



# Budgetary Slack Will Not Let Organization Die: Explaining Motivational and Stewardship Aspects of Conditional Slack

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## Abstract

The study aims to explore the motivational and stewardship aspects of managing budgetary slack. The stream of research demonstrates that budgetary slack is one of the dysfunctional behaviours which may be detrimental to an organization. The research delivers empirical evidence that organizations in the Boston Quadrant Matrix “Dogs” position are inclined to deliberately carry out additional financial resource budgeting through budgetary slack mechanism through cost assumption. The research used a qualitative method using a study-case approach and interpretive paradigm. The research area was a business industry in the Boston Quadrant Matrix “Dogs” position. The results indicate budgetary slack’s motivational aspects prompting the management to more significantly orient instead of only achieving cost budgeting targets. Cost budget target fulfilment could have been more rational when confronting non-financial orientations, i.e., product quality and going concerned. It accorded with stewardship theory that budgetary slack facilitated the management facing other goals besides budget-related ones. This research expands on previous research by showing that budgetary slack allowed the management to balance goals when external conditions change. It was a deliberate product, even a base for a budgeting system through its underlying cost assumption.

**Keywords:** budgetary slack, quadrant boston matrix, budgeting, going concern, stewardship

## Introduction

Budgeting is a management control mechanism (Kleine & Weißenberger, 2014; Kung et al., 2013; Rohma, 2022). It enables the organization's management to allocate resources efficiently to achieve organizational goals (Braun & Tietz, 2018). However, some misuse of budgeting as a management controlling mechanism may occur through budgetary slack behaviours (Davidson & Stevens, 2013; Fisher et al., 2015; Rohma, 2022). Budgetary slack is one of the dysfunctional behaviours considered detrimental to an organization (Gallani et al., 2019; Hobson et al., 2011). From an accounting point of view, budgetary slack behaviours have a considerable potency in explaining the causes of an organization's drawbacks (Maiga & Jacobs, 2008).

Budgetary slack behaviours because of minimum use of resources may bring about cost increases and long-term profit decreases (Drake et al., 2014; Huang & Chen, 2010). Current research has determined many different determinants of budgetary slack, e.g., budgetary participation (Brownell & Dunk, 1991; Libby & Lindsay, 2010; Shields & Shields, 1998), religiosity, self-efficacy (Abdullah & Brink, 2017; Robey et al., 2022), formal and non-formal control (Chong & Ferdiansah, 2012; Chong & Loy, 2015; Rankin et al., 2008; Rohma, 2022), obedience pressure (Nottar et al., 2022), and perception of justice (Santos et al., 2022).

Most research analyzes budgets from the standpoint of large-scale organizations and corporations on the Boston Quadrant Matrix in the Stars, Cash Cow, and Question Marks position. Some literature indicates that during budgeting, budgetary slack may have a positive effect on organizations at certain levels (Lukka, 1988). Budgetary slack provides opportunities for the management to focus on a long-term orientation for organization continuity (Stede, 2000). Additionally, it facilitates the management to manage multigoal oriented businesses (Lillis, 2002; Merchant & Manzoni, 1989). However, few examine slack in micro and ultra-micro-organizations at the Dogs level in the Boston Quadrant Matrix Dogs. Micro-scale organizations at the Dogs level are still developing, creating different budgeting patterns.

The research provides empirical evidence consistent with literature that in ultra-micro organizations, budgetary slack positively impacts organizations by facilitating the management to manage businesses outside cost budget achievement orientation. Specifically, research has also pointed out the harmful effects of budgetary slack as a dysfunctional behaviour. There are budgetary slack's motivational aspects propelling the management to orient more than cost-related targets. In micro-scale organizations at the Dogs level in the Boston Quadrant Matrix, cost budget target fulfilment is irrational when facing fundamental non-financial orientations: product quality and going concerned.

The research used a qualitative method using a study-case approach. The interpretive paradigm was applied to thoroughly define budgeting phenomena in organizations at the Dogs level in the Boston Quadrant Matrix. The results show that budgetary slack allows the management to balance disparate goals and cope with changed external conditions. Research on budgetary slack concepts is not only carried out from the vantage point of the best estimation decrease or cost target increase and sale target decrease. A particular mechanism in the research area is categorized as a budgetary slack practice as long as it is aligned with budgetary slack concepts. First, the mechanism comprises allocating a specific budgetary target when external conditions are considered more demanding or modelling a fixed cost as a variable to engender a more balanced budget when the expected volume is higher. Second, a higher cost budgeting mechanism when a higher volume is due to a specific cost having a variable characteristic. It is more related to flexible budgeting techniques sharing a common goal to de-escalate budgetary pressure when a more significant demand for non-financial purposes is found.

