

How to mitigate budgetary slack? Learning from religiosity and participative budgeting

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Abstract

Budgetary slack is a potential hazard that emerges during the execution of the budgeting process. In the budgeting process, the involvement of each organizational unit is important to contribute to budget creation, because it provides more relevant field-related information. However, there is a tendency for subordinates to provide information that is biased for personal interests so that their participation can cause budgetary slack. This research aims to find out how to mitigate budgetary slack through participative budgeting and religiosity as well as how obstacles to participative budgeting and religiosity factors exist within the entity. This study employs qualitative research methodology by conducting literature study. This type of research gives researchers the freedom to search for and use library materials related to this research. The study findings demonstrate that the occurrence of budgetary slack during the budgeting process can be reduced and alleviated by instilling moral principles through the incorporation of religious values in every organizational division. So, participative budgeting for each organizational unit will lead to real information that can create an efficient and optimal budget so that budgetary slack does not occur and support the achievement of organizational goals.

Keywords: Budgeting Process, Participative Budgeting, Religiosity, Qualitative Research.

INTRODUCTION

Organizations and enterprises are entities with future-oriented objectives they aim to accomplish (Veenstra & Ellemers, 2020). Strategies for achieving this goal can be implemented through careful planning. Budgeting is a type of financial planning that involves systematically creating a budget to describe the operations of an institution (Isaac et al., 2015). Hence, the budget serves as a means of facilitating coordination, evaluation, communication, motivation, and control by providing tangible projections of income and costs from the accountability center (Asogwa & Etim, 2020). The budget provides a benchmark for managers in identifying problems, evaluating performance, and assessing production progress and controlling costs (Henttu-aho, 2018). Not only is it a benchmark, the budget can be a guide for the entity's actions systematically so as to minimize deviations in operational actions (International Monetary Fund, 2018).

When leaders and managers prepare the budget, they involve subordinates in order to define the roles and accomplishments of each part of the organization, ranging from managers to subordinates (Rokhman, 2017). The involvement of various levels of managers in the organization in preparing the budget will make the budget more realistic because of the subordinates' knowledge of actual conditions in the field (Huang, 2019). The involvement of each organizational unit in preparing the budget is referred to as participative budgeting (Arifin & Pagalung, 2018).

The process of budget preparation encompasses the diverse individual qualities of each organizational unit, whereby the ethical beliefs and conventions held by everyone will have an impact on the budget preparation. The principles of rationalism and the consideration of personal information exert a substantial impact on the process of budgeting. Religiosity is the main factor that influences individual preferences for norms of honesty and accountability. The studies conducted by by BR & Khoirunia

(2021) and Prayudi & Dharmawan (2018), there is a significant relationship between religiosity and the budgetary slack. Abbas et al., (2020) state that higher religiosity will encourage better financial management.

When creating the budget, managers aim to shield themselves from potential pressure from higher-level management, the possibility of not meeting the budget, and the potential loss of bonuses or even termination. Apart from that, budget achievement is also a measure of manager performance. Therefore, managers tend to increase costs so that they are overstated and decrease income so that they are understated against the company's budget (BR & Khoirunia (2021)). This is called the budgetary slack.

Budgetary slack will cause company operational inefficiencies, thus hindering the achievement of organizational goals and are a form of deviation from normal honesty. According to Sheng (2019) research, budgetary slack can be minimized with participative budgeting. The higher the participative budgeting, the lower the level of budgetary slack. Dewi & Erawati (2014) also states that participative budgeting and the budgetary slack are negatively related.

The objective of this research is to elucidate the impact of religion and participative budgeting in mitigating budgetary slack on budgeting processes. Apart from that, both are internal individual factors that can be used to convey how important the characteristics and involvement of individual are in budget preparation so that they can mitigate budgetary slack and have an impact on achieving company goals optimally and efficiently.

LITERATUR REVIEW

Agency Theory

Budgetary slack is derived from agency theory, which elucidates the dynamic between the principal (the owner) and the agent (the principal's representative) in decision-making and managing the organization. This causes agents to have more information, especially agents who are directly involved in the field (Ngo et al., 2017). In preparing a budget, agents can provide information in preparing the budget. However, not all of the principal's desires are the same as those of the agent. This is because agents tend to provide biased information in preparing the budget. This is based on the agent's desire to be able to achieve the budget or target easily so that its performance is considered good.

