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The Effect of Participatory Budgeting on Budget Risk Avoidance, Budget Slack and Organizational Performance Accountability

Wakhid Ansori[1]*, David Pangaribuan[2], Tutty Nuryati[3]
[1-3]Master of Accounting, Faculty of Economics and Business, University of Bhayangkara Jakarta Raya, Indonesia

*Correspondence: wakhid.ansori@gmail.com

Research aims: This study aims to analyze the role of participatory budgeting in influencing budgeting risk, budgetary slack, and organizational performance accountability. Budgeting is a fundamental management tool that functions as a mechanism for planning, coordination, supervision, performance evaluation, and motivation. However, the involvement of multiple parties in the budgeting process creates both opportunities and challenges. While participatory budgeting enhances transparency, information quality, commitment, and motivation, it may also trigger dysfunctional behaviors such as budgetary slack, information asymmetry, and conflicts of interest.
Design/Methodology/Approach: Using a deductive qualitative approach based on literature review, this article examines the behavioral aspects of budgeting, agency theory perspectives, and the ethical implications of budgetary slack.
Research findings: The findings indicate that participatory budgeting can improve performance accountability by increasing ownership, strengthening organizational commitment, and reducing budget variance. Nevertheless, excessive or poorly managed participation may increase budgeting risks, including inaccurate cost estimates, operational risks, financial risks, and opportunistic behavior. Risk aversion and information asymmetry are identified as key factors contributing to the emergence of budgetary slack.
Conclusion: The study concludes that participatory budgeting positively affects managerial performance and organizational accountability when supported by ethical standards, transparency, strict supervision, and effective coordination. Properly managed participation can reduce budgeting risk and minimize budgetary slack, thereby improving efficiency, strengthening governance, and enhancing organizational performance.
Keywords: Budgeting, Participation, Risk, Slack, Accountability

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INTRODUCTION

The budget in a company has many purposes, including as a planning, implementation, coordination, and supervision tool, as well as a guideline and employee motivation tool (Mirza & Adi, 2020). Thus, budgeting is an important part of organizational management. In organizational operations, the budget is a management tool in carrying out management functions, (Matiin, 2024). As a planning tool, in preparing a budget, objective, quality and adequate information is needed in order to capture organizational opportunities, describe challenges or be able to anticipate developments or changes in the future. In addition, the budget functions as a performance assessment tool where performance will be assessed based on the achievement of budget targets and the efficiency of budget implementation (Saripudin & Siswantoro, 2020). In the end, the budget ideally functions as a medium for achieving goals and a tool for evaluating organizational performance.

The involvement or participation of various subordinates or leaders in budgeting is an ideal condition that needs to be considered. The involvement of subordinates is generally considered quite rational because subordinates may know more about the activities of their respective units than leaders (Gill et al., 2018). Therefore, budget participation is an important part of the leadership style, namely participatory leadership that involves subordinates in decision making regarding the company's budget (Broman & Rocha-Pinto, 2023). However, subordinate participation has positive and negative sides,

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especially in determining the amount of the budget according to their interests. This means that interests in budget preparation are very prominent and often trigger budgeting risks and budget slack called conflict of interest. When the personal interests of subordinates are included in the preparation of the budget, the budget that is prepared becomes biased and vice versa. The problem in the budget preparation process is the tendency for budgetary slack to occur by management (Nurkholis & Iqbal, 2023). Furthermore, agency theory explains that budgetary slack occurs with the assumption that individuals have rationality regarding economic conditions and personal interests, where agents (subordinates) have more information (information asymmetry) than principals (superiors) so that agents tend to use this information to carry out budgetary slack in order to maximize their personal interests (Kurnianto & Sulistyawati, 2023; Sinaldi et al., 2023).

Budgetary slack in the budgeting process shows the negative and positive behavior of managers that arise as a result of interests in the budget. Positive behavior of managers is a positive attitude and commitment to motivate managers, when their performance is measured based on budget realization (Sulistyowati, 2024). This means that the budget acts as a tool to measure employee performance so as to encourage them to realize the budget plan that has been prepared and approved by the leadership. While negative behavior is the assumption that the budget is only a tool of pressure by top managers to subordinates (Almagfirah & Syahadat, 2021). Therefore, it is interesting to study the impact of participatory budgeting behavior on budgeting slack, budgeting risk and organizational performance accountability.

Budgeting risk has an impact on budget performance where subordinates involved in budgeting will prepare a budget that does not contain risk or is pessimistic. Budgeting risks such as targets that are too high according to subordinates' perceptions or as an impact of information asymmetry (Abdulle et al., 2023). Information asymmetry has a negative impact, namely the risk of preparing a budget that is less realistic, due to the perceptions and interests of the parties in preparing the budget (Nurkholis & Iqbal, 2023). Information asymmetry occurs because top management has better quality and more adequate information so that they prepare a budget that is higher than the desires and expectations of subordinates. Therefore, subordinates or lower managers will consider information asymmetry as a budgeting risk and must be avoided because it is related to the budget as a tool for evaluating and measuring performance by leaders who prepare budgets based on the interests of top leaders.

