

# Supervisor Pressure VS Peer Pressure? Which One is The Worst in Creating Slack

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**Abstract.** Social pressure has long been a problem in the budgeting process. Social pressure is predicted to be one of the influencing factors in creating budgetary slack. There are at least three types of social pressure in the budgeting process, supervisor pressure, peer pressure and other pressure. There are many studies that show one type of social pressure has a negative impact on budgetary slack, but there is limited research that aims to compare which social pressures are most influential in creating budgetary slack. An experimental study using accounting students seeks to measure the impact of each social pressure on the budgeting process. The results of this research indicate that supervisor pressure has a higher impact on individuals to create budgetary slack. This research has implications for supervisor to be able to provide pressure that has a positive impact on their subordinates.

**Keywords:** *Budgetary Slack, Supervisor Pressure, Peer Pressure, Experimental Study*

## 1 Introduction

Achieving performance targets is one indicator of individual performance assessment [1]. Therefore, achieving budget targets is crucial for managers. Individuals who can achieve performance targets will receive compensation for their performance achievements [2]–[4]. Achieving the budget target will increase employee compensation [5]. This causes budget preparation to influence individual behavior. One of the impacts of performance appraisal based on budget achievement is unethical actions on individual behavior [6], such as budgetary slack [7], [8].

Budgetary slack occur when individuals intentionally report performance less than actual or apply for resources in excess of actual requirements [9]. Budgetary slack can also occur when individuals deliberately reduce their productivity to make it easier to achieve performance targets [4]. Individuals create budgetary slack to obtain rewards in the form of monetary rewards and non-monetary rewards. This behavior will certainly be detrimental to the organization in the long term. Budgetary slack will impact future profits and costs. Apart from that, the budget gap will damage top management's trust in middle management and middle management in bottom management [10], [11]. The budget setting process can be influenced by social pressure [12]. However, the creation of strong social control in organizations can cause individuals to carry out unethical actions, and can even cause fraud or violations within the organization [13].

Previous research has proven that social pressure can predict individual decisions in decision making. Social pressure can have both negative and positive impacts. However, most

research proves that social pressure has a negative impact on individuals. Individuals who are in a work environment with strong pressure tend to take action to save themselves from being fired and tend to improve their performance to avoid being fired [14]. Furthermore, social pressure has consequences for subordinates' obedience to supervisor and group desires [15]. Apart from that, individuals can even commit deviant actions because they do not have high authority [16].

Previous research shows that social pressure has a negative influence on budgetary slack [12]]. However, there is still limited research regarding social pressure, especially supervisor pressure and peer pressure in creating budgetary slack. Pressure from supervisor can influence individual psychology in decision making. This is because individuals do not have control over the decisions they make themselves. Individuals are required to fulfill the wishes of someone who has higher authority. In addition, individuals who are under pressure from colleagues will try to conform to the group's opinion in order to be accepted in the group [17]. Pressure from supervisor and peers can influence individuals in making decisions. Therefore, this research examines the influence of different social pressures (supervisors vs peers) on the creation of budgetary slack.

## **2 Literature Review**

### **2.1 Supervisor Pressure on Budgetary Slack**

Budgetary slack are created when individuals deliberately lower their productivity targets to make it easier to achieve performance targets [4], [11]. The creation of budgetary opportunities is motivated by the individual's desire to obtain monetary benefits in the form of bonuses, as well as non-monetary benefits in the form of recognition and promotion. This behavior will certainly be detrimental to the organization in the long term. Apart from that, the tendency for this behavior will be higher if the individual experiences pressure from supervisor. Individuals who are under pressure will be willing to take any action to save themselves from being fired or to get compensation [14]. Previous research stated that individuals will act outside the principles of their values if they receive pressure from individuals who have higher authority [16]. The creation of social control by stronger individuals will have the potential to encourage individuals to carry out unethical actions, even leading to violations [1], [13]. This is in line with previous research which proves that when respondents are under pressure from supervisor, the majority of respondents make budgetary slack even though they know this is unethical [18].

