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Impact of Budget Participation on Managerial Performance with Locus of Control and Cost Management Knowledge as Moderating Variables

Bambang Jatmiko[1], Kurnia Diah Kinanti[2], Titi Laras[3]
[1,2]Universitas Muhammadiyah Yogyakarta
[3]Universitas Janabdra Yogyakarta
E-mail : bambang.jatmiko@umy.ac.id

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Abstract: *This study aims to test and empirically prove the effect of budget participation on managerial performance with the locus of control and cost management knowledge as moderating variables in manufacturing companies in Tangerang City. The sample used was 38 managers involved in budgeting participation, consisting of middle- and lower-level managers. The type of data used is primary data. The method in this study uses purpose sampling. The data analysis tool in this study uses a Structural Equation Model (SEM) based on Partial Least Square (PLS) through the SmartPLS v3.0 software application. The results of this study show that budget participation positively affects managerial performance, and cost management knowledge moderates the relationship between budget participation and organizational performance. At the same time, the locus of control cannot moderate budget participation towards managerial performance.*

INTRODUCTION

The increase in growth in today's increasingly advanced business fields makes all types of fields compete fiercely. To stay afloat with such conditions requires good performance. Novlina and Indriani (2020) revealed that individual performance is a factor that greatly influences the value of a company's performance. Good organizational performance is reflected in managerial performance (Farahmita, 2016). Every company established must have the same goal: to achieve good performance results, either in the form of financial or maximum managerial performance. To achieve these goals, companies must be able to develop and implement healthy business strategies. In addition to a healthy business strategy, the company must have competent managers to form an appropriate control and planning system (Sukmantarin and Wirasedana, 2015). One of the important components in creating a plan is the determination of the budget. This quantitative plan is prepared periodically based on a program that has been determined as a tool in management to achieve goals (Nafarin, 2008). Budget is an element of the management control system that functions as planning and control so managers can carry out organizational activities efficiently and effectively (Bachelor et al., 2012).

According to Hansen and Mowen (1997), a budget is a tool that can be used by a company to determine plans for managerial performance, so company management requires corporate budgeting, which can be used as a series of official management commitments that deal with issues such as revenue, costs, and various other financial transactions. Ingga (2017) states that the budgeting process has three forms of participatory approaches. The first approach is the top-down approach, where a senior manager draws up and sets a budget without the participation of lower management. Budget preparation is a process of assigning roles, especially to a manager. In this case, a manager in a company has an important role in realizing activities in achieving a target that has been formalized in the budget; with participation in budgeting, managers feel involved in their egos and not just involved in work, so it is expected to motivate and encourage work morale and initiative of managers to achieve organizational goals ethically and effectively (Moheri et al., 2015). Wulandari and Riharjo (2016) state that participatory presence in budgeting can improve managerial performance. This is based on the belief that if goals are prepared in a participatory manner, employees are aware that they will be involved and responsible for their implementation because they are actively and directly involved in budgeting, thus also affecting the improvement of performance.

Managerial performance is defined as the results of work or individual achievements in the organization in terms of carrying out management functions, namely planning, investigation, evaluation, coordination, supervision, staffing, negotiation, recapitulation and overall performance (Novlina and Indriani, 2020). So, Lau et al. (2018) also stated that individual involvement in the budgeting process is a key factor in budgeting. Research on the effect of budget participation on managerial performance has been widely conducted but has had inconsistent results in research conducted by Medhayanti (2015). Research conducted by Novlina and Indriani (2020), Pratiwi and Kartika (2019), Hapsari (2011), and Sari (2017) obtained results that showed that budget participation had a positive effect on managerial performance. This research refers to the research of Novlina and Indriani (2020) and Pratiwi and Kartika (2019). The equation in Pratiwi and Kartika's research (2019) uses the locus of control variable as a moderating variable for budget participation with managerial performance. The similarity with the research (Novlina and Indriani, 2020) that will be carried out with this study is the variable of budget participation in managerial performance with cost management knowledge as a moderating variable. The objectives of the research are as follows: 1). To test and empirically prove whether budget participation has a positive effect on managerial performance; 2). To test and empirically prove whether budget participation positively affects managerial performance through locus of control. 3). To test and empirically prove whether budget participation positively affects managerial performance through cost management knowledge.

