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Mitigation of Budgetary Slack Behavior Through Islamic Religiosity and Budget Control: An Empirical Study of Indonesian Local Companies*

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Abstract

This study aims to obtain empirical evidence about the cognitive effect of Islamic religiosity and budget control in reducing budgetary slack behavior. This study involved 176 managers as respondents in 10 local companies in Eastern Indonesia. Managers who are respondents in this study work and are spread across 14 provinces in Indonesia. Probability sampling method has been used for this study from the total population with certain criteria. Data analysis has been done using Warp PLS-SEM technique. The results showed that Islamic religiosity cognitive and budget control had a direct negative effect on budgetary slack behavior. The two variables also fully mediate the relationship between participatory budgeting and budget-based compensation schemes on the behavior of budgetary slack in a negative and significant way. These results mean that the two variables are proven to reduce budgetary slack behavior. This empirical evidence at the same time corrects the agency theory's assumptions about opportunistic human nature and always maximizes every potential economic profit. In addition, the results also show that Islamic religiosity cognitive is stronger in reducing budgetary slack behavior. These results can be used to improve the company's budget control system by incorporating elements that motivate religious goals so that it is more effective in reducing budgetary slack behavior.

Keywords: Islamic Religiosity, Budget Control, Budgetary Slack

JEL Classification Code: H61, M41, O15

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1. Introduction

One of the objectives of a budget is to communicate financial plans reliably and accurately at various levels of the organization (Ferdous, 2019). The budget is a reflection of the organization's communication process regarding performance expectations in the future. However, because of the behavioral budgetary slack in this process causes delays in achieving budget goals. Budgetary slack behavior causes additional agency costs (Cardinaels et al., 2019), inefficiencies in the allocation of organizational resources can cause damage to the effectiveness of the company's long-term planning (Shujun, 2019). Blay et al. (2019), also argue that the creation of slack behavior through deliberate misreporting by subordinates is not only detrimental to the organization but is also a form of deviation from the social norms of honesty.

One of the factors which is held responsible for influencing budgetary slack behavior is the agent's opportunistic motivation and the participatory system budgeting.

The participatory budgeting system involves employees in the budget preparation process, and allows employees to influence the approved budget (Devie et al., 2018). This has the opportunity to be used by agents to benefit through misreporting in the budget (Ferdous, 2019). Research results such as Kepramareni et al. (2019) as well as Etemadi and Sirghani (2016) confirm this. According to Etemadi and Sirghani (2016), participatory budgeting has a positive effect on budgetary slack and had no positive influence on organizational commitment (Jatmiko et al., 2020). However, everyone do not agree with these results. Research by Ramdeen et al. (2019), Chong and Strauss (2017), as well as Rifqi et al. (2017) found that participatory budgeting had a negative effect on budgetary slack. This shows the inconsistency of findings related to the relationship between budgetary participation and budgetary slack.

One theory that is often the basis for the assumption of opportunistic behavior of these agents is the agency theory. This theory assumes that humans are motivated by rationalism and personal information owned by managers is a significant factor that triggers the emergence of budgetary slack (Shujun, 2019). Therefore, according to the agency theory, there are 2 (two) methods that can be used to mitigate the rationalistic motivation, namely; compensation and contract monitoring (Mitnick, 2019). However, some research results think that compensation triggers budgetary slack. Research results from the studies by Sampouw (2018), Munandar et al. (2019); and Hobson et al. (2011) explain that compensation schemes can increase budgetary slack. Likewise, budget control has also been criticized by Nafisatu (2018), as a mechanism for monitoring managerial stress that can lead to dysfunctional behavior. Both of these findings certainly contradict the assumptions of agency theory. So, it is necessary to find other variables that can mitigate this behavior.

