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## **The Effect of Culture on Budgetary Slack: Evidence from Jordan**



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# **The Effect of Culture on Budgetary Slack: Evidence from Jordan**

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## **Abstract**

We investigate the relationship between Hofstede's cultural values and budgetary slack in Jordanian financial companies listed on Amman Stock Exchange (ASE). The financial sector companies were selected because managers within these companies often have better understanding of accounting practices, including budgeting, than managers in non-financial companies. Data are collected, using a questionnaire, from 54 individuals who occupy a financial manager position or head of department within these companies. Based on the non-parametric one sample t-test, the results show that power distance, uncertainty avoidance, collectivism, femininity and short-term orientation are positively associated with budgetary slack, while restraint is negatively associated with budgetary slack.

**Keywords:** Budgetary Slack, Cultural Values, Financial Companies, Jordan, Power Distance, Uncertainty Avoidance.

# أثر الثقافة على الراكذ في الموازنة: دليل من الاردن

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باحث

## ملخص

باستخدام عينة قدرها 147 شركة من السوق السعودي (تداول) خلال عام 2017م، كانت الغاية من هذه الدراسة هو لتقصي العلاقة بين خصائص الشركة ومستوى الإفصاح الاختياري في التقارير المالية المنشورة. يقصد بخصائص الشركة الربحية، وعمر الشركة، وحجم الشركة، ومكتب المراجعة الذي تتعامل معه الشركة، والملائمة المالية وهيكل الملكية. وفقاً لمنهجية الدراسة، تم قياس الإفصاح الاختياري بناء على مجموعة العناصر، وكذلك خصائص الشركة اعتماداً على الدراسات السابقة. باستخدام الانحدار الخطي لتحديد العلاقة، توصلت هذه الدراسة إلى أن الربحية، وحجم الشركة والملكية الحكومية تؤثر إيجابياً في الإفصاح الاختياري بينما الملكية العائلية تؤثر سلباً عليه. هذه الدراسة يتوقع أن تكون مفيدة للمستثمرين والإدارة وللمشرعين في فهم تأثير خصائص الشركة على الإفصاح الاختياري ومن ثم تحسين جودة الإفصاح بشكل عام مستقبلاً.

الكلمات المفتاحية: الأردن، الشركات المالية، الراكذ في الموازنة، القيم الثقافية، تباعد السلطة، تجنب الشك.

## Introduction

Budgeting is a planning and controlling tool used by management that involves the estimation of revenues and expenses for a future period of time. It enables them to concentrate resources towards improving profits, reducing costs and increasing returns on investment. It is also used in performance evaluation; part of the budgeting function involves tracking actual revenue and expenses for a period and comparing them to what was budgeted for that period. However, since the incentive system in any organization is, to some extent, associated with performance, managers have incentives to set estimates for revenues and costs that can be easily achieved. This is referred to as budgetary slack. Even though some research provide evidence of a favorable effect for budgetary slack within organizations (see e.g. Covalleski et al. 2003; Davila & Wouters 2004; and Elmassri and Harris, 2011)<sup>1</sup>, most research indicate that budgetary slack is an unfavorable practice, as it results in misrepresentation of the organization's financial performance and position, which eventually affects the well-being of the organization. Leibenstein (1966), Williamson (1964) and Nouri (1994) indicate that one of the negative effects of budgetary slack is that it leads to inefficient resource allocation because it affects information reliability and performance evaluation within organizations.

Previous research on budgetary slack has examined several factors that may affect the creation of slack in budgets: budget participation, budget emphasis, information asymmetry, and organizational culture. For example, Sudirman et al. (2018) and Hormati et al. (2017) show a negative relationship between budget participation and budgetary slack. Van der Stede (2000) argues that putting more emphasis on budgets leads to have mandatory slack. Likewise, Jaworski and Young (1992) find that information asymmetry is positively related to budgetary slack. In addition, Sudirman et al. (2018) and Ajibolade and Akinniyi (2013) indicate that organizational culture has a negative relationship with budgetary slack.

The objective of this study is to examine the relationship between culture and budgetary slack. Specifically, it examines the effect of Hofstede's cultural values on the propensity for managers to create slack in budgets in the Jordanian financial sector corporations. The cultural values examined are the most dominant values for Jordan according Hofstede's website 2017, which include large power distance, collectivism, high uncertainty avoidance, femininity, short-term orientation, and restraint. The analysis is based on data collected from individuals directly involved in the budgeting process, particularly, employees occupying financial manager or head of department position within the financial

sector companies. While most previous research addressing this issue is based on non-financial sectors, such as the manufacturing sector, this study chooses the financial sector setting to widen the research evidence on this issue. In addition, managers in these companies often possess better understanding of accounting and budgeting process than managers in non-financial companies<sup>2</sup>.

The Jordanian culture provides an interesting setting in which to examine how accounting practices may be affected. People in such a developing economy tend to have large power distance, short-term future orientation, high degree of collectivism and high degree of uncertainty avoidance (Hofstede, 1980, 2001, 2010). According to Gray (1988), accounting practices, including budgeting, associated with such cultural values have tendency toward statutory control (i.e. the imposition of force on accountants to comply with prescriptive legal requirements with the backing of legal sanctions for non-compliance), uniformity (which is consistent with a strong uncertainty avoidance leading to a concern for law and order and rigid codes of behavior, a need for written rules and regulations, a respect for conformity and the search for ultimate, absolute truths and values), and conservatism (which is also consistent with strong uncertainty avoidance following from a concern with security and a perceived need to adopt a cautious approach to cope with uncertainty of future events).