Budget risk and budgetary slack aspects are part of the budgeting process that affect organizational performance and accountability. Budgetary slack is the ability or productivity when given the opportunity to choose work standards for it which will then be evaluated as a measure of its performance achievement, and therefore, management will create slack to make it easier to achieve budget targets (Pradana, 2021; Sinaldi et al., 2023). This motivation occurs because of leadership pressure on the budget. The use of a bottom-up approach in budget preparation encourages participation and the opportunity to provide information to superiors so that superiors make the best decisions for their organizations (Ehsan et al., 2023). Good participation is not pseudo participation that can reduce the occurrence of slack as a result of information asymmetry (Nurkholis & Iqbal, 2023). Furthermore, risk factors can affect the emergence of slack in the budget. The higher the information asymmetry that occurs, the higher the budget gap (budgetary slack) that occurs (Abdulle et al., 2023).

Research on budgetary slack concluded that budgetary participation has a negative effect on budgetary slack. Different from the results of research by Ishida & Iwasawa (2025) and Putri & Dwija (2025), which concluded that budgetary participation has a positive effect on budgetary slack (Almagfirah & Syahadat, 2021; Kurnianto & Sulistyawati, 2023) Budgetary participation requires commitment and active involvement of stakeholders in the organization. Budgetary participation is the process of active involvement of various parties in the organization, especially managers and employees, in preparing the budget (Saripudin & Siswantoro, 2020). This participation aims to ensure that the budget made is more realistic, relevant, and acceptable to all parties involved in achieving organizational goals. Several studies conclude that the level of budgetary participation can result in budgetary slack, meaning that the related parties will try their best to prepare a budget that tends to be lower or higher to facilitate target achievement (Sinaldi et al., 2023).

From a planning aspect, a budget is a document for planning the use and allocation of funds to finance organizational activities. The budget functions as a guideline for work implementation, a cross-unit coordination tool, a tool for directing all resource use activities in order to achieve targets and set goals (Sinervo et al., 2024). In addition, the budget is a means of communication and coordination between employees or related units in a certain time period. The budget functions as a performance assessment tool where performance will be assessed based on the achievement of budget targets and the efficiency of budget implementation, and the achievement of the set budget targets indicates good performance, and vice versa (Saripudin & Siswantoro, 2020; Sulistyowati, 2024). This shows the importance of the role of organizational members in the budget preparation stage.

The approach in budgeting includes top down, bottom up and participatory approach (Nurkholis & Iqbal, 2023). In its development, in line with the development of information and communication technology and anticipating massive environmental changes, organizations are now starting to implement a participatory budgeting process (Sinervo et al., 2024). Participatory budgeting involves subordinates in preparing budgets related to their work so that agreement and understanding are created between the work plan and budget with their superiors (Pradana, 2021; Saripudin & Siswantoro, 2020). The involvement of subordinates in budgeting is seen as being able to create responsibility because it aligns organizational goals with employee goals. Responsibilities and challenges in the process provide non-financial incentives that lead to opportunities for achieving higher levels of performance (Sulistyowati, 2024).

Behavioral studies have attempted to determine the type of influence of participatory budgeting on aspects of organizational job satisfaction (Abdulle et al., 2023). However, few have discussed the influence of participatory budgeting on risk aversion and budget slack. Budgeting risk arises due to information asymmetry, the possibility of a deviation between the budgeted costs and the actual costs incurred,. This risk arises because budgeting involves estimates of the future, which always have the potential for inaccuracy. By identifying, evaluating, and managing budget risks, companies can improve budget accuracy and reduce the potential for financial losses (Broman & Rocha-Pinto, 2023). In agency theory, attention is focused on the correct disclosure of subordinates' internal information (Kurnianto & Sulistyawati, 2023) . The problem is that the presence of private information combined with participation creates situations where subordinates intentionally construct redundant information. On the other hand, budget resource requirements, or consciously understate productivity or performance capabilities. This practice is known as budgetary slack creation (Almagfirah & Syahadat, 2021; Sinaldi et al., 2023). However, little is known about the conditions under which participatory budgeting can lead to budgetary slack creation.

Slack may be desired by members of the firm to act as a buffer against the impact of uncertainty (Nurkholis & Iqbal, 2023). Meanwhile, all production line workers tend to create slack in a similar way because they see their productive capacity as limited, especially when they want to avoid risk. Their preference to minimize risk encourages them to build budgetary slack. This leads to risk-averse subordinates building more budgetary slack than non-risk-averse subordinates (Sinaldi et al., 2023). Therefore, this article discusses participatory budgeting on budgetary risk. budgetary slack and organizational performance.

