

# DESCRIBING THE BEHAVIOR OF MANAGER IN BUDGETARY SLACK AND PRODUCTION (CASE STUDY AT BUDGETING IN A STATE-OWNED ENTERPRISE)

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**Abstract:** The objective of this research is to obtain an in-depth insight into budgetary slack practices performed by managers during the budgeting processes of a state-owned enterprise. This research uses qualitative research methods with an interpretive paradigm using a case study approach. The data is collected through interviews, supported by observation and documentation, with informants involved in the planning and budgeting process. The results of this research indicate that the participatory approach adopted in the budgeting process is the trigger of budgetary slack practice. The practice created in the budgeting of sales and production is aimed at achieving maximum profit at the end of the budget period. Asymmetric information and goal clarity are aspects of human behavior that appear in budgetary slack practice. Besides, the applied participation mechanism tends to show symptoms of pseudo participation. Social facts show that budgetary slack practice is created by aspects of human behavior that are motivated by material or financial aspects.

**Keywords:** budgetary slack, budgetary participation, pseudo participation.

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Nowadays, many companies have not utilized the budget available in accordance with the existing capacity. Many people still have a narrow perspective of budget; when the manager has a budget, then he is considered to have managed the company well. In terms of accountability, some people are thinking that

budgeting is the responsibility of the budget committee solely, so the other department just needs to follow the target numbers. While in terms of expenditure, some people assume that budget is the maximum limit of money which can be issued, so that, more or less, it affects work mobility. Such a narrow perspective will have an impact on management patterns in the company. Without budgeting, a manager will not be able to facilitate his activities optimally.

In its budgeting process, problems are inevitable. Prendergast (2000), explained some current problems related to budget, especially in crafting a company's budget. First, there are many assumptions and estimates which are involved in the budgeting process. Second is the high level of mark up in budgeting. If it is examined further, the critical problems in budget drafting tend to the behavior. The major problem that often occurs in the company budgeting is budgetary slack.

Budgetary slack is one of the major dimensions in budgeting, which has not been resolved until now. In budget drafting, most researchers believe that the budgetary participatory mechanism adopted by a company is the main factor that leads to budgetary slack. Lukka (1988) explained that budgetary participation leads managers to create budgetary slack, while low participation limits these opportunities (Yuen, 2004).

However, the results of a study which was conducted by Dunk (1993), have a different conclusion. Participation can minimize the potential of budgetary slack in a company. The results of previous studies that are not consistent and varied indicate that the relationship between participation and budgetary slack is not just simple and direct. Budget participation is a complex social process that has a close relationship with some other situational needs.

### STATE-OWNED ENTERPRISES (SOE)

State-Owned Enterprises (SOEs) are public organizations and government property that are purely business or profit-oriented (pure profit organization). As a business enterprise that was formed to making a profit (profit-oriented), budget drafting is also interpreted as profit planning. In budgeting, the management of SOE is compiling short-term work plans which refer to a long-term strategic plan, and then they stated it in monetary units and quantitative units. In the process of company budgeting, SOE managers have to comply with The Decree of Minister of SEO KEP-101/MBU/ 2002 about Work Plans and Company Budgets (RKAP).

Even though SEO has different structure and rules, it does not mean that they are free from budgetary slack. Rasuli (2002), in many manufacturing

SOEs in Indonesia shows that budgetary slack still occurs in SOEs. SOE managers are competing to achieve the budget target to maximize profits in the current year period by creating slack and ignoring the company's long-term profit achievement. This occurs because the major focus in SOEs is not achieving long-term targets.

According to a variety of research that has been conducted before, budgetary participation has been studied extensively and consistently related to budgetary slack. However, little is known why one company tends to create a higher budgetary slack than the other companies (Dunk, 1993; Yuen, 2004). This research focused on drafting the sales and production budget to describe the cause factor of budgetary slack in SOE budgeting. Budgetary slack in the sales budget will lead to budgetary slack on another budgeting post. Meanwhile, budgetary slack on cost planning in the production budget also aims at tactical profit planning.

