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Submission date: 26-May-2018 09:28PM (UTC+0700)

Submission ID: 968897574

File name: 00699-A-2018_0publish.pdf (449.74K)

Word count: 7227

Character count: 41885



ISSN: 2395-5775

42

Available Online at <http://www.journalijcir.com>

International Journal of Current Innovation Research
Vol. 4, Issue, 2(A), pp. 1057-1065, February, 2018

**International Journal of
Current Innovation
Research**

DOI: 10.24327/IJCIR

Research Article

CONTINGENT FACTORS PARTICIPATORY BUDGETING, INTERNAL PROCESSES PERFORMANCE AND BUSINESS PERFORMANCE: A CASE OF MANUFACTURING COMPANIES IN INDONESIA

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ARTICLE INFO

Article History:

Received 4th November, 2017

Received in revised form 21st

December, 2017

Accepted 15th January, 2018

Published online 28th February, 2018

Key words:

Participative budgeting, internal process performance, business performance, mediating, moderating

ABSTRACT

This research examines the relation between participative budgeting and business performance mediate as well moderate by internal process performance. Two hypotheses in this research are that (1) the participative budgeting affects the business performance which is mediated by internal process performance and (2) the participative budgeting affects the business performance which is moderate internal process performance. This research is a quantitative research in the explanatory level. The population of this research is all of the manufacturer companies in East Java with business unit as a unit analysis. The respondents are the manager of business unit in Manufacturing Company in East Java. The questionnaires was sent to 359 companies. But only 143 filled and sent back the questionnaires, it means the response rate is 39%. The research result shows that (1) the internal process performance fully mediates the relation between participative budgeting and business performance but (2) the internal process performance only behave as a pseudo moderating for the relation between participative budgeting and business performance.

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INTRODUCTION

Currently, each entity is required to operate more effectively and efficiently to achieve competitive advantage. Entities should monitor changes in the environment and to be responsive to any changes that occur. This development should be followed by the necessary management control for reliable management controls to achieve the expected performance. Management control is the process by which managers influence members of other entities to implement the strategy of the entity, while the management control process is a behavior, which is manifested in the interaction between managers and between managers and subordinates. Management control process consists of strategic planning, budgeting, financial statement analysis, measurement and performance assessment and compensation in the form of incentive compensation management (Anthony and Govindarajan, 2004).

Budgeting is a management control process. A budget must be drawn up with the involvement of the parties involved in the organization. This is the heart of participation in budgeting. Participation budget become one of the most comprehensive areas of research in the study of behavior in management accounting. The importance of the participation of the budget by subordinates with the aim of improving performance has been extensively tested in the accounting literature behaviors (eg, Brownell: 1981, 1982; Brownell and McInnes: 1986; Chenhall and Brownell: 1988; Mia: 1988, 1989; Kren: 1992; Magner *et al.*: 1996; Nouri and Parker: 1998). The authors stated that the participation in the budgeting process acts as a function to inspire and direct subordinates to accept and commit to the objectives of the budget (Argyris

1952; Becker and Green 1962; Hofstede 1968; Searfoss and Monczka 1973; Kenis 1979; Merchant 1981). Furthermore, it is argued that the participation of the budget also serves as an informational function where information can be collected and redeemed. Information relevant to the work can be spread by the subordinates to facilitate the decision making process and to communicate personal information to organizational decision makers (Earley and Kanfer 1985; Campbell and Gingrich 1986; Murray 1990; Kren 1992; Shields and Young 1993; Magner *et al.* 1996; Nouri and Parker 1998).

The pattern of the relationship of budget participation and managerial performance become one of the most comprehensive field. Nevertheless there are only a few related variables that have been investigated. As performed by Hoopwood (1972), in which he identifies that there are three kinds of different styles of budget and actual cost information that is used by managers to evaluate performance. But Otley (1978) have different results in his research. Differences in both studies have encouraged researchers to examine the diversity of variables (Briers and Hirst, 1990). To have an understanding of the usefulness subordinate budget information in evaluating the performance, they should understand the knowledge of good cost management.

Some studies indicate that there is a tendency budget participation affect managerial performance when there are intermediate variables that mediate or moderate it. According to Otley (1980) basic thesis of the contingency approach is no concept or organizational design that can be applied universally anywhere or under any conditions and effectively. An organizational design only appropriate or suitable for a

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particular context or condition. The use of a contingency approach should encourage researchers to identify the appropriate conditions for a specific organizational design and develop a theory that supports it (Riyanto, 1999). In the study Hirst (1987) says that the development of an organization affected by different environmental features. The performance of an organization depends on the uncertainties, internal factors, feedback with other organizations, and external interaction organization. RJ (1999) mentions in his research design manajemencukup interesting to study accounting in testing the reliability of accounting management system with a strategic approach to uncertainty. Participation of the budget will be one tool to achieve good managerial performance if there is a reliable performance of internal processes.

