

# EFFECT OF BUDGET PARTICIPATION, BUDGET EMPHASIS, INDIVIDUAL CAPACITY ON BUDGETARY SLACK AND MANAGERIAL PERFORMANCE WITH PERFORMANCE BASED BUDGETING AS A MODERATING VARIABLE AT BAITUL MAL WA TANWIL (BMT)

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## Abstract

This study aims to prove and analyze the influence of budget participation, budget emphasis, individual capacity, on budgetary slack and managerial performance with performance-based budgeting as a moderating variable in Baitul Mal wa Tanwil (BMT). This study uses a quantitative approach. The data used in this study are primary data sourced from questionnaires. The population in this study were management and operational managers at 96 BMTs in the former Surakarta Residency, with a sample of 352 respondents. Data analysis and hypothesis testing in this study used LISREL 8.8 to solve the Structural Equation Model (SEM) problem. The results of the study show that 1) Budget Participation has no effect on Budgetary Slack in BMT 2) Budget Emphasis affects Budgetary Slack in BMT. (3) Individual Capacity affects Budgetary Slack in BMT. (4) Budget Participation affects Managerial Performance in BMT. (5) Budget Emphasis has no effect on Managerial Performance in BMT. (6) Individual Capacity affects Managerial Performance in BMT. (7). Budgetary Slack does not mediate the effect between Budget Participation and Managerial Performance on BMT (8) Budgetary Slack does not mediate the effect between Budget Emphasis and Managerial Performance on BMT. (9). Budgetary Slack does not mediate the influence between Individual Capacity and Managerial Performance in BMT (10) Budget Participation strengthens the influence between Budgetary Slack and Performance Based Budgeting in BMT. (11) Budgetary Slack has no effect on Managerial Performance in BMT.

**Keywords:** Budget Participation, Budget Emphasis, Individual Capacity, Budgetary Slack, Performance Based Budgeting, Managerial Performance

## 1. INTRODUCTION

In preparing an effective budget, expertise and the ability to predict the future are needed, therefore managers need to prepare budgets properly because budgets, budgets serve as a guide in allocating resources for the company, and help in making better decisions. In addition, the budget can be used as a standard against which the performance of managers can be measured; it can help define objectives; it can help communicate and coordinate plans; it can help allocate resources; and so on. Subordinate managers and employees who

take part in budgeting have a voice in shaping how their superiors allocate resources. Individuals who set their own standards/goals are more likely to work harder to accomplish them, which can lessen information asymmetry and create non-monetary incentives that result in higher levels of performance (Mowen et al., 2006).

The effectiveness of managers is measured by how well they accomplish their management duties. Performance is built to create a "culture" of individuals (employees) and groups (teams) to consciously and responsibly carry out what is their obligation to work in the organization in order to improve and improve capabilities and the process of achieving performance on an ongoing basis (Dharmanegara, 2010). Evidence suggests that involving workers in the budgeting process improves morale, boosts output, and fosters coordination between managers. However, Becker and Green found that when it is set in the wrong situation, participation can reduce employee motivation and effort to achieve organizational goals (Dharmanegara, 2010).

Although there were different research results regarding budget participation and manager performance, such as a positive relationship between budget participation and manager performance (Nouri & Parker, 1998) (which tends to explain the near absence of budgetary slack, or no direct relationship has been made such as environmental uncertainty (Govindarajan, 2019; Nguyen et al., 2019). In the budgetary participation process, managers' privileged position affords them the opportunity to engage in opportunistic behavior, using the information at their disposal to negotiate for favorable outcomes in their own best interests, particularly when the goals negotiated in budgeting serve as the basis for compensation. This dysfunctional behavior results in the creation of budgetary slack. Merchant (1985) proves that participation affects the reduction of slack which is characterized by positive communication between managers so that subordinates are not motivated to create slack.

According to Brownell (1983) budgeting participation, automation processes, product standardization has a direct effect on managerial performance, while budgeting participation has a direct effect on managerial performance, and participation in budgeting has a direct positive and significant influence on managerial performance. The higher the budget preparation participation, the higher the managerial performance. We know that budget gaps do not only affect international and national companies, but companies/institutions engaged in the sharia finance sector are also not immune from these problems, in this case the BMT (Baitul Maal Wat Tamwil). Whereas the economy of the people is concentrated on this institutional function, which leads to the existence of other economic institutional functions, Baitul Mal wat Tamwil (BMT), which is literally conceived of in the Islamic tradition, is an alternative to Islamic financial institutions that possesses a social and productive dimension on a national and even global scale. This is because BMT is an Islamic alternative to Islamic financial institutions. BMT carries out the activities of financial institutions, notably fund-raising, fund distribution, and service provision.

