The Moderating Effect of Loyalty on Incentive Schemes and Budgetary Slack Relationship: An Experimental Investigation

FRIDA FANANI ROHMA*
INGLE NOVITASARI
Universitas Trunojoyo Madura, Indonesia

Abstract: This study examines the causal relationship between incentives scheme (subjective vs. objective) on budgetary slack. Besides, this study also identifies the moderating role of loyalty on the relationship between those two variables. This study used a 2 × 2 between-subjects laboratory experiment with 102 accounting undergraduate students as the subjects. Incentive schemes were manipulated into two types (subjective and objective), and loyalty was categorized into two (high and low). The results show that Budgetary slack tends to be higher under the subjective incentives scheme than the objective one. Also, loyalty negatively influences budgetary slack. Loyalty reduces the negative effect of incentives scheme and budgetary slack relationship. Individuals' loyalty, as one of the internal factors that encourage positive individual behavior, will result in lower slack even though they are faced with conditions that are not as desired.

Keywords: Loyalty, Incentive Scheme, Budgetary Slack, Stewardship

Abstrak: Penelitian ini bertujuan untuk menguji hubungan antara skema insentif (subyektif vs obyektif) terhadap senjangan anggaran. Selain itu, penelitian ini juga mengidentifikasi efek moderasi loyalitas terhadap hubungan kedua variabel tersebut. Penelitian ini menggunakan metode eksperimen laboratorium dengan desain factorial 2 × 2 antar-subjek dengan melibatkan 102 mahasiswa akuntansi. Skema insentif dimanipulasi menjadi dua yaitu (subyektif dan obyektif), loyalitas dikategorikan menjadi dua yaitu (tinggi dan rendah). Hasil penelitian menunjukkan bahwa senjangan anggaran cenderung lebih tinggi pada skema insentif subyektif kondisi daripada skema insentif obyektif. Selain itu, loyalitas berpengaruh negatif terhadap senjangan anggaran. Loyalitas mengurangi efek negatif pada hubungan skema insentif dan senjangan anggaran. Loyalitas individu sebagai salah satu faktor internal yang mendorong perilaku individu yang positif akan menghasilkan senjangan yang lebih rendah meskipun dihadapkan pada kondisi yang tidak sesuai dengan keinginan.

Kata Kunci: Loyalitas, Skema Insentif, Senjangan Anggaran, Stewardship

*Corresponding Author: frida.frohma@trunojoyo.ac.id
1. Introduction

The incentive scheme provides money outside of salary, recognition for work performance, and employee contributions to the organization (Mursita & Almilia, 2021; Kusufi et al., 2020). Incentives motivate employees to work optimistically and avoid deviant behavior that will harm the organization (Patricia & Handoko, 2021; Rohma & Tyastutik, 2023). Providing incentives is a company strategy to increase employee motivation and encourage employees to show their achievements (Sembiring, 2019; Kusufi et al., 2020). Mursita & Almilia (2021) explained that organizations have two types of incentive schemes: subjective and objective. A stream of research shows that subjective incentive schemes encourage dysfunctional behavior, such as compression bias and budgetary slack bias (Rohma, 2022; Littner et al., 2003; Moers, 2005).

Budgetary slack is a dysfunctional action taken by lower-level management to reduce performance targets below their actual level to facilitate the achievement of budget targets (Langevin & Mendoza, 2013; Rohma, 2022). Budgetary slack occurs because of personal goals that superiors may disagree with (Davis et al., 2016). Budgetary slack can occur with individuals intentionally manipulate information so that the information conveyed is wrong (Hobson et al., 2011; Maiga & Jacob, 2008; Rohma & Chamalinda, 2023; Sprinkle & Williamson, 2003). Budgetary slack is a type of deviation in the budgeting process because it can damage the organization's long-term performance, so it must be mitigated (Baso et al., 2017). Incentive schemes are an organizational factor that can mitigate budgetary slack (Derfuss, 2012; Efrilna, 2018).

