

## The Role of Transformational Leadership in Management Accountants and the Effects of Managerial Dysfunctional Behavior

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### *ABSTRACT*

The phenomenon of budgetary slack behaviour is closely related to the inherent nature of humans as "homo economicus," which refers to the idea that humans act rationally with the primary goal of maximizing their utility or personal gain. Budgetary slack is considered a dysfunctional behaviour that is unethical as it contradicts the norms and ethical codes of accountants. Management accountants, seen as "powerful controllers," play a crucial role in reducing this dysfunctional behaviour of budget slack. This research aims to examine the influence of transformational leadership style on management accountants concerning manager's budget slack behaviour. The study was conducted using a survey method involving managers from various large public-listed companies in Indonesia. A total of 47 questionnaires were collected and analyzed. The data were analyzed using Partial Least Square. The research findings demonstrate that the transformational leadership style of management accountants influences the manager's dysfunctional budget slack behaviour. This indicates that the transformational leadership style of management accountants can motivate and direct managers to behave more ethically. The results contribute to the management accounting literature, particularly in investigating the role of management accountants within organizations.

**Keywords** : Transformational Leadership; Management Accountant; Budget Slack

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## I. INTRODUCTION

The phenomenon of budgetary slack behavior is closely related to the inherent nature of humans as "homo economicus," which refers to the idea that individuals act rationally in economic decision-making, primarily aiming to maximize their utility or personal gains. This characteristic is not exempt in the case of managers working within organizations, as they often seek to maximize their utility by utilizing the information and cognitive abilities they possess to act opportunistically. Opportunistic behavior refers to dysfunctional employee behavior driven by the desire to exploit situations or others for personal gain, even if it is not always rational or fair. Some examples of opportunistic behavior include:

1. Fraud: Using fraudulent tactics or deception to gain financial advantages or avoid losses.
2. Embezzlement: Exploiting information and capabilities to engage in fraudulent activities with the goal of financial gain or power.
3. Information manipulation: Manipulating information or data to create favorable perceptions for themselves or to influence the decisions of others.

Budgetary slack behavior aligns with these opportunistic actions. Numerous cases in Indonesia have

shown that budgetary slack opportunistic behavior occurs and has the potential to harm organizations and even the country (if it occurs within state-owned enterprises). Inflating budget funds or misusing budget funds not in line with the budget plan indicates a lack of organizational control in planning and overseeing budget utilization. Budgetary slack can occur when middle managers intentionally reduce their capabilities or their business unit's ability to achieve targets while setting budget targets (Hobson et al., 2011). Budgetary slack is considered a dysfunctional and unethical behavior because it deviates from the norms and ethical codes desired by managers and professional accountants (Kren & Maiga, 2007). Budgetary slack has dangerous consequences for the company's future profits and future costs. It can undermine the efficient use of company resources by transferring them to middle managers and eroding trust between higher-level managers and middle managers due to the latter's actions (Gago-Rodríguez & Naranjo-Gil, 2016).

Budget planning and control are essential aspects of managerial accounting (Mack & Goretzki, 2017). Given their critical role, many companies seek management accountants as "strong controllers" who can lead strategically and

innovate (Ala-Heikkilä & Järvenpää, 2023). The relationship between management accountants and operational managers can be depicted as a "superior-subordinate" relationship (Nitzl & Hirsch, 2016). How operational managers (subordinates) act and behave are closely related to how management accountants (superiors) treat them (Yukl, 1989). This is in line with Kleine & Weißenberger (2014), explaining that leadership is a process in which a superior is responsible for influencing the commitment and task compliance of subordinates by overseeing task execution, conducting strategic management, and facilitating group or company activities. Stogdill and Coons proposed two types of leadership styles: task-oriented and relationship-oriented.

Holtz & Harold (2013) researched the influence of task-oriented and relationship-oriented leadership on unproductive work behaviors. The results showed that a leader highly oriented toward tasks and with limited relationship-oriented behavior could lead to unproductive behavior among employees. The researchers also stated that such unproductive behavior can be detrimental to the company as it deviates from company norms. Furthermore, their research suggested that further investigation could be done on other unethical work behaviors, such as stealing personal data, non-compliance, and formal

loss. Therefore, this research interprets that transformational leadership style is an essential factor that can influence employees, especially in creating budget slack. Based on Holtz & Harold (2013), this research employs a relationship-oriented leadership style (transformational leadership) as a factor that can increase the trust relationship between superiors and subordinates, thus reducing subordinates' tendency to create budget slack.