Our motivation for this study is the lack of research that examines the impact of culture on budgetary slack. In addition, most previous research investigates the effect on budgetary slack of two cultural values at most. For example, Abu Bakar et al. (2014) examine the effect of power distance. Kanan et al. (2013) examines the effect of individualism/collectivism cultural dimension. Lau and Eggleton (2004) examine the effect of individualism and power distance. Ueno and Wu (1993) examine the effect of individualism/collectivism and uncertainty avoidance. Mohamed Adnan and Sulaiman (2016) examine the effect of collectivism, represented by religion. Delemark and Listerby (2013) examine the effect of uncertainty avoidance and power distance. Nouri and Kyj (2013) examine the effect of collectivism (represented by normative and instrumental commitment). To the best of our knowledge, no research has considered the effect of multiple cultural values on budgetary slack. Moreover, there is no published research that investigates the effect of masculinity/femininity, long-term/short-term orientation, and indulgence/restraint on budgetary slack.

Our analysis provides significant contributions to the existing literature. First, it confirms the findings in previous research that culture affects accounting practices including budgeting. Second, it provides evidence that Hofstede's cultural values for Jordan affect the propensity to create slack in budgets in the financial sector of

Jordanian corporations. The findings in this study might be of concern to owners or superiors who use budgeting in performance evaluation. Based on the results, superiors should pay more attention during the budgeting process and set rigid budgetary controls to reduce budgetary slack in organizations in societies having large power distance, collectivism, high uncertainty avoidance, femininity, short-term orientation, and indulgence (as opposed to restraint).

The remainder of the paper is organized as follows: in the next section we provide a theoretical background related to both cultural values and budgetary slack. In section 3 we review some prior research related to effect of culture on budgetary slack. In section 4 we discuss the research method used in this study. Section 5 presents the results. Finally, section 6 concludes with a summary of the research, a discussion of some limitations of the research, and some suggestions for future work.

## **Background**

### ***Budgetary Slack***

Budgetary slack is defined as the overestimation of budgeted costs, expenses or production capabilities and the underestimation of revenues in order to ease the achievement of budget goals (Onsi, 1973; and Ueno and Sekaran, 1992). Likewise, Dunk and Nouri (1998) defines budgetary slack as the manager's behavior of setting goals that are easily achievable. Kren (2003) define budget slack as the excess amount of financial and non-financial resources controlled by a manager over the optimal amount needed to accomplish his objective. The propensity to create slack in budgets generally stems from managers' need to protect their own faces against upper managers and keep them satisfied with their performance and avoid losing their jobs. It also stems from their need to have cushion and buffer against uncertainty and unforeseen circumstances (Sabeni and Sabeni, 2004; Baerdemaeker and Bruggeman, 2015; Linn et al., 2001; and Huang and Chen, 2009).

Onsi (1973) identify four factors of budgetary slack. These are slack attitude, slack manipulation, slack institutionalization and slack detection. Slack attitude refers to a manger's attitude toward slack. Slack manipulation indicates how a manager builds up and uses slack. Slack institutionalization is what makes the manager less inclined to reduce his slack. Slack detection refers to superiors' ability to detect slack in budgets given the amount of information they receive.

Prior research has generally examined several factors that affect budgetary

slack: budget participation, budget emphasis, information asymmetry, and organizational culture. Budget participation is a management control system where employees are enabled to participate in setting budgets related to their work fields (Wang and Hunton 2011). Wentzel (2002) suggest a positive relationship between budget participation and management's fairness perceptions, goal commitment and job performance. Most studies agree that budget slack is associated with budget participation (e.g. Su and Ni 2013, Ozer and Yilmaz 2011, Venkatesh 2012, Young 1985). For example, Venkatesh (2012) argues that budget slack is positively related to budget participation. When budgets are participative, employees are provided with an opportunity to overestimate production capabilities and costs and to underestimate revenues to make budget goals easy to achieve. However, other researchers like Onsi (1973) disagree with Venkatesh upon the direction of the relationship between budget participation and budget slack. Onsi argues that the two variables are negatively related. In addition, Van der Stede (2000) argues that putting more emphasis on budgets leads to have mandatory slack. Also, Jaworski and Young (1992) find that information asymmetry is positively related to budget slack. Finally, Sudirman et al. (2018) and Ajibolade and Akinniyi (2013) find that organizational culture has a negative relationship with budgetary slack.