Performance of internal processes is essential to achieving managerial performance. Kaplan and Norton (2009), classify internal processes organization into four groups: (1) Operations management processes is a basic process, a daily process in which companies produce goods and services to deliver it to the customer (2) Customer management processes broaden and deepen ties with targeted customers (3) Innovation processes to develop products, processes, and new services that allow companies to hit the market and new customer segments (4) Regulatory and social processes help organizations continuously earned the right to operate in the communities and countries in which the goods produced and sold. Companies manage and report on regulatory and social performance in a number of important dimensions, namely: environment, safety and health, employee practices and community investment.

This study will examine how the internal process performance affect the relationship between budgetary participation and managerial performance. Some important questions related to this study, among others, whether the effect of budget participation on managerial performance changes depending on the performance of internal processes? In other words, if the budget participation interact with the performance of internal processes to influence managerial performance, and if so, how the shape of a model that can be drawn from these interactions? Therefore, the motivation of this study were (1) to test the modeling of mediation and moderation on the relationship between participative budgeting, performance of internal processes and business performance, (2) expand the role of the theory of contingency in the modeling of mediation and moderation, (3) to explain the importance of participative relationship budgeting, performance of internal processes and business performance in the manufacturing entity in East Java.

This research was conducted at manufacturing companies with an assumption of rational that the cost structure in manufacturing more complex than the cost structures exist in other companies (Agbejule and Saarikoski (2006). The structure of the cost is more complex because they have the production process more a lot and also the production cycle is longer than the other companies. the structure of the cost of more complex causes there is a need of a good performance of internal processes in preparing the budget so that the cost of control can be maximized in order to help improve managerial performance. Based on the explanation above, then some of the questions this study, are: (1) Is the internal process performance mediates the relationship budgetary participation and financial performance, (2) Does the performance of internal processes moderate the relationship budgetary participation and financial performance. The purpose of this study were (1) to test whether

the performance of internal processes mediate the association budgetary participation and financial performance, (2) to test whether the performance of internal processes moderate the relationship budgetary participation and financial performance.

Participative Budgeting

Budgeting includes the preparation and adoption of a detailed plan of financial operations with the purpose of influencing in a positive way, how managers plan and coordinate activities in a way that will improve their own performance. Thus framing organization with the limits outlined in the budget, and realize the objectives that have been set. Discuss budgeting means also control the operation. Budgeting is one of the most researched topics in management accounting and has been studied from a theoretical perspective of economics, psychology, and sociology. Baiman and Evans (1983) uses economic models to explain the budget. Subordinate participation in budgeting would be meaningful if it provides superior personal information used to formulate the budget. Participatory budgeting is expected to improve the performance of the organization by allowing to excel in allocating resources more efficiently. This description shows that the participatory budgeting will improve organizational performance when the organization's performance depends more on making resource allocation decisions are correct or appropriate.

Contingency Theory

Contingency approach argues that there is no concept or design of the entity to be universally applicable anywhere or under any conditions effectively (Otley, 1980). The design of the entity only appropriate or suitable for a particular context or condition. The use of contingency approach encourages researchers to identify appropriate conditions for certain entities design and develop a theory that supports it (Riyanto, 1999). Teori contingencies identifying forms of optimal control of the entity under different operating conditions and explain how the operating procedures of control of the entity.

Otley (1980) states that the contingency approach may explain why the accounting system can be different from one condition to another condition. Based on the findings concluded that there are three concepts that influence the effectiveness of the accounting system, namely (1) technology, (2) the structure of the entity, and (3) the environment. Contingency approach to the management accounting is based on the premise that there is no universal accounting system is always appropriate to be applied on each entity, but this depends on factors existing condition or situation in the entity. Some researchers in the field of management accounting test to see relationships contextual variables such as environmental uncertainty, the uncertainty of tasks, structure and culture entities, uncertainty strategies with management accounting system design.

Resource Based Theory

Internal factors are needed to achieve the entity's competitive advantage. Resources Based Theory states that internal factors are more important than the external (industry) to achieve competitive advantage. Resources Based Theory takes the standpoint that focus on the resources and capabilities which are fundamental principles in determining the welfare of society. Company's capital are related to human and physical capital, which determines the empowerment process towards the creation of an entity's competitiveness and ultimately on improvement of public welfare. Entities are compose as

resources and abilities (Barney., et. al) thus Teece., et al (1997) suggest that competitive advantage depends on the resources owned by the entity. The idea came from strategic management, which is connected with Resources Based View (see In order to have good results, a companies resources should be: (1) *valuable* means any resources posses should contribute in strategic value for company. (2) *scarce* means any resources should have not imitate easily by competitors so it becomes resources that potential for entity. (3) *imperfect imitability* means resources will be a sustainable competitive advantage only if possessing the resources will deter company from other company whose not posses. (4) *non-substitution* means no other resources can alternate its function. One of resources that important for gaining competitive advantage is knowledge. According to Knowledge-Based Theory, knowledge is characterized as scarce resour²⁸s and difficult to imitate and transferred. The capability and effectiveness of entity to generate, share and distribute the knowledge and information determine the value produced. This underlined its sustainable competitive advantage in the long term (Edvinssondan Malone, 1997; Bontis, 2002; Chood an Bontis, 2002).