Budgetary Slack

According to Sanjiwani & Suryanawa (2020), budgetary slack is a budgeting process that is accompanied by distortion through an increase in budgeted costs or a decrease in budgeted revenues. In addition, budgetary slack can also be said to be the difference between the amount of resources allocated to a task greater than the amount of resources actually needed to complete a task efficiently (Sheng, 2019).

Participative Budgeting

Participative budgeting is a joint budgeting process by several parties that has an impact on the future for the maker (Simmons, 2012). In addition, Chia & Grant (2023) believes that participative budgeting is the extent of individual influence and involvement in the budgeting process as a process of aligning organizational goals. Participative budgeting is necessary because subordinates have more information in the organization. However, superiors must still be involved in reviewing or supervising the budget because there is a risk that subordinates want to make a budget that is easy to achieve. Thus, the involvement of all members or organizational units in budgeting is necessary to support the achievement of organizational goals.

Religiosity

According to KBBI, religiosity is devotion to religion. A person with religiosity will enjoy and appreciate his life more than before. According to Shaikh et al., (2023), religiosity is a condition inherent in every individual in harmony with religious rules. Apart from that, religious people will feel uncomfortable if there is ugliness or evil around them. Therefore, a person with religiosity will carry out his obligations in carrying out religious practices accompanied by behavior that implements the values of religious teachings (Fielnanda & Wahyuningsih, 2021).

RESEARCH METHODS

The method used in this research is a qualitative research method that is library research. Qualitative research with library research or library studies will give researchers flexibility in finding sources of library materials related to this research (Ahyar et al., 2020). This research uses secondary data, such as books and scientific articles. The collected literature data was analyzed to provide an interpretation of mitigating budgetary slack through religiosity and participative budgeting. In conducting qualitative research according to Sugiyono (2017) it begins with collecting research data which is then selected according to the researcher's needs so that the research results can be expressed in the form of descriptive notes.

RESULTS AND DISCUSSIONS

The Importance of Participative Budgeting and Religiosity in Mitigating Budgetary Slack

Participative budgeting has an important role in budget preparation. Preparing a budget in an entity includes the process of planning, preparing and monitoring the budget in the organizational cycle. In the manufacturing process, the budget amount depends on the target to be achieved.

Preparing a budget requires the involvement of every organizational unit. With the involvement of each organizational unit, the budget created is influenced by the behavior and characteristics of each individual involved. In participatory budget preparation, subordinates are involved in operational budgeting.

Greater participative budgeting will be considered effective in determining the budget amount because there is an exchange of information which is the result of the budget maker's knowledge which is directly related to the operating environment (Rifqi et al., 2017). According to Aprilian and Sukandani & Istikhoroh (2016) participative budgeting seeks to increase employee morality so that they can achieve organizational goals. Budget participation has a significant positive relationship with work motivation which encourages managers to have a good understanding and work more efficiently and effectively in budget implementation thereby mitigating budgetary slack (Sheng, 2019). Supported by research by Merchant (1985) which states that participative budgeting tends to reduce budgetary slack. Based on the results of this research, participative budgeting can mitigate budgetary slack.

Participative budgeting can pose a risk of budgetary slack if there is information asymmetry. More information known by subordinates provides an opportunity to convey information that is biased for personal interests through making lower budgets so that they are easily achieved and budgetary slack occur.

Subordinate participation in budgeting has the risk of being misused, which can lead to budgetary slack. The involvement of subordinates in preparing the budget provides an opportunity to abuse their authority in targeting the budget by creating budgetary slack through increasing expenses or decreasing income (Rifqi et al., 2017). According to Suwandi et al., (2023), the freedom given by entities to subordinates in determining the substance of the budget and using it as a benchmark for subordinate performance encourages budgetary slack.

The risk of budgetary slack that arise in participative budgeting can be mitigated through positive moral values. This strong morality can be born from the existence of religious values in the entity, including budget management. Religious attitudes have great potential in mitigating budgetary slack. This is because collaborative mitigation through participative budgeting and religiosity can bring to the following things.