### **Culture**

Several definitions have been provided in the literature for culture. For example, Kroeber and Parsons (1958:583), define culture as "transmitted and created content and patterns of values, ideas, and other symbolic meaningful systems as factors in shaping human behavior". Barnouw (1979:5) defines culture as "..... the configuration of ..... stereotyped patterns of learned behavior which are handed down from one generation to the next through the means of language and imitation ....". Hofstede (2001:9) defines culture as "the collective programming of the mind which distinguishes the members of one category of people from another ..... [and] includes systems of values". While he was working with IBM during the 1960s and 1970s, Hofstede developed a cultural model that has formed the basis for much of the national culture research conducted in recent decades. He examined data on cultural values from more than 115,000 IBM employees in 50 countries in three regions around the world. Based on this work, he identified four cultural dimensions (subsequently expanded to five in 1991 and then to six in 2010) to reflect the core values of various cultures and to help differentiate cultures from one another. Hofstede's cultural dimensions are discussed below:

### *1. Large versus Small Power Distance*

Power distance refers to the distribution of power among individuals within a society. In large power distance cultures, superiors and leaders control the decision-making process with either low or ineffective participation of lower level employees and keep themselves in distance from subordinates and set their uncompromising and non-negotiable orders and directions. On the other hand, in small power distance cultures, employees share the responsibility of decision making with their superiors through work teams. Ueno and Sekaran (1992), indicate that in large power distance societies, employees simply play the role of accepting management's decisions and do what they are ordered to do, while, in small power distance societies, there is almost a domination of equal relationships between management and subordinates and power is almost equally distributed between them.

### *12. Individualism versus Collectivism*

This dimension describes how people within a society integrate into groups. Individualism refers to weak link between individuals within a society and a person takes care of him/herself and his/her immediate family. In individualistic societies, individuals believe in the concept of "I". People claim for their right of privacy, everyone is supposed to freely express his opinion even if it is harmful to others, no place for groups and people look at others as individuals, people only feel guilty for breaking laws and norms, students are taught how to learn and tasks are above relationships and loyalty (Hofstede 2011). On the other hand, collectivism refers to strong connections among people and caring for others. In collectivist societies, people have a great tendency to favor the concept of "We". People feel themselves obligated to the group they belong to, they try to maintain harmony in their discussions, they look at others as in-group or out-group persons, they feel shame for breaking laws and norms, students are taught how to do, not how to think, and relationships and loyalty are usually above tasks (Hofstede 2011).

### *3. High versus Low Uncertainty Avoidance*

Uncertainty avoidance refers to how individuals within a society cope with uncertain future without having additional stress. Hofstede (2011) argues that in high uncertainty avoidance cultures, uncertainty is felt as a threat and people must fight it as it creates stress and worry for them. People pay less attention to being in good health and well-being, deviant opinions are ignored or even suppressed, and change is feared, situations must be clear and structured, and job holding is supported. On the other hand, in low uncertainty avoidance



cultures, uncertainty is accepted, life is easy, stress is low and nothing is to worry about, people pay more attention to subjective health and well-being, deviant opinions are heard and change is supported, people feel more comfortable with unstructured situations, and they have no problem in changing their jobs.

#### *4. Masculinity versus Femininity*

This dimension refers to the distribution of societal values among individuals based on their gender. According to Hofstede (2011), women's values and men's values can be viewed as two poles. Men's values represent the assertive pole which is called masculinity. On the other side, women's pole represents the modest and caring pole which is called femininity. In feminine societies, values are dominant for those who play the role of both males and females, people direct their care toward life quality, which is considered as a success sign, the role of showing off is not considered, people are motivated to like what they do, and attention is paid for small things, women and men have the same modest and caring values, emotional and social roles are less differentiated between genders, individuals maintain balance between work and family obligations, weak people are sympathized with, parents share feelings and facts with each other, women can hold political positions, and mothers are responsible for managing family affairs like deciding the number of children (Hofstede 2011).

On the other hand, in masculine societies, attention is paid for big things which are considered beautiful, people focus on playing the role of performance and showing off, people focus more on the concepts of 'winner' and 'heroism', and are motivated to be the best in what they do. Emotional and social roles are highly differentiated between genders, work comes first before family, strong people are admired, fathers take the charge of dealing with facts and mothers take the role of dealing with feelings, men occupy more high political positions compared to women, family affairs, like deciding the number of children, are men's responsibilities (Hofstede 2011).

#### *5. Long-Term versus Short-Term Orientation*

In societies with long-term orientation, values are found to be persistent, the sense of shame is highly perceived, people plan more for the future, family members share their life tasks, people learn from other countries, success is referred to efforts and failure happens due to lack of effort, and good and evil are not defined by guidelines but by circumstances. On the other hand, in societies with short-term orientation, people consider the importance of serving others and protecting one's face, people plan for current short term periods, good and evil are defined by universal guidelines (usually short and normatively-based

argument is adhered to), family members deal with life tasks by imperatives, and success and failure are referred to luck (Hofstede 2011).

### *6. Indulgence versus Restraint*

Indulgence refers to societies allowing gratification of human basic desires of enjoying life, while restraint refers to societies controlling gratification of basic human requirements. In indulgent societies, people focus on enjoying life and being happy, people claim for the freedom of speech, positive emotions are more likely remembered, birth rates are high, high percentage of fat people, and order in nation is not prioritized. On the other hand, in restrained societies, people appear less happy and less concerned with freedom of speech. Positive emotions are less likely remembered, low percentage of fat people, order in nation is prioritized and police role is magnified (Hofstede 2011).

## **Literature Review and Research Hypotheses**

Little research has been done to examine the effect of culture on budgetary slack. The existing research on this issue has considered at most two of the cultural values/dimensions identified by Hofstede. We review previous research that is most relevant to our study.