The action of creating a budget gap is driven by the individual's fear of the negative impact they will receive, such as being fired from work, if they do not comply with the wishes of individuals who have higher power and authority [15]. This individual fear causes individuals to lose their authority, especially in making decisions that are in accordance with their values and life principles. This condition is called an agentic condition [19]. This condition triggers individuals to act outside their life principles and values by committing deviant actions, one of which is budgetary slack. Therefore, researchers put forward the following hypothesis:

H1: Pressure from supervisor will encourage individuals to make budgetary slack

### **2.2 Peer Pressure on Budgetary Slack**

In the context of budgeting, the influence of peer pressure has received much attention. Peer pressure refers to the influence of peer pressure in the decision-making process [20]. This pressure causes individuals to act to justify wrong decisions due to actions committed by

coworkers [17]. Peer pressure causes auditors to report inappropriate reporting [21] as well as approve client account balances that are materially misstated [15]. Previous research proves that peer pressure causes individual compliance to avoid conflict with the wishes of the group which will have a negative impact [15]. In addition, other research states that when individuals receive pressure from colleagues, individuals tend to adjust their opinions to those of their colleagues [22]. This action is based on the individual's fear of being rejected by the group. This pressure causes individuals to follow the majority of their peers' opinions which may conflict with the truth of their own judgments [20].

Social influence theory states that social pressure can influence individual considerations in making decisions that are in ethical dilemmas [17]. Therefore, financial managers who experience pressure from peers tend to make decisions according to the decisions of their colleagues [20]. In addition, accountants who receive pressure from peers will tend to act deviantly which can be detrimental to the organization [20]. Previous research proves that pressure from colleagues can influence managers' decision making [12]. Therefore, researchers put forward the following hypothesis:

H2: Individuals who are under peer pressure will tend to budgetary slack

### **2.3 Supervisor Pressure vs Peer Pressure on Budgetary Slack**

Social pressure has a significant impact on the budget setting process [12]. This result is in line with previous research which found that pressure from colleagues caused fraudulent reporting from auditors [21]. Furthermore, managers who receive pressure from their coworkers will make the same decisions as their peers to avoid personal conflict, even though these decisions are detrimental to the organization. Social influence theory states that social pressure has an impact on individual decisions in facing ethical dilemmas [17].

Social pressure gives rise to individual adjustments to conform to the wishes of the group. However, social pressure has more impact on individuals to be more loyal to supervisor [15]. Previous research shows that individuals tend to make budgetary slack when under pressure from supervisor, even though this is an unethical action [18]. Pressure from colleagues generally does not have a big impact on individuals. This is because coworkers do not have higher authority and power [15].

This result is in accordance with previous research which found that individuals will act contrary to their beliefs if they receive strong influence from their supervisor [16]. Furthermore, individuals will act in accordance with the wishes of supervisor even if they have to carry out deviant actions [19]. This causes subordinates to have no control over their actions because supervisor have higher authority than subordinates. Furthermore, pressure from supervisor can cause subordinates to lose the ability to make their own decisions. Subordinates will be under the control of supervisor in decision making. In other words, subordinates act not based on their own wishes, but subordinates act in accordance with the wishes of their supervisor. Previous research proves that the majority of financial managers create budgetary slack when they are under pressure from supervisor [18]. Therefore, researchers put forward the following hypothesis:

H3: Individuals under supervisor pressure have higher tendency to create budgetary slack than individuals under peer pressure

### **3. Research Method**

#### **3.1 Experimental Design**

This research uses experimental methods to test the relationship between social pressure (supervisor vs peers) and budgetary slack. The experimental method is used in this research because the researcher has high control over confounding variables so that it can produce high confidence regarding the causal relationship between the independent variable and the dependent variable [23]. This research adapts the social pressure case scenario from previous research [24]. In the supervisor pressure scenario, participants will receive pressure in the form of threats of salary cuts and dismissal if they do not agree to revise the budget. In the peer pressure scenario, participants will receive invitations from colleagues in the form of suggestions to revise the budget targets that will be proposed.