Although previous studies have examined participatory budgeting, managerial performance, and budgetary slack, there is limited research on how participatory budgeting specifically affects budgeting risk and risk-averse behavior (Almagfirah & Syahadat, 2021; Kurnianto & Sulistyawati, 2023). Most existing studies focus on performance outcomes or general slack without clearly linking participation levels to the mechanisms that generate or mitigate budgetary slack and budgetary risk (Pradana, 2021; Sinaldi et al., 2023). This study fills that gap by investigating how genuine participatory budgeting through reducing information asymmetry, addressing ethical concerns, and considering risk preferences can simultaneously minimize budgetary slack and budgeting risk while improving organizational performance accountability (Nurkholis & Iqbal, 2023).

This study seeks to examine how participatory budgeting influences budgeting risk, budgetary slack, and organizational performance accountability within the framework of agency theory and

behavioral budgeting perspectives (Abdulle et al., 2023; Kurnianto & Sulistyawati, 2023). Specifically, it investigates whether effective and genuine participation can reduce budgeting risk and budgetary slack while strengthening organizational performance accountability (Saripudin & Siswantoro, 2020).

LITERATURE REVIEW

Participatory Budgeting

According to (Milosavljević et al., 2023), budget participation is a budget preparation stage that provides participation and opportunity to all levels of employees in preparing the budget and the influence of the budget on the responsibility centre. Budget participation has an important role because each work unit participates totally in the budget preparation process according to the needs and capacity of the work unit. Participatory Budgeting is a process in which superiors choose the form of compensation contract and subordinates are allowed to choose certain values for each parameter in the contract. Participation provides an opportunity for subordinates to build budget flexibility into their performance standards. (Bangun, 2017) stated that in Indonesia, the relationship between budget participation and managerial performance has a positive relationship (Jatmiko et al., 2020). Managerial performance includes planning, investigation, coordination, supervision, staffing, negotiation, and representation as noted in (Nasrun, 2018). Managers who are involved in the budget preparation process have the opportunity to contribute their ideas and knowledge, so that the need for self-actualization is met.

Participatory budgeting can improve employee and organizational performance accountability. This involvement encourages participation, fosters a sense of togetherness, and commitment to goals, increasing motivation and performance (Herawati et al., 2024). The role of budget participation can be seen from: (a) Increasing participation and involvement of various parties, including managers at various levels. This creates a sense of ownership and responsibility for the budget, thereby increasing motivation and participation in achieving goals. (b) Increasing procedural justice, namely the feeling that the decision-making process has been carried out fairly and transparently. This is important to increase trust and motivation to improve performance. (c) Strengthening commitment to goals, through individual participation encouraging them to be more active in carrying out tasks and achieving predetermined targets. (d) Increasing motivation to work harder and achieve better results.

Budgeting Risks

Budgeting risks can disrupt performance accountability such as clarity of budget targets, budget control, and budget transparency. Inadequate clarity of budget targets makes it difficult to measure performance accurately. Furthermore, weak budget control also results in budget deviations and difficulty in accounting for budget use. Lack of transparency in planning, implementation and control as well as reporting of budget performance, causes performance information to be unavailable to stakeholders, so that performance accountability becomes weak. In this regard, there are several budgeting risks, namely: (a) Clarity of budget targets means that budget targets must be clear and measurable so that they can be used as a basis for measuring performance. Unclear budget targets will make it difficult to determine the achievement of the set targets. (b) Budget control, is needed to ensure that the budget is used according to plan and objectives. Weak control can result in budget deviations and difficulty in accounting for budget use. (c) Budget transparency, allows stakeholders to know how the budget is used and how performance is achieved. Lack of transparency can lead to distrust and difficulty in accounting for performance. (d) The Effect of Performance-Based Budgeting, can increase performance accountability because the budget is linked to measurable performance targets.

Budgeting Slack

Slack budgeting according to Kusniawati & Lahaya (2017), budget slack is the difference or gap between the amount of the budget that has been set and the best estimate. The gap occurs when management estimates lower revenues and higher costs (Elhamma & Taouab, 2015). Budget slack has a negative impact on both the organization and employees because it creates the potential for the budget

to be more easily achieved and creates a false perception of the performance of the individuals involved (Chong & Khudzir, 2018). This means that budgetary slack has the potential to weaken employee and organizational performance due to budget preparation below the actual potential or capabilities of employees or the organization. According to Barrainkua & Espinosa-Pike (2018), budget stakeholders practice budgetary slack with the basic motivation of their individual behavior with their tendency to always feel safe when the accountability of all the targets set has been achieved. This behavior arises because of the basic human nature of wanting to avoid risk, therefore Leach-López et al. (2015) saw that budgetary slack occurs because of the relationship between superiors and subordinates in carrying out functions and responsibilities, both of whom will want a relatively safe position. From the perspective of the management accountant code of ethics, budgetary slack behavior is seen as a deviation and illustrates a serious problem for management accountants. This is closely related to the understanding and application of ethical issues of management accountants, Aliabadi et al. (2019) and Gill et al. (2018). Deliberate budgetary slack is a fundamental problem for accounting organizations, especially management accountants related to the commitment to uphold ethical values. Furthermore, this problem according to Agustami & Arfan (2015) becomes very serious because at the budget planning stage there is already an ethical deviation due to the opportunistic attitude of budget holders, namely budgetary slack. Opportunistic behavior is behavior that is dangerous for the organization and it shows the uncertainty of the organization's future. Management accountants must take a firm stance in rejecting budgetary slack and commit to affirming reasonable conditions. So that management accountants will produce budget reports that are objective and not biased towards certain individuals or divisions, (Dunn & Sainty, 2020).