Lau and Eggleton (2004) examine the effect of national culture, budget participation, budget emphasis, and information asymmetry on the propensity to create slack in budgets in Singapore and Australia. National culture is represented by individualism and power distance. Data are collected using a questionnaire from two subsamples; one from Singapore and another from Australia. They find no significant effect for national culture on managers' propensity to create slack. However, they develop and test a three-way interaction model involving national culture, budget emphasis and information asymmetry affecting subordinates' propensity to create slack. They show that there is a significant interaction among the model elements. They argue that power distance helps managers to select the appropriate participation level and the proper combination of information asymmetry and budget emphasis to minimize slack creation. In low power distance cultures, the top management's choice of participation level is restricted because they may be forced to have a low level of participation which leads them to select a combination of information asymmetry and budget emphasis to reduce the creation of budget slack. In addition, Lau and Eggleton (2004) argue that since budgetary slack is affected by budget participation, in a society with low individualism (i.e. collectivistic society), there is a strong feeling of employee's belonging to their organizations, which is consequently reflected on the budgeting process and the organization's belief of group decisions is

enhanced. Hence, collectivistic is positively related to budget participation and negatively related to slack.

Ueno and Wu (1993) examine the impact of individualism/collectivism on budget control practices in the United States and Japan. According to Hofstede website, America is an individualistic country while Japan is a collectivistic country. They used a questionnaire survey to collect data from 452 participants; 205 for U.S. and 247 for Japan. They show that the extent of building budget slack in US companies is higher compared to Japan. In an individualistic society, managers tend to create more slack in budgets to get positive evaluation since performance evaluation is based on individual achievements. However, in a collectivistic society, manager's propensity to create slack is less than it is in an individualistic one.

Delemark and Listerby (2013) examined the effect of power distance and uncertainty avoidance on budgetary slack. They conducted interviews with 31 Russian and Swedish employees of a Swedish multinational company. While Russian culture has higher power distance and uncertainty avoidance than Swedish culture, they show that budget slack is built more by Russian employees compared to Swedish employees. Russian managers build more slack in their budgets to hedge against the unknown compared to Swedish managers who do not need to do that because of the low uncertainty avoidance in their national culture.

Kanan et al. (2013) examine the impact of the individualism/collectivism cultural dimension on budgetary slack in multicultural companies operating in the Libyan oil industry. The study compares Libyan (i.e. collectivism) and Anglo-American (USA, Canada, UK, and Australia) (i.e. individualism) in terms of creating slack in budgets in order to meet budgeted goals and, therefore, receive rewards. Data were collected from both Libyan and Anglo-American managers and employees who have direct experience in the budgeting process. The results show that there is no significant difference between Libyan and Anglo-American employees in term of creating budgetary slack and conclude that individualism/collectivism does not exert an influence on creating slack in budgets as were hypothesized.

Mohamed Adnan and Sulaiman (2016) examine the impact of religion, specifically Islam, and religiosity on managers' propensity to create slack in budgets. Islam represents collective and restraint cultural values. They explain Islam's negative attitude toward slack from economic, organizational behavior and agency theory perspectives. A questionnaire was distributed to 91 middle-level managers of one company; a Malaysian based Korean company. Budget slack was expected to be less created by Muslim managers (representing restraint) compared to other non-Muslim managers (representing indulgence).

However, they found no significant difference between the slack created by Muslim and non-Muslim managers.

Our study contributes to the existing literature related to the effect of culture on budgetary slack, by providing evidence on the effect on budgetary slack of all cultural values developed by Hofstede.

### ***Jordan, Hofstede's Cultural Values, and Budgetary Slack***

According to Hofstede's cultural values, the Jordanian society is classified as being large power distance, collectivistic, high uncertainty avoidance, feminine, short-term oriented, and restraint. The scores assigned to these cultural values for Jordan in Hofstede's (2017) indexes are as follow: The power distance score is 70%, the collectivism score is 70%, the uncertainty avoidance score is 65%, the femininity score 55%, the short-term orientation score is 84%, and finally, the restraint score is 57%,

In high power distance societies, and because the incentive system in any organization is partly associated with achieving budgeted targets, managers would use their influence on their subordinates during the budgeting process to overestimate costs and production capabilities and underestimate revenues, to ensure that budgeted targets can be easily achieved and, therefore, receive the rewards associated with meeting these targets. On the other hand, managers in low power distance societies would allow their subordinates to participate in budget setting. Subordinates feel more independent in setting expenses, revenues and production capabilities so the influence of managers on the budgeting process would be weaker compared to societies with high power distance cultures. Thus, we expect a positive relationship between power distance and budgetary slack in the Jordanian financial sector companies.

In collectivistic societies, people have strong connections among themselves and care for each other. Each individual feels obligated to the group members he/she belongs to. As managers and subordinates belong to one group (organization), they would work together for the interest of the group. Managers, with the help of subordinates, would prepare budgets that are easily attainable to themselves and their subordinates. This would include a reasonable level of slack in the budget to guarantee that the work is performed in a desired manner and, at the same time, helps to achieve budgeted goals. Therefore, we argue that there is a positive relationship between collectivism and budgetary slack

In societies with high uncertainty avoidance, there would be some fear that budgeted targets would not be met due to unexpected circumstances. Therefore, managers are motivated to create slack in the budget to get over any risk that may arise because of the uncertain future. Thus, we expect a positive relationship between uncertainty avoidance and budgetary slack.