1. Prioritizing Ethics and Morals

In budgeting, ethics and morals of organizational units are very necessary in efforts to prevent budgetary slack (Stevens, 2002). Ethics and morals in religious beliefs serve as a guide in upholding honesty and responsibility in managing the company's budget (Jusoh et al., 2022). Ethics and Morals in budgeting ensure that budgeting has been carried out in good faith, by ensuring that the

management of company funds is not misused and deviations by organizational units can reduce and prevent budgetary slack.

2. Strengthening Responsibility to the Organization

At the level of confidence of company units, it is important to know that each company organizational unit has a responsibility towards the organization in preventing budgetary slack (Rohma & Chamalinda, 2023). Organizational units must be able to be responsible for budgeting to mitigate budgetary slack.

3. Increasing Transparency and Accountability

High religiosity requires each organizational unit to act with transparency and accountability in budgeting. Budgeting that cannot be accounted for illustrates that there is no transparency in the management of company funds (Prayudi & Dharmawan, 2018). This can create a risk of budgetary slack for the company. Organizational unit accountability provides reliable information regarding budget allocations, expenditures and what projects the company is carrying out with the budget determined by the field organizational unit so that managers can evaluate the development and use of the budget.

4. Reducing the Risk of Corruption

Involvement of all aspects of the organization can minimize the risk of corruption and actions that could harm the organization. The aspect of religiosity can help reduce the level of corruption. This is supported by the encouragement of religious values in budgeting (Mirza & Khoirunia, 2021). Religious values encourage all organizational units to act honestly to reduce budgetary slack. Religious values teach that corruption has a bad impact on the sustainability of the organization and has the potential to create budgetary slack, namely differences in budget realization and budget plans, so integrity is needed in reducing the risk of corruption and budgetary slack.

Implementation of Participative Budgeting and Religiosity in Budget Management Practices

Budget management aims to maximize the potential and benefits of company resources in realizing organizational goals. Budget management certainly requires the involvement of various organizational units as a form of participative budgeting. Therefore, budget management depends on the individuals involved in preparing the budget from organizational units and has the potential to cause budgetary slack.

Mitigating budgetary slack, it is necessary to implement participative budgeting with strong religiosity values so that it can prevent the risk of budgetary slack. Several applications that can be carried out to mitigate budgetary slack through participative budgeting and religiosity are as follows.

1. Strengthening Monitoring and Accountability System

The purpose of supervision is to maintain and ensure that budgeting can achieve the goals and targets that have been set (Istiqamah et al., 2023). Supervision must be able to encourage implementation towards business goals. Supervision of this system has an important role because it provides responsibility and accountability for budgeting to move as determined. Appropriate and relevant monitoring and accountability will reduce budgetary slack.

2. Adopting Religiosity Values in Policies

Adopting religious values in policy can be a very influential strategy when budgeting. Complying with and reflecting religious values will make the company transparent in budgeting. Religiosity values in budgeting need to be adopted by determining and establishing relevant religiosity values that are in accordance with budgeting policies.

3. Encouraging Organizational Unit Participation in Budgeting

Involving stakeholders in organizational units in budgeting will help ensure all aspects of company goals are communicated well. The participation of organizational units in this budgeting will produce

different views and be useful for achieving overall organizational goals. In addition, the participation of each organizational unit will encourage effective and efficient budget achievement.

Obstacles and Challenges in Implementing Religiosity and Participative Budgeting

1. Authoritarian Leadership Model

An authoritarian leadership style is a leadership style that focuses all decisions and policies where everything comes from the leader. In this authoritarian leadership, subordinates only carry out the tasks and responsibilities given. So, participative budgeting by subordinates becomes more limited. This authoritarian leadership places more emphasis on what can make the company profit because it focuses on goals. Therefore, applying religiosity is difficult to implement with this authoritarian leadership style because all decisions and policies depend on the leader.

2. Low Quality of Human Resources

In making a budget, human resources are needed who have the ability to prepare a budget. In this case, organizational unit employees in participative budgeting are expected to be able to make effective and efficient budgeting (Cohen & Karatzimas, 2011). Lack of employee background in budgeting can result in budget ineffectiveness in the involvement of organizational units in participative budgeting. However, employees who do not understand budgeting but are equipped with real field knowledge can gain participation by still having employees who understand budgeting. The appropriate organizational unit for budgeting participation is an employee who has an educational background in accounting and finance and has had relatively long experience in the field of budgeting.

