically for their personal interests. According Onsi (1973), there are several attitudes of managers when creating budgetary slack: the manager proposes an easily achievable budget to protect himself; there are two levels in preparing the budget, between himself and his superiors and between himself and his subordinates; under good business conditions, supervisor will accept a reasonable level of budgetary slack; and budgetary slack is good for doing things that cannot be officially approved.

2.5. Budget Participation and Budgetary Slack

Factor that influences the budgetary slack is budget participation. Participation describes how subordinates are involved in giving opinions to influence the decision-making process (Schmitz, 2020). Budget participation can lead to good communication, thereby making managers feel less pressured to create slack in the budget (Onsi, 1973). Cooperation between superiors and subordinates is something that has a positive impact on the organization. When subordinates participate in budgeting, they will be encouraged to share the information they have so that budgets can be prepared more accurately (Said et al., 2023). When subordinates have right to participate, they tend not to create budgetary slack because they do not want to lose the right to participate (Chong & Strauss, 2017). Thus, it can be said that a high level of budget participation will reduce the budgetary slack. This is in line with previous research by Chong and Strauss (2017), Huseno (2017), Onsi (1973), and Said et al. (2023).

H1: Budget participation has a negative relationship with budgetary slack.

2.6. Budget Participation and Procedural Fairness

Budget participation is part of the management control system, which is used to ensure that the behavior and decisions of subordinates are consistent with organizational goals and strategies (Langevin & Mendoza, 2013). Based on the representativeness rule developed by Leventhal (1980), a person will experience higher fairness when they are involved in the allocation determination process. Participation in the budgeting process will increase data

accuracy because it allows subordinates and superiors to exchange information (Klein et al., 2019). In the "Group Value" model developed by Lind and Tyler (1988), in general, people value participation in a group and respect their status as members in a group. So that someone will feel fairness when given the opportunity to express an opinion because it is a form of participation in a group (Devie et al., 2018; Klein et al., 2019; Maiga & Jacobs, 2007; Osikhena & ODIA, 2013; Wentzel, 2002; Zahro & Januarti, 2016). Participation allows subordinates to give opinions and be proactively involved in providing input and fulfilling ethical criteria, because it is in line with moral values that must be owned by someone who has the opportunity to be involved in target setting (Klein et al., 2019).

H2: Budget participation has a positive relationship with procedural fairness.

2.7. Procedural Fairness and Budgetary Slack

When implementing budgeting procedures, decision makers must treat subordinates well, respect employee rights, avoid self-interest, respect subordinate opinions, and provide feedback regarding budget decisions and their consequences (Staley & Magner, 2007). When employees or managers perceive budgets, targets, budget evaluation process to be unfair, they tend to turn things around and creating budgetary slack, engaging in budget games, or behaving unethically (Schmitz, 2020). When budget procedures are applied fairly, managers will try to collect information from various sources and the best size in the budgeting process. Conversely, when budget procedures are not applied fairly, a person is not optimally motivated in preparing a budget. This creates a negative influence on individual perceptions of fairness and budgetary slack, making it more likely that slack will occur when the budgetary process or outcome is perceived as unfair (Langevin & Mendoza, 2013; Wentzel, 2004).

When the processes and procedures in the participatory budgeting process are considered fair, the manager's tendency to create slack will decrease (Chong & Strauss, 2017). This is because the involvement of managers in the budgeting process will increase one's views in assessing fair budgeting procedures. With increased procedural fairness, managers will avoid the tendency to create budgetary slack (Kinnersley & Magner, 2008; Little et al., 2002; Ozer & Yilmaz, 2011).

H3: Procedural fairness has a negative relationship with budgetary slack.

H4: Relationship between budget participation and budgetary slack is mediated by procedural fairness.

2.8. Budget Participation and Distributive Fairness

In the self-interest model, a person is involved in a process that determines a decision because basically they care about what they will get (Lind & Tyler, 1988). In that way, the perception of fairness will increase along with being given the opportunity to participate because someone will believe that what is given will affect the desired outcome (Wentzel, 2002). In terms of budgeting, participation will also provide an opportunity for managers to influence the targets and resources allocated to them which will then affect their performance appraisal. Thus, participation in budgeting increases the likelihood that managers will be fairly rewarded because their judgments depend on the budgets they have helped set (Klein et al., 2019). Therefore, budgetary participation has a positive relationship with distributive fairness (Devie et al., 2018; Maiga & Jacobs, 2007; Wentzel, 2002; Zahro & Januarti, 2016). Participation provides a higher opportunity for managers to determine a more profitable allocation of resources (Devie et al., 2018).

