

## **DOES SOCIAL EXCHANGE AFFECT BUDGET REVISION DECISION-MAKING?**

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### **ABSTRACT**

Decision-making during budget revision is crucial because it is critical in determining the success of organizational performance. Revision in the budget can bring up potential changes to the agreement among budget actors that already settled during the budget preparation. The problem can arise when each budget actor tries to defend his/her unit's interests or interests. Social exchange theory is useful to disclose the exchange during budget revision. The results using PLS-SEM show some essential findings. First, the social exchange measured with trust and high context culture positively affects budget revision decision-making. Second, trust and high context culture mediate the relationship between initial budget and budget revision decision making. Meanwhile, the norm of reciprocity does not influence budget revision and does not mediate the relationship between initial budget and budget revision decision-making. This research contributes to the application of social exchange theory in accounting research especially decision making during budget revision.

**Keywords:** a norm of reciprocity, trust, decision making, initial budget, budget revision, distribution management.

### **INTRODUCTION**

Budget decision-making in local government is a complex process. Decision-makers face various challenges such as a variety of information, conflicts of interest, and limited resources. Budget actors are often unaware of the consequences of individual decisions when setting budgets at the planning stage. In government, budget actors are setting budget revisions in the middle of the current year. The procedure for amendment is regulated in-laws and regulations related to regional financial distribution management.

Rational calculations are often the primary basis for decision-making. Several researchers have shown that budget actors take advantage of the authority and use the budget as an object of manipulation to produce outcomes that meet their needs (Kamau, Rotich, & Anyango;

2017); Onyango-Delewa, 2016; Amans, Mazars-Chapelon, & Villeseque-Dubus, 2015; Mutiganda, 2013; Ryu, Bowling, & Wright, 2008; Schick, 2007). On the other hand, some researchers reveal that the fulfilment of self-interest does not bring benefits. On the contrary, it brings harm in the future. Research by Fisher, Mitchell, Peffer & Web (2019) shows that personal interest in budgeting will cause a high error rate budgeting. The superior who insensitive to subordinates and acts dishonestly during the budget preparation process. The research of Blay, Douthit & Fulmer (2019) shows that the negative impact in the future encourages budget actors to behave in a non-deviant manner during the budget preparation process. Similar results were revealed in the study of Shea, Menon & Im (2019); Arnold & Gillenkirch (2015), and Kramer & Hartmann (2014).

Decision-making that affects a group of people or even society must consider social and psychological perspectives (Miller & Lee, 2001; Pligt, 2001, Simon, 1955). Lu & Willoughby (2015); Engle, Engle-Warnick & Laszlo (2011) revealed that internal factors and the social environment are key to decision-making considerations. Decisions are made based on interactions among humans, authorities, and social structures (Boholm, Henning & Krzyworzeka, 2013).

The fact of the Indonesian local government budget shows a shred of compelling evidence. Research by Febrina & Isril (2016); Parwati, Budiasih, & Astika (2015); Subechan, Imam, & Haryono (2014); Riyanto (2012); Hanida (2010) indicates that the delay in ratifying the Regional Revenue and Expenditure Budget is solely due to the failure to reach an agreement between the executive and legislative parties. The Indonesian Supreme Audit Institution audit results show that the regional government's internal control system is still weak, especially in terms of controlling the implementation of the Regional Revenue and Expenditure Budget. This result is supported by Indonesian Corruption Watch's (ICW) monitoring which found that the most violations of corruption were misuse of the budget by state civil apparatus.