The impact of the economic slowdown, as reported by [Republika.co.id](http://Republika.co.id), has slowed the

growth of Baitul Mal wat Tamwil (BMT) (Bambang, 2021). The management of Islamic financial institutions is being affected by the current economic climate and the Covid-19 Pandemic. Islamic microfinance companies like BMT are essential due to Islamic banks' limited reach and network, as well as their lack of human resources trained to work with micro-small businesses. On the other hand, the weaknesses faced by the BMT industry, such as the availability of information about BMT profiles and performance, need to be corrected by conducting surveys in areas that are BMT operations centers (Sakti, 2013). The absence of clear provisions and official oversight of BMT creates several problems which in the view of Moldoveanu & Martin (2001) refers to agency problems. In addition, poor performance in the majority of BMT institutions is considered to lead the industry to a negative trend, even leading to bankruptcy.

This study aims to prove and analyze the influence of budget participation, budget emphasis, individual capacity, on budgetary slack and managerial performance with performance-based budgeting as a moderating variable in Baitul Mal wa Tanwil (BMT). There are several differences with previous studies (Dunk, 1993; Lukka, 1988; Nouri & Parker, 1998) who uses Agency Theory while the underlying theory in this study uses Budgeting Theory, Agency Theory, Legitimacy Theory, Signaling Theory, and Theory of Planned Behavior (TPB) highlight that the company must be able to adjust to the value system that society has implemented (Belkaoui, 2006). Legitimacy theory, as defined by Chariri & Ghazali (2007), is the condition or status that an organization enjoys when its value system is aligned with the larger social value system of which it is a part. Threats to the company's credibility might arise whenever there is a dispute between two sets of values, whether those values are shared or not (Chariri & Ghazali, 2007).

The company believes its existence and actions are validated by the disclosures it has made to the public. In order to ensure that their actions are seen as appropriate by those outside their organization, companies consistently work to conform to societal standards (Deegan, 2002). The signaling theory, meanwhile, explains why businesses should share their financial reports with the public. Because of the knowledge gap between the corporation and outside parties, the company is motivated to provide some details. Afterwards, third parties evaluate the company based on a variety of signaling systems.

This study also places the budgetary slack variable as an intervening variable and performance based budgeting as a moderating variable. Using the Budget Participation Variable, the researcher adopted the research variable indicators from Milani (1975) and compiled with Abdul Kadir Arno (2016) by including the values of divinity, justice, amar mauf nahi mungkar and accountability. Hence, this study aims to prove and analyze the influence of budget participation, budget emphasis, and individual capacity on budgetary slack and managerial performance with performance based budgeting as a moderating variable at Baitul Mal wa Tanwil (BMT).

## **2. HYPOTHESIS DEVELOPMENT**

### **2.1 The Effect of Budget Participation and Budgetary Slack**

According to agency theory, one of the reasons for budget gaps is budgetary participation (Meckling, W. H., & Jensen, 1976). In order to boost performance and meet budget goals in accordance with corporate objectives, managers frequently loosen the budget. This method means anticipating lower revenue and higher expenses in order to create a budget deficit. Participation budgets are essential to adopt inside an organization or business. The adoption of such budgeting participation will help managers at all levels feel appreciated and powerful within the organization, according to behavior theory. Thus, the manager will work as hard and as honestly as possible for the advancement and growth of the company. Which means that when the manager feels trusted by his superiors, he will truly contribute to the company's progress.

H1. There is an effect of budget participation on budgetary slack

### **2.2 The Effect of Budget Emphasis and Budgetary Slack**

Participation in the budgeting process provides lower managers opportunity to loosen budgets. In addition, the fear of failing to attain one's goals can be a cause of stress that might result in dysfunctional behavior. According to agency theory, budget pressure can result in budget gaps. Because the budget is frequently used to control and measure the performance of managers in a firm, managers make every effort to maintain or even improve their performance, particularly by meeting the target budget. Managers are frequently promised awards or bonuses by their superiors if they meet budgetary objectives. Managers engage in this undesired behavior when they overstate expenses or underestimate their productive potential to prevent the risk of work pressure from an allegedly tight budget to achieve personal objectives in fortunate years, with the expectation of converting slack into profit during unprofitable favorable years.