Previous research examining the impact of leadership styles on budget slack behavior includes Islami & Nahartyo (2019), which examined the influence of leadership styles on budget slack behavior, but their results showed no effect between leadership styles and budgetary slack behavior. In contrast, Vanesa (2021) found that transformational leadership style can reduce negative employee behavior and job stress. However, previous studies specifically investigating the impact of transformational leadership on budget slack behavior are limited and less frequently conducted. Transformational leadership is part of an informal management control system that can reduce dysfunctional employee behaviors, such as budget slack. Most of the research so far has focused on how management accountants influence personal trust relationships between superiors and subordinates (e.g., through

performance evaluations), but there is a lack of studies linking this to the practice of dysfunctional budget slack behavior (e.g., Chong & Ferdiansah, 2011; Chong & Loy, 2015). However, building a positive trust relationship between superiors and subordinates can enhance motivation and ethical culture within the company, which is a form of informal management control system. Therefore, this study aims to examine the influence of transformational leadership style on management accountants on managers' budget slack behavior.

Behavioral theory views the success of a leader based on what they do. This theory believes that leadership effectiveness in achieving organizational goals is significantly determined by a leader's behavior or actions (Kreitner & Kinicki, 2007). Transformational leadership is achieved when leaders and followers motivate each other with a higher work ethic and morality (Moradi Korejan & Shahbazi, 2016). Transformational leaders motivate their subordinates to go beyond what is specified in their job contracts and focus on their higher-order needs. These leaders act as mentors and advisors, attending to personal development, learning, and the needs of employees. They create a trusting environment and motivate employees to work for the organization beyond their personal interests (Khorshid & Pashazadeh, 2014). Previous research results showed that transformational

leadership style can reduce negative employee behavior (e.g., Vanesa, 2021), unproductive behavior (Holtz & Harold, 2013), and increase positive behavior (e.g., "championing behavior") (Islam et al., 2021). Based on these explanations, the hypothesis in this research is:

H1 = Transformational leadership style of management accountants has a negative influence on managers' behavior in creating budget slack.

## **II. RESEARCH METHOD**

This research employs primary data, namely respondent answers, obtained and collected through a survey method by distributing questionnaires via email and WhatsApp in the form of Google Forms, as well as through personal visits to the companies. The survey method was chosen because this research is essential to examine managers' perceptions of their trust in their management accountants' transformational leadership. The survey method accommodates testing actual respondent (manager) perceptions, and respondents are the most trusted sources for certain types of information (Nazari et al., 2006). The sample is taken from operational-level managers of large companies (with  $\geq 500$  employees) listed on the Indonesia Stock Exchange in 2023, as all companies listed on the IDX are the largest and most advanced in Indonesia.

A total of 47 questionnaires from 24 large publicly listed companies were collected and processed. Respondents were asked to provide their perceptions of their management accountants' leadership style and budget slack behavior in their departments. Budget slack behavior was measured using instruments developed by Libby & Lindsay (2010) and Onsi (1973). Meanwhile, the measurement of transformational leadership was based on the measurement developed by Avolio et al. (1999) and reused by Nguyen et al. (2017). The statement items were measured using a 5-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree). Along with testing the main hypotheses, we also examined the role of gender and educational background as control variables in this study. Data analysis was conducted using variance-based techniques, namely Partial Least Square (PLS), using PLS 3.08 software.

### III. RESULTS AND DISCUSSION

Based on the respondents' demographic data, the majority of participants in this study held positions as managers (83%), were male (76.6%), aged between 30 and 50 years old (90%), and had a bachelor's degree as their educational background (57.4%). Furthermore, Table 1 presents the descriptive statistics of each variable. On average, managers perceive that their

management accountants within the organization exhibit a relatively high level of transformational leadership. However, the average budget slack score is 2.64, which is closer to 3, indicating that the budget slack behavior performed by managers is still relatively high.