From other standpoint of *Resources Based Theory*, Grant (1991) argues that entity characteristics also define above-average returns (AAR). Thus he focuses on development or acquiring valuable resources and distinct capabilities.

Managerial Performance

From *Balanced scorecard* standpoint, financial perspective becomes an end of *profit-maximizing companies*. This financial measurement indicate whether strategy, including implementation, contribute⁷n bottom-line improvement. A company can improve its financial performance through two basic approach, namely *revenue growth* and *productivity*. Company can generate revenue by maintaining good relationship with existing and potential customer. From productivity aspect, it can be improved by reducing cost, efficiently used of assets and trim down working and fixed capital. The relevance of strategy and financial performance arises when an entity choose a balance between growth and productivity. Therefore financial performance can be viewed from three (3) following indicators: revenue growth, reduction or cost savings and improved asset utilization and increase customer value.

Hypothesis development

Participatory Budgeting required to improve the performance of internal processes. Because of participation of entities budget will increase productivity through better performance of internal processes that impact financial performance.

Therefore the hypothesis in this study are

1. Participatory Budgeting influence business performance.
2. Participatory Budgeting influence internal processes performance
3. Internal processes performance influence business performance
4. Participatory Budgeting influence business performance which is mediated by internal process performance.
5. Participatory Budgeting influence business performance which is moderated by internal process performance.

Research model

Based on the theory framework, the research model is developed as presented in the picture below (figure1 and figure 2). This research model describes that Participatory Budgeting influence business performance which is mediated by mediated and moderated internal process performance.

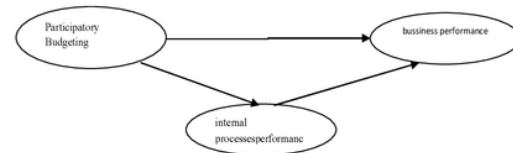


Figure 1 Mediated Model

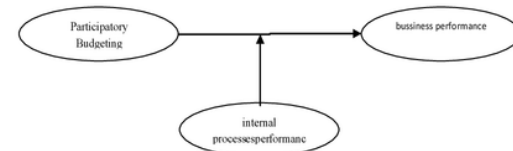


Figure 2 Moderated Models

METHODS

Research design

This research is designed as causal studies (Cooper & Emory, 1995). This research is quantitative research in the explanatory level which aims to examine the hypothesis whether there is an internal process performance mediation and moderation for the relati⁵ of participatory budgeting and bussiness performance. The data is collected through questionnaire. The research analysis unit is business unit. The research respondents are the manager of business unit in the manufacturing company in East Java, this research is a research on the behavior which ⁵es the perception of the manager as the part who is assumed to have enough holistic knowledge about the research variables.

Population and Sample

The population of this research is all of the manufacturer companies in East Java. There are 398 companies. To avoid the lack of responses for the questionnaire, the questionnaire is delivered through fax and email to all of the population. To improve the response rate, the interview is conducted by phone. Meeting the deadline of the data collection, there are 150 questionnaires are filled or response rate for 35%.

Variable classification

Variables in the research are classified as follows

1. Business performance is dependent variable.
2. Participatory budgeting is independent variable.
3. Internal process performance is mediating variable.
4. Internal process performance is moderating variable.

Definition of operational variable

Business performance

Business performance in this study is the end result of the performance of managers proxied as financial performance. Financial performance is defined as a consequence of certain economic decision which is taken from certain economic action. The financial performance refers to the Balanced

Scorecards concept which is developed by Kaplan and Norton (1992) which shows the planning, implementation and evaluation for the applied strategy. The financial performance variable consists of four indicators. They are income growth, cost saving, improvement of the asset used, and the improvement customers value.

Participatory budgeting

Participation budget appear to function to inspire and direct subordinates to accept and commit to the objectives of the budget (Argyris 1952; Becker dan Green 1962; Hofstede 1968; Searfossdan Monczka1973; Kenis 1979; Merchant 1981). Therefore there are five (5) important elements in the process of participation that role in the budget process, the involvement in the discussion, influence in the decision of the budget, the contribution in the preparation of the budget, and the behavior of superiors in the preparation of the budget.

Internal process performance

The internal process is defined as an internal business process which refers to the Balances Scorecard concept developed by Kaplan and Norton (1992). It explains the process how the process is conducted in the organization to support the customer's need satisfaction. The internal performance covers four indicators. They are operations management process, customer management process, innovation process and regulatory and social processes.

