

Moral Hazard in Organization: A Case Study In Holmesglen Language Centre Tangerang Banten.

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Abstract: The purpose of this study is to determine whether differences in information or information that is not complete can be used optimally in decision making. Then if the information received is the same, how then to minimize errors that may occur in processing information. This is done in order to minimize the impact of moral hazard in the wrong decision-making commonly called adverse selection. Here is expected to be able to review possibilities of mistakes into opportunities and can reduce occurrences of adverse selection. This research uses qualitative research with literature study method and interview. The object of this research is Holmesglen Language Center Tangerang Banten. There will be examined how to minimize the possibility of asymmetric information between agents and principals. Then this research will try to elaborate some issues that often contribute to occurrences of moral hazard as well as some ways to overcome them both traditional and employee value approaches. Besides, it is also necessary to monitor from both parties so that controlling can happen maximally. If asymmetric information can be minimized and moral hazard can be avoided where the adverse selection can be kept off that leads to the right decision making and will have a positive impact on the development of a company or organization.

Keywords: Moral Hazard, Adverse Selection; Decision making; Adverse selection; Asymmetric Information

Date of Submission: 19-01-2018

Date of acceptance: 03-02-2018

I. INTRODUCTION

Holmesglen Language Centre is an institution established in 2014 under cooperation between Muhammadiyah University of Tangerang Banten Indonesia and Holmesglen Institute Melbourne Australia. The centre is designed to use Australian curriculum with both Australian and Indonesian as the teachers. The staff of this centre also comprises both Australians and Indonesians. The two culture perspectives on approaching and running an organization frequently result in tensions and conflicts that sometimes is detrimental to the centre.

The definition of moral hazard is etymologically meaning moral trap. While in a term is described as the lack of any incentive to guard again, the insurance companies are exposed to a moral hazard if the insured party is not honest. As a result, to facilitate understanding on the definition of moral hazard in economic and insurance terms, suppose that there is an entrepreneur who takes out insurance for the risk of fire of the warehouse. Then when the entrepreneur, according to Triono (2010), is heavily indebted he burns the warehouse intentionally to obtain his insurance premium is the depiction of moral hazard.

Whereas in theory, moral hazard is a dishonest behavior in providing information to the party making the contract work to achieve his wishes. This sort of thing in agency theory is triggered by the information asymmetry between the principal (owner or shareholder) with the agent (manager). The imbalance of information from both parties is used by one of the parties to gain interest is the definition of information asymmetry. Such impacts can result from the separation of ownership and management functions. As a manager of a company that gets compensated from its accomplishments, a manager has a high motive for getting as many results as possible, and this kind of thing can lead to the emergence of moral hazard. The goal difference between principals who want to maximize shareholder prosperity with agents who want high compensation regardless of principal interest is the potential for moral hazard conflicts. Asymmetric conditions such information is the impact of the lack of controlling on the agency.

Berndt and Gupta (2009) argue that in the financial world, in particular banking has much to do with the moral hazard that can lead to serious financial crises. The transformation of the traditional banking model to the originate to distribute in which the bank acts as a lender and receives the profits from the credits granted for subsequent disbursements for larger credit investments is not the perfect way. Changes in the shape of such a banking model affect all parties including originating banks, credit investors, lending companies and regulators.

The bank's superior information on borrowers increases the adverse selection, in which banks sell credits that have negative information. In this perfect market will trigger secondary credit market damage to the classic "lemon" problem. The issue of adverse selection is important both from the point of view of credit investors as well, they can entrust the sale of bank credit based on legitimate reasons such as capital aid and risk management not because of negative private information. The purpose of this study is to find out how imperfect information can be used optimally. Furthermore, if the information received is the same, how to minimize the error in processing the information. Based on the description is expected to minimize the existence of adverse selection in decision making and maximize organizational performance.

II. THEORY

An effective decision-making is a demand for the role of every manager. Azizhan (2004) argues that the many organizational problems facing managers, both internal and external issues, it is necessary to make the right decisions. And the study of the theory of decision making will be very helpful to improve the ability to think in a practical and realistic both in the ability to recognize, formulate and simultaneously analyze real problems. Decision-making is done by allocating alternative stages in conditions that can later represent for the achievement of the most effective and efficient objectives. The most important point in making an alternative decision is to seek as much information as possible in appreciating the decision situation. This decision-making can be made relatively straightforward and relatively easy if the information collected is sufficient, so that a complete specification of all decision alternatives and their effectiveness will be adopted. However direct decision-making is not possible because of limited resources and times. In addition, the way to determine that an information has been obtained perfectly is another obstacle in making decisions directly. Therefore John Dewey provides three views in solving problems through three phases of problems encountered, alternatives owned and the best alternative (Setiani, 2012). While Beresford & Sloper (2013) argues that problem solving is passed by; 1) intelligence, namely the search for internal and external environmental information; 2) design, is the determination and analysis of steps; 3) choice, choose one of the steps to be implemented through the consideration of the most effective step in achieving the decision maker's objectives. Game theory is a mathematical model that is applied to analyze the competition and conflict between various interests so that it can take a decision (Sanfey, 2007). This game theory was originally developed by a French mathematician named Emile Borel in 1921. Which was further developed by John Van Neemann and Oskar Morgenstern as a tool for formulating competitive economic behavior. This theory puts the concept in a game base. Where in the game there are regulations that are directly able to create a competitive situation and used in finding the best strategy where each player reaches the highest utility (Fadilah, 2014).