H5: Budget participation has a positive relationship with distributive fairness.

2.9. Distributive Fairness and Budgetary Slack

In the concept of distributive fairness, someone will compare the results received with the contributions made (Greenberg, 1990). Employees feel that the contribution that has been made is in accordance with the rewards that will be received (incentives, bonuses), then the perception of distributive fairness will increase. When employees feel unfair about the results they will receive, they may engage in creating budget slack and manipulating data to get fair results (Klein et al., 2019). The concept of "budgetary slack" assumes that when slack are applied, they will use them to increase profitability at the end of the year with the aim of influencing the compensation to be received (Onsi, 1973). Budgetary slack and data manipulation will help managers offset perceived fairness and improve their performance and get rewards accordingly (Langevin & Mendoza, 2013). It is expected that distributive fairness has a negative relationship with budgetary slack (Wentzel, 2004). The higher the perception of distributive fairness, the budget slack can be minimized.

During the participation process, a manager will have the opportunity to influence the targets and resources to be taken. So that the opportunity to achieve the specified target will be more easily achieved and affect the assessment and rewards they will receive. Thus, the perception of distributive fairness will increase (Langevin & Mendoza, 2013). It is expected that distributive fairness has a negative relationship with budgetary slack (Wentzel, 2004).

H6: Distributive fairness has a negative relationship with budgetary slack.

H7: Relationship between budget participation and budgetary slack is mediated by distributive fairness.

Figure 1

Hypothesis Framework
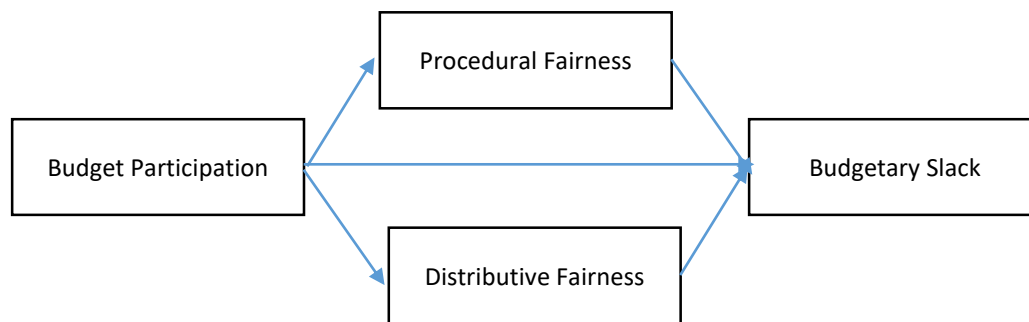
3. Methodology

This research was conducted by collecting primary data obtained from questionnaires. The subject of this research is a company in the hotel sector with the criteria of a five-star hotel in the city of Bandung – Indonesia, which consists of 1 - 5-star hotels. The criteria for the unit of observation (respondents) in this study are employees who are at the manager or supervisor level. The sampling technique was convenience purposive sampling with the aim to select only personnel involved in the budgeting process. Most of questionnaires were distributed to hotels that are members of a chain hotel or group of affiliated hotel (e.g. Accor, Archipelago International, Ascott, InterContinental Hotels Group, Starwood Hotels Marriot, etc.) and some were distributed to local hotels that had already implemented a budgeting system. Respondent represented various functional areas that are usually involved in budget practices, including sales, marketing, finance/accounting and operation division (e.g. room division, food and beverage division). These selection criteria ensured that the respondents chosen were

experienced in budgeting issues in their respective organizations. The author distributes survey papers to managers and supervisors directly and distributes Google Forms via LinkedIn. The questionnaire contains personal data regarding gender, age, place of work, position and statements regarding involvement in budgeting. Researchers guarantee that all data collected were kept confidential.

The sample size to be tested can be determined using the 10 times rule formula proposed by Barclay et al. (1995). Based on these rules, the sample size must be greater than the largest number of structural paths leading to a particular construction multiplied by 10. In this study, the largest number of structural paths leading to the construct is 3, so the minimum sample size is 30. According to Hair et al. (2014), it is recommended to use Choen's (1992) formula with sufficient statistical power. With a significant level of 5%, a statistical power level of 80%, a minimum R^2 of 0.25, and a maximum number of arrows to the construct is 3, the minimum sample size required is 59. Measurement were made by using a five-point Likert scale.