3. Lack of Transparency in Budget Making

Transparency has an influence on participative budgeting, this refers to if transparency is getting better, meaning that every increase in budget transparency will have a good impact on budget performance (Jung, 2022). The participation of organizational units in budgeting has an influence on the level of religiosity of organizational units, budgeting that does not have clarity will lead to a lack of transparency. The values of religiosity encourage organizational units to behave transparently by prioritizing common interests. Transparency in budget preparation will minimize acts of corruption and mitigate budgetary slack.

4. Internal Competition and Conflict

Internal competition and conflict in organizational units occurs because there are conflicts of interest within the organizational unit. Internal competition and conflict can also occur due to differences of opinion and differences in perception in interpreting organizational goals. In internal competition and conflict, differences of opinion and perception will result in less organized budgeting because differences in perception will make organizational units that have different views change their budgeting methods according to their perceptions. Internal conflict will also result in the participation of organizational units in budgeting being hindered and less effective because it will hinder communication and integration in budgeting.

5. Uncertainty of Results and Responsibility

Uncertainty of results and responsibilities refers to the inability of organizational units to participate in the budget. Budgeting is done to be able to predict things that will happen in the future so that responsibility is needed to be able to align the efforts carried out with the budgeted results. High uncertainty will make it difficult for companies to predict failure and success from predetermined participative budgeting. So control is needed in budgeting to reduce uncertainty which helps companies achieve budgeting targets

6. Difficulty Integrating Religious Values and Business Goals

Religious values can become an obstacle in budgeting. Each individual in an organizational unit has a different perception regarding religiosity values. The integration of religious values can become an

obstacle in making business decisions. In business companies that focus on finance and profitability, the integration of religious values will be difficult because religiosity values are non-monetary so the results are difficult to measure financially and difficult to integrate.

7. Legal and Policy Uncertainty

Inconsistent policy changes will create budgeting uncertainty. In budgeting, adequate legal certainty and policies are needed that can influence organizational units to integrate organizational units in participative budgeting and religiosity in budgeting. The policy of integrating religious values into organizational units can become an obstacle to carrying out the budgeting process due to differences in foundations, namely religion and profitability.

8. Low Confidence of Organizational Units in Their Beliefs

Trust in an organizational unit comes from the morality of the organizational unit. In participative budgeting, organizational units are expected to carry out activities based on moral values adapted from the religious teachings they believe in. Low trust in this organizational unit can result in budgetary slack because it does not work completely with integrity or transparency. Organizational units ignoring religiosity values will lead to unclear use of budgeted funds so that programs that have been planned by the company can reduce organizational units' confidence in integrity and accountability. A lack of involvement in budgeting will result in less efficient programs being implemented. This low confidence will create gaps that can cause losses for the company and potential budgetary slack due to differences in what is budgeted and realized.

9. Difficulties in Assessing the Impact of Religiosity Programs

The difference between business goals budgeted by a company and religiosity lies in the results obtained by the company. The religiosity program in budgeting targets more non-secular results such as increasing spiritual and moral well-being. In this case, the religiosity program in budgeting participation is difficult to measure quantitatively. In contrast to companies that target profits, companies budget to target long-term profitability. This difference refers to welfare in terms of religiosity and profitability in terms of monetary companies (Fauzi et al., 2021).

Religiosity Factors in Participative Budgeting

1. Ideological Dimension; namely the extent to which humans accept the existing dogma of their beliefs. Everything does have a cause and effect. However, not everyone has to feel the consequences as long as they believe that they exist. This belief encourages a person to believe in ideological truths. This can be found in the belief that there is the existence of God, creatures and metaphysical nature as well as the rewards for every action. Therefore, the religiosity of individuals involved in business processes includes budgeting as a form of budgetary participation. The beliefs possessed by individuals will bring positive moral values so that they can develop traits and characters that have integrity, responsibility and honesty. This is supported by the existence of God who individuals believe sees every action and deed they do, making them afraid and worried about doing bad things and being able to harm other people. The company's goals which are manifested in the budget involve the participation of each organizational unit so that the existence of religiosity values embedded in each entity's Human Resources will foster positive attitudes and characters that can prevent budgetary slack and optimize the budget so that it can support the achievement of company goals.
2. Experience Dimension; namely how far the individual feels closeness to God in his religious experience. This can be found in his feeling of being at peace and happy in his life because he truly worships the Creator, a feeling of totality and immersion in worship, a heart that always feels grateful for God's blessings, and a feeling of having the prayers that have been answered answered. The closeness to God that an individual can achieve will encourage each individual to do goodness and truth in accordance with his dogma and avoid any actions that are prohibited by God so that he can