H2. There is an effect of budget emphasis on budgetary slack

### **2.3 Effect of Individual Capacity and Budgetary Slack**

Individual capacity was being formed primarily through the educational process, whether formal, non-formal, or informal education. Qualified individuals are those who are adequately prepared. Individuals with adequate knowledge of the budgeting process will be able to allocate resources optimally, thereby minimizing budgetary slack (Yuhertiana, 2004). According to Setiawan & Ghozali (2006) individual quality can be seen from various aspects such as aspects of health, education, freedom of speech and so on. Among these various aspects, education is considered to have the most important role in determining human quality. Through education, humans are considered to be acquiring knowledge and skills and with their knowledge and skills, humans are expected to build their lives better. Employees who have good individual capacity, have adequate knowledge, and are experienced in budgeting will be able to optimize resources so as to minimize the occurrence of budget cuts. With a high individual capacity or an individual

having enough knowledge, it will actually give rise to the assumption that budget shortages are a consequence that arises in budgeting. This happens because for a budget that is budgeted for some time in the future will be faced with uncertainty. Therefore, to anticipate these uncertainties, an individual who has enough knowledge will anticipate, one of which is by using a budgetary slack.

H3. There is an effect of Individual Capacity on budgetary slack

#### **2.4 The Effect of Budget Participation on Managerial Performance**

Patricia Brownell & Kelly (2012) highlight that participation is generally assessed as a managerial approach that can improve the performance of organizational members. Brownell & McInnes (1986) found that high participation in budgeting improves managerial performance. This effect shows that the better the level of participation, the better the success rate of managerial performance. This is because the running of an organization apart from being supported by human resources must also be supported by good budgeting. According to Supriyono (2000) the budget is a planning and control tool, so that managers can carry out organizational activities more effectively and efficiently. With the existence of a budget, indirectly there is supervision that can be controlled (Nafarin, 2007). Thus, a company must make careful planning before starting its operational activities. Where the company is expected to involve the participation of managers in carrying out the planning and control process (Shields & Shields, 1998). Further, Melek (2008) and Kren (1992) found that there is an interaction between budget participation and higher managerial performance. Likewise, there is evidence of direct influence between budgeting participation on managerial performance, and budgeting to improve decision quality because it involves managers in the decision-making process (Mah'd, 2020).

H4. There is an effect of budget participation on managerial performance

#### **2.5 The Effect of Budget Emphasis on Managerial Performance**

If an organization uses the budget as one of the benchmarks performance, then organizational management will improve performance to achieve organizational budget targets. This is because the achievement of the budget target will affect the reward or compensation for the performance of organizational management. As a result, it can be concluded that there is influence between budget emphasis and budget emphasis managerial performance. Efforts to maximize the role of budget emphasis which is an effort to base the use of accounting data, especially budgets, as the main means of controlling and measuring performance in order to improve managerial performance. According to Van der Stede (2000), budget emphasis is a performance evaluation that is carried out based on the fulfillment of the achieved budget targets. Emphasis on the budget refers to an effort based on the use of accounting data, especially the budget, as the main tool in the context of controlling and measuring performance. Generally, the implementation of the budget emphasis can encourage managers to do their job well with the provision of rewards if budget planning is achieved and there is a penalty if budget planning is not achieved. In



other words, BMT uses the budget target as a starting point measure in assessing the performance of managers. This was in accordance with the theory expressed by Dunk (1993) who said that budget emphasis is giving rewards or performance appraisal for subordinates based on the achievement of budget targets. This study also shows the results that variations in budget emphasis are able to positively explain variations in managerial performance, which means the application of budget emphasis can improve managerial performance, meaning that budget emphasis variables have a significant effect on managerial performance variables.

H5. There is an effect of Budget Emphasis on Managerial Performance

## **2.6 The Effect of Individual Capacity on Managerial Performance**

Education, both formal and informal, is crucial to shaping an individual's potential (Sari, 2006). Managers who have increased individual capacity and are accompanied by opportunity participating in the budget will have a positive effect on performance managerial. These findings indicate that the opportunity to participate in budgeting is not enough to improve individual performance managers who have knowledge in determining company decisions, knowledge in utilizing company resources effectively and efficiently, as well as experience in budget planning. Managers with high capacity will get more opportunities to participate in other planning and control activities within the company, so this will encourage managerial performance. The relationship between individual capacity and managerial performance can be explained by the resource-based view (RBV). RBV highlight that ownership of valuable resources will create a sustainable competitive advantage (Zeng et al., 2021). Quality human resources can prepare a budget properly so that it will not create budgetary slack. As such, workers with low education are unable to set good goals, the goals they set can be higher and/or lower than they should be (Hickel, 2019). Hence, managers must have a qualified individual capacity in order to prepare a quality budget.