The incentive scheme was introduced as a control system to minimize budgetary slack and increase employee motivation (Mirza & Adi, 2020). However, this type of subjective incentive scheme is stated to experience a slack bias because the distribution process is considered subjective and unclear (Moers, 2005). Several studies have demonstrated the effect of incentive schemes on budgetary slack (Peilouw et al., 2022; Geng et al., 2020; Mirza & Adi, 2020; Chayati. However, research development is still limited to only considering several incentive schemes. Peilouw et al. (2022) and Candra & Helmayunita (2019) analyzed slack-inducing schemes, Mirza & Adi (2020) analyzed truth-inducing, Purnama & Kuwardhani (2019) and Chayati & Sholihin (2019) analyzed
clawback schemes. Meanwhile, Mursita & Almilia (2020) explains that subjective incentive schemes at the organizational level play a crucial role in promoting goal alignment compared to other incentive schemes. According to Bol (2008), subjective incentive schemes provide flexibility in the weight of job evaluations and flexibility in adjusting bonuses to actual performance. Differences in assessment benchmarks on subjective and objective incentive schemes will result in differences in budgetary slack.

Rohma (2022) explains that budgetary slack is a complex phenomenon. Chong & Ferdiansah (2012) explain that the complexity of budgetary slack requires an analysis of organizational factors and individual values. Loyalty is one of the personal values that can affect predictions to explain behavior and moral principles that can drive ethical behavior (Hildreth et al., 2016; Nahartyo et al., 2020). An individual with a high level of loyalty tends to act morally and avoid cheating even when faced with something he dislikes (Nahartyo et al., 2020).

Based on the stewardship perspective, the human model whose conduct is regulated within the organization tends to lead to pro-organizational collectivistic behavior rather than self-serving and individualistic behavior (Donaldson & Davis, 1991). Stewardship theory states that individuals tend to have more collective attitudes because individuals are trying to achieve organizational goals (Donaldson & Davis, 1991). Thus, based on the perspective of stewardship, subordinates with subjective or objective incentives that cause disappointment in themselves to trigger tendencies to do slack can be avoided by loyalty as an individual internal value that encourages a collective attitude that tends to strive to achieve organizational goals rather than his own interests.

Differences in the elements of assessment used in the distribution of subjective and objective incentives will lead to differences in the created budgetary slack. Based on the stewardship theory perspective, when individuals are faced with a choice between self-serving behavior and pro-organizational behavior, they tend to choose behavior that does not deviate from the interests of their organization (Donaldson & Davis, 1991). Therefore, individuals who have internal values in the form of high loyalty to themselves will tend to be consistent in doing things according to the provisions and tend to avoid deviations. A low level of loyalty is likely to create more significant slack.
than those with; however, limited research still considers the role of loyalty in explaining budgetary slack behavior. Thus, this study investigates the impact of subjective and objective incentive schemes that can potentially cause budgetary slack, which can be moderated by individual internal factors in the form of loyalty.

This study used an experimental approach involving accounting students who had taken management accounting courses as research subjects. Accounting students who have taken management accounting have sufficient knowledge about budgeting or problems that often occur (Sampouw, 2018; Geng et al., 2020). Incentive schemes are manipulated into two types (subjective and objective). Meanwhile, loyalty is categorized into two levels (high and low). The results of this study indicate that loyalty moderates the effect of incentive schemes on budgetary slack. Incentive schemes become triggers that encourage budgetary slack but can be moderated by individual internal factors in the form of loyalty.

The findings of this study are expected to provide three main contributions. First, elaborating on the stewardship theory shows that loyalty to an individual can consistently make positive behavior even when confronted with circumstances that are not as desired. Second, this research empowers the stream of research by paying attention to internal factors in the form of loyalty to the relationship between incentive schemes and budgetary slack. Third, regulators and management can consider this research in making decisions and encouraging the effectiveness of incentive systems.

2. Theoretical Framework and Hypothesis Development

2.1 Theoretical Framework

Stewardship Theory

Stewardship theory arises due to the losses incurred by agency theory (Donaldson & Davis, 1991). Agency theory makes managers (agents) act opportunistically. This opportunistic nature arises due to information asymmetry and the self-interest of agents to get significant incentives from the organization (Jensen & Meckling, 1976). The opportunistic nature of these agents is carried out by carrying out dysfunctional activities that can cause goal congruence and harm the organization (Jensen &
Meckling, 1976) (Donaldson & Davis (1991) suggest stewardship theory. Davis et al. (1997) and Donaldson & Davis (1991) offer a fusion between principals and agents which is expected to remove these traits and improve organizational performance (Davis et al., 1997; Donaldson & Davis, 1991). Stewardship theory is applied so that managers are not motivated to perform opportunistic behavior but rather serve those whose motives are aligned with their principal's goals (Davis et al., 1997).