According to contract theory, moral hazard is a result of a situation where there is hidden action. This is possible when individuals are involved in risk sharing where such actions affect the probability distribution of results (Alger & Ma, 2003). The concept of moral hazard was the subject of renewed research by economists in 1960, when it did not mean the perpetrators committed fraud or immorality, but the term was used by economists to describe an inefficient situation that could occur as a risk (Mirrlees, 1999). The risk of the occurrence of moral hazard is the emergence of adverse selection where this can affect the sustainability of an organization or company (Keane & Stavrunova, 2014). The right decision will certainly improve the company's performance while the wrong decision will certainly be bad for not only the company but also for the company owner, manager and employees in an organization.

III. METHOD

In this research, the method used is qualitative method by conducting interview and literature study. This research is descriptive research and tend to use analysis. In this research, process and meaning from the perspective of the subject are more highlighted. Theoretical basis is used as a guide to focus the research in accordance with the facts in the field. In addition the theoretical foundation is also useful to provide an overview of the educational background as well as the discussion of the results of the research. While, according to Sugiono (2009), qualitative research is a research method based on postpositifisme philosophy that is used to examine the natural objects as experimental materials and where the researchers are key instruments. While in sampling the source and data will be done by purposive and snowbal and result of this research will more emphasize to mean than generalization.

IV. RESULT AND ANALYSIS

In Sayidah (2012) moral hazard is defined to be four different conditions. First, conditions that occur due to monitoring conditions disability (hidden action). In this condition the principal can not observe or monitor the agent's behavior. The inability to monitor such conceptually acts demonstrates the uncertainty in agent relations and outcomes in the principal. Here it is assumed that there is potential in conflict of interest due to differences in information obtained, the need to agree on incentive issues for agents, the inability of contract-

making to eliminate problems without the ability to monitor agent behavior, contracts are made unworkable. Second, the result of undesirable behavior production or undesirable behavior. That is viewed through principal perspective. Here the agent can not guarantee that the action to be performed will benefit the principal or can reduce the losses that can occur, it is identified as a moral hazard of the behavior of agents at risk. Third, the result of an undesirable outcome or impact of production, which is a form of post-contractual opportunism arising from an action which has consequences of efficiency that can not be observed freely so that a person can meet his personal needs at the expense of the other party. Fourth, moral hazard forms of morals disability. This happens as a result of immoral behavioral trends such as dishonesty, indifference, ignorance or impotence of the heart. The problem of moral hazard or opportunistic behavior perpetrated by the agent arises when the principal can not identify the agent's action because there is a cost in the oversight of the agent's actions and can not infer the agent's actions by seeing the result that is unlikely to be fully represented. In overcoming moral hazard problems in Holmesglen Language Centre there are several ways that can be undertaken. Traditionally, it can be addressed through performance-based financial incentives, while other ways of resolving conflicts of interest of managers and shareholders is by exercising control over conflicts between managers and shareholders and establishing management compensation and conflict resolution contracts. Control mechanism in a corporation can be done in a hierarchical or can also be supervised in a bottom up. In practice, In Holmesglen Language Centre, there are several sources of conflict between managers and shareholders. The first is that the manager's effort to increase the company's value is not in line with the increase in compensation received by the manager. Both differences are the risks borne by managers and shareholders. The three differences in time horizon, the company is going concern while the manager is limited. And from some things above that the possibility of moral hazard happens that is very possible in a company. For that if this kind of thing is not possible to be avoided then the second choice is how we to process information that is not the same but can be used optimally. however surely, imperfect things can not be perfectly processed as well. So here in the opinion of the writer, it needs to reattempt ways to minimize the possibility of asymmetric information. From the previously mentioned solutions mentioned the application of traditional solutions that do not consider the moral and ethical issues of managers. The agent or manager of Holmesglen Language Centre is assumed to behave in order to fulfill his interests, by seeking the highest possible rewards with minimal effort. However, in the model's innovation on the principal-agent is the existence of the specifications of business standards in contract and the disutility of the agent's moral to violate the standards agreed in the contract. As it is known that in the norm and moral philosophy that each individual has several levels in violation of norms that they believe can still be legitimized. So the disutility of agents in breaching the contract will increase according to the level of violation of the standard and its moral sensitivity. The existence of this sensitivity characterized will make the agent use moral principles and honor the commitment and responsible to the agency for its obligations under the contract, this will encourage the agent to reject immoral behavior. Given moral sensitivity will result in an ethical work. And so the agent is willing to do business that exceeds the critical level then the principal must be willing to pay a premium salary that effectively divides the profits it earns. The added moral sensitivity will help in creating models that can explain the existence of a payroll contract and predict when premium wages should be included in order for the agency to undertake a higher effort, and the reason why agents are motivated to honor agreements with the principal when appropriate economic contractual incentives can not be drawn up. Next is how to optimize the acceptance of information within parties of Holmesglen Language Centre. According to the writer, one way that can be used for this problem is to conduct supervision in a hierarchical or with bottom up. By performing this two-way supervision it will lead to double security in the implementation. Here the principal is required to monitor the agent carefully whether it has worked in accordance with the expectations of the principal in the management of the company, while the agent also need to conduct supervision on the principal. The supervision of the agent aims to ensure that the principal will not violate the rules of the compensation system and incentives on the rights of the agent. Here the agent can control all data provided to the principal is a valid and appropriate data. The two-way supervision will facilitate the system within the company and both parties will understand each other's interests and objectives respectively. If both parties are actively involved, then the opportunity to understand about the direction of the company will be easier. This will certainly improve the company's performance and open up many opportunities. Therefore, supervision is very important, direct supervision of the researcher feel more effective and efficient in the development of the company. Because supervision will directly reduce the presence of other additional interests that may hinder the development of the company. Moral hazard is selfish behavior at the expense of moral values such as harming or hurting others. Based on the context of moral hazard in Holmesglen Language Centre, agency theory occurs when there is asymmetric information between the principal as the owner of the company with the agent as the company managers. Agents are parties who have more information about the company knowing the condition and prospects of the company in the future. Moral hazard will occur when the agents have the intention to maximize the wealth without regard to the interests of others, especially the principal. The wealth the agents earn from managing the company is salaries and bonuses. This means agents will try to get as much bonus as possible.

