

Explorational Study of Budgetary Slack Behavior in Sharia Financing Saving and Loan Cooperatives

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Abstract. Budgetary slack is a dysfunctional behavior that occurs during the budgeting mechanism. Interestingly, the occurrence of budgetary slack dysfunctional behavior also has the potential to occur in Sharia-based organizations. This research was conducted using qualitative methods and a case study approach to one of the 'ABC' Sharia Financing Savings and Loans Cooperatives. The findings in the field show that there is an indication of information asymmetry between the subsidiary and the parent company which can cause potential budgetary slack. However, the actors consider this activity not as dysfunctional behavior because they view the context of information differences as an employment strategy to be able to avoid increasing targets from the head office which will put pressure on employees in the next period. Information asymmetry that occurs in the long term can potentially lead to a misalignment of objectives and cause monetary losses to the organization.

Keywords: Budgetary Slack, Information Asymmetry, Budget Target

1. Introduction

The difference between a padded estimate and a realistic estimate is known as budgetary slack (Banks & Giliberti, 2008; Asak et al., 2014; Dian, 2014 ; Rohma & Chamalinda, 2023 ; Rohma & Novitasari, 2023). Latuheru (2005), Rohma (2023) and Bangun et al (2012) explain that budgetary slack arises when subordinates reduce their production capabilities. This shows that budgetary slack appears when there is no productivity boost. Grediani & Sugiri (2010) and Basri (2011) suggest that subordinates tend to submit budgets by lowering revenues and increasing costs compared to the best estimates that have been submitted so that targets will be more easily achieved. Between superiors and subordinates in their accountability duties tend to make budgets that are too loose or too tight.

The potential for internal efficiency is important both financially and non-financially (Hansen & Mowen, 2006; Diana et al., 2019; Hilmy, 2020). This can be interpreted that budgetary gaps can appear when there is no improvement to achieve an efficient budget. The

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problem that often arises in budgeting is budgetary slack. Budgetary slack can arise because there is a difference in the amount of the budget that is determined with the amount of the budget that is actually needed by the company. Information asymmetry is one aspect that triggers the potential for budgetary slack. Information asymmetry is a condition where one party has information that the other party does not know (Rohma & Tyastutik, 2023 ; Kusniawati & Ibnu, 2017; Rahmawati, et al., 2006; Rohma & Zakiyah, 2022 ; Junika et al., 2019; Koeswardhana & Saparudin, 2019 ; Rohma, 2023 ; Jannah et al., 2023 ; Rohma et al., 2022). This condition provides an opportunity for company employees to use the information they know to manipulate their finances in an effort to maximize their prosperity.

The literature explains that budgetary slack by subordinates is influenced by the level of information asymmetry (Pamungkas et al., 2014; Putri, 2017; Pusparani, 2017; Murdiatun et al., 2021; Rohma, 2022; Rohma & Chamalinda, 2023). Anthony & Govindarajan (2007) explain that because the principal has inadequate to the agent's performance, the principal can never be certain how the agent's effort contributed to actual company results. This situation is referred to as information asymmetry. Asymmetry can increase when subordinates have more significant information data on the process of making decisions than superiors. This can happen when top-level management cannot always supervise the daily activities of subordinates, namely each department manager. Thus, this research specifically explores patterns of budgetary slack.

This study uses a qualitative approach involving ABC Syariah as a research site. ABC Syariah is a savings and loan cooperative that operates based on sharia principles. ABC Syariah operates based on the results of the previous Annual Member Meeting where the budget target for each employee at ABC Syariah was determined at the meeting. The research findings indicate that the existence of information symmetry between the subsidiary and the parent company is one of the triggering factors for budgetary slack. However, the actors do not interpret this activity as dysfunctional behavior because the activity is carried out simultaneously by all individuals in the sub-branch. The findings of this study may have implications for organizations to evaluate information system control mechanisms and corporate governance so that the head office can detect information asymmetries that may be carried out by branch offices.

2. Research Method

This research uses a qualitative approach with a case study approach. Creswell (2014) explains that the case study approach is a research strategy in which the researcher investigates a program, event, activity, process, or group of individuals carefully. Researchers collect complete information using data collection procedures based on a predetermined time (Rohma & Novitasari, 2022 ; Rohma & Febrianti, 2022 ; Rohma et al., 2023 ; Rohma & Wahyu, 2022). The selection of a qualitative method with a case study approach aims to gain a "depth" understanding of the behavior of budgetary slack in ABC organizations. The research paradigm used is the interpretive paradigm, which is a perspective that aims to understand in depth about why reality occurs (Kamayanti, 2016 ; Rohma & Syahputra, 2022).