Of the 77 questionnaires distributed, only 74 could be processed according to the criteria for being involved in preparing the budget. Table 1 shows 74 respondents who participated, at most 59% or 44 people were men, 61% or 45 respondents aged 30-40 years, and 68% or 50 respondents held managerial positions.

Table 1

Respondent Profile

Respondent Profile	Σ Respondent	%
Sex		
Man	44	59%
Woman	30	41%
Total	74	100%
Age		
< 30 years	16	22%
30 - 40 years	45	61%
41 - 50 years	9	12%
51 - 60 years	4	5%
Total	74	100%
Position		
Manager	50	68%
Supervisor	24	32%
Total	74	100%

Data were tested using Partial Least Square(PLS), and Structural Equation Modeling (SEM) using the Smart PLS application. The analysis was carried out with a structural model or inner model and a measurement model or outer model.

Table 2

Test Indicator

VARIABLE	SOURCE	INDICATOR
Budget Participation	Milani 1975	1. I am involved in the budgeting process
		2. My supervisor explains the budget revision clearly
		3. My boss and I often discuss budgets
		4. Budget is heavily influenced by me
		5. I have a very important contribution to the budget
		6. My supervisor often starts discussing the budget when preparing the budget
Procedural Fairness	Magner and Jhonson (1995), Greenberg (1993)	1. All divisions consistently implement budgeting procedures
		2. Time to time budgeting procedures are applied consistently
		3. Accurate information and well-informed opinions are the basis for making budgetary decisions for my division
		4. I can appeal the budget set for my division because it is stated in the budgeting procedure
		5. Current budgeting procedures comply with my own ethical and moral standards
		6. Budget procedures allow decision makers to be impartial to one of the divisions
		7. The attention of all divisions has been represented by the established budgeting procedures
		8. The budget allocation for my division has been sufficiently explained by the decision makers
Distributive Fairness	Magner and Johnson (1995), Greenberg (1993)	1. My division receives a decent budget
		2. The budget allocated to my division is sufficient to reflect my needs
		3. My division's budget is as I expected
		4. The budget is allocated fairly
		5. When discussing distributed budget allocations, concern and sensitivity was expressed by my supervisor
Budgetary Slack	Onsi 1973	1. The budget is proposed to be achieved easily, to protect yourself
		2. Standards are set with two standards to be safe, between me and the supervisor, and with top management
		3. Budgetary slack is permissible if implemented reasonably when business is good
		4. When faced with things that can't be officially agreed upon, a budget slack is one way to go.

Table 2 shows budget participation is measured using six items developed by Milani (1975) where respondents are asked to assess the level of involvement in the budget

preparation process. Budgetary participation was measured following previous studies (e.g. Chong & Strauss, 2017; Maiga & Jacobs, 2007; Osikhena & ODIA, 2013).

Procedural fairness is measured using eight questions. Six items were developed by Magner and Johnson (1995) related to five of the six rules of Leventhal (1980) to determine procedural fairness (consistency rules, accuracy rules, correction rules, ethics rules, bias suppression rules) and two items were developed by Greenberg (1993) which discusses representative and informational aspects. Procedural fairness was measured following previous studies (e.g. Maiga & Jacobs, 2007; Osikhena & ODIA, 2013; Wentzel, 2002).

Distributive fairness is measured using five questions. Four items were developed by Magner and Johnson (1995) to assess different comparative bases that people can apply in assessing distributional fairness (needs, expectations, and what is appropriate) plus 1 item developed by Greenberg (1993). Distributive fairness was measured following previous studies (e.g. Maiga & Jacobs, 2007; Wentzel, 2004).

Budgetary slack is measured using the four items used by Onsi (1973). Budgetary slack was measured following previous studies (e.g. Chong & Strauss, 2017; Staley & Magner, 2007). Measurements were made using a five-point Likert scale.

4. Findings and Discussion

SEM with an alternative PLS method is used to answer the research hypothesis. In SEM, there are two types of models that are formed, the measurement model (outer model) and the structural model (inner model).