H6. There is an effect of Individual Capacity on Managerial Performance

## **2.7 The effect of Budget participation on Managerial Performance in BMT, with Budget Slack as an Intervening variable**

According to Brownell and McInnes (1986) budgeting participation allows managers to negotiate regarding budget targets that might be achievable. This will lead to respect for the manager's work and the company. Because the goals or standards set are joint decisions, so managers have a sense of personal responsibility for achieving them because they are involved in their preparation (Milani, 1975). Involving managers in preparing budgets will tend to encourage managers to understand budgets, and will make it easier to achieve budget goals (Anthony & Govindarajan, 2009). Managerial performance itself is assessed based on how effectively and efficiently managers work to achieve company goals. When decisions made by managers are effective and efficient in achieving company goals, it can be said that managerial performance is good. By achieving budget goals, managerial performance will increase or be said to be good (Arif et al., 2019). Hence, high or low

participation in performance-based budgeting has a significant effect on improving managerial performance. Likewise, the higher the participation in performance-based budgeting, the tendency for managerial performance to increase.

H7. Budgetary Slack mediates the effect between Budget participation on Managerial Performance in BMT.

## **2.8 The Effect of Budget Emphasis on Managerial Performance in BMT, with Budget Slack as an Intervening variable**

The process of budgeting and work planning involves many individuals. While each individual has a different level of information from one another, between superiors and subordinates according to their capacity. Efforts to maximize the role of budget emphasis (budget emphasis) which is an effort to base the use of accounting data, especially budgets, as a means of influencing performance based on budgeting in improving managerial performance. With participation in budgeting, these needs can be met through respect for the ideas put forward by managers (Ferdiani & Rohman, 2012). Budget as a plan of activities realized in financial form, which includes proposed expenditures estimated for a certain period of time, along with proposed ways to meet these expenditures (Halim & Kusufi, 2013). One form of embodiment of such involvement is participation in budgeting (Nazaruddin & Setyawan, 2012). Budgeting participation is a budgeting activity that involves each level of manager.

H8. Budgetary Slack mediates the effect of Budget Emphasis on Managerial Performance in BMT

## **2.9 The Effect of Individual Capacity on Managerial Performance in BMT, with Budget Slack as an Intervening variable**

Formal, informal, and informal education all contribute to shaping an individual's potential. Those who possess the necessary expertise are considered qualified. Individuals that have sufficient information will be able to optimally allocate resources, hence minimizing financial slack, and this pertains to the process of budgeting (Yuhertiana, 2004). Health, education, freedom of expression, and so on are all relevant factors in determining what constitutes a high quality of life for humans of a given size. Education is often cited as the single most important factor in determining individual worth. The success of an organization or company no longer depends on the ability to obtain or convert raw materials into raw materials, but on the ability and intellectuality of human resources, as well as the skills of human resources involved in the organization (Donner et al., 2020). A person can be categorized as a competent person if he has the ability to handle a task according to set standards, can be demonstrated individually based on achieving an ideal level of performance (Ronnie & Philip, 2021).

H9. Budgetary Slack mediates the effect between Individual Capacity on Managerial Performance in BMT.

## **2.10 The Effect of Budget Participation on Budgetary Slack with Performance Based Budgeting as a moderating variable**

The shift in the budget from the Traditional Budget System to Performance Based Budgeting resulted in the participation of middle and lower level employees in preparing budget targets (Participative Budgeting). Through successful Performance Based Budgeting, budgeting decisions may be made more efficiently, expenses can be reduced, transparency and accountability are increased, and organizational effectiveness can be better managed (Curristine, 2005). The advantage of this change is that lower-level employees can understand the tasks and strategies used, but on the other hand they also have a tendency to overspend and wasteful budgets (Bukh & Svanholt, 2020). The large number of parties involved in budget participation raises many problems related to budget ineffectiveness including pseudo participation, setting budget targets and budgetary slack. Setting budget targets that are too low or too high is caused by lower managers having a tendency to make budgets that are too low or too high. Budgets that are too high will create frustration for lower managers because of the difficulty in achieving targets. Meanwhile, a budget that is too low will reduce performance because lower managers lose interest in implementing the budget. Budgetary Slack with the aim of reducing risk. Budgetary Slack is made by increasing expenses or reducing income, so that budget targets can be more easily achieved. The existence of budget participation opens up more opportunities for larger budget alignments, but in budget participation itself there is often pseudo-participation where managers do not mean it in agreeing to what has been decided but only as a form of formality because managers only need approval from lower-level managers (Mowen et al., 2006).

H10. Budget Participation strengthens the effect of Budgetary Slack on Performance Based Budgeting in BMT.