#### **3.2 Participant**

The respondents in this research were students from the Faculty of Economics and Business, Lampung University who had taken the Cost Accounting course. It is hoped that participants can understand the budget case instruments provided and internalize the problems contained in the case. The number of respondents in this study was 69 respondents, 12 respondents failed to manipulate the check, so that the respondent data that could be used was 57 respondents.

#### **3.3 Experimental Procedure**

Experimental procedures are needed by researchers so that the experiment runs well. First, the experimenter opened the class by giving an opening greeting to the participants. Then, the experimenter explained the time needed and the rules during the experiment. The experimental assistant distributed folders containing research instruments randomly to participants. Next, participants were given 2 minutes to read and sign a consent form stating that they were willing to participate voluntarily without any coercion from any party. After signing the consent form, participants were given approximately 10 minutes to read the general information in the experimental scenario. The next stage, participants are faced with manipulating social pressure schemes. In the supervisor pressure scenario, participants will receive pressure in the form of threats of salary cuts and dismissal if they do not agree to revise the budget. In the peer pressure scenario, participants will receive invitations from colleagues in the form of suggestions to revise the budget targets that will be proposed. After the manipulation obtained, participants can determine the expected budget. Next, participants filled out a manipulation check to ensure that the participants understood the experimental scenario and continued by filling in demographic data in the form of name, gender, age, work experience, etc.

### **4. Result & Discussion**

#### **4.1 General Perception**

Respondents in this study totaled 69 respondents. From 69 respondents, 12 respondents failed to manipulate the check, so the respondent data that could be used was 57 respondents. A total of 21 respondents were male and 36 respondents were female. Respondents' ages ranged

from 19 to 22 years old. The minimum GPA of respondents is 3.31 and the maximum GPA of respondents is 4.0. The majority of respondents already have work experience (52%), while the remainder (48%) have no work experience.

#### 4.2 Results

The test results show that the average budget gap made by individuals who are under pressure from supervisor is 1332.1429 with a percentage of 83% making a budget gap and the average budget gap made by individuals who are under pressure from colleagues is 1006.8966 with a percentage as many as 66% had budgetary slack (Table 1).

**Table 1. Test Results**

	Budgetary Slack
Supervisor Pressure	1332.1429
Peer Pressure	1006.8966

The test results of the Two-Way ANOVA test showed a significance result of  $0.008 < 0.05$ . These results support the hypothesis which states that individuals who are under pressure from supervisor tend to create budgetary slack, compared to individuals who are under pressure from colleagues. The test results can be seen in table 2.

**Table 2. Test Results of Two-Way ANOVA**

Source	df	Mean Square	F	Sig
Regression	1	1506974.548	7.539	0.008
Residual	55	199903.493		
Total	56			

#### 4.3 Discussion

Based on the test results, it shows that individuals who are under pressure from supervisor tend to create budgetary slack with a percentage of 83% with an average budgetary slack of 1332.1429. Pressure to obey supervisor encourages budgetary slack even though this violates company policy [18]. The individual's tendency to make budgetary slack is driven by the individual's fear of the negative impact they will receive if they are disloyal to individuals who have higher authority [15]. Subordinates' fear of someone who has higher authority causes individuals to be in an agentic condition. This condition causes subordinates to lose authority over decisions taken, due to the power from supervisor to subordinates to take certain actions [19]. Therefore, subordinates can carry out deviant actions even though they conflict with their principles because the individual is under the control of someone who has higher authority.

Individuals who are under pressure from their supervisor will be willing to take any action to save themselves from being fired or to obtain compensation [14]. This is because one of the individual motivations for making budgetary slack is to obtain monetary benefits, such as compensation. Previous research stated that individuals will act outside the principles of their values if they receive pressure from individuals who have higher authority [16]. The creation of

social control by stronger individuals will have the potential to encourage individuals to carry out unethical actions, even leading to violations [1], [13]. This is in line with previous research which proves that when respondents are under pressure from supervisor, the majority of respondents make budgetary slack even though they know this is unethical [18].