4.1. Measurement Models

The measurement model aims to explain the relationship between construct variables and their indicators. In this study, there are four construct variables with twenty-three indicators. The construct variable of budget participation consists of six indicators, procedural fairness consists of eight indicators, distributive fairness consists of five indicators, and budgetary slack consists of four indicators. Evaluation for the measurement model is carried out through convergent validity, and discriminant validity.

Table 3

Loadings Factor

Indicator	Loading Factor			
	BP	**PF**	**DF**	**BS**
1	0.767	0.742	0.662	0.793
2	0.720	0.726	0.888	0.874
3	0.736	0.769	0.885	0.833
4	0.881	0.681	0.852	0.819
5	0.784	0.693	0.779	-
6	0.765	0.735	-	-
7	-	0.804	-	-
8	-	0.745	-	-
CR	**0.901**	**0.905**	**0.909**	**0.899**
AVE	**0.604**	**0.544**	**0.669**	**0.689**

Source: Output of PLS

Composite reliability must have a value between 0.7 and 0.9 (Hair et al., 2014). Indicators with a loading factor of less than 0.4 must be removed from the measurement model (Hair et al., 2014). The average variance extracted (AVE) value with a value of 0.5 or higher indicates that the construct variable explains some or more of the variance of the indicators (Hair et al., 2014).

In the budget participation construct variable, the composite reliability result is 0.901. This means that the budget participation variable has a high reliability value. The loading factor for all indicators is between 0.720 – 0.881 so that it can be said that all indicators are valid. The BP_4 indicator has the largest loading factor compared to the others. The data show that there is a considerable influence on the final budget which is the strongest indicator in explaining the construct variable of budget participation. While BP_2 has the smallest loading factor compared to the others. The data show that superiors clearly explain the budget revision which is the weakest indicator in explaining the construct variable of budget participation. The AVE value of 0.604 proves that on average, 60.4% of the information contained in the construct of the budget participation variable is reflected through each indicator.

In the procedural fairness construct variable, the composite reliability result is 0.905. This means that the procedural fairness variable has a high reliability value. The loading factor for all indicators is between 0.681 – 0.804 so that it can be said that all indicators are valid.

The PF_7 indicator has the largest loading factor compared to the others. The data show that budgeting represents all divisions and is the strongest indicator in explaining the construct variable of procedural fairness while PF_4 has the smallest loading factor compared to the others. The data show that filing an appeal against a predetermined budget is the weakest indicator in explaining the construct variable of procedural fairness. The AVE value of 0.544 proves that on average 54.4% of the information contained in the procedural justice construct variable is reflected through each indicator.

In the distributive fairness construct variable, the composite reliability result is 0.909. This means that the distributive fairness variable has a high reliability value. The loading factor for all indicators is between 0.662– 0.888 so that it can be said that all indicators are valid. The DF_2 indicator has the largest loading factor compared to the others. The data show that the budget allocated to divisions adequately reflects needs, which is the strongest indicator in explaining the construct variable of distributive fairness. While DF_1 has the smallest loading factor compared to the others. The data show that the part that receives the budget properly is the weakest indicator in explaining the construct variable of distributive fairness. The AVE value of 0.669 proves that on average 66.9% of the information contained in the construct variable of distributive justice is reflected through each indicator.

In the budgetary slack construct variable, the composite reliability result is 0.899. This means that the budgetary slack variable has a high reliability value. The loading factor for all indicators is between 0.793 – 0.874 so that it can be said that all indicators are valid. The BS_2 indicator has the largest loading factor compared to the others. This shows that setting two standard levels for safety is the strongest indicator in explaining the budgetary slack construct variable. While BS_1 has the smallest loading factor compared to the others. This shows that the budget proposal that can be safely achieved is the weakest indicator in explaining the budgetary slack construct variable. The AVE value of 0.689 proves that on average 68.9% of the information contained in the budget gap construct variable is reflected through each indicator.

Convergent validity analysis was used to test the validity of each relationship between each indicator and the construct internally. Furthermore, discriminant validity is discussed to ensure externally that each concept between one construct is different from other constructs

(Hair et al., 2014). In the following, the results of discriminant validity analysis using cross-loading and Fornell-Larcker criteria are presented.