Research by Blay et al. (2019), emphasized that employees who have a preference for honesty norms have a positive impact on honesty in budgeting participatory reporting. One of the important factors driving the behavior of honesty and high responsibility is the Islamic religiosity (Awuni & Tanko, 2019). Likewise, the research results of Abbas et al. (2020) on an Islamic organization in Indonesia show that the higher the level of religiosity, more it will encourage better financial management. According to Saleh et al., (2020), religiosity is a fundamental factor that determines the development of the organization in the future. Therefore, this study assumes that Islamic religiosity can reduce budgetary slack behavior. Several previous studies have studied the relationship between budgetary slack behavior and religiosity as shown in the studies by Adnan and Sulaiman (2006); Prayudi and Dharmawan (2018); and Santhi et al. (2019). However, there are differences in the results of these studies. Adnan and Sulaiman (2006)

found no significant relationship between religiosity and tendencies of budgetary slack behavior. Meanwhile, research by Prayudi and Dharmawan (2018) and Santhi et al. (2019) found a significant relationship between the level of religiosity with the tendency of budgetary slack behavior. The next difference that is very interesting is the research on the respondents. Most of Adnan's research respondents are Muslims and it has been conducted in Malaysia. While research on respondents by Prayudi and Dharmawan (2018) as well as Santhi et al. (2019) mostly focus on Hindus who are settled in the Bali Province. These differences complement the set of motivations for this study.

This study proposes a concept of budget control that combines two types of control over budgetary slack behavior, namely individual external and internal controls. This concept represents holistic behavioral control. Budget control represents an element of external control. Meanwhile, individual religiosity is a form of internal control. The religiosity factor determines the level of morality. Morality is a mechanism for the internal control and coordination of an individual (Shujun, 2019). The combination of these two variables is believed to be able to mitigate budgetary slack behavior. Based on this assumption, this study will test empirically the effect of Islamic religiosity cognitive and budget control on reducing budgetary slack behavior.

2. Literature Review and Hypothesis Development

The research aims to examine the influence of Islamic religiosity cognitive and budget control in mitigating budgetary slack behavior in Kalla Group, a group of companies in Makassar. In agency theory, humans are only viewed on one side, namely rationalistic creatures. Meanwhile, Islam sees humans as beings as having two potentials. As Allah SWT says in QS asy-Shams/7-8, these two type of human beings consist of human beings with potential evil (أَعْرُوجُف) and human beings with potential piety (مَعِي وَيُوقِتْشَو). Human beings with potential evil are those who are rationalistic, have self-interest or ignore the rights of others. Meanwhile, human beings with potential for piety are those who are good and have altruistic religious leanings. The two potentials form a balance in human creation, wherein humans are given the freedom to choose (free will) to develop both potentials, so that humans can become religious creatures and can become rationalistic humans. The inability to develop the potential for piety and control the potential for evil results in the human spirit becoming dirty, self-interested, and opportunistic. Therefore, mitigating budgetary slack behavior should align the system with the concept of human potential from the perspective of the Koran. Based on that, this study uses Bandura's cognitive social theory (CST) to test the concept of the Koran.

Bandura's CST explains that human behavior is the result of a reciprocal interaction between individual cognitive influences and the environment (Wood & Bandura, 1989). Individual cognitive development through values, competencies, and interests are influenced by the social environment. And behavior is influenced by individual, cognitive, or vice versa. According to Wood and Bandura (1989), mechanisms of cognitive individuals include; vicarious, self-regulatory, and self-reflective. Vicarious is the ability to motivate individuals who come from indirect interactions with knowledge, practice, and observation of their environment. Furthermore, a self-regulatory system is an individual self-regulation mechanism based on beliefs, thoughts, and values or norms believed. While self-reflective is personal individual attitudes which are always based on personal standard assessments that come from their beliefs, values, and norms. As a proxy, the environment of the individual uses the companies' budget control. Meanwhile, for individual cognitive, Islamic religiosity is used as a proxy. According to Holdcroft (2006), religious knowledge tends to be significantly correlated with individual moral reasoning. Religiosity cognitive provides a cognitive premise (about good and bad) for individuals and establishes the preconditions for the approval of human behavior. According to Ahmed et al. (2016), the concept of Islamic religiosity does not separate religion, occupation, and state. The aspect of Islam does not only relate to God as the creator but also includes practical actions in everyday life.