The field study will provide more explanation and understanding through a qualitative approach, and deeper analysis related to the relationship between budgetary participation and budgetary slack (Dunk and Perera, 1997). The research involvement in budget drafting becomes a distinct advantage in understanding and exploring the meaning of budgetary slack.

### THE ASPECT OF HUMAN BEHAVIOR IN BUDGETARY SLACK

The aspect of human behavior has a fairly dominant role in budgeting. There have been many studies seeking to identify the importance of behavioral problems in budgeting, but the tendency of budgetary slack is one of the major dimensions in budgeting that has yet to be resolved (Yuen, 2004). To comprehend the aspect of human behavior in budgeting, one has to understand the meaning of accounting comprehensively.

The perspective of agency theory in the concept of budget gaps, or commonly called budgetary slack, is influenced by the conflict of interests between subordinates and superiors; it occurs when each party strives to achieve his desired goal. Young (1985) defines the budgetary slack as the number

of conditions by which the manager deliberately create excess amounts of resources needed into the budget, or reduce the amount of productive ability possessed by each division within the company deliberately. Meanwhile, according to Moene (1986), budgetary slack refers to the difference between the true minimum costs and the appropriated budget (Yuen, 2004).

The difference between the resources needed to carry out a job with the resources proposed in the budget can also be interpreted as a budget slack. Moreover, budgetary slack can also be interpreted as the difference between the reported budget and the budget in accordance with the best estimate for the company, namely writing the lower revenue budget and budgeting for higher expenditure than the actual estimate (Anthony and Govindarajan, 2005).

Budgetary slack shows the tendency of individual behavior to make the budget easy to achieve. One example of budgetary slack is 'beautifying' the budget. Budgetary slack is also described as dysfunctional behavior because the manager tries to satisfy their interests, which will harm the organization (Suprasto, 2006).

Within the budgeting practices, the aspect of human behavior arises due to budgeting implementation in business. As we know, the application of budgeting in business can improve the organization's performance, but on the other hand, it may lead to demotivation (loss of motivation). It occurs due to the desires or needs of accounting practitioners. Besides, budgeting can also lead to other attitudes. To look like he reaches or even exceeds the budget targeted, someone who is invited to determine the budget might try to set targets below his ability (Sawarjuwono, 2012).

## **METHOD**

### **Interpretive Paradigm**

This research aims to understand how budgetary slack in the sales budget and productions on SOE. The interpretive paradigm was used in this research. The purpose of this paradigm is to analyze social reality and how social reality is formed. Accounting research that is conducted by using the

interpretive paradigm aims to understand and explain the social reality; the major goal is to see the managers who are directly involved in social processes. In general, it can be concluded that the interpretive paradigm is an effort to tracing the truth and understand the social reality and reveal the hidden meaning behind that reality (Burrell and Morgan, 1979).

The interpretive paradigm is the foundation used by researchers to understand a company's budgeting process. The research was done naturally to obtain real and actual information. This research attempts to dig up information about the social reality of a company, examine and understand the role of actors as well as understanding the role of actors in carrying out company budgeting practices. To reduce the process of the company's budgeting, the researchers will observe the daily lives of the organizations, as well as have intense interaction and discussions with social actors within the company.

### **Qualitative Research**

This research was conducted using a qualitative approach, a methodology that is based on the logic of inductive reasoning. Qualitative research is intended to understand the phenomenon experienced by the research subjects. According to Denzin and Lincoln (1997), the substance of subjectivism contained in qualitative research implies an emphasis on the process and the meaning. Qualitative researchers emphasize the reality that is socially constructed, the close relationship between the researcher and the subject under study, as well as the pressure of the situation that forms the investigation. Therefore, qualitative researchers need to conduct a full-value investigation. They should answer to questions that highlight the way social experience arises as well as the meaning.