LITERATURE REVIEW

1. Budget Participation and Managerial Performance

According to Novlina and Indriani (2020), budget participation can increase managers' understanding, efforts, and motivation in achieving budget targets and can improve budget quality, which will ultimately improve managers' managerial performance. This is supported by (Argyris, 1952), who concluded that budget participation has an influence on performance, so the first time that must exist is the acceptance of budget objectives, for budget participation has a central role in obtaining revenue for budget objectives. Motivation theory can be used as a theoretical basis because if a leader or manager has high motivation, then voluntarily and actively

participates in preparing a budget to correct previous discrepancies. With high participation in budgeting, the performance to be obtained is high as well. Motivation has an influence on the relationship between budgeting participation and managerial performance. Based on the results of previous research on budget participation, the influence on managerial performance varies greatly, such as research conducted by Novlina and Indriani (2020), Pratiwi and Kartika (2019), Sari (2017), Ernis et al. (2017); (Hapsari, 2011) which found that budget participation has a positive effect on managerial performance while in research conducted by Melia and Vita (2019) obtained results that budget participation has no effect on managerial performance, for that based on the existing explanation, the following hypothesis was proposed:

H1: Budget participation has a positive effect on managerial performance.

2. Locus of Control, Budget Participation and Managerial Performance

Budget participation not only associates a group of people who share influence but also each person's locus of control, which shares a meaningful role in budget management, especially people with a good internal locus of control. Based on research (Agustia et al., 2018); Wirakrama and Putri, (2019); Arifuddin and Mursalim (2019) created a fairly good internal locus of control that shares a positive influence on the influence of budget participation on managerial performance. Internally, good people can display a great degree of confidence. Different results were found by (Amin and Anwar, 2020); locus of control does not moderate the effect of budget participation on managerial performance in industries where middle-level managers are dominated by external locus of control individuals. These parties tend to work with a non-participation budget system; although participatory budgets are large, participatory is considered only pseudo-participation. The second hypothesis uses the theory of planned behaviour, which states that a person can act based on his intention or intention only if he has control over his actions (Ajzen, 1991) in Amin and Anwar (2020). This is because the moderation effect provided by this locus of control variable emphasizes not only the rationality of human behaviour but also the belief that the target of behaviour is not under the control of other individuals (Amin and Anwar, 2020). Based on previous theories and research above, hypotheses can be formulated as follows:

H2: Locus of Control reinforces the positive relationship between budget participation and managerial performance.

3. Knowledge of Cost Management, Budget Participation and Managerial Performance

Cost management is the development and use of cost management information. Cost management information is developed and used to implement organizational strategy, including financial information about costs and revenues and non-financial information about customer demand, productivity, quality, and other key success factors for the organization (Blocher et al., 2011). Agbejulea and Saarikoski (2006) identify a manager's cost management knowledge as representative of the capacity factor because cost management knowledge is a task attribute that can help in budget participation. Cost management knowledge shows the knowledge possessed by a manager regarding the cost management process in a company. Knowing the variables in an organization allows individuals to use them to perform better in their field (Santos et al., 2014). The ability to acquire and apply knowledge in solving problems is a cognitive ability possessed

by an individual (Colquitt et al., 2017). Managers who have the capacity to have knowledge of cost management will facilitate decision-making, make their work more effective, and help understand business processes and company activities. Applying cost management knowledge in preparing budgets can influence budget outcome decisions. As stated by (Shields and Young, 1994), cost management knowledge can support managers to understand business and organization comprehensively. As a result, a manager will be able to improve the efficiency of processes that benefit costs and are an important element in achieving the budget (Savitri et al., 2015). Motivation theory influences the creation of motivation in managers. The motivation for the ability to work well and positively will create high morale and can motivate managers to use their abilities that can be intended as cost management knowledge and the skills they have so that it will improve and show that cost management knowledge is able to moderate the relationship between budget participation and managerial performance. Thus, the level of cost management knowledge can influence budgeting decisions it can affect managerial performance; this is supported by research by Novlina and Indriani (2020), Zubir et al. (2016), and Savitri et al. (2015) from the explanation above, the hypothesis proposed is as follows:

H3: Cost management knowledge reinforces the positive relationship between budget participation and managerial performance.