RESULT AND DISCUSSION

RESULT

There are two focus in this study is a model of mediation and moderation on Internal process performance in the relationship between participatory budgeting and bussiness performance. Stages of hypothesis testing are as follows:

The assumption in Structural Equation Modelling

Univariate Outlier test

Table 1 shows that the testing univariate outliers done by observing the value of z-score. If an outlier of data, then the value of z-score obtained greater than the +4 or less than the number -4. This shows that there are no observations were categorized as outliers because the value z-score each of the indicators under item 4.

Table 1 HasilNilai Z-Score

	N	Descriptive Statistics			
		Minimum	Maximum	Mean	Std. Deviation
Zscore(pb1)	143	-2.35255	1.55925	.0000000	1.00000000
Zscore(pb2)	143	-2.09863	1.49543	.0000000	1.00000000
Zscore(pb3)	143	-2.38835	1.30391	.0000000	1.00000000
Zscore(pb4)	143	-2.24172	1.16856	.0000000	1.00000000
Zscore(pb5)	143	-2.31969	.96462	.0000000	1.00000000
Zscore(kpi1)	143	-2.26936	.95968	.0000000	1.00000000
Zscore(kpi2)	143	-3.48829	.95229	.0000000	1.00000000
Zscore(kpi3)	143	-2.11997	.97346	.0000000	1.00000000
Zscore(kpi4)	143	-2.21460	.96819	.0000000	1.00000000
Zscore(bp1)	143	-2.00851	1.04699	.0000000	1.00000000
Zscore(bp2)	143	-2.14479	1.17094	.0000000	1.00000000
Zscore(bp3)	143	-3.37352	1.05229	.0000000	1.00000000
Zscore(bp4)	143	-3.66020	1.01309	.0000000	1.00000000
Valid N (listwise)	143				

Sumber : Data intern, diolah

Multivariate Outlier test

Table 2 shows that the Mahalanobis Distance for each observation can be calculated and show the distance an

observation of the average of all variables in a multidimensional space. Mahalanobis distance is determined based on the value of Chi square on the degrees of freedom of the indicators used in each variable. In this study, there are 13 indicators, therefore the value of Chi Square χ^2_{table} (0,001: 13) = 34.53. Outlier are shown in multivariate test results in Table 2. The test results showed that the value of multivariate outlier mahalanobis generated more than 34.53. Observations that have a value of more than 34.53 mahalanobis no. 106, 111, and 143. The third observation is eliminated, so that the number of observations used for further testing as many as 140 observations.

Table 2 Hasil Uji Multivariate Outlier

	Residuals Statistics ^a				
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	18.15	131.72	72.00	22.498	143
Std. Predicted Value	-2.393	2.654	.000	1.000	143
Standard Error of Predicted Value	4.266	21.533	10.854	3.557	143
Adjusted Predicted Value	10.61	133.27	71.70	23.279	143
Residual	-79.710	77.726	.000	34.783	143
Std. Residual	-2.184	2.130	.000	.953	143
Stud. Residual	-2.317	2.381	.004	1.009	143
Deleted Residual	-89.725	99.387	.301	39.051	143
Stud. Deleted Residual	-2.358	2.426	.003	1.014	143
Mah. Distance	.947	48.448	12.909	8.836	143
Cook's Distance	.000	.125	.009	.017	143
Centered Leverage Value	.007	.341	.091	.062	143

a. Dependent Variable: no

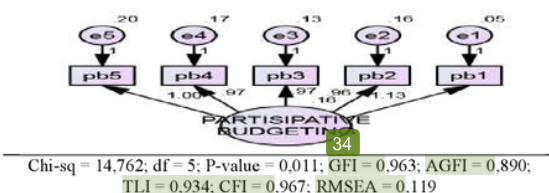
Sumber : Lampiran

Unidimensional Variabel

Confirmatory Factor Analysis (CFA) was performed on each of the latent variables to determine whether these indicators actually measure latent variables. Before the Confirmatory Factor Analysis, the necessary assumption that the data must follow normal. Assumsi multivariate distributions are needed to support the validity of the testing confirmatory. Hasil analisis results as follows:

Unidimensional Variabel Participative Budgeting

From the test results obtained multinormal values below the curve area of more than 50% thus concluded that the variable distribution budgeting mengikutimultinormal participative. Having obtained all the variables multivariate normal distribution, then further confirmatory analyzes performed on each of the latent variables. Confirmatory Factor Analysis of testing is to determine the participative budetingunidimensional latent variables measured by five indicators, the results are as follows:



Source : Intern Data

Gambar 3 Measurement Model Confirmatory Factor Analysis Variabel Laten Partici pative Budetingwith Unstandardized Estimates