### **Case Study: Methods for Understanding Budgetary Slack in Budgeting Process in SOE**

Accounting practice is very closely related to social reality. To focus on someone's subjective experience and the way he or she faces the world, researchers are required to use the appropriate method, so the meaning of the object can be ex-

plored in-depth (Mason, 1996). In short, the case study is more suitable if the major question of a study is related to how or why, if the researcher has little opportunity to control the events to be investigated, and if the focus of his research lies in contemporary (present time) phenomena in the real-life (Yin, 2003: 1).

Based on the description above, this research used Intrinsic Case Study as an approach to the social reality that happened to understand Budgetary Slack practices in SOE Budgeting. It is intended to understand and analyze budgetary slack practices, which occur frequently in a company. This research wants to explore and explain how each member of the organization recognizes, explains, elaborates, and considers the rules of their daily lives in the context of company budgeting practices.

### Data Source

There are two types of data sources that were used in this research: primary and secondary data. Primary data was obtained from the interviews with informants, namely the members of the budget team, who are the representatives of each division in the company through participatory observation. Secondary data was obtained from the company's Financial Statements, Work Plan and Company Budget (WPCB), and other literature that supports this research.

### Research Sites

This research was conducted at the Head Office of PT. Air Laut (Persero), SOE that is located in Surabaya. The major instrument in this research is the researchers themselves. The budgetary participation system implemented by the company brought researchers to actively participate in the budgeting team. The researchers enter the team unintentionally, but researchers are lower-level managers (Section Chief) who is responsible for the company's budget performance. The researchers observed the budget team to dig data deeper through daily interactions and intense discussions with colleagues in the budget team.

### Unit of Analysis and Research Informants

The unit of analysis is related to the focus of the research, both individuals, groups, organizations, objects, time, and place. An informant is a person used to provide information about the situation and conditions of the research background (Muhadjir, 2002; Moleong, 2010). The unit of analysis in this research is the behavior of individuals or actors who are directly involved in budgeting at PT. Air Laut. The informants are members of the budget team and representatives of each division in the company. Each individual has brought a mission from their respective divisions to be formulated in the budgets of the company.

Other informants consisted of representatives of top-level managers, namely the Managing Director of the company, who were directly involved in the activities and decision making in the company budget meeting with the authorized government agencies, namely the Ministry of SOE.

### Data Collection Technique

There are several data collection techniques in this qualitative research, such as observation (participatory or non-participatory), interviews (semi-structured and unstructured), and documentation (Creswell, 1998). In participatory observation, the researchers were involved in the budgeting process to record all realities. The researchers conducted an in-depth interview to enrich empirical material. The research documents studied in this research are notes related to budgetary slack in the company.

### Data Analysis Technique

In this research, the data analysis procedure used was data analysis models from Miles and Huberman (1994). Data analysis consisted of three interrelated sub-processes, those are data reduction, data presentation, and conclusions. This process was carried out before the data collection, specifically in determining research design and planning; in the temporary data collection process and preliminary analysis; and after the final data collection (Denzin and Lincoln, 1997).

## RESULTS AND DISCUSSION

Since it was founded, PT. Air Laut (Persero) was appointed as a state-owned company that specializes in handling one of the basic commodities in Indonesia. Unlike other companies that move in the same industry, PT. Air Laut (Persero) is the only that moves comprehensively from up to down. The raw material was processed to be semi-finished materials or commonly called raw materials by companies in the upstream sector. They intend to provide raw materials for other companies, both working in a similar field or not. PT Air Laut (Persero) is processing raw materials to finished goods that are ready for use.

Just like other SOEs, the budgeting planning in PT Air Laut refers to the Company's Long Term Plan (CLTP) which has been approved. The CLTP, which was arranged based on the company's five-year plan, then spelled out in an annual budget called Work Plan and Corporate Budget (WPCB). In the budget drafting, the management of PT Air Laut adopted a budgetary participation approach. The budget was drafted by a Budget Committee that was formed according to the Decree of Directors; it consists of top-level managers (head of division), middle-level managers (head of the section), and the lower-level managers (head of the section).