## **2.11 The Effect of Budgetary Slack on Managerial Performance**

Managers' positive budgetary slack is driven by conservative actions of managers under high business environment complexity. Langevin & Mendoza (2013) argue that budgetary slack is unethical or dysfunctional behavior. (Libby & Lindsay, 2007) said that most companies recognize that budgeting is a key element in the company's management control system, the results of their research prove that 25% of respondents said that the budgeting system can assist management in achieving goals and can also be harmful if dysfunctional behavior occurs. Further, Budgetary slack, according to Langevin & Mendoza (2013), is an unlawful conduct carried out by those participating in the budgeting process by raising predicted expenditures and lowering estimated income. These circumstances enable the goal to make targets easier to reach, and this behavior will then have an impact on individual performance. The commitment of the people participating in the budgeting process is necessary, and the possibility of not meeting budget objectives might cause stress in some people. Performance evaluation, according to Dunk (1993), is a periodic assessment of an organization's, its components', and its workers' operational effectiveness in light of established objectives, benchmarks, and output (Islami et al., 2018). This



happens because managers want to always look good in the evaluation of their superiors, they don't want negative ratings on their performance reports, because they expect to get a reward (bonus) or promotion if they always get good ratings.

H11. There is an effect of Budgetary Slack on Managerial Performance.

### **3. METHODOLOGY**

This type of research was causal research which aimed to test hypotheses on the causal relationship between one variable and another, then determines the implications for confirmation of the theoretical and empirical models built from six variables, namely Budget Participation (BP), Budget Emphasis (BE), Individual Capacity (IC), Budgetary Slack (BS), Managerial Performance (PM) and Performance Based Budgeting (PBB). This research model was expected to provide benefits and improve contextual performance on board and operational managers or those who were directly involved in preparing the budget at BMT former Surakarta Residency.

#### **3.1 Population and Sample**

The population in this study were management and operational managers at BMTs in the former Surakarta Residency of 96 BMTs, which spread over in Surakarta 4, Sukoharjo 21, Sragen 7, Wonogiri 20, Karangnyar 18, Klaten 16 and Boyolali 10.

#### **3.2 Data Collection**

The researchers collected data in several ways, the first was to directly meet the BMT manager concerned and the second the questionnaire was sent to the admin of each BMT and from the number of questionnaires distributed to 96 BMTs, where each BMT was submitted 4 questionnaires, consisting of the chairman, secretary, treasurer and one BMT operational manager, so the predicted questionnaire sent was a total of 384 respondents. Further, questionnaires were processed as many as 352 questionnaires. The number of respondents was considered appropriate as they met the research sample requirements.

#### **3.3 Validity and Reliability Test**

The data that has been collected through a questionnaire was processed with a quantitative approach. First tabulation was done and gives a value in accordance with the specified system. The type of questionnaire used is a closed questionnaire using an ordinal scale. For questionnaire data calculation techniques that have been filled in by respondents, a Likert scale was used with the steps of giving a weighting value of 5-4-3-2-1 for positive types of questions. The next step was to test the instrument or questionnaire using validity and reliability tests.

According to Ghozali (2016), the validity test was carried out to measure the legitimacy or validity of a questionnaire. In this study, the validity test was done by Lisrel 8.8 software. Meanwhile, the reliability test was an instrument for measuring a questionnaire which was an indicator of a variable.

### 3.4 Data analysis technique

Current study employs quantitative data analysis using SEM (Structural Equation Modeling) analysis methods and Lisrel 8.80 software. According to Sugiyono (2017) SEM was defined as an analysis that combines factor analysis approaches, structural models, and path analysis. To carry out the analysis using Lisrel 8.80, it requires data that was at least interval data. Because the data obtained from the questionnaire was ordinal data, while to analyze the data interval data was needed.

## 4. RESULTS AND DISCUSSION

### 4.1 Results

**Table 1: Results of Testing the Validity and Reliability of Performance Budgeting Participation (BP) Variables**

VARIABLE	Indicator		Factor Loading	$(\sum \text{standard loading})^2$	Stand. Error	Construct Reliability (CR)	Variance Extracted (VR)	Validity	Reliability
			(L)					Testing	Testing
								Interpretation	Interpretation
1	2	3	4	5	6	7	8	9	
Budget Participation (BP)	Budgeting participation	BP1	0,680	0,462	0,450	0,500	0,099	Valid	Reliable
	Budget appraisal	BP2	0,710	0,504	39,000			Valid	
	Request for budget opinion	BP3	0,780	0,608	0,320			Valid	
	Influence in the budget	BP4	0,730	0,533	0,330			Valid	
	The importance of budget proposals	BP5	0,630	0,397	0,480			Valid	
	Involvement in management	BP6	0,640	0,410	0,460			Valid	
	Divine Values	BP7	0,770	0,593	0,350			Valid	
	Value of justice	BP8	0,770	0,593	0,380			Valid	
	The value of kindness and prevention	BP9	0,054	0,003	0,290			Valid	
	Accountability Value	BP10	0,750	0,563	0,320			Valid	
Total .....		6,51	4,666	42,380					
$\sum L2$		42,43							