In a feminine society, preference is for cooperation, modesty, caring for the weak and quality of life. Society in general is more consensus oriented. In societies with such values, like Jordan, we expect that a manager would take into consideration the feelings and capabilities of his/her subordinates to build easily attainable budgets. The manager relies on the femininity dimension, particularly the psychological conditions of his/her subordinates and their capabilities in building budgets that guarantee doing work in the desired (predetermined) performance. Therefore, we expect a positive relationship between femininity and budgetary slack.

In short-term oriented cultures, managers focus on current period performance at the expense of long-term corporate strategy. From the managerial opportunism theory point of view, short-term behavior might be an optimal choice from a manager's perspective (Brauer, 2013); it could be associated with higher gains or benefits for managers. Since missing budgeted targets may have undesired consequences for managers such as the loss of annual bonuses (Merchant and Manzoni 1989), they would focus on improving current period performance (short-term orientation) even if this brings harm to long term planning effectiveness. Therefore, Management's short-term orientation and budget slack are expected to be positively related.

According to Hofstede (2010), a restraint society is a one that suppresses gratification of needs and regulates it by means of strict social norms. In a business environment, we expect that a manager would adhere to general laws, by-laws, quality controls, and the ethical system inside the organization when building budgets, which would discourage him/her to create budgetary slack in order to achieve personal benefits associated with meeting budgeted targets. Thus, we expect a negative relationship between restraint and budgetary slack.

### ***Research Hypotheses***

Based on the above discussion, the following two hypotheses were developed to examine the relationship between Hofstede's cultural values and budgetary slack in Jordan:

H1: There is a positive relationship between high power distance and budgetary slack.

H2: There is a positive relationship between collectivism and budgetary slack.

H3: There is a positive relationship between uncertainty avoidance and budgetary slack.

H4: There is a positive relationship between femininity and budgetary slack.

H5: There is a positive relationship between short-term orientation and budgetary slack.

H6: There is a negative relationship between restraint and budgetary slack.

## **Research Method**

### ***Sample and Data Collection***

The sample of the study consisted of all financial companies listed on Amman Stock Exchange (ASE) in 2017 (a total of 64 companies). Yet, the analysis is based on data gathered from 54 companies. A questionnaire survey was used to collect the data for the sample companies in two rounds. A copy of the questionnaire was first handed to the financial manager within each company. However, if no response is received, another copy is handed to any head of department within the company who generally participate in the budgeting process for his/her department. A total of 54 responses were received back, in the two rounds, with a response rate of 84.38%.

The questionnaire used to collect the data was developed by authors for the purpose of this study. A first draft of the questionnaire was initially developed. However, to ensure understandability and relevancy to measure the hypothesized relationships, it was refereed by five individuals with knowledge and experience in budgeting; particularly, academics and managers. Their notes were then taken into consideration in shaping a final version of the questionnaire (see appendix I).

### ***Variable Definition and Measurement***

The dependent variable in this study is budgetary slack. We represent budgetary slack using Onsi's (1973) suggested factors which consists of slack attitude, slack manipulation, slack institutionalization, and slack detection.

Slack attitude: refers to an individual's attitude toward slack.

Slack manipulation: refers to how an individual builds up and uses slack.

Slack institutionalization: is what makes an individual less inclined to reduce his slack.

Slack detection: refers to superiors' ability to detect slack in budgets given the amount of information they receive.

The independent variables are Hofstede's cultural values for Jordan including large power distance, collectivism, high uncertainty avoidance, femininity, short-term orientation, and restraint. These values are the dominant within the Jordanian culture.

Large power distance: refers to high degree of unequally distributed power among individuals within a society.

Collectivism: refers to strong connections among members of a society where each

member focuses on the benefit of the group (society) rather than on his/her own benefit.

High uncertainty avoidance: is a societal value where members of the society are less comfortable with uncertainty and attempt through rules, regulations, laws, controls, and behavioral norms to reduce or manage uncertainty and ambiguity.

Femininity: refers to a quality of a society having characteristics that are traditionally thought to be typical of, or suitable for, a woman, such as caring for others.

Short-term orientation: refers to a societal value where members are more concerned with the past and present and focus their efforts and beliefs on matters related to the short-term.

Restraint: refers to a society that suppresses gratification of needs and regulates it by means of strict social norms.

The questionnaire used to collect the required data consists of 23 statements which seek responses on the relationship between each of the six cultural value and the four factors of budgetary slack. These statements are developed in a way consistent with the hypothesized relationships. Likert scale is then used in rating the respondents' responses to each statement ranging from 1 (strongly disagree) to 5 (strongly agree). Finally, a mean is calculated for the respondents' response to each statement, which will be eventually used to examine the research hypotheses.

### ***Reliability and Validity of the Questionnaire***

Table (1) presents the result of Cronbach's alpha test for the questionnaire. According to Sekaran and Bougie (2010), the value of (%79.08) for alpha indicates that the questionnaire is reliable and valid to examine the variables and relationships of interests.