Based on the criteria of Goodness of Fit Indices which can be seen in Figure 4 is obtained - Significance Probability of 0.011 and a significance value less than 0.05 so H0 is rejected. This

means that the variance-covariance matrix is not equal to the population variance-covariance matrix of the estimated models. It was concluded that the model is not appropriate so that the necessary modifications to the model to obtain the appropriate model. Modifications done by correlating between the model residual. Results measurement modified models are as follows:

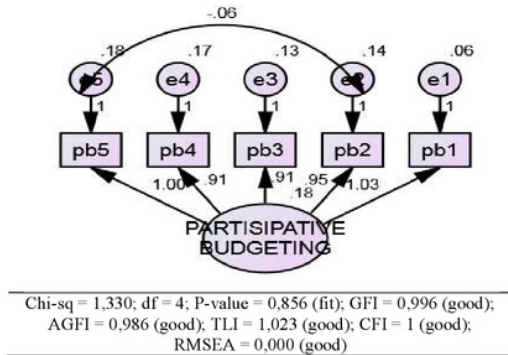


Figure 4 Measurement Model Modification Confirmatory Factor Analysis Variabel Laten Particpative Budeting with Unstandardized Estimates

Of the modified models, obtained values Goodness of Fit criteria which can be seen in Figure 5. Value Significance Probability of 0.856 greater than 5%, and all the criteria have been met the limit cutt of value. Next, identify the significance of these indicators in forming latent variable Budeting participative. The following factors value loading and testing the significance of each indicator against latent variables are presented in Table 3. The p-value obtained for 38 indicator variables forming participative Budeting latent variables are significant at the alpha level of 5% for the resulting p-value of less than 5% so that it can be concluded that all the indicators that make up the 47 ent variables indicated participative Budeting. From the results of the confirmatory analysis on the latent variables, the reliability value (construct reliability) based models for each latent variable has a value of 0.864 Reliability sebesar Construct so that it can be stated that the model is very reliable. (Rule of thumb: each latent variable more than 0.70).

Tabel 3 Loading Factor dan Nilai CR Indikator Particpative Budeting

Hubungan	Estimasi	CR	p-value	R ²
Pb5 ← pb	0.712		0.000	0.507
Pb4 ← pb	0.684	7.890	0.000	0.468
Pb3 ← pb	0.734	6.760	0.000	0.539
Pb2 ← pb	0.737	8.830	0.000	0.543
Pb1 ← pb	0.866	7.429	0.000	0.751

Sumber : Data intern, diolah

Unidimensional on Internal process performance Variabel

Results of multivariate testing normal internal process performance variables showed a value of 0.6000. From the test results multinormal on the above, a score below the curve area of χ^2 more than 50% so it concluded that the internal process performance variables distributions follow multinormal. Having obtained all the variables multivariate normal distribution, then further confirmatory analyzes performed on each of the latent variables. CFA testing results are as follows:

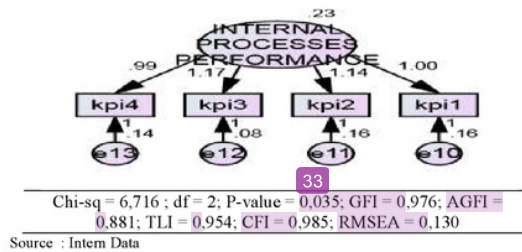


Figure 5 Measurement Model Confirmatory Factor Analysis Variabel Laten Internal process performance with Unstandardized Estimates

Based on the criteria of Goodness of Fit Indices which can be seen in Figure obtained - Significance Probability of 0.035 and a significance value less than 0.05 so H0 is rejected, it means that the variance-covariance matrix is not equal to the population variance-covariance matrix of the estimated models. In other words that the model is not appropriate so that the necessary modifications to the model, to obtain the appropriate model. Modifications done by correlating between the model residual. Results measurement modified models are as follows:

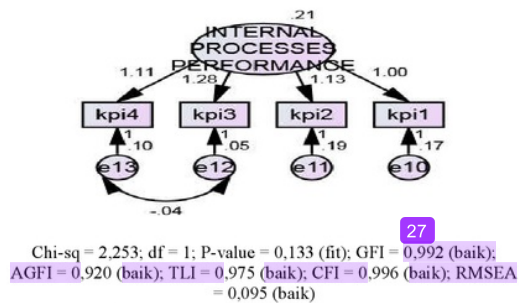


Figure 6 Measurement Model Modification Confirmatory Factor Analysis Variabel Laten Internal process performance with Unstandardized Estimates

From the modified models, obtained values Goodness of Fit criteria which can be seen in Figure atas. Nilai Significance Probability of 0.133 greater than 5%, and all the criteria have been met the limit cutt of value. After conducting an analysis of models of variable performance Internal Process, the subsequent analysis is to identify the significance of the indicators in the form of latent variables Internal Process Performance. The following factors value loading and testing the significance of each indicator against latent variables are presented in Table 4.