**Table 2: Results of Testing the Validity and Reliability of Budget Emphasis (BE) Variables**

VARIABLE	Indicator		Loading Factor ( L )	( $\sum$ standard loading ) <sup>2</sup>	Stands. Error	Construct Reliability (CR)	Variance Extracted (VR)	Validity	Reliability
								Testing	Testing
								Interpretation	Interpretation
1	2		3	4	5	6	7	8	9
Budget Emphasis (BE)	Performance measurement	BE1	0,580	0,336	0,480	0,836	0,516	Valid	Reliable
	Budget benchmarks	BE2	0,610	0,372	0,440			Valid	
	Target achievement	BE3	0,830	0,689	0,330			Valid	
	Performance improvements	BE4	0,860	0,740	0,250			Valid	
	There are rewards	BE5	0,510	0,260	0,750			Valid	
	Total . . . . .		3,39	2,397	2,250				
	$\sum$ L2		11,49						

**Table 3: Results of the Validity and Reliability Test of Individual Capacity (IC) Variables**

VARIABLE	Indicator		Loading Factor ( L )	( $\sum$ standard loading ) <sup>2</sup>	Stands. Error	Construct Reliability (CR)	Variance Extracted (VR)	Validity	Reliability
								Testing	Testing
								Interpretation	Interpretation
1	2		3	4	5	6	7	8	9
Individual Capacity (IC)	Education	IC1	0,830	0,689	0,210	0,918	0,694	Valid	Reliable
	Training	IC2	0,830	0,689	0,180			Valid	
	Experience	IC3	0,790	0,624	0,250			Valid	
	Skills	IC4	0,730	0,533	0,330			Valid	
	Skill	IC5	0,690	0,476	0,360			Valid	
	Total . . . . .		3,87	3,011	1,330				
	$\sum$ L2		14,98						

**Table 4: Results of the Validity and Reliability Test of Budgetary Slack (BS) Variables**

VARIABLE	Indicator		Loading Factor ( L )	Stands. Error	Construct Reliability (CR)	Variance Extracted (VR)	Validity	Reliability
							Testing	Testing
							Interpretation	Interpretation
1	2		3	5	6	7	8	9
Budgetary Slack (BS)	Budget standards	BS1	0,750	0,310	0,892	0,581	Valid	Reliable
	Budget targets	BS2	0,720	0,340			Valid	
	Monitoring	BS3	0,730	0,360			Valid	
	Responsibility	BS4	0,780	0,250			Valid	
	Budget Efficiency	BS5	0,660	0,510			Valid	
	Budget targets	BS6	0,640	0,440			Valid	
	Total . . . . .		4,28	2,210				
	$\sum$ L2		18,32					

**Table 5: Results of the Validity and Reliability Test of Performance Management (PM) Variables**

VARIABLE	Indicator		Loading Factor ( L )	( $\sum$ standard loading ) <sup>2</sup>	Validity Testing Interpretation	Reliability Testing Interpretation
1	2		3	4	8	9
Performance Managerial (PM)	Planning	PM1	0,450	0,203	Valid	Reliable
	Investigation	PM2	0,560	0,314	Valid	
	Coordinating	PM3	0,510	0,260	Valid	
	Evaluation	PM4	0,770	0,593	Valid	
	Supervision	PM5	0,760	0,578	Valid	
	Staff Selection	PM6	0,520	0,270	Valid	
	Negotiation	PM7	0,630	0,397	Valid	
	Representative	PM8	0,600	0,360		
	Total . . . . .		4,80	2,974		
	$\sum$ L2		23,04			

**Table 6: Results of the Validity and Reliability Test of Performance Based Budgeting (PBB) Variables**

VARIABLE	Indicator		Loading Factor ( L )	Stand. Error	Construct Reliability (CR)	Variance Extracted (VR)	Validity Testing Interpretation	Reliability Testing Interpretation
1	2		3	5	6	7	8	9
Performance Based Budgeting (PBB)	Input	UN1	0,500	0,250	0,892	0,583	Valid	Reliable
	Output	PBB2	0,570	0,300			Valid	
	Policy Responsibility	UN3	0,520	0,340			Valid	
	Results/outcomes	PBB4	0,700	0,120			Valid	
	Benefits	UN5	0,680	0,190			Valid	
	Impact	UN6	0,550	0,300			Valid	
	Total . . . . .		3,52	1,500				
	$\sum$ L2		12,39					

Source: Data Processed

**Table 7: Results of the Goodness of fit Measurement Model**

Model Index of Goodness of Fit	Cut-off Value	Model Results	Model Evaluation
Chi-square statistics ( $X^2$ )	The smaller the better (p value $\geq 0,05$ )	3482,11	Marginal
Sign. Probability (p)	$\geq 0,05$	0,000	fit
GFI	$\geq 0,90$	0,67	Marginal Fit
AGFI	$\geq 0,90$	0,63	Marginal Fit
CFI	$\geq 0,90$	0,94	fit
TLI / NNFI	$\geq 0,90$	0,94	fit
RMSEA	$\geq 0,08$	0,104	fit
NFIs	$\geq 0,90$	0,93	fit
IFI	$\geq 0,90$	0,94	fit