Based on the hadith of the prophet Muhammad SAW which narrates the Sahih Muslim number 10, Mohd Mahudin et al. (2016) divide Islamic religiosity into 3 (three) dimensions, namely; Islam, Iman, and Ihsan. Islam is an act of the body or human activity that is subject to or follows the teachings of tauhid (Mohd Mahudin et al., 2016). The practice of the pillars of Islam is a reflection of the obedience of individual worship. This obedience encourages individuals to live their lives according to the Islamic rules and stay away from the prohibitions of Allah SWT. The second dimension is Iman. Iman reflects cognitive and belief systems in understanding of God. Iman include beliefs that encourage a Muslim to take action. The third dimension is Ihsan. Ihsan is an attitude or spirit or actualization of virtue and goodness which is in line with the role that Allah has established for humans. Therefore, Ihsan is the highest level a person can attain. His attainment causes a person to be deemed to have fully submitted to the decrees of Allah SWT or namely Mohsin. A person who is at the Mohsin level has an inner dimension that tries to carry out actions or morals supererogatory (more than what is necessary) in his obedience to Allah SWT.

Budgetary slack behavior occurs because subordinate management has the freedom to plan budgets. When developing a set of performance standards, subordinates

tend to lower the standards. When used as a basis for compensation and performance evaluation, it results in a biased assessment (Klein et al., 2019). Etemadi and Sirghani (2016) explain that weak budget control will encourage budgetary slack behavior by senior managers to maximize its utility. Therefore, budget control must be strengthened so that senior managers create low budgetary slack. Kren (2003) developed a concept of budget control classified into three dimensions based on the control object. First is the specific action control. The second is outcome control and the third is personnel control. Specific action controls include manual policies and procedures that influence decision-making activities. Outcome control is measured by two items that ask about the extent to which the board of directors can review decisions and the variety of explanations for budget variances that affect managers' decision-making. Meanwhile, personnel control involves efforts to encourage individual and social control. The combination of two types of behavior control, namely; Islamic religiosity cognitive and budget control is believed to reduce budgetary slack behavior. Based on this concept, 12 hypotheses can be drawn up as shown in Table 1.

3. Research Methods

The survey was carried out to all levels of managers in the working areas of the companies within the Kalla Group. The total population is 313 managers spread across 14 provinces of Indonesia. The minimum sample according to the Slovin analysis has to be 176 managers. The sampling technique used is the probability sampling. The survey uses a questionnaire created via a google form. The measurement scale of the instrument uses a Likert scale (1 = Strongly Disagree – 5 = Strongly Agree). The instrument used is a development of several previous studies such as; Onsi (1973); Milani (1975); Dunk (1993); Kren (2003); Chong and Law (2016); Mohd Mahudin et al. (2016). The budget participation instrument was adapted from Milani (1975) and Onsi (1973). There are six statements on budget participation from Milani (1975) and three statements from Onsi (1973). The instrument of the budget-based compensation scheme was adapted from Chong and Law (2016). There are four statements regarding the budget-based compensation scheme taken from Chong and Law's (2016) instruments. The budget control instrument was adapted from Kren's (2003). The budget control instrument is taken from ten statements regarding the characteristics of budget control according to Kren (2003). The instrument of Islamic religiosity cognitive is taken from Mohd Mahudin et al. (2016). The characteristics of Islamic religiosity are taken from ten statements about Islamic religiosity used by Mohd Mahudin et al. (2016). Finally, the budgetary slack instrument has been adapted from the Dunk (1993). The characteristics of budgetary slack refer to six

Table 1: Theoretical Hypotheses Proposed

Hypothesis	Description
H1	Manager's participatory budgeting has a negative effect on budget control.
H2	Budget-based compensation schemes have a negative effect on budget control.
H3	Manager's Participatory Budgeting has a negative influence on the Islamic religiosity cognitive of managers.
H4	Budget-based compensation schemes have a negative effect on the Islamic religiosity cognitive of managers.
H5	Budget control has a negative effect on budgetary slack behavior.
H6	Islamic religiosity cognitive of managers has a negative effect on budgetary slack behavior.
H7	Manager's participatory budgeting has a positive effect on budgetary slack behavior.
H8	Budget-based compensation schemes have a positive effect on budgetary slack behavior.
H9	Participatory budgeting has a negative effect on budgetary slack behavior that is mediated by budget control.
H10	Budget-based compensation schemes have a negative effect on budgetary slack behavior that is mediated by budgetary control.
H11	Manager's participatory budgeting has a negative effect on budgetary slack behavior that is mediated by the manager's Islamic religiosity cognitive.
H12	Budget-based compensation schemes have a negative effect on budgetary slack behavior that is mediated by the manager's Islamic religiosity cognitive.

statements regarding budgetary slack behavior according to Dunk (1993) instruments.