The budget committee is the part in company structure which is responsible for determining the company's budget. This committee is doing an important role in budgeting, starting from compiling budgeting guidelines until the budget is approved and ready to be circulated. Budgetary participation that applied by PT Air Laut in drafting WPCB emphasizes cooperation and interaction between superiors and subordinates as well as between divisions.

### Budgeting for Divisions: Early Stage of Budget Slack

A fundamental change in the budgetary draft of PT Air Laut is a change from the top-down budget mechanism to the budgetary participation mechanism. The 2015 WPCB was the second year when the budgetary participation approach was thoroughly applied. With this change, the company is expected

to draft and spend its budget economically, efficiently, and effectively. Through budgetary participation, the stakeholders in the company are expected to have a strong commitment to achieving the budget targets.

By being involved in the budget drafting, the section heads are considered to implement and support the budgetary participation system comprehensively. There are two general steps in the budget management at PT Air Laut, those are drafting budget per division in accordance with predetermined budgeting guidelines and consolidating the budget between parts in one division. The management conducted those two steps to get comprehensive budget planning.

In drafting division budget, many Section Heads tend to do budget planning carelessly, even pass it to their subordinates. It was frequently found during budget drafting in the company and leads to budgetary slack.

This also leads to a dysfunctional impact on the behavior of managers in budgeting. They will tend to keep all the information they have during budget planning. More or less, the difference from relevant information that owned between the head of divisions and the head of sections affects the decision making in the budget plan. This is due to differences in sources and access to information. Even though they work in the same division, the section heads have more information on the field. Therefore, they will be opportunistic. They mark up the budget by faking and conveying information that is not in accordance with the real conditions when they draft the budget. The following is the statement of the Head of Processed Production Division:

*"...On the positive side, we (heads of the section) can determine our budget. They (superiors) don't understand much, so in the budget period, we don't bother to press the costs, because we have already set the highest standard. Besides, if the budget is efficient, it will affect the profit calculation; if we get a big profit, then it will be a bonus. Anyway, everyone is also happy..."*

The statement above confirms that there was a mismatch between the information conveyed in budget planning and the real conditions. The information submitted is not in accordance with the actual conditions. The heads of this section tend to mark up the budget. Whether we realize it or not, this situation tends to lead to asymmetric information.

The staff designs a budget plan by maximizing the company's resources to reach the budget target easily. If most divisions in the company performed so, then the budget of each division that has been designed is not a reflection of the real capability of the company (Welsch et al., 2000). Therefore, budgetary participation will highly lead to budgetary slack.

### **Minimize the Prognosis: Attempt to Reach the Target of Sales Budget Targets**

Unlike Work Plan, which was approved by the members of the Budget Committee immediately, the discussion of budget planning at PT. Air Laut was dramatic. Just as other business entities, SOEs determine profit achievement as the key indicator of management success in each fiscal year.

The budget drafting in the 2015 WPCB of PT. Air Laut begins with drafting the prognosis. Prognosis is the estimated company achievement in the current year. Prognosis is based on actual achievements in the first semester. In the 2015 WPCB, the calculation of 2014 prognosis indicates the target that will be achieved by the management team at the end of the current year. The basis of calculations of the 2014 prognosis is the realization of the budget in January up to June 2014. Sales prognosis is a sales forecast, which is drafted through a measured estimate based on clear assumptions. The prognosis that has been compiled then becomes the basis for developing a sales plan.

In sales budgeting, we can see how budgetary slack is practiced in the budgeting of PT Air Laut. There are some oddities in the sales plan proposed by the sales division. The values recorded in the 2014 prognosis are lower compared to the sales budget plan in the 2014 WPCB. The Head of Sales

explained that in designing 2015 WPCB, the 2014 prognosis was focused on sales growth.