The budget phenomenon shown by the Indonesian Supreme Audit Institution audit results, ICW monitoring, and previous research results implies that research related to budget decision-making still needs to be carried out. Mapping research conducted by Rizky & Setiawan (2019) in SINTA indexed journals in Indonesia shows that research related to budget decision making, especially budget revision is still rarely conducted. This study aims to fill the existing gaps and provide a deeper understanding of budget decision-making from a social exchange perspective. The theoretical contribution of this research lies in the social exchange variables that influence budget revision decision making. The practical contribution refers to the findings that budget actors still have the perception that the work plans and budgets prepared at the initial budget decision making are not able to limit the occurrence of fraud by budget actors even though they believe that every program and activity that is included in the work plan and budget has a value of the benefit. The research results also reveal a lack of mutual trust and low consistency among budget actors during the ongoing negotiation process. This condition can explain the budget phenomenon that occurs in Indonesia. Disagreements that result in delays in ratifying the APBD can be triggered by mistrust and inconsistencies that arise during the negotiation process. However, the social

exchange has been proven to improve the quality of the decision-making process during budget revision.

## LITERATURE REVIEW

### **Initial budget, social exchange, and decision-making during budget revision**

The initial budget refers to the initial budget that has been prepared and approved by Local Government Regulations. The initial budget is the basis for working unit budget actors in carrying out their duties and responsibilities. The initial budget can only change once during the current fiscal year. The initial budget can change due to certain conditions. Minister of Home Affairs Regulation Number 13 of 2006 states that budgets can change due to three conditions: (1) developments that are inconsistent with the General Budget Policies; (2) inaccurate estimates of income and expenditure due to unpredictable conditions; and (3) activities that are not carried out.

People have a fundamental part in the decision-making process since people choose and assess the factors before making a decision (Bazerman & Moore, 2009). Voss, Tanner, Mohan, Lee & Kim (2019); Saaty (2008) indicates unseen social exchange inside the decision-maker. Practically, individuals will make decisions that benefit themselves (Kamau *et al.*, 2017; Edwards, 1954), and tend to behave according to their preferences (Jansson & Bursell, 2018; Levitt & List, 2007; Andreoni, Brown & Vesterlund, 2002). Pligt (2001) against Edwards' point of view and stated that psychological and social aspects are more essential than economic factors. Decision-making must consider the society's welfare than personal interests (Frederick, Loewenstein & O'Donoghue, 2002; Simon, 1955). In the context of revision in local government budgets, decision-making is related to budget revision in performance achievements and budget shifts (Law Number 33 of 2004; Minister of Home Affairs Regulation Number 13 of 2006). The initial budget in the planning stage can change due to unexpected conditions, such as the international economy, politics, world oil prices, etc. Changes in the budget can change any agreement that was already made in the previous stage. Synchronizing the general budget policies with the interests of all elements in the organization is not easy. Appropriate decision-making is needed to minimize the friction that may occur due to budget changes. Research by Blay *et al.* (2019); Fisher *et al.* (2019), Shea *et al.* (2019); and Wang, McNally & Lenihan (2019) show that social exchange affects decision making.

Reciprocity is the basis of social exchange in the form of giving and receiving. Reciprocal relationships develop as the exchange increases and can become a mutually beneficial exchange (Molm, 2014; Gobel, Vogel & Weber, 2013; Mauss, 1990). The norm of reciprocity that exists in the organization is essential for producing quality budget decision-making. Norm of reciprocity can bind organizational members in the form of commitments and responsibilities. The better the reciprocal relationship linkage, the better decision making will be when budget revision occurred (Tangpong, Li & Hung, 2016; Gobel *et al.*, 2013).

Trust is a form of exchange and is inherent in its process. It takes a specific time to form trust (Fligstein & Dauter, 2007). Trust is not just a balanced reciprocal relationship. It is built in the long term. Trust arises because of faith, gesture, and experience in social relationships. Trust can lead to a willingness to take risks, compromise, and even make sacrifices (Ertac & Gurdal, 2019; Lascaux, 2019). Trust is a support system in the organization so that the organization continues to develop. Trust during the decision-making process will result in an agreement that is wise and accepted by all parties.

### **Initial budget, social structure, and decision-making during budget revision**

Cultural context plays an essential role in managerial decision-making. A high cultural context organization make decisions centrally. On the contrary, low context organizations support involvement and participation from subordinates (Kittler, Rygl & Mackinnon, 2011; Kim, Pan & Park, 1998).