Tabel 4 Loading Factor dan Nilai CR Indikator Kinerja Proses Internal

Hubungan	Estimasi	CR	p-value	R ²
Kpi1 ← kpi	0.744		0.000	0.723
Kpi2 ← kpi	0.767	9.399	0.000	0.879
Kpi3 ← kpi	0.937	9.335	0.000	0.589
Kpi4 ← kpi	0.850	8.605	0.000	0.554

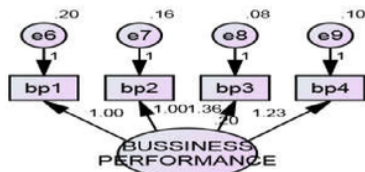
Sumber : Data intern, diolah

P-value obtained for all indicator variables forming latent variable Internal Process performance is significant at the alpha level of 5%, due to the resulting p-value of less than 5% so that it can be concluded that all the indicators that make up the latent variable indicated Internal. Dari Process Performance the

results of confirmatory analysis on the latent variables, the reliability value (construct reliability) of 0.896. From the above calculation, a score Construct Reliability to individual latent variables more than 0.70 so it can be stated that the model is very reliable.

Unidimensional Bussiness Performance Variabel

Before the Confirmatory Factor Analysis, the necessary assumption that the data must follow the multivariate normal distribution. Such assumptions are required to support kevaliditan confirmatory analysis results. The test results from the multivariate normal variable performance bussiness by 0, 4747. From the test results multinormal on the above, a score below the curve area of less than 50% but is still close to 50% thus concluded that the variable distributions follow multinormal bussiness performance. Having obtained all the variables multivariate normal distribution, then further confirmatory analyzes performed on each variable laten. Pengujian Confirmatory Factor Analysis is to determine the performance business unidimensional latent variables are measured by four indicators, the results are as follows:

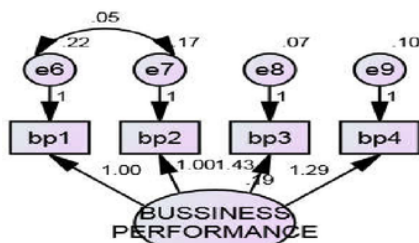


Chi-sq = 7,617; df = 2; P-value = 0,022; GFI = 0,973; AGFI = 0,863; TLI = 0,947; CFI = 0,982; RMSEA = 0,142

Sumber : Data Intern, diolah

Figure 7 Measurement Model Confirmatory Factor Analysis Variabel Laten Bussiness Performance with Unstandardized Estimates

Based on the criteria of Goodness of Fit Indices which can be seen in Figure obtained - Significance Probability of 0.022 and 24. gnificance value less than 0.05 so H_0 is rejected, it means that the variance-covariance matrix is not equal to the population variance-covariance matrix of the estimated models. In other words that the model is not appropriate so that the necessary modifications to the model, to obtain the appropriate model. Modifications done by correlating between the model residual. Results measurement modified models are as follows:



Chi-sq = 0,031 df = 1; P-value = 0,861 (fit); GFI = 1 (baik); AGFI = 0,999 (baik); TLI = 1,018 (baik); CFI = 1 (baik); RMSEA = 0,000 (baik)

Sumber : Data intern, diolah

Figure 8 Measurement Model Modification Confirmatory Factor Analysis Variabel Laten Bussiness Performance with Unstandardized Estimates

From the modified models, obtained values Goodness of Fit criteria that can be seen in the above figure. Value Significance Probability of 0.861 greater than 5%, and all the criteria have been met the limit cutt of value. After conducting an analysis of models of variable Bussiness Performance, then further analysis is to identify the significance of these indicators in forming latent variable Bussiness Performance. The following factors value loading and testing the significance of each indicator against latent variables are presented in Table 5.

Tabel 5 Loading Factor dan Nilai CR Indikator Bussiness Performance

Hubungan	Estimasi	CR	p-value	R ²
bp1 ← bp	0.680		0.000	0.463
bp2 ← bp	0.726	9.011	0.000	0.527
bp3 ← bp	0.917	9.144	0.000	0.842
bp4 ← bp	0.872	8.987	0.000	0.761

Sumber : Data intern, diolah

P-value obtained for all indicator variables forming Bussiness Performance latent variables are significant at the alpha level of 5%, due to the resulting p-value of less than 5% so that it can be concluded that all the indicators that make up the latent variables indicated Bussiness Performance.

From the results of the confirmatory analysis on the latent variables, the reliability value (construct reliability) of 0.879. From the above calculation, a score Construct Reliability masing individual latent variables more than 0.70 so it can be stated that the model is very reliable.