Stewardship theory presented by Donaldson & Davis (1991) is designed to examine situations where managers act as stewards and act following the interests of the owner but when the interests of the steward and the owner are not the same. The steward will try to take actions that are following the interests of the organization even though it conflicts with his interests (Donaldson & Davis, 1991). Individuals are motivated to act in the organization's best interest (Donaldson & Davis, 1991). Donaldson & Davis (1991) stated that the human model is based on a steward whose behavior is regulated in such a way as to give rise to collectivistic pro-organizational behavior compared to self-serving and individualistic behavior. A steward is given a choice between selfish behavior and pro-organizational behavior, then the behavior of a steward will not deviate from the organization's interests (Donaldson & Davis, 1991).

Donaldson & Davis (1991) explain that individuals will avoid deviant behavior that will harm the organization by staying away from opportunistic behavior inconsistent with cooperative behavior. Stewardship theory in this study demonstrates that individuals wish to always act according to organizational goals. Individuals facing different goals will tend to maintain a cooperative attitude by prioritizing organizational goals compared to personal goals. This follows the situation where when individuals have internal values in the form of loyalty, they tend to prioritize the interests of many people rather than personal interests. Individuals with high loyalty can control their emotions and respond to organizational environmental conditions while prioritizing organizational goals even though conditions are not as expected.
2.2 Hypothesis Development

Providing effective incentives can reduce slack (Purnama & Kusumawardhani, 2019). Efrilna (2018) states that the higher the incentive, the smaller the individual's potential to exercise budgetary slack. Mursita & Almilia (2021) explained that subjectivity provides flexibility in the weight of work evaluations while at the same time providing flexibility in adjusting incentives to performance. However, subjective assessment benchmarks in providing incentives have limitations, including the perception of fairness (Voβem et al., 2016). Voβem et al. (2016) explained that subjectivity offers long-term benefits for companies.

On the other hand, subjectivity leads to unfair distribution that subordinates feel due to unclear assessment benchmarks. Aranda et al. (2019) stated that using subjective incentive schemes makes more inputs complicated for superiors to appreciate, while using objective incentive schemes tends to be clearer, and the results obtained follow the inputs provided by employees. Thus, based on the perspective of Donaldson & Davis' stewardship theory (1991), the existence of an objective incentive scheme tends to be more explicit. It will make agents feel justice and harmonize with company goals by minimizing budgetary slack. It is possible that subjective incentives based on superior subjective judgments can lead to a tendency for subordinates to commit significant budgetary slack. This is because, to achieve personal goals, individuals tend to make more substantial slack when receiving subjective incentives as a form of response to the discomfort felt by individuals. Therefore, the proposed hypothesis:

**H1:** Budgetary slack tends to be higher under subjective incentive scheme conditions than objective ones.

Loyalty is an internal factor promoting positive behavior (Nahartyo et al., 2020). Meanwhile, loyalty is a predictor to explain unique behavior and moral principles (Hildreth et al., 2016). An individual with a high level of loyalty tends to act morally and avoid cheating (Hildreth et al., 2016). Loyalty can be described well through the process, where certain attitudes will affect certain behaviors (McPhail & Walters, 2009). Mehta et al. (2010) stated that six main factors underlie employee loyalty: career development, motivation, bonds, job security, leadership, and commitment. McPhail &
Walters (2009) describe that every individual has natural values used as a reference for behaving. A loyal individual can be reflected in his actions which always lead to positive and beneficial things. The stewardship theory states that individuals can choose between self-serving and pro-organizational behavior. Therefore individuals tend to choose behavior that does not deviate from the interests of their organization (Donaldson & Davis, 1991). Donaldson & Davis (1991) explain that individuals will try to avoid counterproductive behavior by avoiding opportunistic behavior. Individuals' high loyalty as an internal factor that encourages positive behavior will result in smaller slack than individuals with low loyalty. This is because individuals will try to be consistent with their attitudes and avoid deviant behavior. Therefore, the proposed hypothesis:

**H2:** Budgetary slack tends to be higher under low loyalty than high loyalty conditions.

Bol (2008) explains that subjective incentive schemes provide flexibility in the weight of job evaluations and flexibility in adjusting bonuses to actual performance. The yardstick for subjective judgment in giving incentives is an assessment of behavioral aspects. In contrast, the yardstick for evaluating objectivity in providing incentives is a quantitative formulation of performance whose results can be measured (Cheng & Coyte, 2014). Differences in the assessment elements used in providing subjective and objective incentives will lead to differences in the slack that individuals will create. However, an internal value in loyalty can prevent deviant behavior due to differences in assessment benchmarks in distributing incentives. Based on the stewardship theory perspective, the human model whose behavior is regulated within the organization tends to lead to pro-organizational collectivistic behavior rather than self-serving and individualistic behavior (Donaldson & Davis, 1991). Therefore, individuals who get subjective incentives based on subjective judgments by superiors may disappoint subordinates, causing slack. However, individuals who have internal values in the form of high loyalty to themselves will tend to be consistent in doing things according to the provisions and tend to avoid deviations even though they are faced with conditions that are not following their expectations. Therefore, the proposed hypothesis:

**H3:** Loyalty moderates the effect of incentive schemes on budgetary slack.
3. Research Method

3.1 Experiment Design and Participants

This study used an experimental method with a factorial design, a 2 x 2 between-subjects. The independent variable incentive scheme is manipulated into two types of incentive schemes (subjective and objective). The moderating variable, loyalty, is categorized into two conditions (high and low). The participants in this study were accounting students. The selection of students as substitutes are adjusted to the research objective to test the construal level so that the use of students can minimize social desirability bias. Trapp & Trapp (2019) explain that students lack a performance measurement system in the world of work, so using students as experimental participants can provide results free from social desirability bias. In addition, the literature has shown that undergraduate accounting students who have taken management accounting courses have sufficient knowledge about budgeting or the problems that often occur in budgeting (Sampouw, 2018; Geng et al., 2020). The use of students as research subjects is due to the simple design of experimental tasks, so they are considered substitutes without any professional judgment during the experiment (Church et al., 2018).

3.2 Operational Definition and Variable Measurement

The independent variable in this study is the incentive scheme, namely direct compensation outside of salaries paid to employees because their performance is considered to exceed the specified standards (Sampouw, 2018). The manipulation of incentive schemes used in this study is subjective and objective incentives adopted from Cheng & Coyte (2014). Subjective incentives in this study are given by superiors to subordinates based on subjective and superior personal cognition/thoughts based on performance achievements that have been carried out by subordinates based on knowledge-sharing assessment indicators. Meanwhile, the objective incentives in this study are those given by superiors based on an explicit assessment based on predetermined weights based on an indicator of the amount of production that has been successfully carried out.
The moderating variable in this study is loyalty. Loyalty is a willingness to make personal sacrifices to strengthen a relationship (Mehta et al., 2010). Loyalty in this study is a positive attitude in each individual internally, which will affect negative actions that may be taken. Loyalty in this study will be measured by constructs and statements in the questionnaire to categorize high loyalty and low loyalty adopted from Mehta et al. (2010) and Nahartyo et al. (2020), which are then measured using a Likert scale of 1-5 points, namely (1) Strongly disagree (2) Disagree (3) Neutral (4) Agree, (5) Strongly Agree.

The dependent variable in this study is budgetary slack, which is calculated based on the difference in actual production that subordinates can carry out with the production targets proposed to superiors. The use of assignments uses a letter-number translation because the assignment of letter-to-number translation is a simple assignment that guarantees students can do it. The formula for calculating budgetary slack was adopted from research (Chow et al., 1988).

3.3 Experimental Procedure

The task to be given is a production task in the form of "translating letters into numbers" adopted from Chow et al. (1988), and the design of the task has been used by Rohma (2022). The experimental procedure used in this study includes several stages: the initial testing stage, the core experimental stage, the manipulation check stage, and the demographic information stage. First, the initial testing stage was carried out to determine the power of manipulation of research instruments. Preliminary testing was carried out by testing research instruments on groups of participants with the same characteristics as the actual experimental participants and who were in the same field. Second, the core experimental stage uses letter-to-number translation assignments and loyalty-related questionnaires. Third, manipulation checks ensure participants' understanding of the instruments and scenarios provided. Manipulation checks given to participants were in the form of questions related to their tasks and manipulations. Fourth, in the demographic information stage, participants are asked to provide demographic information to ensure that participant demographic factors do not cause changes in budgetary slack due to the treatment.
3.4 Manipulation Check

Manipulation check questions consist of two questions used to determine the participants' internalization of the instrument. Participants were asked to determine the answer to the question with the two answer choices provided. The first question is about how superiors assess. At the same time, the second question is about the position of the participants during the assignment. The data processing does not include participant data that is wrong in answering one or two manipulation check questions.