**Table 1: Cronbach's Alpha Test**

<b>Cultural Values</b>	<b>No. of Statements</b>	<b>Cronbach's alpha</b>
Power Distance	4	%85.9
Collectivism	*3	%74.5
Uncertainty Avoidance	4	%84.0
Femininity	4	%86.9
Short-Term Orientation	4	%74.8
Restraint	4	%68.4
Overall	24	%79.08

The effect of collectivism on \* slack manipulation and slack institutionalization are included in .one statement in the questionnaire

### ***Demographic Characteristics of Respondents***

Table (2) shows a summary of the demographic characteristics of respondents. As can be seen from the table, %79.63 of the respondents were males while only 20.37% were females. Most of them were between 41 and 50 years of age (%46.30). Also, %40.74 of the respondents have work experience of more than 15 years, and the majority of them have a bachelor's degree in accounting or related field (%75.93), and finally, %53.70 of them occupy a head of department position, and 46.30% of them were financial managers.

**Table 2: Demographic Characteristics of Respondents**

<b>Characteristics</b>	<b>Frequency</b>	<b>Percent</b>
<b>Gender</b>		
- Male	43	79.63%
- Female	11	20.37%
<b>Age</b>		
Less than 30 years	1	1.85%
From 31 to 40 years	22	40.74%
From 41 to 50 years	25	46.30%
More than 50 years	6	11.11%
<b>Work experience</b>		
From 5 to 10 years	12	22.22%
From 11 to 15 years	20	37.04%
more than 15 years	22	40.74%
<b>Academic Qualification</b>		
-B.A	41	75.93%
Postgraduate	12	22.22%
Other -	1	1.85%
<b>Work Position</b>		
-Head of department	29	53.70%
-Financial manager	25	46.30%



## Results

Table (3) shows the mean ( $\bar{x}$ ) and standard deviation of the respondents' responses to the statements related to the relationship between each of the six cultural values and the four factors representing budgetary slack. As the table shows, the respondents' mean response to statements 1 to 4, related to the effect of power distance on slack attitude, slack manipulation, slack institutionalization and slack detection are (3.833), (4.037), (3.926), and (4.037), respectively. The ( $\bar{x}$ ) values indicate that the respondents, on average, agree on these statements. That is, there is a positive relationship between the level of power distance and each of the four factors of budget slack. In addition, the ( $\bar{x}$ ) value of 3.958 on total slack indicates that there is a positive relationship between power distance and total slack.

**Table 3: Summary Statistics of Responses**

	Slack attitude		Slack manipulation		Slack institutionalization		Slack detection		Total Slack	
	$\bar{x}$	St. .Dev	$\bar{x}$	St. .Dev	$\bar{x}$	.St. Dev	$\bar{x}$	St. .Dev	$\bar{x}$	St. .Dev
Power distance	3.833	0.986	4.037	0.889	3.926	0.908	4.037	0.868	3.958	0.911
Collectivism	3.870	0.891	4.019	0.765	4.019	0.765	4.019	0.879	3.982	0.824
Uncertainty avoidance	4.074	0.773	4.204	0.833	4.111	0.793	4.093	0.759	4.120	0.786
Femininity	3.778	0.883	3.685	0.907	3.722	1.089	4.093	0.875	3.819	0.950
Short-term orientation	3.963	0.726	4.037	0.672	4.148	0.684	4.241	0.671	4.097	0.692
Restraint ((negative	4.185	0.675	4.389	0.564	4.463	0.503	4.556	0.502	4.398	0.578
Overall culture	3.951	0.835	4.062	0.804	4.065	0.836	4.173	0.788	4.063	0.819

The ( $\bar{x}$ ) values in the second row of table (3) indicate that most of the respondents agree with statements 5, 6, and 7, which suggest a positive relationship between collectivism and slack attitude, slack manipulation and slack institutionalization, and slack detection, respectively. Also, the ( $\bar{x}$ ) value on total slack (3.982) indicates a positive relationship between collectivism and total slack.

Regarding statements 8 to 11, related to the relationship between uncertainty avoidance and budgetary slack factors, the ( $\bar{x}$ ) values in the third row of table

(3) indicate that most of the respondents agree with these statements. The mean values of (4.074), (4.204), (4.111), (4.093), and (3.982) indicate that most respondents agree on a positive relationship between uncertainty avoidance and slack attitude, slack manipulation, slack institutionalization, slack detection, and total slack, respectively.

The respondents' mean response to the statements related to the relationship between femininity and slack attitude, slack manipulation, slack institutionalization, slack detection are (3.778), (3.685), (3.722) and (4.093), respectively (statements 12 to 15). These values indicate that most of the respondents agree on a positive relationship between femininity and budgetary slack. Likewise, the ( $\bar{x}$ ) values in the fifth row of table (3) indicate that most of the respondents agree that there is a positive relationship between short-term orientation and budgetary slack (statements 16 to 19).

Finally, the mean response to the relationship between restraint and slack attitude, slack manipulation, slack institutionalization, and slack detection are (4.185), (4.389), (4.463), and (4.556), respectively. This indicates that most of the respondents agree on a negative relationship between restraint and the four factors of budgetary slack (statements 20 to 23), as well as total slack which has a mean value of 4.398.