Table 1. Forms of Budgetary Slack and Violations of the Management Accountant Code of Ethics

No	Budgetary Slack	Violation of Code of Ethics of Mgn Accountants
1	Presenting a report on investment proposals that have the potential to become costs in the current period (emphasis on information presentation)	Integrity
2	Misrepresenting earnings at the rate of return to bias decision making on investment projects.	Integrity
3	Approve proposals from the marketing and commercial divisions to present income proposals that are low or not in accordance with the company's reasonable capabilities.	Integrity
4	Approve proposals from other budget participants to increase proposed costs to provide a safe margin for current year realization.	Integrity
5	Presenting accounts receivable and collection periods higher than the company's normal capabilities, this has an impact on the presentation of cash and cash equivalents.	Integrity
6	Delaying the estimated realization of investment work, but maximizing the depreciation value of new assets.	Integrity
7	Submitting compensation proposals (bonuses, allowances, incentives, etc.) exceeding the established limits.	Objectivity
8	Establishing cooperation with several parties to influence the figures in the budget for the benefit of a group and having a negative impact on the company.	Objectivity
9	Preparing a budget with very low management accounting knowledge capital.	Competence
10	Prepare a budget for transaction components whose calculation details are unknown.	Competence

11	Preparing a budget without understanding the applicable regulations such as: Laws, SAK, Board of Directors Regulations and Decisions, Minutes, Minutes of Meetings, Deeds and Kemenkumham, Circulars, and others.	Competence
12	Understanding the company's business processes and the use of applications related to budget preparation at a very low level so that it impacts the relevance of budget report presentation.	Competence
13	Disclosing detailed figures that are confidential to the company, both before and after the GMS is held.	Confidentiality
14	Changing competitor data or historical data with the aim of making the proposed budget look much better.	Professional

Data Source: Processed by Researchers

Based on the table above, there are 14 budgetary slack items that are potentially carried out by management accountants. To measure the existence of budgetary slack, it can be done by assessing the Key Performance Indicator (KPI) and rationalizing the figures contained in the budget and internal audit to determine the reasonableness of the assumptions used when making budget projections. Management accountants who violate the principles of integrity, objectivity, confidentiality, and professionalism must be given strict sanctions. Strict sanctions can be a reduction in annual bonuses, rotation, demotion or dismissal.

Performance Accountability

Accountability is the manifestation of the responsibility of a person or organizational unit in managing resources that are allocated and controlled in order to achieve goals. Accountability is also one of the main elements that must be met in realizing good governance. The budget is seen as a very important planning and control tool, so that the budget preparation process is an important aspect in achieving organizational success (Herawati et al., 2024).

Employee performance accountability is the embodiment of employee obligations to be responsible for the implementation of their duties and functions and the use of resources in achieving the goals that have been set, both individually and organizationally. This accountability is important to ensure effective and efficient performance, as well as to increase public trust in the services provided. This performance accountability is related to the accountability accounting system.

To support the achievement of performance accountability, it is necessary to understand the important elements of employee performance accountability, including: (a) Responsibility, namely employees must be aware of and responsible for their duties and authorities. (b) Transparency, Information about performance, both success and failure, must be disclosed openly and easily accessible. (c) Fairness, The assessment and sanctioning process must be carried out fairly and objectively. (d) Prediction, employees must be able to predict the impact of their actions and take preventive measures if necessary. (e) Consistency, the application of performance standards and accountability systems must be consistent and sustainable.

Furthermore, the benefits of employee performance accountability are (a) Improved performance, with accountability, employees will be more motivated to work well and achieve the targets that have been set. (b) Increased efficiency, accountability helps in the use of resources more effectively and efficiently. (c) Increased public trust, transparency and good performance accountability will increase public trust in public services. (d) Prevention of corruption, with the existence of an accountability system, the potential for abuse of authority and corruption can be minimized.

The method or way of implementing employee performance accountability can be done in several ways, including: (a) Preparation of a clear and measurable performance plan, and adjusted to the organization's goals. (b) Implementation of monitoring and evaluation, to ensure the achievement of goals. (c) Preparation of accurate and comprehensive performance reports submitted periodically. (d)

Implementation of a reward and sanction system to provide appreciation for good performance and sanctions are given for poor performance.

Responsibility accounting system is a financial management method that focuses on reporting and controlling costs and performance in responsibility centres within an organization. This system helps measure the success or failure of task implementation and goal achievement, and ensures employee performance accountability. The purpose of the responsibility accounting system is to motivate employees to work well and be responsible for revenues and costs, measure the performance of responsibility centres, provide information for decision making and encourage efficiency and effectiveness. Responsibility accounting is a tool for measuring performance in performance accountability. Responsibility accounting reports provide the information needed to evaluate performance and be accountable for it. By implementing responsibility accounting, organizations can more easily measure and improve the accountability of their employees' performance. By implementing an effective responsibility accounting system, organizations can ensure that each employee is responsible for their duties and performance, and contributes to the achievement of the organization's overall goals.