**Table 1. Descriptive statistics**

	N	Min	Max	Mean	Std. Deviation
Transformational Leadership	47	1	5	<b>3,99</b>	<b>0,81</b>
Budget Slack	47	1	5	<b>2,64</b>	<b>1,13</b>
<b>Valid N (Listwise)</b>					

The results of the validity and reliability tests show that all question items used to measure transformational leadership of management accountants and managers' budget slack behavior have outer loading in the range 0.813 – 0.976 ( $> 0.7$ ) meaning that all indicators are valid as measuring tools for their respective dimensions (Hair et al., 2021). Furthermore, the composite reliability (CR) value of each dimension (CR TL = 0,966; CR BS = 0,981) is also greater than 0.7, this indicates that these indicators have consistency in measuring variables.

#### **Hypothesis test**

Table 2 presents a summary of the results of the structural model test. The testing results indicate that through the value of R square (R<sup>2</sup>), it can be observed that transformational leadership of management accountants influences 78.5% of the

managers' behavior in creating budget slack. An R2 value greater than 0.65 indicates a reasonably strong predictive power (Sekaran & Bougie, 2017). Additionally, the value of Q2 for the main model of this study is 0.672 ( $> 0$ ), indicating that the structural model is relevant for prediction. The results reveal that the path between transformational leadership of management accountants and budgetary slack has a path coefficient of -0.894 with a p-value of 0.000 ( $< \alpha=0.1\%$ ), indicating that transformational leadership of management accountants has a negative and significant effect on budgetary slack. Thus, both the direction and strength of the path coefficients for the influence of transformational leadership of management accountants on budgetary slack support the research hypothesis.

accountants has a negative impact on managers' behavior in creating budget slack. These findings are consistent with previous studies (Holtz & Harold, 2013; Vanesa, 2021), which suggest that relationship-oriented leadership styles (transformational) can reduce deviant behavior from corporate norms. Transformational leadership of management accountants can enhance managers' trust in management accountants, and when managers trust their superiors, it results in lower levels of budgetary slack. The results of this research also support the argument (Dutta, 2017) that management styles serve as forms of informal management control that are essential in reducing behavioral issues within organizations. The trust built through interactions among individuals, especially initiated by superiors through transformational leadership of management accountants, makes the organization more “adaptable to changes”.

Thus, the findings of this study support the theory of leadership behavior, where transformational leaders motivate their subordinates to go beyond what is specified in their job contracts, focusing on higher-level employee needs. These leaders act as mentors and advisors, paying attention to personal development, learning, and the needs of employees (Moradi Korejan & Shahbazi, 2016). In this research, management accountants are perceived as "quite

**Tabel 2. Structural Model Test**

Path	Coeff	t-statistic	p-value	R Square	Q Square
TL => BS	-0,894	24,795	0,000	0,785	0,672
Gender => BS	0,052	0,878	0,380		
Education => BS	0,030	0,321	0,748		

## Discussion

The results of this study indicate that trustworthy management accountants can reduce budgetary slack behavior, supporting the hypothesis proposed in this research, which states that transformational leadership of management

good" in applying transformational leadership by the managers, which is sufficient to influence some managerial behaviors.

#### IV. CONCLUSION

This research on management accountant leadership and manager dysfunctional behavior provides a unique contribution by exploring the significant relationship between management accountant leadership style and manager's dysfunctional budget slack behavior in Indonesia. Prior studies have rarely discussed management accountant leadership style, making this research novel in its focus. Moreover, this study offers theoretical and practical implications for both academics and practitioners. Theoretical contributions of this research include shedding light on the limited understanding of the relationship between transformational management accountant leadership style and manager's dysfunctional budget slack behavior. It highlights that transformational management accountant leadership can reduce negative managerial behaviors such as budget slack. Additionally, the study reveals the effectiveness of transformational leadership in the management accounting profession to foster a trustworthy relationship between management accountants and managers. The unique characteristics of transformational leadership have the potential to strengthen the bond between

management accountants and managers, thereby increasing managers' trust and reducing their dysfunctional behaviors. Practically, this research provides insights for organizations to emphasize the importance of transformational leadership among their management accountants. Organizations need to examine whether their management accountant leadership reflects the characteristics of transformational leadership. Integrating this leadership style into the organizational culture could be beneficial in the future.

However, the research also has some limitations. Firstly, the use of survey techniques to test the research variables may introduce biases. Future research is recommended to use different data collection approaches, such as case studies or in-depth interviews. Secondly, the cross-sectional research design is another limitation, and future researchers could adopt longitudinal analysis to observe long-term changes in management accountant-manager relationships. Finally, this research suggests considering the superior-subordinate relationship as a potential mediator to enhance the current model, providing new insights to practitioners and researchers for future studies

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