### ***Hypotheses Testing***

Table (4) shows the results of the non-parametric one sample t-test. Based on a hypothesized mean of 3 and a critical t-value of 1.96 for two tail t-test, the values in the first row of table (4) indicate that the relationship between the level of power distance and each of the four factors of budget slack as well as total slack is statistically significant at the 5% level (i.e. p-value is less than 0.025). Similarly, all t-values in the second, third, fourth and fifth rows of table (4) related to collectivism, uncertainty avoidance, femininity and short-term orientation are greater than 1.96. This means that the respondents' mean responses to a positive relationship between each of the five cultural values and budgetary slack factors are statistically different from the hypothesized mean of 3, and therefore, leads us to accept the first five hypotheses of the study and reject the null hypotheses that there are no statistically significant relationships exit.

**Table 4: One Sample T-Test Results**

	t-statistics				
	Slack attitude	Slack manipulation	Slack institutionalization	Slack detection	Total Slack
Power distance	6.212	8.568	7.493	8.780	15.452
Collectivism	7.177	9.789	9.789	8.512	17.509
Uncertainty avoidance	10.205	10.621	10.296	10.577	20.946
Femininity	6.472	5.548	4.874	9.181	12.680
Short-term orientation	9.749	11.342	12.330	13.586	23.303
Restraint	903.12	18.110	21.360	22.790	35.568
Overall culture	20.492	23.772	22.932	26.807	46.722

The t-values in the sixth row of table (4) indicate that the mean response to the relationship between restraint and slack attitude, slack manipulation, slack institutionalization, slack detection, and total slack are statistically different from 3 (i.e. all t-values are greater than 1.96), which leads us to reject the null hypothesis and accept the sixth hypothesis of the study that there is a statistically significant negative relationship between restraint and budgetary slack.

### Conclusion and Recommendations

The results of this study indicate that there is a positive relationship between high power distance, collectivism, high uncertainty avoidance, femininity, and short-term orientation, and budgetary slack (i.e. budgetary slack increases in the presence of these cultural values). Also, there is a negative relationship between restraint and budgetary slack (i.e. budgetary slack decreases in the presence of restraint).

Consistent with the results in previous research (e.g. Lau and Eggleton, 2004 and Delemark and Litherby, 2013), it is apparent that managers in the financial sector companies in Jordan utilize the high power distance between them and their subordinates to influence the budgeting process and set target estimates that can be easily achieved. By creating budgetary slack, they increase their chance to meet the budgeted targets, and thus receiving the incentives associated with these targets.

However, the results suggest that several cultural values in Jordan may simultaneously influence managers' propensity to create budgetary slack. For example, since the Jordanian society tends to be high in terms of uncertainty avoidance, managers would prepare their plans to cover short-term period. They are motivated to create slack in budgets in order to meet uncertain, short-term

period's expectations. They may also be supported by the collectivistic and femininity characteristics of the society as both of these values are associated with caring for others. Creating budgetary slack is consistent with caring for others from both managers and subordinates point of view. Subordinates care for managers' performance evaluation and managers care for subordinates' work pressure and job satisfaction.

Our result that that collectivism is positively related to budgetary slack is not consistent with Lau and Eggleton (2004) and Ueno and Wu (1993) who find a positive relationship between individualism (i.e. low degree of collectivism) and budgetary slack, and also with Kanan et al. (2013) who find that individualism/collectivism does not influence creating budgetary slack in the Libyan oil industry.

The result that the propensity of managers to create budgetary slack in Jordanian financial companies decreases with restraint seems to be reasonable. Although Jordan is a country governed by its constitution, people relationships and behaviors are affected by traditional norms that emanate from the country being a tribal society where the essence of people's behavior is subject to traditions. In addition, being an Islamic country, peoples' relationships and behaviors is governed by Islamic teachings, guidelines, and ethics which may contradict the idea of creating budgetary slack to achieve personal benefits.

### ***Research limitations***

One of the limitations of this study is the lack of resources that discuss the subject area. For example, at the time of conducting this study, there was no published research that examines the relationship between masculinity/femininity, long-term/short-term orientation, and indulgence/restraint and budgetary slack. Another limitation involves the possibility to generalize the results; the sample of the study consists of the financial companies listed on Amman Stock Exchange, while the cultural values characterize the whole society with its different classifications, not only a certain work nature. One may argue that different industries with different budgets and budgeting procedures may be differently affected by culture. Thus, whether the results hold for non-financial companies in Jordan still need to be examined.

### ***Recommendations***

Based on the results, this study recommends that owners or superiors, who use budgeting in performance evaluation, particularly, in the financial sector in Jordan, should pay more attention during the budgeting process and set rigid budgetary controls to reduce budget slack in organizations in societies having large power distance, high uncertainty avoidance, collectivism, femininity, short-

term orientation, and indulgence (as opposed to restraint). In addition, companies should train their employees to perceive the importance of separating accounting practices from social norms and traditions, and keep themselves away from emotional affections to maintain the reliance on accounting standards as the main and only reference. Companies should focus when building their internal systems on treating and dealing with employees' feelings and psychological conditions and try to increase employees' satisfaction to keep them away from building slack within budgets to achieve their own interests.