3.5 Data Analysis Technique

The hypothesis testing in this study uses two-way ANOVA. Two-way ANOVA requires the fulfillment of assumptions before testing the hypothesis is carried out. First, the observations within and between subjects are independent. Second, the subjects in the group are normally distributed. Normality test using One-Sample Kolmogorov-Smirnov. The residual data is said to be normally distributed if the significance value is more significant than 0.05. Third, the variance of observations in the data cells is the same (homogeneity of variance). Levene's test determines the homogeneity of variance in cells formed by categorical independent variables. The data is said to be homogeneous if the results of the Levene test have a probability value of more than 0.05.

4. Results and Discussion

4.1 Research Result

This study involved 104 participants, but two failed to answer the manipulation check questions. Therefore, the number of participant data that can be used to test the hypothesis is 102 data. Participant demographic information presented in Table 1 shows that the lowest participant age in this study was 18 years, while the highest age was 23 years. The mean age of the participants in this study was 20 years. The analysis results in Table 1 also show that the number of participants who got a GPA ≥ 3.50 was 62 people, or equivalent to 52%. Meanwhile, participants with a GPA of 3.01-3.49 were 50 people, or equal to 42%. There were 8 participants with a GPA of 2.01-3.00 or the equivalent (75%), and none had a GPA <2.00. The analysis results in Table 1 also show
that the number of female participants was 83 people or the equivalent of 69%. At the same time, there were 37 male participants or the equivalent of 31%. The analysis results in Table 1 also show 55 participants with an A score in management accounting courses or the equivalent (46%). Meanwhile, participants with a B+ score in management accounting courses were 21 people or the equivalent (18%). Participants with a B grade in management accounting courses were 38 people or the equivalent (32%). Participants with a C+ score were two people or equivalent to (2%), and participants with a C score were four people or equal to (3%).

Table 1.
Descriptive statistics

<table>
<thead>
<tr>
<th>Variables</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Subjective</td>
<td>Objective</td>
<td>Subjective</td>
</tr>
<tr>
<td>Age</td>
<td>18</td>
<td>23</td>
<td>20.82</td>
</tr>
<tr>
<td>Gender</td>
<td>n=120, Female: 83 (69%), Male: 37 (31%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GPA (Grade Point Average)</td>
<td>&lt;2.00: 0 (0%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2.01-3.00: 8 (7%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3.01-3.49: 50 (42%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>≥ 3.50: 62 (52%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grades in Management Accounting Courses</td>
<td>=120</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>C: 4(3%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>C+: 2(2%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>B: 38(32%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>B+: 21(18%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>A: 55(46%)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Note: Data Processed, 2022

Table 2.
Demography Test

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>40.776</td>
<td>1.489</td>
<td>0.225</td>
</tr>
<tr>
<td>Gender</td>
<td>0.266</td>
<td>1.313</td>
<td>0.180</td>
</tr>
<tr>
<td>GPA</td>
<td>0.447</td>
<td>1.282</td>
<td>0.201</td>
</tr>
<tr>
<td>Grades in MA Courses</td>
<td>1.170</td>
<td>1.020</td>
<td>0.449</td>
</tr>
</tbody>
</table>

*Note: Data Processed, 2022
The existence of a relatively strong diversity of demographic information makes it necessary to test the effect of demographic variables on budgetary slack. The results of the analysis presented in Table 2 show that the effect of age on budgetary slack is $F=1.489; p>0.225$, while the effect of gender on budgetary slack is $F=1.313; p>0.180$, the effect of IPK on budgetary slack is $F=1.282; p>0.201$, and the effect of the value of the management accounting course on budgetary slack is $F=1.020; p>0.449$. The test results in Table 2 show that age, gender, GPA, and grades in management accounting courses do not affect budgetary slack. Therefore, there is an initial belief that changes in the value of budgetary slack do not occur due to differences in participant information.