If the indicator achieved is the sales growth on the previous year's sales, the prognosis set by the sales division will not reflect the plan to achieve budget targets in 2014, especially if there is a significant decrease in the target of sales budget in the 2014 prognosis. Therefore, the sales budget in the 2015 WPCB will not likely be achieved.

The target of the sales budget for the current year (2014 prognosis) is smaller than the one which has been set at the beginning (2014 WPCB) for some reason. After planning temporary sales, they held a meeting between the special representatives of the budget committee team in the sales department, the head of the marketing division, and the board of directors. In the meeting, the board of directors represented by the director of marketing did not approve the 2015 WPCB sales budget plan submitted by the budget committee team.

In the meeting, the growth of the sales budget for the 2015 WPCB growth targeted by the budget committee compared to the 2014 prognosis amounted to 35%. As the top management of the company, the board of directors stated that the sales budget growth should be above 51% compared with the target of achieving sales this year. Sales budget plans that have been drafted based on the real assumptions in the field through participation were rejected by the board of directors. Higher sales targets determined by the board of directors made the sales division at a loss. The sales budget plan that has been prepared was rejected; it leads to mark up in the sales budgeting.

Table 1 is the 2015 WPCB sales budget plan approved by the budget committee and the board of directors. The percentage of each sales plan performance increased (see the comparison of percentage). The target of the sales budget in 2015 WPCB increased significantly by 55% compared to the sales target in the 2014 prognosis. This is in accordance with the target of the director that they should achieve growth above 51%. However, after examining the data more carefully, there was a decrease in sales targets set by the budget committee in the 2014 prognosis.

Table 1 Recapitulation of the Sales Budget of PT Air Laut (Persero) in 2015

NO	U R A I A N	RKAP 2015 (1)	TAHUN 2014		Realisasi 2013 (4)	PERBANDINGAN (%)		
			PROGNOSA	R K A P		(1:2)	(1:3)	(2:4)
			(2)	(3)				
1.	<b>HASIL PENJUALAN :</b>							
	- Air Laut Bahan Baku Produksi Sendiri	195.125.437	134.925.029	164.497.162	80.416.477	145%	119%	168%
	- Air Laut Impor	146.076.957	90.420.331	52.380.000	66.108.430	162%	279%	137%
	- Air Laut Kasar Kemasan	29.019.613	12.065.227	22.602.682	7.326.011	241%	128%	165%
	- Air Laut Halus Karungan	39.845.552	24.434.886	36.362.550	15.920.145	163%	110%	153%
	- Air Laut Halus Kemasan	37.495.013	21.707.216	31.604.900	6.116.409	173%	119%	355%
	- Air Laut "Merk Low Natrium"	3.158.917	4.567.544	2.051.593	1.458.335	69%	154%	313%
	- Air Laut " Merk Top Grade"	1.827.169	3.703.670	1.502.855	956.542	49%	122%	387%
	<b>JUMLAH</b>	<b>452.548.658</b>	<b>291.823.903</b>	<b>311.001.742</b>	<b>178.302.349</b>	<b>155%</b>	<b>146%</b>	<b>164%</b>

The budget committee team decreased the sales targets on the 2014 prognosis (the prognosis and WPCB in 2014) to provide high growth values for the WPCB sales budget target in 2015. Moreover, by lowering the sales targets in the prognosis, the sales division team will be able to plan the sales budget for the following year easier, without too much change in the sales plan by each region.

As mentioned above, a revenue budget is lower than the actual estimation so that they can achieve the targets in the next year easier; it is also a form of cheating in the budgeting. A such action is a form of budgetary slack (Anthony and Govindarajan, 1998).