METHODS

This article is written using a deductive qualitative method that aims to explain the role of Participatory Budgeting on Budgetary Risk, Budgetary Slack and organizational performance accountability. This study uses the concept of budgeting behaviour as its unit of analysis, and the data is collected through literature studies from various sources such as books, literature discussing budget theory, budget participation, budget risk, accountant ethics and its influence on budgetary slack and performance accountability. Relevant previous research as the main reference in understanding the role of budget participation, budget risk, budgetary slack and performance accountability.

This study applied clear criteria to ensure transparency and replicability in the literature review process. Sources included peer-reviewed journal articles, academic books, and reputable publications discussing participatory budgeting, budgetary slack, budgeting risk, agency theory, and performance accountability. Both recent studies (last 20–30 years) and seminal foundational works were included. Literature was identified using relevant keywords such as “participatory budgeting,” “budgetary slack,” “budget risk,” “information asymmetry,” and “performance accountability.” Only studies directly related to the research variables and supported by clear academic credibility were included, while irrelevant or methodologically unclear sources were excluded.

RESULTS AND DISCUSSION

Table 2. Types of Participatory Budgeting Characteristics Weaknesses and Strengths

No	Types of Budgeting	Characteristics	Superiority	Weakness
1	High Participation	1. Involves multiple parties, including managers, employees, and other stakeholders. 2. The process is interactive, with discussion, feedback and negotiation.	1. Improve budget accuracy. 2. Increase employee commitment and motivation.	1. It takes longer. 2. Potential to cause conflict of opinion.
2	Low Budget Participation	1. Participation is limited to senior management only. 2. Lower level employees/managers are not involved in the budget preparation process	1. The budget preparation process is faster. 2. Reduce the potential for conflict.	1. Lack of sense of ownership from employees. 2. The budget risk is less realistic because it does not take operational conditions into account.

3	Symbolic Budget Participation	1. Participation is merely a formality without providing any real influence in the final decision. 2. Employees/managers are only asked for their opinions, but there is no follow-up.	Gives the impression that all parties are involved.	1. Decreases employee trust if they feel their voice is being ignored. 2. Potential low motivation and commitment to the budget.
4	Delegative Budget Participation	1. Senior management delegates budget preparation responsibilities to lower-level managers/specific departments. 2. Budgets are prepared by those closest to operations, with general direction from senior management.	1. The budget better reflects operational conditions. 2. Providing autonomy to lower-level managers.	Risk of inconsistency with the organization's strategic objectives if there is no good coordination.
5	Consultative Budget Participation	Managers or employees at the operational level are asked to provide input, but the final decision remains with senior management.	Providing space for contribution without losing control at the top management level.	1. Input not taken into consideration can lead to dissatisfaction. 2. The type of budget participation depends on the organizational culture, budget complexity, and strategic objectives of the organization. 3. A combination of several types of participation can be applied to obtain optimal results.

Data Source: Processed by Researchers

Budget Evaluation with Budget Participation

The existence of budget participation can strengthen the budget evaluation process. The involvement of various parties, the budget assessment process will be more comprehensive, because each part can provide input based on their experience in implementing the budget. In addition, the existence of budget participation will foster a sense of shared responsibility for each result of the evaluation carried out. In general, giving awards or punishments to employees based on whether or not the budget target is achieved will affect the behavior of budget implementers.

Table 3. Benefits, Strengths and Weaknesses of Participatory Budgeting

Benefit	Superiority	Lack
1. Increase Commitment: Direct involvement makes employees feel more responsible for the budget that has been prepared. 2. Increased Accuracy: Information provided from various parties allows the	1. Increased motivation and commitment, employee involvement can increase work motivation, because they feel more appreciated and have a sense of direct responsibility to achieve budget targets. Encourage	1. Slack (Budgetary Slack) • Managers tend to submit lower revenue budgets or higher cost budgets to make targets easier to achieve.

budget to be more accurate and reflect actual conditions. 3. Reducing Conflict: With open communication, the potential for budget-related conflict can be minimized. 4. Increase Motivation: Participation can increase a sense of belonging and encourage better performance.	the emergence of higher commitment to the company. 2. Better information quality, lower level managers who are directly involved in day-to-day operations have more detailed and accurate information about their department's needs. 3. More effective communication and coordination, budgeting involvement creates better communication between management levels. This facilitates the exchange of information and improves coordination between departments. 4. Better understanding of organizational goals, employees will gain a better understanding of organizational targets and how their role in achieving those targets.	• Targets that are too easy to achieve reduce managers' motivation and performance. • Targets that are too tight may lead to failure in meeting standards and create dissatisfaction. 2. Pseudo-Participation • There is a risk of pseudo-participation, where suggestions from lower-level managers are not genuinely considered in decision-making. • Conflicts of interest may arise between different departments and levels of management during the budgeting process. • Coordination becomes more difficult as more parties are involved, making decision-making more complex. 3. Target Setting • Budget standards or targets may be set too high or too low. • Targets that are too low can decrease enthusiasm and performance. • Targets that are too high may result in failure to achieve standards and cause job dissatisfaction. 4. Time/Cost • The budgeting process requires more time. • It involves higher costs due to the participation of many parties. • It requires intensive cooperation and coordination among departments.