Budget revision decision-making cannot be separated from negotiations and social structures and power (Ma, *et al.*, 2019). High social structures tend to have a high cultural context. Individuals in high cultural contexts prioritize group interests over personal interests. High status and title place individuals in a higher position than others. Communication is implicit and personal (Wang *et al.*, 2019, Gudykunst, 1983, Hall, 1976). The social structure in this study is associated with Javanese culture. Javanese culture is closely related to the concept of high cultural context. Endraswara (2013) revealed that Javanese culture leads to obedience to the leader, has a culture of ewuh pekeuw and sendiko dalem to the leader.

*H1: Initial budget support budget revision decision making*

*H2: Initial budget support norm of reciprocity*

*H3: Initial budget support trust*

*H4: Initial budget support high context culture*

*H5: Norm of reciprocity supports budget revision decision making*

*H6: Trust support budget revision decision making*

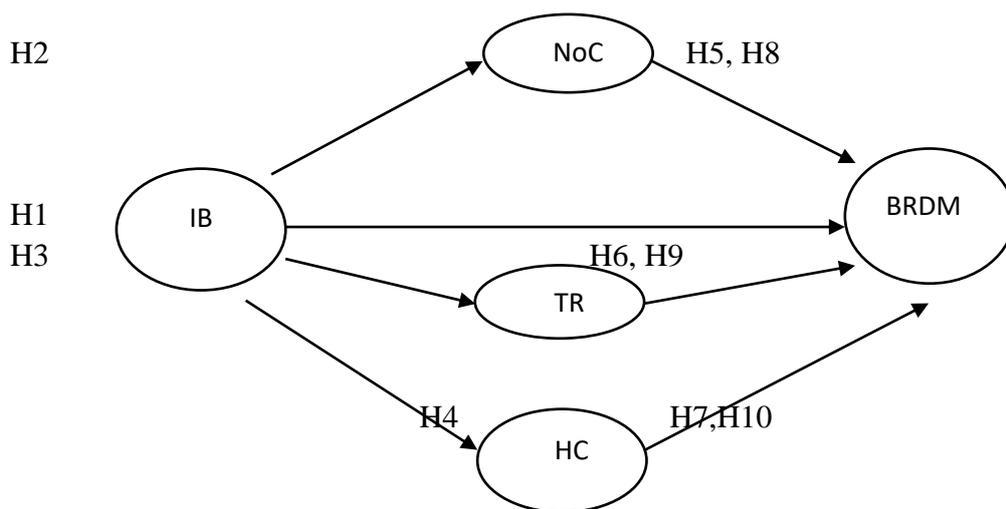
*H7: High context culture support budget revision decision making*

*H8: Norm of Reciprocity mediates the relationship between initial budget and budget revision decision making*

*H9: Trust mediates the relationship between initial budget and budget revision decision making*

*H10: High context culture mediates the relationship between initial budget and budget revision decision making*

Figure 1 illustrates the framework and linkages between initial budget decision making, social exchange, and decision-making during budget revision.



## METHODOLOGY

The research includes a quantitative study. The survey method through data questionnaires is important to capture the reality (Groves, Fowler, Couper, Lepkowski, Singer & Tourangeau, 2009). The data collection using a pick-up survey. The questionnaire is already through an FGD process. Eight working units (four working units from Central Java Province and four working units from Daerah Istimewa Yogyakarta) were involved in questionnaire development.