METHOD

This study was conducted to test and determine the effect of the independent variable of budget participation on the dependent variable of managerial performance, with the locus of control and cost management knowledge as moderating variables. The object of this study is a place where researchers conduct research, namely at a Manufacturing Company in Tangerang City. Manufacturing companies are chosen because the cost structure contained in manufacturing companies is more complex than the cost structure found in other companies. Therefore, managers of manufacturing companies are very relevant to test the proposed research hypotheses. The subjects of the study are managers involved in the budgeting process. Manufacturing company managers are chosen because manufacturing companies are heavily involved in making complex cost decisions such as raw material costs, production costs, finishing costs, and environmental costs related to production. The data in this study is quantitative data with the type of data in the form of primary data. Primary data is data obtained directly against the object under study (not through intermediaries). The instrument in this study is a questionnaire consisting of several questions related to budget participation, locus of control, cost management knowledge, and managerial performance. In this case, respondents answered questions contained in questionnaires related to research variables. Sampling techniques in this study used purposive sampling based on criteria that have been set in this study. The sampling criteria used by respondents were middle-level managers and manufacturing company lines to find out how to carry out budget participation, locus of control, cost management knowledge of managerial performance and participate in the budget preparation process, with the number of manufacturing companies as follows:

Table 1. Number of Companies Data

No.	Company Name
1.	PT. Parametric Precision
2.	PT. Surya Jaya Teknik

3.	PT. Flex Indonesia
4.	PT. Magnificent Buana
5.	PT. Bando Indonesia

Source: manufaktur.com

The data collection technique in this study uses the survey method, which is distributing questionnaires offline to respondents in the Tangerang City Manufacturing Company. Data processing is carried out by using a 5-point Likert scale calculation of 1 to 5, starting from strongly disagree (1), disagree (2), neutral (3), agree (4) and strongly agree (5). Descriptive descriptive statistics show the condition of each variable in the study (Nazaruddin and Basuki, 2015). The study used three parameters to describe variables, including data size (maximum and minimum), average for theoretical range and actual range, and standard deviation. Soft modelling analysis to explain the presence and absence of related latent variables and to confirm the theory is called the Partial Least Square (PLS). PLS is an equation model of Structural Equation Modelling (SEM). SEM is a method used to close the weaknesses of regression methods (Ghozali and Latan, 2015). This study uses two path analysis models owned in PLS-SEM, namely the measurement model (outer model) and the structural model (inner model). The measurement model shows how manifest variables (indicators) can describe latent variables to measure. This measurement model is used to assess the validity and reliability of the model. This outer model is used as a validity assessment, which will be evaluated with convergent validity, discriminant, and reliability will be evaluated with composite reliability, contract alpha. Convergent validity is a test of variable indicators, where the indicator used is the outer loading value. Outer loading can show a relationship between the indicator and the construct score. Convergent validity is indicated by an outer loading value of > 0.7. However, Ghozali and Latan (2015) stated that the outer loading value used to assess convergent validity is more than 0.7. A research indicator is considered valid if it has an Average Variance Entrance (AVE) value of >0.5. The AVE value is the average percentage of the variance score extracted from a set of latent variables estimated through standardized loading (Jogiyanto and Abdillah, 2011). Discriminant Validity indicates that the correlation of different gauges or manifest construct variables should be lower or not have a high correlation. Reflective indicators in validity tests can be seen from the cross-loading value. According to Chin (1995), in the Smart-PLS practice module written by Sofyani (2015), the cross-loading value must show a number of >0.7 for each variable. Discriminant validity is considered good when the AVE root is greater than the latent variable correlation. Cronbach Alpha and composite reliability are performed to measure the assessment criteria for the accuracy of the reliability value. According to Jogiyanto and Abdillah (2009), the reliability of a construct or variable has a Composite reliability value of more than 0.7, and Cronbach Alpha more than 0.7 can be said to be reliable. The structural model is the relationship between latent variables called inner relations, based on the substantive theory of research by Jaya and Sumertajaya (2008). The latent variable is divided into two parts: (1) exogenous latent variables and (2) endogenous variables. Evaluation of structural models is carried out with Coefficient of determination (R-Square) or (R2) and Path Coefficient (β): 1). Coefficient Of Determination (R-Square): Evaluation or assessment of structural models using R-square values is intended to determine the predictive power of structural models. The R-square value indicates the ability of the exogenous variable to explain the endogenous variable. If the research model shows exogenous variables that are more than one variable, then the indicator to pay attention to is adjusted R-Square. According to Ghozali & Latan (2015), the range of R square values is categorized into three levels, namely: a). Low indicators with an R-square value of 0.25 state that weak models or