The survey process was carried out by circulating the linked questionnaire to respondents through the WhatsApp group of each company within the Kalla Group. The total number of managers who participated and answered the questionnaire were 222 people. However, 46 respondents were excluded because they did not meet the criteria such as not having the sufficient qualification and knowledge as well as seriousness in giving responses. Therefore, it was excluded from the sample. So finally, 176 respondents were found to be fit to the eligibility criteria and met the minimum sample required by the Slovin analysis. Furthermore, the data is processed using the Warp SEM PLS 6.0.

4. Results and Discussion

4.1. Results

Data processing itself has been carried out in 2 (two) stages, namely the measurement model (outer model) and the structural model (inner model). While the evaluation of the outer model consists of 2 (two) stages, namely the first order and the second order. In this stage, the first-order evaluation of the measurement model is carried out (outer model). That is to see the relationship between the score of loading the dimension construct variable and the indicator. In general, loading greater means a stronger and more reliable measurement model. The reliability of the indicator can be interpreted as the square of the measurement loading. So that

$0.708^2 = 0.50$ (Garson, 2016). This can be considered as a form of item reliability coefficient for the reflective model. The closer the loading is to the value 1.0, the more reliable the latent variable is. As agreed, for a suitable reflective model, the loading value must be above 0.70. A loading of 0.70 is the rate at which about half the variance in the indicator is explained by the factor and also the rate at which the variance described must be greater than the variance of error. At a value of 0.70 as the measurement criterion loading is minimum, so the indicators with a value loading below 0.70 must be removed. This will improve the composite's reliability value.

The first-order testing process removes some indicators from the model because they do not meet the minimum loading. In the adaptive budget, there are two indicators, the compensation scheme has one indicator, one indicator of budget control, and 2 indicators of budgetary slack. After the first order is completed, it is followed by testing the second order. Evaluating the outer model second order is the same as the first order. In the evaluation of the outer model second-order, the latent dimensions are made into a latent score as a construct indicator in high order (Ghozali & Latan, 2014). The test results of the second-order loading value are shown in Table 2.

There are 2 (two) criteria for testing the outer model, namely; the validity and the reliability test. Reliability testing uses Cronbach's alpha (CA) and composite's reliability (CR). The CR test is preferred as a means of testing convergent validity than CA in a reflective model. This is because CR is seen to produce a model that has higher reliability

Table 2: Second Order-Loading Factor Every Indicators

Indicators	Budget Participation	Budget-based Compensation Scheme	Budget Control	Cognitive Islamic Religiosity	Budgetary Slack	P-value
	(X1)	(X2)	(Y1)	(Y2)	(Y)	
X11 Participation	0.907					<0.001
X12 Contribution	0.907					<0.001
X21 Extrinsic reward		0.905				<0.001
X22 Intrinsic reward		0.905				<0.001
Y11 Control Specific			0.874			<0.001
Y12 Control Results			0.919			<0.001
Y13 Control Personal			0.864			<0.001
Y21 Iman				0.885		<0.001
Y22 Islam				0.904		<0.001
Y23 Ihsan				0.906		<0.001
Y1 Slack Attitude					0.915	<0.001
Y2 Slack Manipulation					0.915	<0.001

Source: Research data.