The local government civil apparatus in the Central Java Province Working Unit (CJP-WU) and Daerah Istimewa Yogyakarta Province Working Unit (DIY-WU) is the population of this study. Central Java province had experienced a revenue estimation failure in 2015, which resulted in a significant decrease in target setting during budget revision. On the contrary, DIY won the title of the best local government for local government performance in 2019. DIY also has a particular characteristic that is not owned by other provinces, which is the governor, and also a Sultan. Sultan is the highest leader in the area. Javanese culture considers the figure of the Sultan as a person who was elected, received revelation, superior but also a subordinate, and central decision making (Endraswara, 2013). The different background of the two province hopefully gives some understanding due to the result. This study uses a purposive sampling technique with two criteria: (1) participants are involved in the budget preparation process; and (2) involved in the budgeting process for more than one year.

Data analysis using PLS-SEM due to new developments in the questionnaire. The data processing uses PLS-SEM. Even though PLS-SEM does not require normality, this study runs a boxplot test to identify the outlier. Hair, Hult, Ringle & Sarstedt (2017) stated that researchers need to consider outlier data that might be arises from participants' inconsistency when filling the questionnaire.

## **RESULT AND DISCUSSION**

Four hundred and six questionnaires were distributed to eighty-one working units in Central Java Province and DIY Province. There are two hundred and sixty-six questionnaires that we can process from sixty-six working units. Several working units did not respond due to the pandemic, primarily regional hospitals. Data examination is the initial step before running the PLS-SEM (Hair, et al., 2017). The data examination consists of non-statistic and statistic examination. Non-statistic examination refers to checking the completeness of participants who filled the questionnaire. Meanwhile, the statistic examination refers to checking the outlier. An outlier is an extreme response to a particular or all questions and should not be processed.

Two hundred and fifty-two data are passed the non-statistic examination. The next step was running the boxplot test to identify the outliers It found twenty-five outlier data that must be excluded from the sample. The final data was two hundred and twenty-seven data. After passing all data examination, statistic descriptive was running to knowing the demographic and the pattern of respondent's answers. The demographic data were divided into six groups: gender, age, position, length of holding the position, length of work, and level of education. The frequency distribution was conducted to know the respondent's answer pattern.

The gender data shows that one hundred and eleven men fill the questionnaire, and the rest are female participants. The group of ages shows nine participants have a range of twenty to thirty, seventy-seven participants have a range of thirty-one to forty, ninety participants have a range of forty-one to fifty, and fifty-one participants have age above fifty. The two hundred and twenty-seven participants are divided into four Distribution categories based on their position in the office. There is two head of department, twenty-nine head of division/head of sector, one hundred and fifty-six head of subdivision/head of sub-sector/head of section, and forty functional planners. Based on the length of hold position, one hundred and twenty-six participants hold position one until three years, sixty hold position four until six years, twenty-seven participants hold the position seven until nine years, and fourteen participants hold the position above nine years. Based on the length of work, fifty-three participants have worked for one until ten years, seventy-nine participants have worked for eleven until twenty years, eighty-three participants have worked for twenty-one until thirty years, and twelve participants have worked for above thirty years. Based on the level of education, there are one hundred and seven participants are bachelor's degrees and one hundred and twenty participants are graduate degrees.

The frequency distribution results show that participants have a high average answer for the norm of reciprocity variable, as well as for the trust, high cultural context, initial budget, and budget revision decision making. Participants indicated that the highest answer to the norm of reciprocity variable was "the openness of all parties during the decision-making process".

The lowest answer is on the indicator of "the amount of budget allocation for each activity is fair and according to its allocation". For the trust variable, the highest answer lies in the indicator "neither party takes advantage of each other". The lowest answer lies in "the consistent attitude shown by all parties". The respondent's answer to the high context variable shows that the indicator "disagreement is not shown openly to maintain harmony" is the respondent's highest answer. "Difference in education level, peerage becomes a barrier to expressing opinions" is the indicator with the lowest answer. The highest answer for the initial budget variable is "the budget indicator containing programs and activities that have beneficial values". "The initial budget indicator has been agreed with all parties" is the indicator with the lowest answer. In the budget revision decision-making variable, the indicator "budget change is not due to inadequate planning" is the indicator with the highest answer. The indicator "increasing the budget for bureaucratic spending has taken into account the social conditions of the local community" is the indicator with the lowest answer. The following stage after the assessment is running the data using SMART-PLS3.