exogenous variables are able to explain endogenous variables weakly; b). A medium indicator with an R-square value of 0.50 states that the model built is medium or exogenous variables that are able to explain endogenous variables moderately; c). A high indicator with an R-square value of 0.75 means that the model built is strong or the exogenous variable is able to explain the endogenous variable strongly. 2). Path Coefficient (β): The path coefficient is done to see the influence between constructs by looking at the significance value in the path coefficient table with bootstrapping techniques. Then, the bootstrapping output can show the results of hypothesis testing. In the moderation test, researchers divided the test into two groups, namely direct effect and indirect effect. Direct effect research is concerned with the direct effect of budget participation on managerial performance. While indirect effect research overrides the effect of budget participation on managerial performance moderated by locus of control and pay management knowledge. Hypotheses can be accepted or rejected in statistics and can be calculated by their level of significance. This research uses a significance level of 5% or a confidence level of 0.05 to reject a hypothesis and possibly a correct decision taken at 95%. Here is the bottom for making the decision: p-value≥ 0.05 until Ha is rejected. p- value < 0.05 until Ha is received. Hypothesis testing is tried through path analysis of the model made; the results of correlation between constructs are measured by looking at path coefficients and their level of significance and, after that, compared with this research hypothesis. The Research Model can be seen in the following figure:

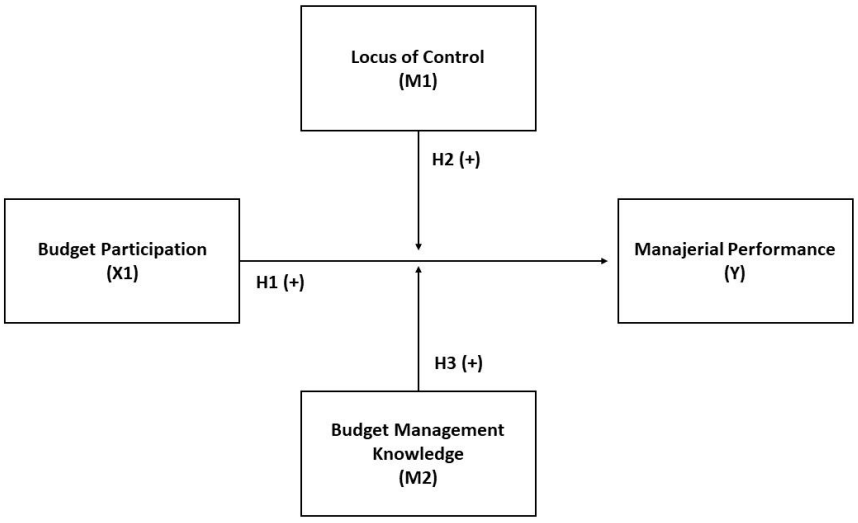


Figure 1. Research Model

RESULT AND DISCUSSION

Indicator testing in validity tests is determined by the value contained in outer loading with AVE (Average Variance Extracted) values. The Rule of Thumb value of outer loading should be more than 0.7 and the Rule of Thumb value of AVE (Average Variance Extraced) should be more than 0.05 of each latent variable. Here are the test results with calculate algorithm with SmartPLS V3.