(Garson, 2016). The required values of CR and CA are above 0.7 (Garson, 2016). The test results show that the value of CR for all variables is above 0.9. Likewise, the value of CA for participatory budgeting and budget-based compensation schemes is above 0.7. Meanwhile, the CA value of the budget control variable, Islamic religiosity cognitive, and the budgetary slack behavior is above 0.8. Based on CA and CR values, it can be said that all variables have met the requirements of the reliability test. The next test is the validity test. Validity testing uses discriminant validity through the AVE value (average variances extracted). The required average AVE value is above 0.5. The AVE value means that 50% or more of the indicator variance has been taken into account (Ghozali & Latan, 2014). The results of testing the AVE value for the variable participatory budgeting, budget-based compensation schemes, Islamic religiosity cognitive, and budgetary slack behavior show values above 0.8. While the AVE value of the budget control variable is above 0.7. Based on the AVE value, it can be said that the model has met the requirements of the convergent validity test because the AVE value of all variables is above 0.5. The next test is the multicollinearity test. The goal is to ensure that there are no multicollinearity problems in the model. Multicollinearity occurs when two or more independent variables are related. Multicollinearity increases the standard deviation and makes the test of significance unreliable. The general rule is that multicollinearity occurs when the coefficient of variance inflation factor (FVIF) is higher than 5.0 (Garson, 2016).

The results of testing the FVIF value for all variables are in the range of numbers above 1.6 to 1.9. Based on the FVIF value, it can be said that there is no multicollinearity problem in the model.

The structural model or inner model represents a test of each hypothesized relationship between the latent variables in the model. The goal is to determine the level of significance of each of these relationships. A significant value as recommended by Garson (2016) has a maximum *p*-value of 0.05. *P*-value is tolerance for bias, an acceptable confidence level. Testing is divided into three, namely; the direct effect of the independent variable on the mediation variable (H1, H2, H3, and H4), the direct effect of the mediating variable on the dependent variable (H5 and H6), and the direct effect of the independent variable on the dependent (H7 and H8).). All of the direct effect hypothesis testing results meet the significance of the *p*-value, but only the hypotheses H5 and H6 are in the direction of the prediction. Therefore, only testing of the mediating variable against the dependent variable is accepted.

4.2. Discussion

The first hypothesis H1 verifies the influence of participatory budgeting on budget control. The hypothesis departs from the assumption of agency theory about human nature which always wants to maximize its interests. So, it is seen that participatory budgeting provides opportunities

for agents to behave opportunistically. So that it has a negative effect on budget control. The test results showed significance at $p < 0.001$, but the direction was different from the predictions. Therefore, it can be said that hypothesis H1 is not accepted (See Table 3). The test results refute the assumptions of agency theory. On the other hand, participatory budgeting has a positive and significant effect on budget control.

The hypothesis H2 is based on the research of Klein et al. (2019) which states that the compensation scheme can motivate opportunistic behavior if it is linked to the achievement of budget results. The test result is rejected. The budget-based compensation scheme has a positive and significant effect on the budget control variable. Therefore, it can be said that the test results reject the research results of Klein et al., (2019) and support the assumptions of the agency theory. The next is the verification of the hypotheses H3 and H4. The hypothesis departs from the agency theory's assumptions about rationalistic humans. Participatory budgeting has been observed to provide opportunities for agents to behave opportunistically, thereby reducing the manager's Islamic religiosity cognitive. However, the results were rejected. These results indicate that participatory budgeting and budget-based compensation schemes have a positive effect or increase the Islamic religiosity cognitive. The existence of the authority to participate in budgeting and compensation schemes are understood as having an open attitude from the principal, which encourages a positive attitude in the agent. So that the assumption of agency theory about humans which is always rationalistic is not supported. The next test is testing the direct effect of the mediating variable on the dependent variable. Hypothesis H5 and H6 depart from the assumption of Bandura's CST that the behavior is influenced by the environment, namely budget control and individual cognition. Islamic religiosity is seen

as an individual cognitive factor that influences budgetary slack behavior. Both hypotheses are accepted. It confirms the hypothesis assumption that Islamic religiosity cognitive and budget control have a negative effect or reduce the behavior of budgetary slack. These results confirm some of the results of previous studies such as by Brink et al. (2018) which states that a budget control with high monitoring is most effective in reducing the creation of slack. Likewise rejecting the research results of Adnan and Sulaiman, (2006), and supporting the research results of Prayudi and Dharmawan (2018) and Santhi et al. (2019) that religiosity has a significant effect on reducing budgetary slack behavior.