Source: Primary data processed, 2022

Based on Hooper et al. (2008), assessing the fit of the model by looking at the chi-square test, RMSEA, CFI and NFI/NNFI values. Hence, whenever the fit test shows a fit model, so it can be concluded that the model used in this study can be used as the basis for an analysis of the problems of this research. After the overall suitability of the model and data is fit, the next step is to test the fit of the measurement model. Looking at the results of the model improvement, it is known that the GFI (Goodness of Fit Index) weight value is included in the marginal fit criterion, namely 0.77 below the Cut-off Value, including the AGFI (Adjusted Goodness Of Fit Index) weight value indicating marginal fit, namely 0.72, while the model fit size value is chi-square test value, RMSEA, CFI and NFI/NNFI showed that the fit model obtained evidence that the fit test showed a fit model concluded that the model used in this study could be used as the basis for analysis of this research problem.

**Table 8: Results of the Goodness of fit Model Post-fix measurement with moderating effect**

Model Index of Goodness of Fit	Cut-off Value	Model Results	Model Evaluation
<i>Chi-square statistics (<math>X^2</math>)</i>	The smaller the better (p value $\geq 0,05$ )	2226,61	Marginal
<i>Sign. Probability (p)</i>	$\geq 0,05$	0,000	fit
GFI	$\geq 0,90$	0,79	Marginal Fit
AGFI	$\geq 0,90$	0,75	Marginal Fit
CFI	$\geq 0,90$	0,98	fit
TLI / NNFI	$\geq 0,90$	0,97	fit
RMSEA	$\geq 0,08$	0,080	fit
NFIs	$\geq 0,90$	0,96	fit
IFI	$\geq 0,90$	0,98	fit

Source: Primary data processed, 2022

Direct effect between variables (Direct effect of the variable)



Indirect effect between variables (Specific Indirect Effects)

**Table 10: Indirect effect result**

Indirect Effects of KSI on ETA					
PBB	→	BS	→	PM	0,02
BP	→	BS	→	PM	- 0,02
BE	→	BS	→	PM	0,02
IC	→	BS	→	PM	0,02
EFFECT MODE	→	BS	→	PM	0,02
T statistic - Indirect Effects					
PBB	→	BS	→	PM	0,02
BP	→	BS	→	PM	- 0,02
BE	→	BS	→	PM	0,02
IC	→	BS	→	PM	0,02
EFFECT MODE	→	BS	→	PM	0,02
Source: Primary data processed, 2022					

Based on the results above, we can conclude that:

- 1) Hypothesis 1. In this study it states that there is a significant influence of budget participation on budgetary slack in BMT, but the findings cannot be confirmed.
- 2) Hypothesis 2. This research states that there is a significant effect of budget emphasis on budgetary slack in BMT, the results are proven
- 3) Hypothesis 3. In this study it states that there is a significant effect of Individual Capacity on budgetary slack in BMT and the results are proven
- 4) Hypothesis 4. In this study it states that there is a significant influence of budget participation on managerial performance in BMT and the results are proven.
- 5) Hypothesis 5. In this study it states that there is a significant effect of Budget Emphasis on Managerial Performance in BMT, but the findings cannot be confirmed.
- 6) Hypothesis 6. In this study it states that there is a significant effect of individual capacity on managerial performance in BMT, the results are proven
- 7) Hypothesis 7. In this study it states that Budgetary Slack mediates between the influence of Budget participation on Managerial Performance in BMT, nonetheless, the findings are not confirmed.
- 8) Hypothesis 8. In this study it states that Budgetary Slack mediates the effect of Budget Emphasis on Managerial Performance in BMT
- 9) Hypothesis 9. In this study it states that Budgetary Slack mediates the influence between Individual Capacity and Managerial Performance in BMT, but the findings cannot be validated.
- 10) Hypothesis 10. In this study it states that there is a significant effect of Budget Participation on Budgetary Slack with Performance Based Budgeting as a Moderating variable on BMT, the results are proven.

11) Hypothesis 11. In this study it states that there is an effect of Budgetary Slack on Managerial Performance in BMT, the results are proven.

## 4.2 DISCUSSION

The results of this study prove that Hypothesis 1, that budget participation has no effect on budgetary slack, this can be seen from the t-statistic value of -3.88 below the T statistic of 1.96. This value indicates the direction of a negative relationship. This means that the higher the budget participation that managers do, the lower the budget gap.