The first stage of PLS-SEM is the measurement model. The measurement model consists of validity and reliability testing. The outer loading value around 0.5-0.6 can still be accepted due to the development of indicators (Chin, 1998). As for the reliability, we can see from the composite reliability value. Hair, Sarstedt, Hopkins & Kuppelwieser (2014) stated that if the constructed value  $> 0.7$ , then the construct has excellent reliability. Based on the test results, the outer loading value is above 0.5, and the reliability values of all variables are above 0.7. The result of outer loading and composite reliability values can see in table 1 below.

Table 1  
Measurement model

Variable	Outer loading	Composite reliability
Initial Budget Decision (1=strongly not agree, 5=strongly agree)		0.924
IBD1- Annual work plan has reflected the ideas and aspirations of all elements in the working unit	0.799	
IBD2- Annual work plan has accommodated all internal working unit interest	0.836	
IBD3- Annual work plan restrict the misuse of budget	0.834	
IBD4- Annual work plan is the result of collective agreements, not individuals	0.822	
IBD5- Annual work plan contains programs and activities that have benefits for the community	0.834	
IBD6- Indicators and performance targets are the results of mutual agreement from all elements	0.783	

<p>Norm of Reciprocity (1=strongly not agree, 5= strongly agree)</p> <p>NoC1- The commitment reduces the burden of responsibility during the initial budget implementation</p> <p>NoC2- Superiors and subordinates do the same thing you did</p> <p>NoC3- The more open all parties are, the easier the decision-making process will be</p> <p>NoC4- The amount of the proposed budget allocation for each activity is fair and under its allocation</p>	<p>0.866</p> <p>0.841</p> <p>0.859</p> <p>0.845</p>	0.914
<p>Trust (1=strongly not agree, 5= strongly agree)</p> <p>TR1- all parties trust each other during negotiation</p> <p>TR2- the agreement is the objective of all parties</p> <p>TR3- no one tends to obstruct the communication</p> <p>TR4- all parties behave consistently</p> <p>TR5- no one tries to take advantage of each other</p>	<p>0.874</p> <p>0.843</p> <p>0.821</p> <p>0.865</p> <p>0.710</p>	0.914
<p>High context (1=strongly not agree, 5= strongly agree)</p> <p>HC1- the uplifting vibe is essential to keep the harmonization during a negotiation</p> <p>HC2- ruthless disagreement discourages the negotiation process</p> <p>HC3- all parties stay away from open conflict to keep the harmonization during a negotiation</p> <p>HC4- <i>Ewuh-pakewuh, sendiko dhawuh</i> culture restrain all parties to communicate disagreement to the leader</p> <p>HC5- the disparity in knowledge, privileged title, and respectable class in the public arena discourage subordinates to give his/her criticism</p>	<p>0.834</p> <p>0.858</p> <p>0.842</p> <p>0.883</p> <p>0.902</p>	0.936
<p>Budget revision decision making (1=strongly not agree, 5= strongly agree)</p> <p>BRDM1- The budget was prepared through a negotiation process and involved all units within the organization</p> <p>BRDM2-Adjustments are made regardless of the achievement targets that have been set at the budget formulation stage</p> <p>BRDM 3- The additional budget for bureaucratic</p>	<p>0.806</p> <p>0.804</p> <p>0.837</p>	0.931

spending has taken into account the social conditions of the local community		
BRDM 4-Reducing the target achievement does not reduce the posts related to services to the community	0.824	
BRDM 5- Flexibility in changing budgets helps DPOs to achieve performance targets.	0.792	
BRDM6-Budget revision considers the achievement of activity outputs	0.831	
BRDM7-Budget changes occur due to inadequate planning (RQ)	0.781	