Specifically, in PT Air Laut, the budget committee team conducted budgetary slack by lowering the current year's sales budget target for products related to the company's productive skill. The table above shows that the growth amounted to 55% in 2015 WPCB was obtained by lowering the sales target of several products and raising the target of other products (see columns 2 and 3). The productive skill of the company was minimized; it can be seen in the sales target reduction of several products, such as seawater, raw material, bottled raw seawater, sack smooth seawater, and bottled smooth seawater. The production and processing division seemed unable to meet the needs of the goods that have been set by the company, while the target of sales budget for products that are not produced directly by the company was increased. They argue that this is a way to cover the lack of sales targets, even though it was conducted to get more quota in the next year. This biased the target in the SOE budget.

In SOE, reducing or increasing the target of sales budget to the prognosis is not prohibited in budgeting. The budget target which has been set at the beginning, 2014 WPCB, might be revised in the current year. The company's budget targets can be changed through prognosis, as long as it has a rational and clear reason, as long as it has clear and rational reasons. The Head of Sales Division stated:

"Prognosis is the target that will be achieved by the company this year. It's okay to change the prognosis. The prognosis indicates that the budget is flexible. We know the condition of our company. As long as it's clear and rational, it doesn't matter. Regardless of the change in the value, the sales target has to grow and increase compared to the target last year. The 2015 WPCB also increased (2014 prognosis)."

The budget targets determined at the beginning of the year is not absolute. It can be revised in the current fiscal year, which will be an opportunity to mark up the sales budget. The increase in sales budget in the 2015 WPCB, by reducing the 2014 prognosis, is a form of budgetary slack in SOE. Increasing the number of resources that needed into the current year's budget target and minimizing the amount of productive capacity of divisions within the company are two examples of budgetary slack (Kyj and Parker, 2008).

Prognosis is sales forecasting. The 2014 prognosis should be seen as an indicator of management success in the current year's budget. There-

fore, the prognosis is the best estimate designed by the management to achieve the budget targets in the 2014 WPCB. The 2014 prognosis was determined by referring to the sales in the last year without a specific and clear statement that will only obscure the budget target which has been set before. The management of the company may accept, modify, or reject participation predictions or sales plans. However, if the determination of the sales budget is not realistic, then most of the profit plan is not as well.

### **Drafting Cost of Production: Budgetary Slack Conducted by Company Accountants**

Budgetary slack also occurred in the production budgeting, specifically in budget drafting, more precisely in calculating the Cost of Production (COP). Particularly, budgetary slack most frequently occurred in drafting the cost of production. The budgetary slack in drafting the cost of production at PT Air Laut is unique. It is conducted by company accountants without the intervention of the budget committee.

the production budgeting the changes of the target on the sales budget as mentioned previously do not have a significant impact on the production plan. It seems that theories related to production plans, which should follow the needs of the company's sales plan, do not apply in the budgeting process of PT Air Laut. The production plan is not only implied by the planning of sales volume. In SOE, management is demanded to participate in the success of the national food self-sufficiency program which has been set by the government. Therefore, the production plan must be consistent and in accordance with the targets which have been set in the 2014 WPCB. Changes in the sales budget do not automatically change existing production plans.

The management of PT Air Laut calculates the cost of production using variable costing. In summary, the calculation of production costs will fluctuate in accordance with the quantity of output. Based on the observations and data obtained in the field, the production budget plan of PT Air Laut is made for each center of responsibility (per part) of the production division. Production budgets are arranged

based on the products. Therefore, the budget includes all production costs that can be identified, either directly or through allocation.

Budgetary slack in the production budgeting at PT Air Laut began with drafting the COGS (Cost of Good Sold). Even though they do not affect the existing production plan, the changes in sales targets that organized by the budget committee in the 2014 prognosis definitely will have an impact on production costs. After revising the sales budget, all managers in the budget committee team should make adjustments to the production cost plan. However, the budget committee doesn't bother to do this. Instead, they pass it to the chairman of the budget committee. Furthermore, the head of the budget committee team is assisted by other committee members who also served as the company's management accountants, who are supposed to make adjustments.