Table 3. Assumption Test

<table>
<thead>
<tr>
<th>Test</th>
<th>F</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kolmogorov Smirnov</td>
<td>-</td>
<td>0.094</td>
</tr>
<tr>
<td>Levene’s test</td>
<td>2.210</td>
<td>0.092</td>
</tr>
</tbody>
</table>

*Note: Data Processed, 2022

Table 4. Hypothesis Test

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incentive Scheme</td>
<td>1073.181</td>
<td>240.212</td>
<td>0.000</td>
</tr>
<tr>
<td>Loyalty</td>
<td>12.443</td>
<td>2.785</td>
<td>0.032</td>
</tr>
<tr>
<td>Incentive Scheme *Loyalty</td>
<td>49.164</td>
<td>11.005</td>
<td>0.000</td>
</tr>
</tbody>
</table>

*Note: Data Processed, 2022

Table 5. Estimated Marginal Means

**Dependent Variable: Budgetary Slack**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Std.Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subjective Incentive Scheme</td>
<td>4.094</td>
<td>0.307</td>
</tr>
<tr>
<td>Objective Incentive Scheme</td>
<td>-2.899</td>
<td>0.307</td>
</tr>
</tbody>
</table>

220
This study uses two-way ANOVA, which requires testing assumptions before testing the hypothesis. The results of the residual normality test are presented in Table 3, showing a value of $p > 0.094$. This value indicates that there is no residual normality problem. Testing the homogeneity of variance with Levene's test is presented in Table 3, showing the value of $F = 2.210; p > 0.092$. The results of Levene's test show that there is no homogeneity problem. Thus, the assumption testing requirements are met to ensure initial confidence that the data used for hypothesis testing meets the Best Linear Unbias Estimation criteria. Therefore, hypothesis testing can be done.

The results of hypothesis testing are presented in Table 4. The first hypothesis predicts that incentive schemes are related to budgetary slack tendencies. The test results in Table 4 show that the incentive scheme affects the tendency of budgetary slack with a value of $F = 240.212, p < 0.000$, with estimated marginal means to get the average subjective incentive condition of 4.094. In contrast, the condition of providing objective incentives is -2.899. This shows that budgetary slack is more significant in delivering incentives by giving incentives to subjective schemes than objective schemes. Thus, the prediction of hypothesis 1 is supported.

The second hypothesis of this study predicts that budgetary slack tends to be smaller in conditions of high loyalty compared to conditions of low loyalty. Based on
the results of the analysis above, it can be seen that the distributive justice variable has no significant effect on the tendency of budgetary slack with an F value = 2.785, p-value 0.032 < 0.05. It estimated marginal means to get the result that the average in high loyalty conditions is 1.069. Meanwhile, in the condition of fairness, loyalty is low at 0.126. This shows that individuals with high loyalty conditions tend to do lower budgetary slack than those with high loyalty conditions. These results follow the research hypothesis. Thus, the prediction of hypothesis 1 is supported.

The third hypothesis (H3) predicts that loyalty moderates incentive schemes toward budgetary slack tendencies. Based on these results, the loyalty variable moderates the incentive scheme towards the preference of budgetary slack to get an F value = 11.005 and a p-value = 0.000 < 0.05. Thus, hypothesis 3 is supported.

4.2 Discussion

The results show that budgetary slack tends to be higher under conditions of subjective incentive schemes than objective incentive schemes. This follows research by Vanacker et al. (2019), which states that incentives can reduce slack. Voβem et al. (2016) explained that subjective incentive schemes offer long-term benefits for companies; conversely, they lead to unfair distribution individuals feel because of unclear benchmarks. Thus, the incentive scheme will affect the dysfunctional actions taken by each individual. Individuals who get incentives with subjective schemes where the benchmarks for assessment are subjective tend to make larger budgetary slack. Meanwhile, when compared to when individuals get incentives with objective schemes that are clear and transparent, it tends to create relatively small budgetary slack. Lttner et al. (2003) explained that subjective judgments would result in disappointment for each individual, which encourages budgetary slack. This finding aligns with the Stewardship theory of Donaldson & Davis (1991) that an objective incentive-giving mechanism with explicit provisions will encourage goal alignment and minimize dysfunctional behavior. An objective incentive scheme based on clear guidelines can lead to a tendency for subordinates to behave in harmony because they know and feel transparency. Conversely, subjective incentives can encourage separate disappointment.
because the benchmarks are subjectively assessed so that it has the opportunity to result in budgetary slack.