Mediation models (participatory budgeting - internal process performance - bussiness performance)

To determine the influence on Internal process performance mediates the relationship between Participatory budgeting and bussiness performance with analysis Structural Equation Modeling (SEM)

In Table 6 is shown that the values of the criteria Goodness of Fits to test the feasibility of the developed model. From the results of the feasibility test the model obtained p-value less than 0.05. It indicates there is a difference between the matrix variance covariance matrix of the population with variance covariance models were estimated from the sample. This is supported by all of the criteria does not meet the cut-off value that has been determined. Modification of the model is done by correlating between residual, the results are as follows:

Tabel 6 Kriteria Goodness of Fit Indices Model Awal (Pengaruh Participative Budgeting terhadap Bussiness Performance yang Dimediasi oleh Kinerja Proses Internal)

Goodness of fit index	Cut-off value	Hasil model	Keterangan
χ^2 - Chi-Square	Kecil	121,176	Diharapkan kecil
Statistic Derajat bebas, DF		62	
χ^2 - Significance Probability	≥ 0.05	0.000	Kurang baik
RMSEA	≤ 0.08	0.083	Baik
GFI	≥ 0.90	0.886	Moderat
AGFI	≥ 0.90	0.833	Moderat
CFI	≥ 0.95	0.946	Baik
TLI	≥ 0.95	0.932	Baik

Sumber : Data intern, diolah

From the modified models, obtained values Goodness of Fit criteria in Table 7. Value of Significance Probability of 0.183 greater than 5%, the value of GFI, TLI, CFI and RMSEA

already meet the limits cut of value while moderates are categorized AGFI value approaching 0,90. Setelah obtained the appropriate model, then it can be seen the significance of the model by comparing the value of the probability of any causal relationship with α (5%). Loading value and significance are presented in Table 8.

Tabel 7 Kriteria Goodness of Fit Indices Model Modifikasi (Pengaruh Participative Budgeting terhadap Business Performance yang Dimediasi oleh Kinerja Proses Internal)

Goodness of fit index	Cut-off value	Hasil model	Keterangan
χ^2 - Chi-Square Statistic	Kecil	67,539	Diharapkan kecil
Derajat bebas, DF		58	
χ^2 - Significance Probability	≥ 0.05	0.183	Baik
RMSEA	≤ 0.08	0.034	Baik
GFI	≥ 0.90	0.931	Baik
AGFI	≥ 0.90	0.892	Moderat
CFI	≥ 0.95	0.991	Baik
TLI	≥ 0.95	0.988	Baik

Sumber : Data intern, diolah

Tabel 8 Loading Factor dan Nilai CR (Pengaruh Participative Budgeting terhadap Business Performance yang Dimediasi oleh Kinerja Proses Internal)

Hubungan	Estimasi	CR	p-value
IPP $\leftarrow$ PB	0.536	5.159	0.000
BP $\leftarrow$ PB	-0.043	-0.540	0.589
BP $\leftarrow$ IPP	0.820	6.966	0.000

Sumber : Data intern, diolah

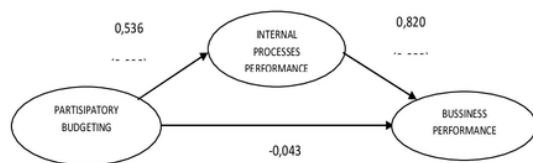


Figure 9 The effect Participative Budgeting to Business Performance With mediation by Kinerja Proses Internal (Model Modifikasi)

The results of Table 8 above are as follows

1. Participatory budgeting significant positive effect on internal process performance, with a standardized value estimate of 0.536 and p-value of less than 5%.
2. Participatory budgeting no significant effect on business performance, with standardized estimate the value of -0.043 and p-value of more than 5%.
3. Internal process performance significant positive effect on business performance, with a standardized value estimate of 0.820 and p-value of less than 5%.

From the description of these results it can be concluded that the internal process performance proved to be a perfect mediating variables on participatory budgeting relationship with business performance.

Modertion models (participatory budgeting - internal process performance - business performance)

Value Goodness of Fits criteria to test the feasibility of that model which can be seen in Table 9.

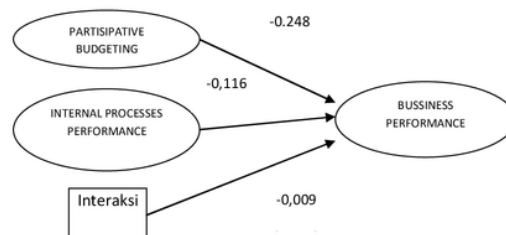


Figure 10 Moderation Models

Value of Significance Probability of 0.124 greater than 5%, the value of GFI, TLI, CFI and RMSEA already meet the limits cut of value while moderate categorized AGFI ie its value approaching 0,90. Setelah obtained the appropriate model, then it can be seen the significance of the model by comparing the value of α (5%). the probability of any causal relationship with Loading value and significance are presented in Table 10. The table above shows that the internal process performance and the interaction between internal Budgeting dengan participative process performance significant positive effect on Business Performance, due to the resulting p-value of less than 5%.