continue to feel close to the Creator. The participation of organizational units in budgeting is of course based on the experience they have in the field. The experience of his closeness to the creator encourages him to provide positive contributions and unbiased information so that he can provide useful information in budget efficiency and effectiveness so that he can realize company goals. Based on this, the experience of religiosity of individuals involved in budgeting can mitigate budgetary slack because his experience is what keeps him away from fraudulent acts, disintegrity and irresponsibility.

3. Intellectual Dimension; namely how far an individual knows, understands and comprehends religious teachings accompanied by a desire to increase knowledge and understanding of his religious teachings. This dimension refers to the level of depth of understanding of religious teachings regarding existing doctrines so that one can make one's thinking insight broad and comprehensive so as to foster more focused individual moral values. An individual's broad understanding can open their insight and belief that the world was created by God as a test to test the level of human faith to determine the level of their existence in the last day. Therefore, the wider an individual's understanding, knowledge and desires in religious teachings, the greater the attachment of positive moral values to him. Likewise, in the budgeting process, the participation of all elements of the organizational unit will have an influence on the budget results. Individual intellectuality regarding religious teachings will encourage individual religious values to provide positive value in budgeting so that the budget will be optimal, preventing budgetary slack.
4. Ritual Dimension; namely the extent to which humans can carry out the obligations of worship mandated by the religion they adhere to. This can be seen from each religion, whether they often go to their place of worship, pray independently, and so on. The more often a person carries out religious ceremonies, the more obedient he will be in carrying out his obligations as a religious community. Something that is done frequently will certainly have an impact on each individual. This is what causes individuals to become characterized by religious values attached to them when they regularly carry out their worship. Therefore, every individual who is involved in preparing the budget as a form of participation will make a positive contribution to budgeting in line with how often the individual carries out worship.
5. Consequence Dimension; namely the extent to which a person is committed to applying the teachings of his religion in his life. People who often worship will certainly have a tendency to develop religious values within themselves, especially for those who have experienced closeness to God. Commitment to practicing religious teachings in life will certainly strengthen the impact of other religious dimensions so that religious values will be firmly attached to each individual which will foster positive character and attitudes such as integrity, honesty and responsibility. Commitment is also related to human relationships. to God which is manifested through positive interactions with fellow living creatures. This dimension can also be said to be a social dimension because it is the embodiment of religious teachings to society (Taufik et al., 2020).

CONCLUSION

A budgetary slack is an excess of resources allocated to a task compared to what is actually needed. To overcome this problem, participative budgeting is needed, namely a collaborative approach involving various parties. Involving individuals from different organizational units, as well as diverse religious backgrounds, can influence budget preparation due to the influence of different ethical and moral values.

This collaborative budgeting process is very important to reduce budgetary slack and ensure optimal achievement of company goals. Ethical and moral values that arise from religious values play a role in preventing irregularities in the use of funds and budget gaps in budget participation. Accountability within organizational units provides reliable information and integrated religious values can reduce corruption and mitigate budgetary slack.

The application of participative budgeting and religiosity in the implementation of budget management aims to optimize budget efficiency and effectiveness by maximizing the allocation of company resources in achieving organizational goals. Therefore, participative budgeting of each organizational unit accompanied by religious values attached to it can reduce the risk of fraud and deviation so that it can mitigate budgetary slack and encourage the achievement of organizational goals effectively and efficiently

Suggestions

In overcoming the budgetary slack, it is hoped that all entities can involve:

1. Employee participation in overcoming budgetary slack is needed. Participative budgeting is expected to make budgeting more effective and efficient
2. Incorporate religious values into budgeting by selecting which ones are in line with business goals to maximize the company's potential and resources in realizing organizational goals.
3. Employees and parties involved in budgeting and supervision are required to have a background in accounting, finance and relatively long experience in the field of budgeting to maximize the function and benefits of the budget and their involvement can minimize employee fraud.
4. In budgeting process, it is expected that each organizational unit that participates in budgeting will have moral values and good faith accompanied by transparency, accountability and integrity. The better the moral values of the organizational unit, the better the impact on budget performance.

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