The next test is hypothesis testing H7 and H8. Hypothesis H7 also departs from the assumption of agency theory which sees humans as opportunistic individuals. While the hypothesis H8 is based on the research of Klein et al. (2019) which states that compensation schemes motivate opportunistic behavior and support the assumptions of the agency theory. The hypothesis is rejected. Based on the test results, the assumption that budget participation provides an opportunity for agents to behave opportunistically by creating a budgetary slack is rejected. Likewise rejecting the results of research by Klein et al. (2019) that compensation schemes trigger behavioral budgetary slack. These results answer several differences in the results of previous studies such as Kren (2003); Maiga and Jacobs (2007); Etemadi and Sirghani (2016); and Kepramareni et al. (2019), that participation has a positive effect on budgetary slack. As well as supporting the results of previous research from Chong and Strauss (2017); Rifqi et al. (2017); and Ramdeen et al. (2019) who found that budget participation has a negative effect on budgetary slack.

The results of hypothesis testing H1–H4 and H7–H8 show results that are contrary to the hypothesized assumptions. The results of descriptive statistics also show that the mean

Table 3: PLS Results - Path Coefficients Direct Effect-Before Mediations

Hypothesis	Beta Direct Effect	P-value	Standard Error	Effect Size	Relationships Prediction	Results	Conclusion
H1: BP → BC	0.604	<0.001	0.062	0.365	Negative	Positive	Reject
H2: BB → BC	0.619	<0.001	0.062	0.383	Negative	Positive	Reject
H3: BP → IR	0.345	<0.001	0.062	0.119	Negative	Positive	Reject
H4: BB → IR	0.4	<0.001	0.062	0.16	Negative	Positive	Reject
H5: BC → BS	-0.141	0.012	0.062	0.045	Negative	Negative	Accepted
H6: IR → BS	-0.425	<0.001	0.062	0.206	Negative	Negative	Accepted
H7: BP → BS	-0.21	<0.001	0.062	0.044	Positive	Negative	Reject
H8: BB → BS	-0.283	<0.001	0.062	0.08	Positive	Negative	Reject

Note: Budget Participation (BP); Budget-Based Compensation Schema (BB); Budget Control (BC); Islamic Religiosity Cognitive (IR); Budgetary Slack Behavior (BS).

of respondent’s answers on participatory indicators of budgeting and compensation schemes is at 4 (agree) and in line with the mean of respondents’ answers on indicators of Islamic religiosity cognitive and budget control. This shows that in the group of respondents who tend to be religious, agency theory assumptions about rationalistic humans do not work. Indications of respondents who tend to be religious are shown by the mean values in the range of 4.6–4.8 or almost strongly agree on religious indicators.

The next test is the mediation test using the Islamic religiosity cognitive variable and budget control. In the mediation test, these two variables are entered into a model that links the independent variables with behavior budgetary slack. Three conditions must be met to demonstrate a mediating effect. First, there is a significant relationship between the independent variables and the mediators. Second, there is a significant relationship between the mediator variables and the dependent variable. Third, the relationship between the independents and dependent variables becomes insignificant when the mediator variables are included in the model (Ghozali & Latan, 2014). The first and second conditions have been fulfilled (see Table 3). There are 4 (four) hypotheses created from the mediation relationships, namely H9, H10, H11, and H12 (See Table 4).

The results of hypothesis testing H9 and H10 are accepted. These results support the research hypothesis which assumes that budget control mediates the relationship of participatory budgeting and budget-based compensation scheme influences budgetary slack behavior negatively and significantly. Hypotheses H9 and H10 are based on assumptions of Bandura’s CST that says that individual behavior is influenced by the environment of any specific individual. The most important individual environmental factor in budgeting is the budget control system of the companies. This system affects individual cognition, especially on self-regulatory and individual behavior conception. Thus, preventing the emergence of behavioral budgetary slack. The next test is the second mediating variable, namely Islamic religiosity cognitive. This test is reflected in the hypothesis testing H11 and H12. The test results on the hypotheses H11 and H12

are accepted. Hypothesis H11 and H12 are also based on Bandura’s CST. So, it can be said that the Islamic religiosity cognitive mediates the relationship that affects the decrease in individual desire to carry out behavior budgetary slack. Thus, the concept of Islamic teachings that are included in the individual cognitive conception is proven to prevent the emergence of budgetary slack behavior. These results also support that the research model based on Bandura’s CST by combining individual external and internal control which supports the concept of balanced individual behavior control.