The study also recommends the following for future research. Future research may consider other cultural classifications or dimensions developed by other researchers, not just those developed by Hofstede. This can provide a clearer picture on the relationship between culture and accounting practices. In Jordan, for example, there are various regions, environments, religions and denominations. So peoples' habits, traditions, behavior and life styles differ from one class of people to another. These traditions, behavior, and habits emerge from their beliefs and thoughts. So the cultural dimensions cannot be stereotyped to all these classes due to their different thoughts and beliefs.

### **Notes**

1. Budgetary slack may improve the performance of employees and organizations; it is used to motivate employees, enable the work to achieve the goals of management and manage budget risk. It also encourages innovation and creativity of employees, absorbs stress, resolve conflicts and motivate employees to stay in the company.
2. The financial sector was less studied in the literature than other sectors. In addition, managers of companies in the financial sector are routinely involved with financial and accounting issues. Thus, they are expected to maintain knowledge and understanding of accounting practices including budgeting more than non-financial sectors managers.
- 3 . The direction of the relationship is based on the design of the questionnaire. The statements of the questionnaire were developed in a manner consistence with hypothesized relationships between the cultural values and budgetary slack factors.

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## Appendix I

### Questionnaire

#### A. Personal Information

Gender:

Male

Female

Work experience:

Less than 5 years

“ From 5 to 10 years

From 11 to 15 years

“ More than 15 years

Age:

Less than 30 years

“ From 31 to 40 years

From 41 to 50 years

“ More than 50 years

Academic qualification:

Diploma

“ B.A.

Postgraduate

“ Other (.....)

Work position:

Managerial Accountant

“ Head of department

Department Manager

“ General Manager

Other (.....)

**B. Cultural Dimensions and Budget slack**

ITEM 5		Strongly agree	agree	neutral	disagree	Strongly disagree
		4	3	2	1	
<b>Power distance</b>						
1	The manager uses his authority on subordinates to protect himself through building easily attainable budgets and exaggerates some numbers relying on the fact that budgeted numbers, often, cannot be easily verified					
2	The manager uses his authority and personal skills to make sure his department is working according to a desired (predetermined) performance					
3	The manager uses his authority relying on his strong personality and wide experience to build budget slack					
4	Through his authority, a manager can obtain the information from his/her subordinates that support his/her decisions in evaluating budget slack					
<b>Collectivism</b>						
5	The manager relies on the collectivism dimension in preparing budgets that are easily attainable to him/herself and his/her subordinates					

6	The manager relies on the collectivism dimension in preparing budgets that have a reasonable level of slack to guarantee that the work is performed in a desired level and, at the same time, helps achieving .budget goals					
7	The manager uses the collectivism dimension in his/her department to gain sufficient information that supports his evaluation of a .budget slack					
<b>Uncertainty avoidance</b>						
8	Through this dimension, the manager builds budgets that cover any uncertain future events in a way that greatly reduces his/her worries about the uncertain .future					
9	Through the uncertainty avoidance dimension, to make sure the work is done in a desired (predetermined) performance, the manager creates flexibility within budgets to take into account uncertain future events in a way that greatly reduces his/her .worries about uncertain future					
10	The effect of the high uncertainty avoidance dimension is greatly increased when the manager lacks cumulative experience which motivates him/her to build budget slack greatly to avoid worrying about uncertain future					

11	The uncertainty avoidance dimension enables the manager to increase his/her ability in .evaluating slack within budgets					
<b>Femininity</b>						
12	Because of the femininity dimension, the manager takes into consideration the feelings and capabilities of his/her subordinates to build easily .attainable budgets					
13	The manager relies on the femininity dimension, particularly the psychological conditions of his/her subordinates and their capabilities in building budgets that guarantee doing work in the desired (predetermined) .performance					
14	The femininity dimension and the wide experience of the manager give him the ability to consider his subordinates' psychological conditions and their capabilities in .building budget slack					
15	The femininity dimension gives the manager the ability to understand his subordinates' feelings and behaviors, which help him/her .evaluate the level of budget slack					
<b>Short time Orientation</b>						

16	The short-term orientation dimension leads the manager to build easily attainable budgets in the short run to protect him/herself when challenged top .management					
17	The short-term orientation dimension leads the manager to build easily attainable budgets that guarantee doing work to achieve desired (predetermined) .performance in the short run					
18	Through the short-term orientation dimension and the wide experience, the manager becomes able to build easily attainable budgets in the short .run					
19	The short-term orientation dimension gives the manager the ability to evaluate whether the level of slack is sufficient in order to ease the achievement of .budget goals in the short run					
<b>Restraint</b>						
20	The manager adheres to general laws and by-laws, quality controls and the system of ethics when building budgets to protect him/herself which motivates him/her .not to build budget slack					

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21	Through the manager's perception that adhering to standards and quality control policies represents an important part of performance evaluation which motivates him/her not to build budget slack, the manager abides by those policies to achieve the desired (predetermined) performance quality.					
22	The manager's wide experience helps him understand general controls, standards and the ethical system inside the organization and accordingly, adheres to them and accordingly is motivated to avoid building budget slack.					
23	The manager's adherence to policies, standards and the ethical system gives him/her with the sufficient ability to evaluate budget slack and avoid it.					