The results of Hypothesis 2 prove that participation emphasis has an effect on budgetary slack. This can be seen from the t-statistic value of 2.32. Participation in the budgeting process creates opportunities for subordinate managers to loosen budgets.

Based on the results of this study, regarding the effect of individual capacity on budgetary slack, it can be concluded that individual capacity variables affect budgetary slack with a t-table value of 4.39. The educational process, in its various forms (formal, non-formal, and informal), is central to the formation of human capability. Anyone who possess this level of expertise are considered qualified.

Based on the results of the study, budget participation has an effect on managerial performance. It can be seen that the t-statistic value shows 3.41, which means that budget participation has an effect on managerial performance. This is in accordance with the research results (Milani, 1975). That budgetary participation is expected to improve managerial performance, that is, when goals have been planned and approved in a participatory manner, employees will internalize these goals and they will have personal responsibility for achieving them through involvement in the budget process.

The result of hypothesis 5 is that research on budgetary emphasis on managerial performance shows a t-statistic value of -1.02, which means that the empathic budget has no effect on managerial performance. Likewise, the higher the budget emphasis factor and budgetary participation, the lower the managerial performance achieved.

Hypothesis 6 that individual capacity with managerial performance shows an effect with a t-statistic value of 2.82. Managers with high capacity will get more opportunities to participate in other planning and control activities within the company, so this will encourage managerial performance.

While hypothesis 7, from the results of the Effect of Budget participation on Managerial Performance in BMT, with Budget Slack as an Intervening variable and the results have no effect because the t-statistic value of -0.02 or does not mediate. This is because budgeting participation is a process where managers are involved and influence the preparation of budgets whose performance will then be evaluated in subsequent achievements, with budgeting participation managers have the opportunity to interact, communicate, and influence the goals or objectives to be achieved, and if this is not done then it can encourage performance which tends to decrease.

For hypothesis 8, it is known from the results of the panel that the budget emphasis has no

effect on managerial performance with budgetary slack as an intervening variable with evidence of a t-statistic value of 0.02 or not mediating. As such, budget emphasis refers to an effort based on the use of accounting data, especially the budget, as the main tool in the framework of controlling and measuring performance. Hence, if the implementation of the budget is under pressure, it will be difficult for managers to increase their performance, because it is not easy to achieve the budget that has been set.

Then hypothesis 9 can be seen from the results of individual capacity research on managerial performance with budgetary slack as an intervening variable showing a t-statistic value of 0.02, which means it has no effect or does not mediate. Related to the budgeting process, individuals who have sufficient knowledge will not optimally allocate resources optimally, thereby not succeeding in reducing budgetary slack.

While the hypothesis or H10 can be seen from the results of budget participation research on slack with Performance Based Budgeting as a moderating variable that has proven to be influential or strengthens with a t-statistic value of 3.34. This means that the implementation of performance-based budgeting will affect managerial performance in BMT, whereby the clarity of program goals and objectives will be achieved through the implementation of performance-based budgeting in an effective, efficient and economical manner.

In the hypothesis/H11, it can be seen from the results of the study of budgetary slack on managerial performance that has no effect with a t-statistic value of 0.02. The results of this study illustrate that when budgetary slack behavior is high, managerial performance is also high. When there is a lot of unpredictability in the business environment, managers tend to take precautions that leave them with a surplus in their budgets. These conditions allow the aim of facilitating the achievement of targets and then this behavior will affect managerial performance.

## **5. CONCLUSIONS AND RECOMMENDATIONS**

Based on the research results, hypothesis testing and discussion that has been carried out, it can be concluded as follows: Budgetary participation has no effect on budgetary slack in BMT. Budget emphasis influences Budgetary slack on BMT. Individual Capacity influences Budgetary slack on BMT. Budget Participation influences Managerial Performance on BMT. Budget Emphasis has no effect on Managerial Performance on BMT. Individual Capacity affects Managerial Performance on BMT. Budgetary Slack does not mediate the influence between Budget participation on Managerial Performance in BM. Budgetary Slack does not mediate between the effect of Budget Emphasis on Managerial Performance in BMT. Budgetary Slack mediates the effect of Individual Capacity on Managerial Performance in BMT. Budget Participation strengthens the influence between Budgetary Slack and Performance Based Budgeting on BMT. Budgetary Slack has a direct effect on Managerial Performance in BMT.

Based on the findings, BMT management can consider a number of recommendations to

enhance managerial performance in each of them, including: a). by taking part in training, individuals can help to develop their capacity, particularly their competency skills, and gain experience in BMT management. b) Strengthening and promoting participation in the budget formulation process c) Increasing digital technology skills to enable BMT to compete with other financial institutions.

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