The research contributes to three main aspects. Firstly, it complements previous research by showcasing motivational aspects positively influencing organizational budgetary slack behaviours. It builds from stewardship theory viewpoints in explicating motivational aspects owing to budgetary slack. Secondly, empirically, it shows off

budgetary slack's capability of facilitating flexible financial management to face a dynamic environmental condition outside from the perspective of cost budget targets. Thirdly, practically, the results help regulators and management investigate motivational aspects that may exist through an organization's budgetary slack mechanism.

Budgetary slack refers to a condition with different budget amounts and the best estimation due to biased performance targets below capacity (Hartmann & Kramer, 2014). Subordinates often slackly deliver a budget, namely deliberately underestimating revenues and production capability and overestimating the cost and resources needed to finish budgeted tasks (Gago-Rodríguez & Naranjo-Gil, 2016). In the research area, the actual mechanism is not restrained by budgetary slack concepts from the points of view of the best estimate decrease or cost target increase and sale target decrease. A particular mechanism can be classified as a budgetary slack practice as it conforms to budgetary slack concepts. It covers flexible budgeting techniques sharing a common interest, which is to lessen budgetary pressure when there is a more considerable demand for non-financial purposes. A particular budget target should be allocated in a more demanding external condition, or fixed cost should be modelled as a variable to generate a more balanced budget when the expected volume is higher. The cost budgeting mechanism can be higher when the volume is higher because certain costs have a variable character.

### Research Method

This research uses a qualitative method and interpretive paradigm. The qualitative research observed phenomena the research subjects underwent, e.g., behaviours, perceptions, and actions, in a holistic fashion (Moleong, 2007). It used an interpretive paradigm, which was, in many cases, also called a constructive paradigm. The paradigm emphasized that research was conducted to fundamentally understand reality as it does (Ludigdo, 2013). Such understanding was the product of awareness and actions of individuals striving to apprehend an implicit meaning, and that being so, highlighted participant aspects of actors in social activities.

The research approach was a holistic-single case study, as (Yin, 2013) illuminates that a holistic-single case study is only concerned with the general characteristics of the program. Besides, a single case study implied that the case came with extremity or uniqueness. A holistic case study is opposed to an entwined case study, i.e., a case study embracing more than one analysis unit, and the first case study encompassed one of several subunits of analysis (Yin, 2013). Correspondingly, the research concentrated on a holistic-single case probing general characteristics of management implementation in Mutiara Saghara. Mutiara Saghara ran its manufacturing activities by producing salt crystals that were further processed into various products, such as souvenirs. It integrated souvenir product down-streaming into a package-system sale in one of the

**Table 1. Informan List**

Informant	Position
Informant X	Directore (Chief of Murtiara Saghara)
Informant Y	Deputy Head of Management
Informant Z	Administration and finance department

Source: Processed Data, 2022

tourist destinations under the same management as Mutiara Saghara. At Mutiara Saghara, its products and business lines generate only a small amount of cash or require higher investments. These products and business lines are considered potentially negative profitability products. Therefore, because the market share is still low and the growth rate is low (less profitable or maybe even negative profitability), conceptually based on the BCG matrix, Mutiara is included in the Dogs quadrant category.

In qualitative research, informants did not necessarily represent the whole population. Nonetheless, they had to have adequate knowledge and be able to lay out the actual condition of the research area. Therefore, the research informants were those with experiences and activities in the research area. They should have many experiences concerning the research background (Moleong, 2007). The experiences helped gather information about the activities and describe the uniqueness of the information. Some criteria were used to select the research informants presented in table 1. Firstly, informants should completely understand the business condition, activities, and implementation. Secondly, informants had once worked or now were working in the business. Informants were workers or employees, directly serving as driving factors of the business, explicitly managing finance, and engaged in the budgeting system. Thus, they knew and understood field activities carried out regarding the business, allowing us to collect information about the field condition.