This problem can be addressed or mitigated in several ways. Broadly speaking there are two mechanisms that can be done. The first mechanism is reviewed from the perspective of pure agency theory. Second, it is by raising moral and spiritual awareness. This means that agents are given awareness of the importance of moral and spiritual values in running life and also managing the company. Money or materiality is not the ultimate goal of human life. Because if materiality is a precedence then man will only be a greedy economic creature of wealth. There are many values of life that every human being must possess. Respecting the interests of others, being honest, responsible to both humans and God, working for worship, are some of the values of life that can be instilled in the agency. If the agency and in general also includes all employees aware of it, then moral hazard behavior can be reduced and minimized. Agencies and employees will have self-control, will feel that what is done is always seen by God.

From the above explanation is expected to be a solution that can be tried its application into the institution of Holmesglen Language Center Tangerang Banten. So that the process of collecting and managing the information can be done as well as possible so as to avoid asymmetric information and wrong decision making. The above ways are expected to reduce the occurrence of moral hazard in the company so that all parties will find a win-win solution in the application.

V. CONCLUSION AND SUGGESTION

Moral hazard is selfish behavior at the expense of moral values. In the context of this agency occurs due to the asymmetry of information between the principal as the owner of the company with the agent as the manager of the company. These problems can be addressed or mitigated through several ways in which there are generally two mechanisms: a review from the perspective of pure agency theory and the second by fostering moral and spiritual awareness. Here the agent is given the awareness of the importance of moral and spiritual values in running life and in the management of the company. Matter is emphasized not as the ultimate goal of human life, because if materiality is a thing to which a man aspires and desires then a man will only be a greedy economic creature of wealth. The emphasis that many human life values that need to be developed such as respecting the interests of others, honest, responsible both to fellow human beings and to God. This includes both work and worship, such values need to be instilled in the agent. If the agent and employee employees generally have these values then the moral hazard behavior can be reduced because agents and other employees will have self-control where they will always feel that every behavior will be seen by God.

Things that need to be done in reducing the possibility of moral hazard is to provide double control and compensation in accordance with the achievement of performance on the part of the agent. In addition to improving the quality of self-agent and other employees it should be emphasized mengenai value of life, where that materiality is not the main purpose in living this life. With such things it is expected that both parties between agents and principals will be able to improve their quality of life and reduce the possibility of moral hazard.

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Desri Arwen."Moral Hazard in Organization: A Case Study In Holmesglen Language Centre Tangerang Banten." IOSR Journal Of Humanities And Social Science (IOSR-JHSS). vol. 23 no. 1, 2018, pp. 50-54.