The company's accountants stated that they adjusted the cost to complete the production budget plan faster because the costs that are arranged will affect the product selling price. Moreover, the production budget will lead to company profits.

The production process in PT Air Laut is related to product lines. As SOE, PT Air Laut is the only company that produces raw seawater in Indonesia. It is the basic raw material for seawater products. Therefore, seawater products produced by the company, such as bottled raw seawater, sack smooth seawater, and bottled smooth seawater, get raw seawater from the company. Besides, raw seawater produced by the company is also the raw material for other companies in the same industry.

Detail calculation of each line will lead to optimal profits on the products produced by the company. However, it does not apply in the production budgeting at PT Air Laut. The cost adjustment is done by the company's accountants, without any intervention from another party, it tends to cause a budgetary slack in the calculation of the production budget. Reducing the cost plan for one of the production costs variable and raising the other cost variable are frequently done in drafting the company's cost of production.



In calculating COGS, the accountants tend to increase the production costs of the raw seawater. Some cost variables are raised, while other variables are left in accordance with the plan designed by the production division. If it's examined further, the scheme of cost calculation in the management of PT Air Laut is unique. The calculation of the cost of seawater products is different from the other products. The calculation is based on the equivalent of the production process; the higher the production target, the lower the cost of goods per unit. Therefore, the increase in production costs does not significantly lead to the high cost of the product, because the target production plan is also high. The low product price automatically impacts on the low prices of raw materials for processed seawater products.

Calculating the cost of processed seawater production is also similar. The costs tend to be increased, which automatically leads to a high cost of production. However, the COG is still considered quite low. Compared to the existing sales records, this value still provides high profits if it is sold at market prices. If the mark up of production costs in the calculation of the cost of production is still providing high profits, why the costs input are not in accordance with the proposed plan? The Head of Accounting explained:

“...fixed costs are remain based on the plan proposed by the production division. There are only several parts that need to be revised, and the cost then will be used by the production division. Even if there is deficiency or excess, we can “switch” it. Our calculation (Cost of Production) is not only based on sales targets, but we also include production targets. How if the sales target is not achieved? Or the production target is not matched? After all, the purpose of this all is to facilitate the achievement of profit and loss...”

Just as the calculation of the sales budget plan, the explanation above shows that the calculation of the costs in the production budget planning is not absolute and can be changed. The plan of produc-

tion cost budget included in the calculation of the cost of production tends to be temporary. Uniquely, the cost plan used in the production process will depend on the costs determined by the accounting department. Therefore, the cost plan submitted by the production division as the main division responsible for the production process is not utilized.

If it's analyzed more deeply, the budget plans calculated by the accountants tend to aim to achieve the company's final profit. It is a precaution if the production plan is not as expected. Therefore, even if the result of the production target is low, or the sales target is not achieved, the company can still achieve the profit which has been set in the budget target in the 2014 prognosis. The difference between true minimum costs and appropriated budget as it happened in the production budgeting above is also an example of budgetary slack (Yuen, 2004).

Planning, scheduling, and shipping throughout the year are the job of the production department. Therefore, planning and controlling costs should be done by the production manager. The manager knows the factory and the capacity of personnel, the availability of materials, and the production process. They can have low production costs by planning and standardizing costs from a stable level of production. Therefore, instead of modifying the calculation of the production budget as described above, the production costs should be planned through effective coordination between sections within the company, which will streamline expenditure.

## **CONCLUSION**

Based on the results, there are two major findings related to budgetary slack conducted by the management of PT Air Laut (Persero), namely: asymmetric information in budget drafting in each division. Second, there is the misconduct behavior in budgeting by reducing the prognosis in the sales budget, and marking up the Cost of Goods Sold (COGS). Moreover, the results indicate that there are aspects of human behavior that arise as a result of budget implementation.