1. Outer Loading

Table 2. Outer Loading

	MP	LOC	BP	BP*LOC	BP*BMK	BMK
MP1	0,719					
MP2	0,674					
MP3	**0,527**					
MP4	**0,382**					
MP5	0,763					
MP6	0,848					
MP7	**-0,209**					
MP8	**-0,131**					
LOC1		0,887				
LOC2		0,877				
LOC3		0,852				
	MP	**LOC**	**BP**	**BP*LOC**	**BP*BMK**	**BMK**
BP * LOC				1,095		
BP * MBK					1,168	
BP1			0,842			
BP2			0,818			
BP * MBK					1,168	
BP1			0,842			
BP2			0,818			
BP3			0,770			
BP4			0,866			
BP5			0,745			
BP6			0,752			
BMK1						0,886
BMK2						0,790
BMK3						0,822
BMK4						0,868
BMK5						**-0,151**
BMK6						**-0,151**

Source: Output SmartPLS V3

A variable can be said to be valid if the value of the outer loading of each construct shows a value of > 0.7. Through the results of the analysis output above, it can be seen that there are several construct indicators that still have values below 0.7, namely MP3, MP4, MP7, MP8, BMK5 and BMK6. Therefore, six construct indicators that are said to be invalid must be removed to meet the Rule of Thumb value, which is above 0.7. The following are the results of the measurement

model that has been modified through Table 3

Table 3. Outer Loading

	MP	LOC	BP	BP*LOC	BP*BMK	BMK
MP1	**0,779**					
MP2	**0,781**					
MP5	**0,792**					
MP6	**0,838**					
LOC1		**0,887**				
LOC2		**0,873**				
LOC3		**0,856**				
MP * LOC				**1,095**		
BP * BMK					**1,156**	
BP1			**0,872**			
BP2			**0,824**			
BP3			**0,795**			
BP4			**0,853**			
BP5			**0,691**			
BP6			**0,697**			
BMK1						**0,883**
BMK2						**0,773**
BMK3						**0,831**
BMK4						**0,878**

Source: Output SmartPLS V3

Based on the results of the output data in Table 4.4, it can be concluded that all indicators of each variable have shown an outer loading value of >0.7. Therefore, all indicators can be said to be valid. The outer model also becomes as follows:

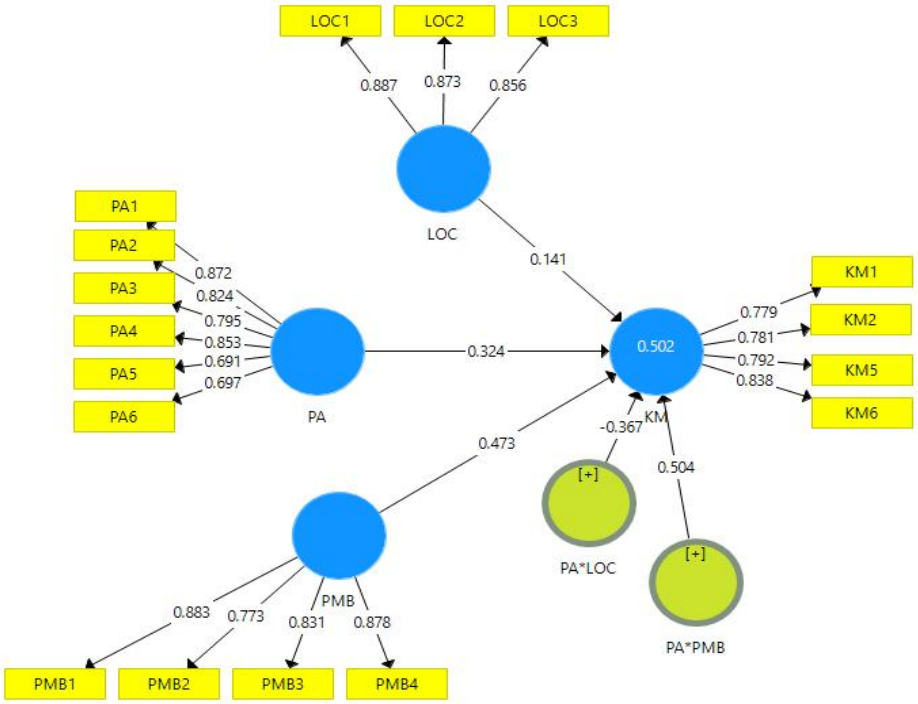


Figure 3. Modified Measurement Model Display

2. AVE (Average Variance Extracted)

Table 4. Ave (Average Variance Extracted)

	AVE
Managerial Performance	**0,637**
Locus of Control	**0,761**
Budget Participation	**0,627**
Cost Management Knowledge	**0,710**
BP*LOC	**1,000**
BP*BMK	**1,000**

Sumber: Output SmartPLS V3

Based on table 4 above, it can be concluded that each variable construct has an AVE (Average Variance Extraced) value of >0.5. The largest AVE value belongs to the locus of control variable with a value of 0.761 while the smallest AVE value belongs to the budget participation variable with a value of 0.627. Thus all variables in this study can be said to be valid.

The discussion of research results can be seen as follows:

Budget Participation in Managerial Performance

The results of testing the first hypothesis show that the variable of budget participation in managerial performance has a statistical t-value of 1.913>1.66 and a p-value of 0.028<0.05, so hypothesis one is accepted. Thus, respondents' statements on involvement in setting and determining budgets explain that manufacturing companies in Tangerang City are bottom-up

based, meaning that the budget in each department or unit is set from the bottom up. This form of bottom-up is often said to be a participatory approach. Then, the respondent's statement to the request for opinions or suggestions related to budget arrangements, leaders or managers have optimized the budget to be effective and efficient. Respondents' statements on the frequency (amount) of requests, opinions or suggestions when the budget is being proposed, in principle, the budget proposed by lower-level managers once a year and will be monitored and evaluated both internally and externally. This proposed budget is very important for the company and related departments or units about the targets to be achieved. Respondent's statements to superiors who ask for opinions or suggestions when the budget is being proposed explain that top-level managers have participated in budgeting and are involved in planning what will be done, and this provides direction to subordinates in the company's management to be able to allocate appropriately and optimally, and this can improve managerial performance. So, we can inform you that the involvement of each department or unit in terms of budget planning is determined by each manager in each department or related unit in accordance with their respective objectives and scope of work. Managers involved in budgeting have proven to be able to strengthen the implementation of the activities of each organizational unit because they can exchange information about the state of the company. This shows that the budget participation of manufacturing companies in Tangerang City is high, and the budget participation can increase the understanding, effort, and motivation of managers in achieving budget targets and can improve budget quality, which will ultimately improve managers' managerial performance. In line with the motivation theory, highly motivated managers will voluntarily and actively participate in preparing budgets to correct previous discrepancies. With high participation in budgeting, the performance to be obtained is high as well. Motivation has an influence on the relationship between budgeting participation and managerial performance. The results of this study are in line with the results of research conducted by Novlina and Indriani (2020), Pratiwi and Kartika (2019), Sari (2017), Ernis et al. (2017), Hapsari AR (2011) which states that budget participation has a positive effect on managerial performance.