Tabel 9 Kriteria Goodness of Fit Indices Model Modifikasi (Moderasi)

Goodness of fit index	Cut-off value	Hasil model	Keterangan
χ^2 - Chi-Square Statistic	Kecil	76.153	Diharapkan kecil
Derajat bebas, DF		63	
χ^2 - Significance Probability	≥ 0.05	0.124	Baik
RMSEA	≤ 0.08	0.039	Baik
GFI	≥ 0.90	0.928	Baik
AGFI	≥ 0.90	0.880	Moderat
CFI	≥ 0.95	0.993	Baik
TLI	≥ 0.95	0.990	Baik

Sumber : Lampiran

Tabel 10 Loading Factor dan Nilai CR Modifikasi Pengaruh Participative Budgeting terhadap Business Performance yang dimoderasi oleh Kinerja Proses Internal

Hubungan	Estimasi	CR	p-value	R ²
BP $\leftarrow$ PB	-0.025	-0.324	0.746	
BP $\leftarrow$ IPP	0.756	6.968	0.000	0.649
BP $\leftarrow$ Interaksi	0.016	4.451	0.000	

Sumber : Lampiran

Internal process performance proved to be a moderating variable quasi (quasi moderator) moderating variable between variable participative Budgeting and Business Performance, which interacts with the pseudo moderating variables predictor variables as well as a predictor variable.

DISCUSSION

Participatory budgeting leads to the extent of involvement of managers in the preparation of the budget and its implementation in order to achieve budget targets. Participatory budgeting is a managerial approach to improve the performance of the organization, or in other words, participative budgeting influence managerial performance, then the hypothesis successful received so consistent and supports research Brownel (1982); Brownell and McInnes (1986); Mia (1987); Chenhall and Brownell (1988) and Indriantoro (1993).

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Based on the results of statistical tests, the performance of internal processes mediate perfectly over budget participative relationship with the company's performance. Besides mediating perfect, the performance of internal processes apparent moderation of relations between participative budget with company performance. This is to use, the performance of internal processes which include Operations Management Process, Customer Management Process, Process Innovation, and Social Regulatory and processes which ended in the innovation process, operation and after-sales service in accordance with the conditions the company's impact on the company's performance. Performance of internal processes that would increase efficiency, which in turn have an impact on management processes related to customer good will, which in turn also have an impact on overall company performance.

Operations Management process is an activity of creation of goods and services by transforming inputs into outputs. This activity is related to the decision-making immediately in daily business with the advanced level of efficiency in the use of limited resources. Operative management processes regulate the management, in the sense of continuous steering on every business process and process penunjang. Customer Management process meliputi bagaimana companies get customers, how companies retain customers, and how the company mengelolamerekproduknya. Innovation process merupakan part of critical internal process performance that is part of strategy implementation. Regulatory and Social processes membantu continuously organizations have the right to operate in the communities and countries where the goods produced and sold. Companies manage and report on regulatory and social performance associated with several important dimensions, namely: environment, safety and health, employee practices and community investment.

Thus good performance of internal processes impact on customer performance is also good. Good customer performance demonstrated by the manager who always identify the targeted customer segments where the business unit to compete and measure the performance of business units to customers in targeted market segments. Customer performance meliputi various sizes such as: customer satisfaction, customer retention, customer acquisition, customer profitability, market share, and the share account. In this case the company is always adding and improving product attributes produced sustainably, doing good relations with customers, and always maintain the brand image of the products of the product.

CONCLUSION

The results showed that (1) internal process performance proved to be a mediating variable is perfect for relations participative budgeting with business performance and (2) Internal process performance proved to be a moderating variable quasi (quasi moderator) is the variable moderating between variables participative Budgetingdan Business Performance, where quasi moderating variables interact with the predictor variables as well as a predictor variable. The focus of this study is modeling the mediation and internal moderation process performance against participative relationship Budgetingdengan Business Performance. Therefore, overall, the results of this study indicate that the internal process performance, participative Budgeting, Business Performance is a continuum in the modeling of mediation and moderation.

The role of internal process performance become important on the participative relationship Budgeting dengan Business Performance. Hal supporting Resource Based Theory that states internal factors (which in this study is the intellectual capital) be important for relations with performance innovation strategy keuangan. Penggunaan contingency theory becomes which is important for relations mediation and moderation for the elaboration of the premise of the theory.

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There are several limitations in this study include: (1) the study did not consider the business cycle, 35 the sample is derived from manufacturing entity just so the findings of this study can not be generalized to other industries. As for suggestions for future research related to future research is: (1) consider the business cycle, (2) expand the study sample.

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How to cite this article:

Hariyati and Dian Anita Nuswantara (2018) 'Contingent Factors Participatory Budgeting, Internal Processes Performance And Business Performance: A Case Of Manufacturing Companies In Indonesia', *International Journal of Current Innovation Research*, 4(2), pp. 1057-1065.

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