The data collection techniques were unstructured interviews and documentation. The interviews were face-to-face when informants could spare some time and be smoothly interviewed, allowing us to catch a clear real-life condition of the research topic. An unstructured interview used no systematic guidelines (Moleong, 2007). It was imperative in order to acquire profound information from informants. It prevented informants from feeling constrained to express their ideas and let the interviews flow as it was. Other data were collected by documenting relevant business reports. To elicit the degree of confidence or data validity, triangulation was implemented. Triangulation was a technique for testing data validity using other sources (Moleong, 2007). The most popular triangulation technique was testing through other sources. Using different times and instruments in qualitative research, we used a source triangulation to compare and double-check the degree of confidence in information (Moleong, 2007). Accordingly, we compared the observation-resulting data with the interview-generated ones.

Data collection was carried out from August-October 2022. It was conducted using a semi-structured interview method. We made a question list used when interviewing informants. However, we are aware of the very possibility that the list might develop when we figure out new phenomena in the field. The data analysis technique was triangulation by interviewing multiple informants to ensure a phenomenon or situation was true (Soeherman, 2019). Gathering information through interviews was performed separately to dig into phenomena concerning budgeting, religiosity, and local community wisdom.

Miles et al. (2014) referred to the following step, i.e., reducing data coinciding with collecting data to gain information that could answer research problems. Data reduction requested only data relevant to research problems. The ensuing step was data presentation. The step started with setting forth research problems and presenting the results of interviews to identify the informants' perspectives on research problems.

Next, the interview-generated data were correlated to the theory used to answer research problems. The final steps included drawing conclusions based on data and analysis and shedding light on research implications.

## Result and Discussion

Mutiara Saghara focused on a salt crystal production home industry integrated with tourism management. The primary products were salt for consumption purposes and by-products, namely crystallization waste, used as raw materials for making souvenirs in a tourist destination managed by Mutiara Saghara. The management strived to meet its target of revenue by integrating sales. The souvenir price was integrated into the entrance fee ticket price to boost sales. The finding demonstrated a cross-substitution of budget. Two informants argued:

"... one of the efforts to achieve the target of revenue is selling souvenirs. After calculation, it turns out that souvenir gives higher sale values than salt products."

Informant X

"... we also endeavour to improve our salt and souvenir quality to attain our targets. We are in the process of ISO submission. The assessment has been done, and the result will probably be announced in the next two months ...." Informant Y.

Mutiara Saghara sought to fulfil its revenue target by cross-substituting the budget and to sell the by-products. Furthermore, they also carried out capacity building to boost and develop businesses. However, the results demonstrated that the Mutiara Saghara management was predisposed to make slack to improve product quality and provide long-term benefits. Our informants conveyed:

"... the target is deliberately downgraded to develop several new products, especially bitter salt. It is affordable by cost, so selling it causes drawbacks."

Informant Y

"... the target is low, indeed. But the director has agreed with it in order to focus on making new products and ISO ...." Informant Z

Mutiara Saghara deliberately made slack to achieve another long-term target. Development and research attempts required considerable money and were part of a long-term orientation (Anthony & Govindarajan, 2007; Koomson et al., 2020). New product development called for a high cost which could not be ascribed as a short-term cost (Atkinson et al., 2004; Garrison & Noreen, 2003). Research and development needed a high cost in the current period, but the benefits might be perceived later. The high research and product development cost might lead to dysfunctional behaviours if management performance was assessed based on periodic budget targets.

Orienting to operational business targets provoked business management to ignore long-term orientation (Davila & Wouters, 2005). The result was congruent with management controlling concepts (Dunk, 1995) that budgetary slack could facilitate managerial performance when confronting uncertainties. Business management might make budgetary slack as one of the endeavours to improve quality. Meanwhile, the cost spent on research and new product development was high (Lee et al., 2021). Interestingly, the results exhibited the deliberate action of Mutiara Saghara making slack to attain its long-term goals. The freedom given to the management to use budget and performance assessment concepts not constrained to operating target realization were

two motivational aspects encouraging the Mutiara Saghara management to focus on more promising long-term orientation and targets. The results were consistent with [Davila & Wouters \(2005\)](#), [Lillis \(2002\)](#), and [Lukka \(1988\)](#), whom all shed light on the evidence that budgetary slack could be adequate for fostering managers' motivation for non-financial performance.

Non-financial performance was one of the elements to attain the organization's financial purposes ([Chen & Xede, 2022](#); [Kaplan & Norton, 2000](#)). Achieving non-financial performance, e.g., product quality orientation and services, was more complicated than achieving financial ([Lee et al., 2021](#); [Li et al., 2021](#); [Lukka, 1988](#)). The results also indicated that the foundation of performance assessment, which did not focus on budget attainment, could motivate the business management to focus on long-term orientation. It corresponded with the literature on performance measurement that organizations needed to consider diversity to embrace both financial and non-financial ([Hall, 2008](#); [Sholihin et al., 2010](#)).