Table 4

Cross Loadings

Indicator	Loadings Factor			
	BP	PF	DF	BS
BP-1	**0.767**	0.256	0.249	-0.241
BP-2	**0.720**	0.325	0.384	-0.389
BP-3	**0.736**	0.399	0.295	-0.305
BP-4	**0.881**	0.327	0.502	-0.370
BP-5	**0.784**	0.308	0.439	-0.319
BP-6	**0.765**	0.319	0.286	-0.415
PF-1	0.174	**0.742**	0.241	-0.276
PF-2	0.431	**0.726**	0.202	-0.409
PF-3	0.295	**0769**	0.500	-0.403
PF-4	0.230	**0.681**	0.304	-0.349
PF-5	0.349	**0.693**	0.258	-0.356
PF-6	0.205	**0.735**	0.348	-0.346
PF-7	0.312	**0.804**	0.552	-0.439
PF-8	0.363	**0.745**	0.467	-0.378
DF-1	0.115	0.335	**0.662**	-0.309
DF-2	0.424	0.382	**0.888**	-0.376
DF-3	0.494	0.403	**0.885**	-0.428
DF-4	0.441	0.473	**0.852**	-0.435
DF-5	0.350	0.423	**0.779**	-0.415
BS-1	-0.360	-0.402	-0.334	**0.793**
BS-2	-0.539	-0.421	-0.415	**0.874**
BS-3	-0.305	-0.439	-0.477	**0.833**
BS-4	-0.244	-0.436	-0.374	**0.819**

Source: Output of PLS

According to Hair et al. (2014), cross loading of other constructs should not be higher than the outer loading. If the cross loading is greater than the outer loading, then this indicates a discriminant validity problem. As reflected in Table 4, the value of the loading factor in each construct with its indicators is greater than the indicators in other construct. This shows that the indicator has a stronger relationship with the construct compared to other construct variables. These results indicate that there is no discriminant validity problem.

Table 5

Fornell-Larcker Criterion

	BS	DF	BP	PF
BS	0.830			
DF	-0.484	0.818		
BP	-0.444	0.475	0.777	
PF	-0.510	0.494	0.417	0.738

Source: Output of PLS

The Fornell-Larcker criterion is a more conservative approach to assessing discriminant validity. According to Hair et al. (2014), each construct must have a higher AVE square root value than the highest correlation with other constructs. If the square root of the AVE is bigger than the correlation value between the other construct variables, this indicates there is no discriminant validity problem. Based on Table 5, the AVE square root of each construct variable is greater than its correlation with other construct variables. Based on the test results, it shows that there is no discriminant validity problem among the four construct variables.

4.2. Structural Model

The structural model serves to explain the relationship between exogenous and endogenous variables. The following are the results of the tests.

Table 6

Coefficient of Determination

Endogenous Variable	R^2	Q^2
BS	0.362	0.241

Source: Output of PLS

Table 6 shows an R^2 value of 0.362 which indicates that budget participation, procedural fairness and distributive fairness have an effect of 36.2% on the budgetary slack. The Q^2 value shows a result that is greater than 0 which indicates that the structural model obtained has predictive relevance.

Table 7

Hypothesis Testing Results

Path	Path Coefficient	$t_{statistic}$	p-value	Results
BP => BS	-0.204	1.776	0.038*	*Significant,* H_1 *Supported*
BP => PF	0.417	3.766	0.000**	*Significant,* H_2 *Supported*
PF => BS	-0.309	2.790	0.003**	*Significant,* H_3 *Supported*
BP => PF => BS	-0.129	2.194	0.014*	*Significant,* H_4 *Supported*
BP => DF	0.475	4.807	0.000**	*Significant,* H_5 *Supported*
DF => BS	-0.235	2.187	0.015*	*Significant,* H_6 *Supported*
BP => DF => BS	-0.112	2.078	0.019*	*Significant,* H_7 *Supported*

Source: Output of PLS (**p-value <1%; *p-value <5%)

Budget Participation and Budgetary Slack

Table 7 shows the effect of budgetary participation on budgetary slack had a negative and significant relationship (path coefficient -0.204; p-value 0.038) and it was decided to accept H_{A1}. A high level of budget participation will reduce budgetary slack (Chong & Strauss, 2017; Huseno, 2017; Onsi, 1973; Said et al., 2023). The existence of a level of participation can encourage subordinates to participate in providing the information they have and the budget can be prepared appropriately, so that budgetary slack will decrease. The tendency for budgetary slack will decrease because someone will avoid the possibility of losing the right to participate (Chong & Strauss, 2017).