The next step after the measurement model is testing the structural model. Some essential structural model metrics are essential such as collinearity issues, R<sup>2</sup>, f<sup>2</sup>, and Q<sup>2</sup>, before running the test for the significance of the structural path coefficients. All VIF values are below five, so the model is freed from the collinearity issue. The R<sup>2</sup> value relate to the whole model was 0,423 and included as weak. The f<sup>2</sup> effect size is categorized into three categories. A value of 0.02 represents minor effects, 0.15 as a medium effect, and 0.35 as significant effects. The medium effect was high context to budget revision decision making with 0.180, followed by an initial budget decision to high context with 0,065, and norm of reciprocity to budget revision decision making with 0,035. The rest variable has no effect size. Q<sup>2</sup> values were used as predictive relevancy of the models. Q<sup>2</sup> values in this research were 0.279 for budget revision decisions making shows that all the endogenous latent variables were predictive and relevant for the models.

Research using primary data is prone to common method bias. Common method bias refers to bias that can arise due to participants' perceptions when filling out a questionnaire. Kock (2015) states that the common method bias can be seen from the outer VIF value. The outer VIF value below 3.3 indicates that the research model is free from common method bias. The results of the outer VIF value in this study show a value below 3.3. Thus, it can be concluded that the research model is free from bias.

The hypothetical test results appear in table 2 below:

Table 2  
Model structural

	Path	Estimate	Conclusion
H	IB → BRDM	0.358***	H1 accepted
H	IB → NoC	0.658***	H2 accepted
	IB → Trust	0.487***	H3 accepted
	IB → HC	0.211***	H4 accepted
	NoC → BRDM	0.119	H5 not accepted
	Trust → BRDM	0.269***	H6 accepted
	HC → BRDM	0.100**	H7 accepted
	IB → NoC → BRDM	Direct effect	H8 not accepted
	IB → Trust → BRDM	Complementary	H9 accepted
	IB → HC → BRDM	Complementary	H10 accepted

\*\*\* significance level at .01

\*\* significance level at .05

Table 2 shows that 9 out of 10 hypotheses are accepted, as well as with the mediation test. The initial budget is essential as a basis for reference in making changes. In general, social exchange in the form of the norm of reciprocity (NoC), trust, and high context positively influence budget revision decision-making. It means social exchange can improve the quality of budget revision decision-making.

One rejected hypothesis indicates that NoC does not implement as intensely as the initial budget preparation time. Molm (2003) reveals that individuals in conditions with no exchange will minimalize to have a reciprocal relationship. Another fact that triggers are the situation and conditions in budget revision. Budget revisions are caused by major factors that cannot be avoided. The choice of a budget actor is evident, must follow the changing circumstances and conditions. This is in line with what Molm (2003) stated that the basis of individual exchange could choose. The demographic data of participants also support the results of the study. The majority of participants are line managers responsible for executing rather than making the final decision.

The results of the mediation test showed a non-meditating direct effect between the initial budget, norm of reciprocity, and budget revision decision-making variables. This result is influenced by the norm of reciprocity variable, which does not affect the budget revision decision making. Trust and high context are proven to have complementary partial mediation with budget revision decision making. These results prove that trust and high context improve the quality of decision-making during budget revisions. In high context culture, budget actors

prioritize organizational interests over personal interests and entwine intense communication between fellow budget actors during the budget revision process to reach the best decision in the middle of an uncertain situation.

### **ADDITIONAL TESTING**

Additional testing was carried out to see if there were differences in social exchange practices in Central Java and DIY Provinces. This needs to be done considering the differences in regional head elections between the two provinces. The governor of DIY Province is also a Sultan who has led the Yogyakarta Province for life. The Sultan is a figure who is highly respected and obeyed by both his subordinates and society.