Based on the test results, it shows that individuals who are under pressure from peers tend to create budgetary slack with a percentage of 66% with an average budget gap of 1006.8966. The individual's tendency to make budgetary slack is driven by peer pressure in the decision-making process [20]. This pressure causes individuals to act to justify discrepancies committed by coworkers [17]. This result is supported by previous research which proves that peer pressure causes auditors to report inappropriate reporting [21] and approve client account balances that are materially misstated [15]. Under conditions of peer pressure, individuals adapt to the wishes of the group to avoid social conflict [15]. In addition, when individuals receive pressure from colleagues, individuals tend to adjust their opinions to those of their colleagues [22]. This action is based on the individual's fear of being rejected by the group. This pressure causes individuals to follow the majority of their peers' opinions which may conflict with the truth of their own judgment [20]. Previous research proves that financial managers who experience pressure from colleagues tend to make decisions according to the decisions of their colleagues [20]. In addition, accountants who receive pressure from colleagues will tend to act deviantly which can be detrimental to the organization [20].

Based on the test results, it shows that the p value is  $0.008 < 0.05$ . This proves that individuals who are under pressure from supervisor tend to create budgetary slack, compared to individuals who are under pressure from colleagues. The results of this research are in line with previous research which found that individuals will act contrary to their beliefs if they receive strong influence from their supervisor [16]. In addition, previous research shows that individuals tend to budgetary slack when under pressure from supervisor, even though this is an unethical action [18]. This is because peer pressure does not have the range of power and strength compared to supervisor pressure. In addition, individuals tend to avoid actions that have a negative impact on individuals in a higher position [15].

Pressure from supervisor causes subordinates to lose their ability to make their own decisions. Subordinates will be under the control of supervisor in decision making. In other words, subordinates act not based on their own wishes, but subordinates act in accordance with the wishes of their supervisor. Pressure from supervisor has a higher range of power and strength because it can have a greater impact on individuals, such as dismissal from work. This is what triggers subordinates to be loyal to supervisor even though it goes against their life principles and values [15].

## **5. Conclusion**

### **5.1 Conclusion**

This research proves that individuals who are under pressure will influence individual decision making. When individuals are under pressure from supervisor or co-workers, subordinates tend to make budgetary slack. This action is triggered by the individual's fear of the negative impact they will receive if they are disloyal to individuals who have higher authority [25], [26] as well as the individual's fear of being rejected by the group. Pressure from supervisor causes individuals to follow the wishes of supervisor, even though it is contrary to their life principles and values [15]. Peer pressure causes individuals to follow the majority of their peers' opinions which may conflict with the truth of their own judgments [20]. However,

individuals who are under pressure from supervisor tend to create higher budgetary slack, compared to individuals who are under pressure from colleagues. This is because pressure from colleagues generally does not have a big impact on individuals. This is because coworkers do not have higher authority and power [15]. On the other hand, pressure from supervisor has a big impact on individuals. This is because supervisor have higher authority and power. This causes subordinates to have no control over their actions because they are required to be loyal to their supervisor [15]

This research has the implication that social pressure can influence individuals in decision making, especially in creating budgetary slack. Pressure from supervisor will have a more dominant impact on subordinates compared to pressure from colleagues. This is due to pressure from supervisor who have higher authority and power compared to colleagues. Therefore, it is hoped that in applying pressure from supervisor to subordinates, supervisor can have a positive impact on subordinates.

## 5.2 Limitation & Future Research

This research has several limitations. First, the instrument used in this research may not be able to provide a comprehensive picture of the social pressure obtained. Additionally, the use of college students as experimental participants may be a potential limitation. Therefore, caution is needed in generalizing the results of this study because it has weaknesses related to its external validity. Future research can use field studies to test the variables used in this research. Second, this research only looks at external factors that can influence individual decision making in the form of creating budgetary slack. Future research can examine internal factors within individuals, such as locus of control, level of moral reasoning, etc.

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