Budget Participation and Procedural Fairness

The results showed that the effect of budgetary participation on procedural fairness had a positive and significant relationship (path coefficient 0.417; p-value 0.000) and it was decided to accept H_{A2}. Someone will feel higher fairness when involved in budgeting, because the budget prepared is someone's view in determining the process of allocating resources. In general, people will value participation in a group and respect their status as members in a group (Lind & Tyler, 1988). Someone will feel fairness when given the opportunity to express an opinion because it is a form of participation in a group (Devie et al., 2018; Klein et al., 2019; Maiga & Jacobs, 2007; Osikhena & ODIA, 2013; Wentzel, 2004; Zahro & Januarti, 2016).

Procedural Fairness and Budgetary Slack

The results showed that the effect of procedural fairness on budgetary slack had a negative and significant relationship (path coefficient -0.309; p-value 0.003) and it was decided to accept H_{A3}. Budgetary slack will be higher when the budgeting process is considered unfair (Langevin & Mendoza, 2013; Wentzel, 2004). When procedures in budgeting are applied fairly, then someone will collect information properly so that someone will avoid actions to commit budgetary slack.

Procedural Fairness Between Budget Participation and Budgetary Slack

The results showed that the relationship between budgetary participation on budgetary slack mediated by procedural fairness had a negative and significant relationship (path coefficient -0.129; p-value 0.014) and it was decided to accept H_{A4}. When participation affects someone procedural fairness, the tendency of budgetary slack will decrease (Kinnersley & Magner, 2008; Little et al., 2002; Ozer & Yilmaz, 2011). Therefore, involving subordinates to participate in the budgeting process will reduce the level of budgetary slack.

Budget Participation and Distributive Fairness

The results showed that the effect of budgetary participation on distributive fairness had a positive and significant relationship (path coefficient 0.475; p-value 0.000) and it was decided to accept H_{A5}. The result is that budgetary participation can increase distributive fairness in line with previous research (Devie et al., 2018; Maiga & Jacobs, 2007; Wentzel, 2002; Zahro & Januarti, 2016). Participation can give managers the opportunity to influence the resources that will be allocated to them.

Distributive Fairness and Budgetary Slack

The results showed that the effect of distributive fairness on budgetary slack had a negative and significant relationship (path coefficient -0.235; p-value 0.015) and it was decided to accept H_{A6}. With increasing perceptions of distributive fairness, the budgetary slack will decrease (Wentzel, 2004). This is because when employees feel fairness for the results they receive, they are less likely to get involved in creating budgetary slack.

Distributive Fairness Between Budget Participation and Budgetary Slack

The results showed that the relationship of budgetary participation on budgetary slack mediated by distributive fairness had a negative and significant relationship (path coefficient -0.112; p-value 0.019) and it was decided to accept H_{A7}. Someone who is involved in budgetary participation will tend to avoid budgetary slack. During the participation process, a person will have the opportunity to influence the resources that will be allocated so that it has a greater chance of achieving the specified target and will further affect the assessment and award that will be received. Thus, the perception of distributive fairness will increase (Langevin & Mendoza, 2013) and will further reduce the tendency to create budgetary slack (Wentzel, 2004).

5. Conclusion

The results of the study show that budgetary participation can affect budgetary slack directly or indirectly. Specifically, budget participation has a positive effect on procedural fairness and distributive fairness, budget participation has a negative effect on budgetary slack, procedural fairness and distributive fairness have a negative effect on budgetary slack, and procedural fairness and distributive fairness mediate the effect of budgetary participation on budgetary slack. Overall, this study shows that budgetary participation will affect organizational fairness and will ultimately affect budgetary slack.

The lack of research that examines the effect of budgetary participation on budgetary slack and organizational fairness in a model is the novelty of this study. This research provides theoretical implications for an organization and for subsequent researchers, especially those discussing budgeting. The results of this study support the theory that a high level of participation can increase perceptions of fairness in an organization and a person's high perception of fairness will reduce budgetary slack. This research also has practical implications, especially in determining budgeting procedures in an organization, it is necessary to consider involving subordinates in the budget preparation process to minimize budgetary slack.

This research has several limitations. First, this study used research samples from supervisory and managerial levels in hospitality with a small number that can affect the statistical tests. Hence, future research can consider other sectors and expand the sample size

so that it can be generalized. Second, there are limited references related to organizational fairness and its relationship to budgetary slack. Third, the possibility of bias in data collection due to the use of survey methods. Further research can use other data gathering strategy such as interview to avoid bias.

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