The testing phase is carried out with the same steps as the previous test, except by adding one dummy variable, namely origin. The origin variable is measured using a dummy variable, 1 = Central Java Province; 0 = DIY Province. The test results at the measurement model stage showed that the validity and reliability of each variable were acceptable, as required by Hair et al. (2017). The next stage is structural model testing. Some important structural model testing is important before testing the significance of the structural path coefficients, such as collinearity issues, R<sup>2</sup>, f<sup>2</sup>, and Q<sup>2</sup>. Collinearity testing shows inner VIF values are below five, so the model is freed from the collinearity issue. Outer VIF values are below 3.3, so the model is freed from bias. R<sup>2</sup> value related to the whole model was 0,422 and included as weak. The f<sup>2</sup> effect size is used to evaluate whether the omitted construct has a substantive impact on the endogenous construct. The f<sup>2</sup> effect size is categorized into three categories. A value of 0.02 represents minor effects, 0.15 as a medium effect, and 0.35 as significant effects. The larger effect was an initial budget to the norm of reciprocity with 0.735, followed by a medium effect initial budget to trust with 0,287, initial budget to budget revision decision making with 0,125, and trust to budget revision decision making with 0.082. The rest variable has no effect size. Q<sup>2</sup> values were used as predictive relevancy of the model. Q<sup>2</sup> values larger than zero indicate the path model's predictive relevance for a particular dependent construct. Q<sup>2</sup> values in this research were 0.280 for budget revision decisions making shows that all the endogenous latent variables were predictive and relevant to the model.

The results of structural model testing with additional variables of origin show differences in the trust and high context variables between Central Java and DIY Province. There is a tendency for the trust and cultural context of Central Java Province to be lower than in DIY Province. This result can be triggered by the situation and cultural conditions between the two provinces. Although both provinces adhere to Javanese culture, the role of culture in DIY Province is more decisive. Javanese culture believes that the "Sultan" is the representative of God on earth. It holds the way of thinking that the Sultan is generous as the wind, providing earnestly, genuinely, and profoundly, and ensuring society's welfare. Those qualities live in the DIY society, mainly in DIY provinces. The outcome gives another understanding of how the leader has such high worth and is complied by subordinates and society.

On the other hand, origin does not affect the reciprocal relationship and budget revision decision making. The reciprocal relationship is not very developed in the budget revision process. Government policies and environmental conditions limit both individual options for change and bargaining. Budget revisions are made within the corridor of laws and regulations. The state civil apparatus is obliged to make changes while remaining oriented toward achieving performance. In this condition, the laws, government, and local government regulations become the primary reference.

## CONCLUSIONS

The results of this study are consistent with social exchange theory and prove that social exchange mediates the decision-making taken by budget actors when budget revision occurs. Decision-making during budget revision requires communication and willingness to sacrifice personal interests to achieve mutual agreement between all parties involved in the budget revision. However, some essential notes need to be considered based on the results. First, although limited by regulations, the reciprocal relationships should be improved during the budget revision process. The reciprocal relationship triggers the flow of information, commitments, and responsibilities of budget actors. This process is necessary so that the subordinates feel included and needed by the superior. Second, participants' answers related to the trust variable show that the consistency of all parties involved in the budget is still low. This finding needs to be followed up by the superior. If neglected, trust among budget actors may reduce and will harm the organization in the future. Third, the respondent's answer implied that the initial budget was not prepared based on an agreement between all parties involved in the budget. This finding strengthens the results of previous research, which found evidence that agreement on the initial budget was difficult to achieve. Fourth, the additional budget for bureaucratic spending does not consider the local community's social conditions.

This research cannot be separated from several limitations. First, the imbalance of the respondent's position can lead the results to represent the head of the subdivision. Second, this study's adjusted R square value is 0.423, and it falls into the weak category. Third, the social structure in this study refers explicitly to Javanese culture and the results of this study cannot be generalized to regions or states with different cultural contexts. Future research can balance participants' positions so that they can get a more balanced picture of participants' perceptions. Future research models can improve by adding independent variables. The cultural context of future research can be adapted to the local cultural context in which future research is conducted.

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