Budget Participation in Managerial Performance through Locus of Control

The results of testing the second hypothesis on the moderation effect showed that the relationship between locus of control and budget participation on managerial performance had a statistical t-value of 1.506<1.66 and a p-value of -0.066>0.05, then the second hypothesis was rejected. The locus of control is unable to moderate the relationship of budget participation to the managerial performance of manufacturing companies in Tangerang City. Thus, respondents' statements on the ability to achieve company goals, as well as the control ability possessed by a manager, show results that cannot moderate budget participation on managerial performance in manufacturing companies in Tangerang City. This is because the work situation in Tangerang City manufacturing companies does not always have a situation full of pressure and risk to its operational activities, so it does not always demand Public managers to have a good locus of control in budgeting participation. Thus, the moderation effect exerted by the locus of control is not supported. Based on the results of research that has been done, it can be seen that the locus of control variable still needs to be improved in manufacturing companies, and training can be held to improve the characteristics of a better locus of control so as not to rely on specific assistance, direction or guidance from superiors for the completion of their duties but try to be active in budgeting so that it will also improve to its managerial performance. This is in line with the

theory of planned behaviour, which states that a person can act based on his intention or intention only if he has control over his actions (Ajzen, 1991) in Amin and Anwar (2020). This is because the moderation effect provided by this locus of control variable emphasizes not only the rationality of human behaviour but also the belief that the target of behaviour is not under the control of other individuals (Amin and Anwar, 2020). The results of this study are not in line with the research of Agustia et al. (2018), Wirakrama and Putri (2019), and Arifuddin and Mursalim (2019), who who found a fairly good internal locus of control that has a positive influence on the influence of budget participation on managerial performance. However, the results of this study support the results of the research found by (Amin and Anwar, 2020) and Haryanto (2018) that locus of control does not moderate the effect of budget participation on managerial performance in companies dominated by managers who are not under the control of other individuals.

Budget Participation in Managerial Performance through Cost Management Knowledge

The results of testing the third hypothesis on the moderation effect showed that the relationship between cost management knowledge and budget participation on managerial performance had a statistical t-value of 2.043>1.66 and a p-value of 0.021>0.05, then the third hypothesis was accepted. Thus, respondents' statements to managers are able to know how much funds must be spent in their operations, how the budget is spent, know the goals and spending limits on the ability to manage and reduce costs, and when deciding to buy goods are very focused on the price of the goods can be interpreted that the level of individual knowledge possessed by each manager regarding management costs is good, This level of knowledge can influence how managers work and make decisions that can ultimately affect their performance. It is especially important for managers involved in the budgeting process to have a high knowledge of cost management. Santos et al. (2014) in their study stated that the better a manager is trained in issues related to cost management and the encouragement of budget participation, the better their performance can contribute to overall organizational performance. The implementation of this research, especially for cost management knowledge, is to provide a paradigm of how important cost management knowledge is and why managers need it in making budgets. Budget participation and levels of cost management knowledge interact positively to influence managerial performance. This means that cost management knowledge can amplify the effect of budget participation on managerial performance, where the higher the level of knowledge about cost management possessed by managers, the more positive the influence of budget participation on managerial performance. This proves that cost management knowledge is successfully admired as a moderation variable because it can influence the form of influence between budget participation and managerial performance. In this research in manufacturing companies, cost management knowledge becomes a guide in making budget processes because it has a vital role where if managers have cost management knowledge, they can control very complex manufacturing costs to improve managerial performance. This is in line with the theory of motivation that affects the creation of motivation in managers. The motivation for the ability to work well and positively will create high morale and can motivate managers to use their abilities that can be intended as cost management knowledge and the skills they have so that it will improve and show that cost management knowledge is able to moderate the relationship between budget participation and managerial performance. This result is in line with the results of research conducted by Novlina and Indriani (2020), Zubir et al. (2016), Farahmita (2016), and Savitri et al. (2015). Santos et al. (2014) stated that cost management knowledge is able to moderate the relationship between budget participation and managerial performance.

CONCLUSION

This study was conducted to analyze and examine the effect of budget participation on managerial performance with locus of control and cost management knowledge as moderating variables. The analysis tool used is SEM PLS with SmartPLS program version 3.0. This research was conducted at a Manufacturing Company in Tangerang City. Based on the analysis and testing that has been carried out, it can be concluded as follows: 1) Budget Participation has a positive and significant effect on Managerial Performance; 2). The locus of control is unable to moderate the relationship between the effect of Budget Participation on Managerial Performance; 3). Cost Management knowledge is able to moderate the effect of Budget Participation on Managerial Performance.

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