It was also in good agreement with [Spekle & Verbeeten \(2014\)](#) and [Ceri-Booms et al. \(2017\)](#) that exploring performance measurement not limited to short-term financial indicators could improve performance. Mutiara Saghara used the foundation of performance assessment, not focusing on financial performance aspects only, e.g., budget target achievement. Informant Z's argument implicitly pointed out that budgetary slack was deliberately made and claimed to be the foundation of budgetary systems through flexible cost assumption. Mutiara Saghara allocated specific budget targets when finding external conditions more demanding by modelling the fixed cost as a variable, realizing a more balanced budget during a higher volume. Therefore, budgetary slack underlying budgeting could be considered beneficial to the organization. However, it could be a trade-off allowing the organization to focus on long-term targets to augment long-term performance.

The management's measures had been conforming with the principal purposes, which were not focusing only on short-term orientation. Variations in the management's performance emanated from an executive structural situation facilitating the executives' practical actions ([Donaldson & Davis, 1991](#)). The Mutiara Saghara management, given the flexibility not to orient to budget target achievement, was impelled and motivated to be also concerned about the long-term effects of new product development and quality improvement. Therefore, it would be better to combine principals and agents to eradicate opportunistic characters and improve organizational performance ([Davis et al., 1997](#); [Donaldson & Davis, 1991](#)). Authorization to manage finance and flexibility in performance and target measurement in Mutiara Saghara could not only be deemed an exciting factor of budgetary slack. However, slack impacts showed attempts to minimize short-term opportunistic behaviours of the management and induce proportional purposes.

This research is in line with ([Donaldson & Davis, 1991](#)), which appears as a response to the downsides made by agency theory. Agency perspective spurs managers (agents) to showcase opportunistic characters. The characters arise because of agents' desire for higher organizational incentives ([Jensen & Meckling, 1976](#)). Meanwhile, individuals also have non-opportunistic behaviours. Hence, [Donaldson & Davis \(1991\)](#) suggest stewardship theory. The latter theory is a performance variance emerging from whether a structural situation where the executives exist facilitates their practical

actions (Donaldson & Davis, 1991). In so doing, a fusion of principals and agents is imperative to diminish opportunistic characters and augment organizational performance (Davis et al., 1997; Donaldson & Davis, 1991).

The stewardship perspective dissuades managers from showing opportunistic behaviours and stimulates them to deliver services commensurate with organizations' primary goals (Davis et al., 1997). The theory primarily aims to attain organizational goals (Davis et al., 1997). CEOs, i.e., the servants, make the best pro-organization actions if the organization's management structure gives them high authority and discretion (Davis et al., 1997). Structurally, the situation is more possible if CEOs lead the board of directors. The structure is considered dysfunctional under the human agency theory model. Nevertheless, stewardship theory optimizes the CEO's utilities when they intend to realize organizational goals instead of achieving their ones. CEOs are responsible for their organizations and have the authority to decide strategies affected by external parties (Davis et al., 1997). Stewardship theory shares commonness with budgeting systems in Mutiara Saghara. A flexible budget that does not solely focus on cost allows the Mutiara Saghara management to orient to product development and quality improvement, comporting with its long-term goals.

In correspondence with the stewardship perspective, Mutiara Saghara made budgetary slack to demotivate its manager to show opportunistic behaviours. The slack motivated work behaviours and orientation whose motives were in keeping with the organization's long-term goals. Stewardship theory nurtured its prime goal of achieving the organization's goals (Davis et al., 1997). The Mutiara Saghara management acted as a steward to make pro-organization actions and was facilitated by the organization's management structure, providing it authority and discretion (Davis et al., 1997). It served as a steward and facilitated pro-organization actions with budgetary slack, not highlighting short-term budget attainment. Nevertheless, under agency theory, budgetary slack in budgeting in Mutiara Saghara was perceived as dysfunctional behaviour. That the Mutiara Saghara management optimized utility to realize organizational purposes instead of achieving personal goals by attaining short-term budget targets was in line with stewardship theory (Davis et al., 1997).