Data Source: Processed by Researchers

Budget Participation and Budget Risk

Several studies that discuss the relationship between budgeting participation and Local Government Apparatus Performance show inconsistent results. Research by Baiman (1982), Milani (1975) and Kenis (1979) found results between budgeting participation and Performance. Mustikawati (1999)

showed that the interaction of participation in budgeting has an influence on increasing Performance. Randall's (1990) research shows the relationship between budget participation and Performance.

Table 4. Types of Risk and Examples of Risk in Budgeting

No	Types of Risk	Risk Examples
1	Inaccuracy of cost estimates	a. limited information, budget preparation with limited or incomplete information, resulting in less accurate cost estimates b. changes in market conditions, such as price fluctuations, inflation, or changes in competition, may cause budgeted costs to become irrelevant, c. changes in internal conditions, such as changes in strategy, organizational structure, or team affect budgeted costs, d. uncertainty in revenue estimates, e. Changes in Demand such as unstable market demand make revenue forecasts less accurate, especially for products or services that are sensitive to changes in trends or seasons, f. Changes in consumer levels, such as changes in preferences, spending patterns, or purchasing power, affect budgeted revenues. g. New Competitors, the emergence of new competitors or changes in competitor strategies disrupt revenue estimates.
2	Operational Risk	a. Process disruptions, such as system failures, machine breakdowns, or human errors, cause unexpected costs, b. Human risks, such as dissatisfaction, turnover, or incompetence, impact operational cost efficiency. c. Project delays, causing costs to exceed budget.
3	Financial Risk	a. Interest Rate Risk, affects borrowing costs thereby burdening the budget, b. Exchange rate risk, currency exchange rate fluctuations affect international transaction costs, c. Credit risk, causing difficulty in obtaining a loan or causing a loss if the debtor fails to pay.
4	External Risks	a. Regulatory changes, affecting operating costs or requiring new investments. b. Changes in government policy, such as changes in taxes, subsidies, or environmental regulations, affect the budget. c. Natural Events, such as floods, earthquakes, or fires, cause damage or disruption to operations that impact costs.

Data Source: Processed by Researchers

Participatory budgeting is a process that involves various parties, including individuals and groups, in budget preparation, with the aim of increasing transparency, efficiency, and accountability. Participatory budgeting aims to avoid budget risks that have negative consequences for achieving goals or realizing the organization's vision and mission. Budget risk refers to the possibility of deviations between the planned and realized budgets, which can be caused by various factors such as prediction errors, changes in external conditions, or opportunistic behavior. Therefore, budget participation aims to reduce the negative impacts or budget risks that can come from internal and external factors. Budget participation involves various levels of management in budget preparation. The purpose of this participation is to increasing a sense of ownership of the budget, increasing motivation, and reducing the potential for conflict related to budget allocation.

Participatory budgeting is beneficial in increasing accountability and transparency, improving decision-making by involving parties who understand operational conditions, and increasing motivation and performance and the potential for reducing budgetary slack. The risks that arise in budget participation are: 1) The potential for budgetary slack to emerge if participation is excessive, so that it can be misused by certain parties to secure or include personal interests; 2) The possibility of a difference between the budget target (planned) and the budget realization; 3) Factors causing budgeting risk; 4)

Errors in planning (over-projection, ignoring needs, etc.); 5) Changes in economic, political, or social conditions; 6) Information asymmetry (imbalance of information between the parties involved); 7) Individual risk preferences (tend to be more cautious or more aggressive in budgeting); 8) Opportunistic behavior (misuse of information for personal gain).

The impact of budgeting risk is the occurrence of budget waste, failure to achieve organizational goals and distrust of the budgeting process. Therefore, actual participation is needed to provide certainty, encourage a sense of ownership of the budget and commit to realizing it well. The Relationship between Budget Participation and Budget Risk. 1) Budgeting Participation Can Increase Budget Risk: If participation is not managed properly, it can open up opportunities for budgetary slack or budget deviations due to the opportunity to manipulate data or targets; 2) Budgeting Participation Can Reduce Budget Risks: By involving various parties, more accurate and diverse information can be obtained, so that the potential for errors in planning can be minimized.

The success of implementing budget participation in reducing budget risks is highly dependent on effective management, including clear rules, strict supervision, and an organizational culture that supports transparency and accountability to overcome the risks of participatory budgeting, among others: 1) Improving ethical work climate by encouraging tight budget control; 2) Reducing information asymmetry encourages subordinates to provide accurate and honest information in budget preparation; 3) Strengthen organizational commitment, by motivating individuals to better achieve budget targets; 4) Explaining budget goals can help individuals understand the goals they want to achieve; 5) Implementing zero-based budgeting helps control spending and increase contributions to savings by allocating funding based on needs and business process efficiency; 6) Involving a broad range of participants, in order to slow down the negotiation process, can increase budget accuracy and clarity; 7) Conduct monitoring and evaluation, help identify potential problems and make necessary adjustments.