Budgetary participation implemented by the management of PT Air Laut still needs adjustments. System change from the top-down budget to the

budget participation system tends to show pseudo participation. This kind of participation also gives other dysfunctional impacts on the attitudes and behavior of budget actors.

In general, the budgetary slack conducted in drafting WPCB was led by human behavior; they were motivated by material or financial aspects. From the perspective of profit, achieving long-term targets is not the major focus in budget drafting at

SOE. The company's long-term profit contained in the CLTP tends to be ignored. Managers are doing budgetary slack in the next-year budget plan to achieve targets in next year and maximize profits in the current year period. The budget committee team maximizes the current year's profits by modifying the production cost plan, specifically in the calculation of COGS and minimizing the company's selling ability as described above.

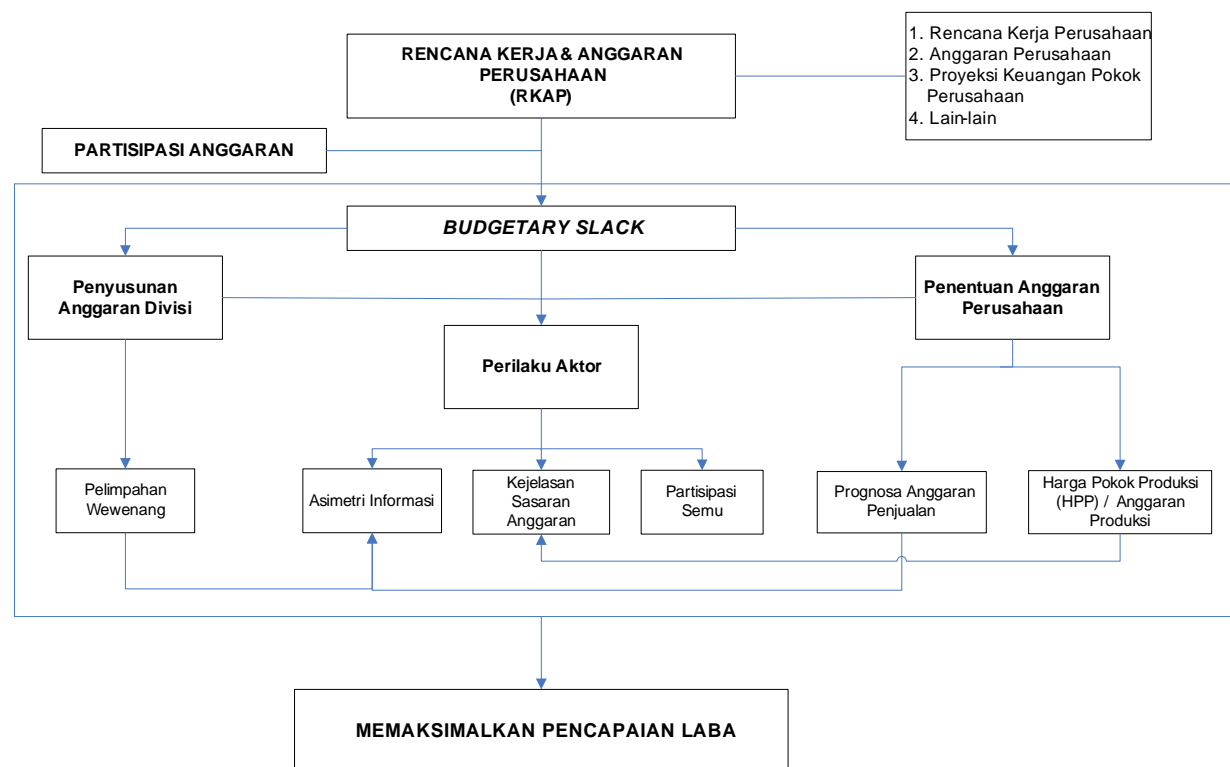


Figure 1 Summary of Budgetary Slack Budgeting at PT Air Laut (Persero)

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