Cost treatment was one of the elements of the competitive business advantage dimension (Carter, 2015). Managers should study the cost category carefully (Kaplan & Norton, 1996). Operational costs were a company's short-term cost activities. Meanwhile, research and development costs, two costs with a high amount, were perceived as long-term costs (Kaplan & Norton, 1996). High expenditure on long-term necessities might adversely affect the company's short-term profits. The management assessing employee performance based on short-term profits could hamper going concerned because it could result in a reluctance to make innovations and, thereby, competitiveness loss with other industries. The results suggested that Mutiara Saghara deliberately made budgetary slack, oriented to long-term business development, as attested to by the informants' following statements.

"In terms of profits, we don't target much .... We mostly allocate it for ISO products. With good quality and guaranteed long-term, we're ready for mass production." Informant X

"We are given flexibility in profit targets and budget, so we can develop new products. We are not only in the process of developing bittern for souvenir

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purposes but also in the trial process to work out raw materials of multi flavour tofus ...." Informant Y

"We are now developing various products, especially staple food, such as salt bittern-based tofu .... Staple food products are considered to have a higher sale." Informant Y

"... We are expecting that by the product variation, we earn higher revenues, although we are now also dealing with limited financial conditions." Informant X

Three concepts were used to increase an organization's internal business process values, i.e., innovation, operation, and after-sales services (Kaplan & Norton, 1996). In innovating, Mutiara Saghara strived to work out customers' needs and make products or deliver services to fulfil their needs. By concept, after products achieve production, the gross margin of operational activities might be considerably high (Carter, 2015). It yielded limited opportunities to reduce costs. High costs were spent during the research and development stages. Mutiara Saghara should make innovations as a long way of creating value for an organization.

The results demonstrated that Mutiara Saghara invested many funds to develop its products and quality (ISO) to sustain long-term production and operation. Direct labour was strictly controlled using a standard cost and an extensive variance analysis system. Meanwhile, development had no financial system monitoring expenditure levels or output measurement. Therefore, the first indicator of success in product development might not appear within the first three years. Nevertheless, the hassle of measuring input conversion into output in research and development processes did not hinder Mutiara Saghara in setting specific aims and carrying out the measurement for long-term orientation purposes.

The operation process was a short-term orientation of value-making in organizations. Routine operational activities were, by concept, could be monitored and controlled using financial evaluation of standard costs, budget, and variance. However, competing production quality practices encouraged the Mutiara Saghara management to complete performance measurement, which had been only building on financial budget targets, to include quality measurement and time cycle. The additional measurements were forms of flexibility to create value for customers to foster organizations' long-term goals. Mutiara Saghara had the propensity to provide not only budgeting flexibility for its management but also flexibility in cost management. The results demonstrated that by concept, the flexibility afforded by Mutiara Saghara to its management was the fundamental cause impelling it to make slack.

Nevertheless, interestingly, flexibility and budgetary slack induced the management to voluntarily take risks to focus on business development and long-term objectives. The results were in reasonable agreement with the third perspective of the balanced scorecard, i.e., internal business processes. All businesses possess a set of unique processes to create value for customers and bring about finance (Rohma & Sholihah, 2022; Supriyono, 2000). Budgetary slack made was a bridge Mutiara Saghara could use to make innovations and improve quality. It could provide value for customers and maintain the going concern. Budgetary slack facilitated the management facing other goals besides budget-related ones. Budgetary slack allowed the management to

balance goals when external conditions change. It was a deliberate product, even a base for a budgeting system through its underlying cost assumption.

## Conclusion

The research analyzed the potencies and effects of budgetary slack on organizations at the Dogs level in the Boston Quadrant Matrix. As exhibited by the results, budgetary slack became the base during budgeting through a flexible cost scheme assumption. Interestingly, the results also indicated that budgetary slack motivated the management to take actions to keep pace which the organization's long-term purposes. Cost budget target fulfillment was irrational when coping with non-financial orientation, namely product quality and going concerned. The results pointed out that, in theory, budgetary slack could facilitate and prompt individuals to be stewards and focus on organizations' long-term orientation. Empirically speaking, the research presented a trade-off that budgetary slack could not necessarily be considered harmful for organizations. Flexibility propelled the management to adjust short-term aims to long-term ones when external conditions changed. The management and regulators could take the roles of cost flexibility and conditional budgetary slack into account during the budgeting mechanism to spur goal congruency. Albeit having several main implications, the research had limitation. It focused on gathering information from the management and the financial manager due to concerns about the transition because of the pandemic, which might lead to virus transmission. Hence, examining and observing documents was only predicated on budget information, entrance fee ticket reports as one of the revenue inputs documents, and some cost information. In so doing, future researchers could comprehensively consider capital budgeting with different specific elements.

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