Difficulty Factors in Achieving Budget Preparation

Budgeting that involves several parties and several aspects, causes various challenges to arise. Below are factors that cause difficulties in budgeting:

Table 5. Difficulty Factors in Budget Preparation

No	Difficulty Factor	Key Factors	Sub-Factors	Description
1	External Factors	Environmental Uncertainty	Economic Fluctuations	Economic movements in terms of factors such as inflation, exchange rates, or interest rates that affect income and costs.
			Government regulations	New regulations/policies that affect budget allocation and organizational priority scales
			Market environment conditions	Unstable consumer demand or intense competition can complicate the budgeting process.
2	Inaccurate and Inadequate Information			- Limited data reduces the accuracy of estimates in budget preparation. - Incorrect basic assumptions in projections of revenues and costs create mismatches at the time of realization.
3.	Level of Organizational Complexity			- The complexity and scope of the organization makes it increasingly difficult to align the interests and priorities of different units or departments. - Conflicts of interest between parties will affect the optimization of resource allocation.
4.	The Existence of Various			- Limited costs, human resources, or use of technology will hinder the flexibility of budgeting.

	Resource Limitations	- The imbalance between the number of needs and the availability of resources is the main obstacle.
5.	There are demands from the management	- In some circumstances, management may set unrealistically ambitious targets. - This pressure results in budgeting being overly optimistic or even overly conservative, making it difficult to achieve.
6.	Lack of Involvement and Transparency of Information	- Budgeting without involving related parties can result in budgeting not being in line with operational needs. - Lack of coordination and communication between units and levels within the organization can give rise to mismatches in terms of priority scales and allocations.

Source: Processed by Researchers

Budgeting that is too perfect (too rigid) targets that are too high so that it will make it difficult to realize it, as a result the implementer is less motivated to realize it. In addition, a budget that is less realistic also has a negative impact on budget realization because there is an element of rejection of the budget items or budget programs that are proposed. On the other hand, a budget that is too loose (easy to achieve) can have a negative impact on organizational performance. In addition, a budget that is too easy to achieve provides negative motivation for budget implementers because they feel less challenged to realize it. A good and realistic budget is a budget that has a level of achievement that is still possible to be met.

Relationship between Budget Participation and Performance Accountability

Budget participation has a positive effect on performance accountability, meaning that the budget as work accountability requires employee participation in budget preparation Wulandari & Mutmainah (2011). The existence of employee participation in the budget preparation process shows the level of involvement, the opportunity to participate in decision making. The rationale is that when a goal or target designed in a participatory manner is approved, then the budget preparers will be accountable and have a real sense of responsibility to realize it, thus the subordinates involved in it feel satisfied, productive and appreciated by their participation. Ultimately budget participation can shape attitudes, a culture of hard work, cooperative behaviour between employees and can increase a sense of belonging to their organization and encourage commitment, loyalty and motivation towards achieving budget goals. Furthermore, budget participation has a strong relationship in relation to budget efficiency, this can be described in the following scheme: 1) Increasing the quality and quantity of information, Participation and involvement of managers or employees in budgeting will make each manager in a different unit provide input according to the knowledge and information they have. So that the budget is more real, relevant, and in accordance with what is needed. Ultimately it will reduce the possibility of inefficient resource allocation; 2) Decrease in budget variance, Budget participation will increase the understanding and sense of responsibility of related parties for budget execution. So that the possibility of a difference between the plan and the realization of the budget can be minimized, thus encouraging the creation of efficiency; 3) Increased commitment and motivation, A person will feel appreciated when involved so that they will be more driven, motivated and committed in carrying out their work according to the agreed budget plan. This leads to more appropriate resource control; 4) Transparency and Accountability, Budget participation can encourage accountability because each party has a responsibility in implementing the budget. In addition, transparency in a budgeting process can prevent budget misuse; 5) Cooperation between Units, Budget participation is designed based on consideration of the needs and priority scale of each unit. So that budget allocation and its use can be implemented properly and more optimally. Thus, budget participation is one way to increase budget efficiency and effectiveness.

With broad participation in budgeting, the budget can be developed to be more real, realistic and relevant to the company's operational needs so that it can avoid budgetary slack behavior. Budget participation with budget efficiency depends on good governance, optimal work implementation, and good risk management. Optimizing budget participation can increase efficiency, realize accountability, and achieve targets more efficiently. Budget participation is positively related to managerial performance and efficiency of resource use. The higher the level of participation in budgeting, the better the performance results achieved. The involvement of various parties in the budget planning and implementation process increases transparency and accountability. This contributes to more effective and efficient budget management, and reduces the risk of waste and misuse. Budget participation also increases organizational commitment among employees. When employees are involved in the budgeting process, they tend to feel more responsible for achieving organizational goals, which in turn can increase the efficiency of budget use. Budget participation increases efficiency and strengthens organizational performance.