The results also show that individuals with high loyalty tend to have lower budgetary slack than individuals with low loyalty. This finding aligns with research by Hildreth et al. (2016), which states that an individual with a high level of loyalty tends to act morally and avoid cheating. Loyalty is an internal factor that encourages positive behavior (Naharyo et al., 2020). McPhail & Walters (2009) states that every individual has natural values that are used as a reference for behaving. This finding aligns with the Stewardship theory perspective by Donaldson & Davis (1991). Individuals will try to avoid deviant behavior that will harm the organization by avoiding opportunistic behavior inconsistent with cooperative behavior. McPhail & Walters (2009) describe that every individual has natural values used as a reference for behaving. The findings of this study are consistent with the Stewardship theory of Donaldson & Davis (1991) that individuals tend to act as stewards by minimizing behavior that is detrimental to the organization. A loyal individual can be reflected in his actions which always lead to positive and beneficial things. Individuals' high loyalty as one of the internal factors that encourage positive individual behavior will result in less slack than individuals who have low loyalty even though they are under less desired conditions.

The results show the moderating effect of loyalty on incentive schemes and budgetary slack relationships. This finding aligns with the stewardship theory of Donaldson & Davis (1991) that the human model is based on collectivistic behavior that is pro-organization compared to self-serving and individualistic behavior. An individual who is given a choice between self-serving behavior and pro-organizational behavior, the individual's behavior will not deviate from the interests of the organization (Donaldson & Davis, 1991). Thus, when individuals have an internal value in the form of loyalty, they tend to prioritize the interests of many people rather than personal interests, even though they are not following the desired personal goals. This finding is in line with Voßem et al. (2016), which shows that the subjective assessment used by companies in providing incentives can cause discomfort to individuals feel because the assessments' benchmarks are not real and subjective. Sinaga & Supriyono (2022) stated
that inappropriate incentives could trigger dysfunctional behavior by employees. However, apart from the subjective incentive schemes that can cause discomfort due to the unclear distribution process, it is essential to note that each individual has internal values, one of which is loyalty (Hildreth et al., 2016). Loyalty is one of the predictions to explain behavior and moral principles that can drive ethical behavior. This finding aligns with stewardship theory, which demonstrates that individuals will try to avoid deviant behavior and avoid opportunistic behavior inconsistent with organizational goals (Donaldson & Davis, 1991). This is because loyalty provides a stronger ethical judgment. Therefore, the role of loyalty can be used as an effort to minimize budgetary slack caused by inappropriate incentives.

5. Conclusion, Implication, and Limitations

5.1 Conclusion

This research examined and found loyalty's moderating effect on incentive schemes and slack budgetary relationships. This research investigated and found the moderating effect of loyalty on incentive schemes and budgetary slack relationships. Subjective incentive schemes can encourage personal disappointment because the benchmarks are subjective from a superior point of view. Meanwhile, an incentive scheme with an objective assessment and the appraisal mechanism's transparency can encourage individual tendencies as stewards to form goal alignment by reducing slack. Moreover, loyalty to the organization can filter negative impacts due to differences in incentive schemes for budgetary slack.

5.2 Implication and Limitation

The results of this study provide three streams of implications. Theoretically, elaborating on stewardship theory, it shows that loyalty to an individual can consistently produce positive behavior even when confronted with circumstances that are not as desired. Second, empirically this research can add to empirical research studies by paying attention to internal factors in the form of loyalty to the relationship between incentive schemes and budgetary slack. Regulators and management can consider third, practical contributions to this research in making decisions and encouraging the
effectiveness of incentive systems. However, there are limitations to this study, namely, the research was conducted online, causing some participants to be unable to complete the research instruments due to network instability or other unforeseen conditions. Thus, further research can consider other factors that could moderate the relationship between incentive schemes and budgetary slack tendencies. Future research may consider using different personal values, such as psychological capital, leadership, and moral reasoning, and then the results will be compared. So, later it will be known which personal values are better for minimizing the occurrence of slack.

Reference


Church, B. K., Jason, X., & Sarah, Y. (2018). The effects of measurement basis and slack benefits on honesty in budget reporting. *Accounting, Organizations and Society, 04*(05), 1-11. mhttps://doi.org/10.1016/j.aos.2018.05.005