The test results also show that the two mediating variables are full mediation in the model. So that a negative and significant direct influence on the relationship of participatory budgeting and budget-based compensation schemes on behavioral budgetary slack are not significant. This can be seen in hypothesis H7 after mediation, the value of β decreased to -0.013 with a significance to 0.415 or > 0.05 (not significant). In hypothesis H8 after mediation, the β value drops to -0.072 with a significance of 0.125 or > 0.05 (not significant). This means that the two factors, namely budget control and Islam religiosity cognitive, fully mediate negatively on budgetary slack behavior. So, it can be said that the influence of budgeting participatory and budget-based compensation schemes on budgetary slack behavior is determined by the presence of these two mediating variables.

These two variables control the individual’s desire to behave opportunistically. So that if these two variables do not exist, it will increase the tendency of individuals to engage in budgetary slack behavior. And if these two variables exist, it will reduce the tendency of budgetary slack behavior. When the Islamic religiosity cognitive is lost or at a low level, what appears is rationalistic, opportunistic, and egocentric humans. So that budgetary slack behavior increases. Therefore, a good system must encourage humans to always clean their cognitive attitudes of self-interest and excessive rationality by increasing the Islamic religiosity cognitive of the individual. QS asy-Shams/9–10 explains that “indeed successful will be the one who keeps it pure (the soul). And indeed, failure will be the one who corrupts it.” Overall, the test results show that the predictive power

Table 4: PLS Results - Path Coefficients - Indirect Effect With Mediations

Hypothesis	Beta Indirect Effect	P-value	Standard Error	Effect Size	Relationships Prediction	Results	Conclusion
H9 : BP → BC → BS	-0.072	0.05	0.044	0.015	Negative	Negative	Accepted
H10: BB → BC → BS	-0.074	0.046	0.044	0.021	Negative	Negative	Accepted
H11: BP → IR → BS	-0.142	<0.001	0.044	0.03	Negative	Negative	Accepted
H12: BB → IR → BS	-0.164	<0.001	0.044	0.047	Negative	Negative	Accepted

Note: Budget Participation (BP); Budget-Based Compensation Schema (BB); Budget Control (BC); Islamic Religiosity Cognitive (IR); Budgetary Slack Behavior (BS).

of the model is in the moderate category with an R_2 value of 0.261 or 26 percent. In addition, empirical findings also show that the two mediating variables have different path strengths where the path coefficient of the variable of Islamic religiosity cognitive on budgetary slack behavior shows a value of minus 0.41. While the path coefficient on the budget control variable shows a minus 0.12 value. This shows that the cognitive influence of Islamic religiosity is much stronger in preventing budgetary slack behavior compared to budgetary control. This empirical finding provides important information to the management regarding the need to encourage increased religious capacity of managers in improving corporate budget control in preventing budgetary slack behavior.

5. Conclusion

Managers who have a high value of Islamic religiosity do not show this budgetary slack behavior. These results prove that humans are not merely rational creatures they are also motivated by the religious goals. These results indicate the need to improve the basic assumptions of agency theory by paying attention to the element of religiosity as one of the motivations for human action. Therefore, minimizing rationalistic attitudes is not enough only through monitoring and compensation, but must encourage the development of individual religiosity cognition. This study also clarifies the relationship between variables that have never been studied before. Such as the relationship between the positive influence of participatory budgeting and budget-based compensation schemes on the Islamic religiosity cognitive. This study also sees Islamic religiosity cognitive as an important factor to be developed in subsequent behavioral accounting studies.

Budgetary slack behavior in the budgeting process creates inefficiencies and effectiveness of resource management, as well as deceptive performance measures. Therefore, implementing a holistic approach by combining individual religiosity development and budget control in the company system is believed to significantly reduce budgetary slack behavior. This is following the results of research which shows that these two variables can reduce budgetary slack behavior. This approach can be applied to Islamic banking institutions and other institutions that adopt Islamic religious values in their business. There are several limitations to this study. First, the level of the predictive power of this research model is 26 percent of it is in the category moderate. So, it still needs further research to find out other factors that influence budgetary slack behavior. Second, the sample is taken from a group of private companies with strong Islamic values. So that further research is needed if this holistic approach is used in public companies.

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