Participation and Budget Slack

Budget participation is the involvement of various parties, including managers, employees, and related departments, in the budget-making process. Budget slack, on the other hand, is the practice whereby managers intentionally create a budget that is more attainable than the budget that is actually possible. Budget participation can affect the level of budget slack, with higher participation tending to reduce budget slack because it involves more parties who provide more diverse input and perspectives. Budget participation can increase motivation, ownership, and commitment to the budget. Budget participation can reduce budget slack because it involves more parties who have different information and perspectives, making budget estimates more realistic and reducing the tendency to create slack. Budget slack is the difference between the stated budget and the budget that is actually possible. Managers create slack by estimating expenses higher or revenues lower than they actually are. Managers may create budget slack for a variety of reasons, such as: a) Facilitate target achievement, b) Increase bonuses or performance rewards. c) Obtain more resources.

Budgetary slack causes gaps in the assessment of organizational performance and has a negative impact on the organization because the budget prepared is inaccurate, less objective, thus harming the organization. Budget participation can reduce budgetary slack because it involves more parties who provide more diverse input and perspectives, thus making budget estimates more realistic.

Budgeting Participation and Organizational Performance Accountability

Participatory budgeting is a process in which individuals are involved and have an influence on the preparation of budget targets whose performance will be evaluated and possibly rewarded for their budget achievements. (Baiman, 1982). Participatory budgeting is a creative innovation in the policy-making process. Budget participation is a process in an organization that involves all parties in determining budget objectives that are their responsibility. Evaluation and reporting are the final parts of a budgeting process that aims to provide accountability for budget realization. According to Mardiasmo (2004) Public accountability is the obligation of a trustee to provide information, accountability, present, report and disclose activities that are his responsibility to the trustee who has the right and authority to request such accountability. The results of budget realization are budget performance that shows the efficiency or effectiveness of budget use. Participation in budget preparation, implementation and evaluation of budget performance will run well and provide satisfaction to the parties given authority and actual participation in its preparation. On the other hand, pseudo budgeting will cause inconsistencies in the plan with budget realization.

Clear budget targets and budget targets will make it easier to account for the success or failure of achieving budget goals and targets. Unclear budget targets and targets will make budget implementers feel less satisfied and calm in working. So that budget implementers are less motivated to achieve the expected optimal performance (Risandini et al., 2024). Attitudes related to budget preparation participation and managerial performance, namely a person's job satisfaction and organizational

commitment. According to Wulandari & Mutmainah (2011) every organization has a goal to achieve optimal performance and the budget has an important role in realizing it. Thus, the budget becomes a tool for organizational motivation and a standard of organizational behavior to achieve goals.

Milani (1975) and Kenis (1979) research concluded that budget participation has a positive impact on organizational performance. Furthermore, budget involvement affects budget objectives, meaning that budget objectives become more realistic and logical because budget participation fosters a sense of ownership and encourages strong motivation and commitment to achieving budget objectives. Furthermore, Argyris (2013) distinguishes between actual participation and pseudo participation, and suggests that subordinates should be given the opportunity to participate. Actual participation allows employees to participate fully with spontaneity and constructive freedom to discuss, provide input. While pseudo participation managers or employees do not show sincerity in providing consideration or approval of what is decided, even though they basically disagree but they express their approval only because the company or organization requires their approval.

CONCLUSION

Budget participation is positively related to managerial performance and resource utilization efficiency. The higher the level of participation in budgeting, the better the performance results achieved, thus strengthening organizational performance. The involvement of various parties in the budget planning and implementation process increases transparency and accountability, increases organizational commitment among employees. Increases a sense of ownership and more responsibility for achieving organizational goals. The impact of budgeting risk is the occurrence of budget waste, failure to achieve organizational goals and distrust of the budgeting process. Therefore, actual participation is needed to provide certainty, encourage a sense of ownership of the budget and commit to realizing it well. Budget participation has a positive impact on organizational performance. Furthermore, budget involvement has an impact on budget objectives, meaning that budget objectives become more realistic and logical because budget participation fosters a sense of ownership and encourages strong motivation and commitment to achieving budget objectives. Budget participation can reduce budget slack because it involves more parties who provide more diverse input and perspectives, making budget estimates more realistic.

Author Contributions

Conceptualization, W.A. and D.P.; Methodology, W.A. and T.N.; Literature search and review, W.A.; Formal analysis, W.A. and D.P.; Writing – original draft, W.A.; Writing – review and editing, D.P. and T.N.; Supervision, D.P. and T.N.; Project administration, W.A. All authors have read and agreed to the published version of the manuscript.

Conflict of Interest

The authors declare no conflict of interest. No financial, professional, or personal relationships influenced the design, analysis, or reporting of this study.

Declaration of Generative AI Use

The authors did not use generative AI or AI-assisted technologies in the preparation of this manuscript.

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