The research was conducted at the ABC research site as one of the subsidiary branches of a company engaged in the Sharia Financing Savings and Loans Cooperative. Sharia organizations are unique by carrying out organizational activities based on sharia principles which generally tend to be more careful than conventional ones. However, phenomena in the field are sometimes not aligned with the concepts used. In general, qualitative research is carried out by collecting various types of data and using time to collect information at research locations (Creswell, 2014).

The procedure for collecting data for this study (Creswell, 2014), namely: 1) Observation, researchers go directly to the field to make observations of the phenomena to be studied. In this observation, the researcher recorded/recorded the behavior and activities of individuals at the research location, both in a structured and semi-structured manner; 2) Interviews: researchers interview informants face to face and use semi-structured interviews; and 3) Documentation: During the research process, researchers can collect qualitative documents. In other words, documentation is a complement to the use of observation and interview methods in qualitative research, which can be in the form of writing, pictures or someone's monumental works. Meriam (1998) and Marshall & Rossman (1988) in (Creswell, 2014) state that in qualitative research, data collection and analysis must take place simultaneously or simultaneously. Data analysis can be interpreted as an ongoing process during the research (Creswell, 2014). Stake revealed that there are 4 forms of data analysis and their interpretation in case study research, namely: 1) Collection of categories; 2) Direct interpretation; 3) Researchers form patterns and seek equivalence between two or more categories, and 4) Researchers develop naturalistic generalizations through data analysis.

3. Result and Discussion

The ABC Sharia Financing Savings and Loan Cooperative is engaged in the field of Islamic financing savings and loan cooperatives. The observation results also show that the corporate culture at the ABC branch office applies a democratic leadership style. The decision-making process is taken from the results of discussions with other employees by giving a good example from the head of the branch to other employees, starting from discipline, and giving good character and compliance with sharia provisions in transactions. Interestingly, the observation results show that even though business management is carried out with a good leadership style. However, there is an indication of the potential for budgetary slack in the organization. The results of the observers show that there is an information asymmetry between the parent company and its subsidiaries even though it uses a sharia-based control mechanism. This is as stated by the following informant A:

"We at the branch deliberately closed the LASISMA funding application because we were keeping the budget target from increasing in the next period..." Informant A

This information requires that agents deliberately take advantage of the loopholes provided by the principal to practice lowering budget targets. This was confirmed by other informants who confirmed this with the following statement from informant B:

"The head office has its own budget targets that must be achieved within the period. So that each office needs to develop a strategy to continue to meet predetermined targets." Informant B

This statement implicitly explains that individuals deliberately take advantage of loopholes to avoid activities as a strategy to minimize targets. The results of the study also show that agents tend to carry out information asymmetry because there is a tendency to increase budget targets because there is a stipulation of increasing budget targets periodically every year. More than that, specifically the information from some of these informants shows that the attempt to deviate was not carried out personally. However, it is done in collusion which is seen as a group strategy. In fact, the results of observations show that basically the head office as the principal has attempted to exercise control by using bonus-based compensation. However, the subsidiary did not try to optimize the bonus due to concerns that there would be an increase in the target on a regular basis which would become higher and higher.

Based on the results of interviews that have been conducted, it is known that there is information asymmetry carried out by employees in the form of different information

conveyed regarding LASISMA applications which are closed by subsidiary branches to avoid increasing targets in the next period. And this was not conveyed by the branch subsidiary to the head office. In addition, ABC's subsidiaries tend to apply the principle of risk aversion. This principle states that employees prefer that rewards based on their performance come directly from their efforts and are not influenced by uncontrollable factors which include economic and competitive factors, force majeure (great power and factor interdependencies (Merchant, 2017; Savitri & Erianti, 2014; Sujana et al., 2018; Tenriwaru, 2015). Thus, ABC branches tend to avoid high risks (increasing budget targets). This finding is in line with Rohma (2022) that the existence of information asymmetry has the potential to cause slack occurs.

4. Conclusion

This study shows that sharia organizations that run a system based on Islamic law still have the potential to engage in dysfunctional behavior. This indicates that the role of individual behavior plays a key role in explaining organizational behavior. An adequate regulatory system cannot run optimally without encouragement from the behavior in it. The findings of this study have several research implications. First, empirically the findings of this study expand previous research studies by exploring sharia objects with different system criteria. Second, this research implies that system optimization and implementation can only be supported by resources and individual behavior in the organization. This study has limitations, namely interviews were only conducted at subsidiary companies without involving the parent company. This is due to limited permission to access information from only one institution. This research specifically has to do with subsidiaries because the potential for slack can only be caught in the behavior that exists in the subsidiary.

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