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THE 12TH MALAYSIA-INDONESIA INTERNATIONAL CONFERENCE ON ECONOMICS, MANAGEMENT, AND ACCOUNTING 2011

MIICEMA

"Borderless Economy: Opportunities and Challenges for Businesses in Southeast Asia"

13-14 October 2011

VENUE:
Magister Manajemen
Magister Perencanaan Pembangunan
Fakultas Ekonomi, Universitas Bengkulu

PROCEEDINGS

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ISBN 978-979-9431-68-4

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The impact of cost management knowledge on the relationship between partication budget and managerial performance

By
Halimatusyadiah

Abstract

The purposes of study are to examine the influencing of participation budget on managerial performance. Moreover, this study also examines the impact of management cost knowledge on the relationship between participation budget and managerial performance. The sample of 56 middle managers was selected based on purposive sampling method. This study found that cost management knowledge purely moderate the relationship between budgetory participation and managerial performance

***Keywords**: participation budget, managerial performance, and cost management knowledge*

1. INTRODUCTION

Budgeting is the process of preparing of budget in order to achieve the company goals in gaining profit (Narafin, 2004). Budgeting process can use three approaches, namely the top down, bottom-up, and participation approach. According to Alim (2002) in Sumadiyah and Susanta (2004), top-down budgeting is a budgeting process where subordinates do not significantly involve in preparing the budget, the budget drawn up by top-level managers. Meanwhile the executive managers (middle and lower level managers) implement the budget that has been made. In contrast, bottom-up approach starts from the basic level or operational level / departmental budget is incorporated into the overall corporate budget, then the budget is reviewed, adjusted, and approved by top management (Shim and Siegel, 1996). Meanwhile, for budgeting approach involving the participation of middle managers and lower level, is made with full cooperation and participation of managers at all levels within the company. Participation budget that better reflects the important decisions made in the process of drafting as a group rather than individually crafted (Ikhsan and Isaac, 2005). Milani (1975) in Lestari and Retna (2006) defines participatory budget as the level of influence and involvement of individuals in the process of drafting the budget. Siegel and

Marconi (1989) in Lestari and Retna (2006) stated that the budget has a direct impact on human behavior, especially for those who were directly involved in budget preparation because when someone is involved in preparing the budget then the individual will be more motivated to reach its target. Some researchers found that the application of budgetary participation has a positive effect on managerial performance because when a person is involved in developing the budget, then the individual is more motivated to reach its target. Brownell (1982) in Sumarno (2005) found that there are positive and significant relationship between participation and managerial performance. While Milani (1975) in Sumarno (2005) found that budget participation has no significant effect on managerial performance. Besides, there are also studies that found no relationship between budgetary participation and managerial performance (Stedry, 1960 and Bryan and Locke, 1967 in Sumarno, 2005).

Govindarajan (1986) in Robinson (2006) stated that the contingency approach would be better used in testing the effect of budget participation on managerial performance. Brownell (1980) examined several studies and found the effect of the conditional factors as variables moderating the relationship between the independent variable (participation in the budget) and the dependent variable (managerial performance). Conditional factors can be grouped into four variables, namely the cultural, organizational, interpersonal, and individual. Individual factors seem very influential in improving performance. Competitive business world that increasingly stringent demands for the company more competitive and innovative in order to survive in a competitive environment at this point, it would require individuals with competent human resources so that decisions are taken to be more qualified.

Wati (2010) stated that human resources include experiences, capability, knowledge, skills, and consideration (judgment*)* of all employees of the company. According Shunn (1999) in Robinson (2006), the knowledge possessed by a person both general and specific affects its performance in carrying out the task. Participatory decision-making will improve decision quality when participants have the relevant knowledge (Davis, 1963; Derber, 1963; Strauss and Rosenstein, 1970; Vroom, 1969 in Agbejule and Saarikoski, 2006). Individuals who have relevant knowledge when it is included in the budget formulation allows the individual to make decisions that are more qualified.

Agbejule and Saarikoski (2006) conducted a study using individual conditional factors of knowledge management costs and found that when a person who is involved in developing the budget has a high cost of management knowledge, then the decision was made to better quality and ultimately the performance of that individual will become better. Influence budget participation on managerial performance becomes more positive when the high cost of management knowledge.

This study aims to examine (1) whether the budgetary participation has a positive effect on the performance of managers and (2) whether there is the moderating impact of cost management knowledge on the relationship between participation budget and managerial performance.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2. 1. Participation Budget

Ikhsan and Isaac (2005) states that budget participation is a process of shared decision-making by two or more parties where the decision will impact the future of those who make it. Participation budget that better reflects the important decisions made in the process of drafting as a group rather than individually crafted. Participation budget gives a positive impact on employee behavior, improve the quantity and quality of production and improve cooperation between the managers (Ompusunggu and Bawono, 2006). Assessed budget participation has consequences for attitudes and behavior of organizational members (Murray, 1990 in Sumarno, 2005)

Participatory budget organization involving most of the personnel in the organization in formulating all or part of the budget can be an effective motivational tool (Blocher *et al.*, 1999). Employees who are involved will feel that the budget belongs to them, thus motivating them to achieve budget goals.

Application of participation in budgeting provides many benefits, among others (Siegel and Marconi, 1989 in Sham and Djalil, 2006):

1. Participants (people involved in the budgeting process) to be not only task-involved but also ego-involved in their work.
2. Participation will increase the sense of togetherness within the group, which will consequently increase cooperation in the implementation of target group members.
3. Participation can reduce the stress due to the budget.
4. Participation can reduce the sense of inequality in the allocation of resources between the parts of the organization.

2.2 Managerial Performance

Blumberg and Pringle (1982) argue that an individual's performance is influenced by the capacity, willingness and opportunity. Capacity dimension is psychology and cognitive abilities that allow a person to carry out duties effectively. Capacity dimension represents the influence of individual skills, knowledge, intelligence, age, level of health, education levels, endurance, stamina, energy level, and other similar variables . Willingness dimension is psychological and emotional characteristics that influence the level of individual motivation to perform the task. Willingness dimension represents the influence on the behavior of motivation, job satisfaction, personality, attitudes, rules / norms, values, employment status, anxiety, task characteristics, the power of participation and self-image. Opportunity dimension is affected by elements such as equipment, physical condition, equipment, materials, supplies, physical condition, action, leader behavior, organizational policies, regulations and procedures, information, time and wages.

Basically, managerial performance can be effective if the purpose of the budget is reached. In the process of achieving the budget goal, subordinates have the opportunity to engage or participate in the drafting process, so that this participation can motivate subordinates in identifying and negotiating with your boss about the budget target, accept and implement the budget agreement, and avoid any negative impacts that arise in the preparation of the budget factors such as job performance, reward systems and conflict.

Mahoney *et al.* (1963) in Agbejule and Saarikoski (2006) states that the performance is the result of work that can be achieved by a person or group of people within an organization, in accordance with the authority and responsibilities of each, in order to achieve organizational goals . Managerial performance is the performance of individual members of the organization in managerial activities include: planning, investigation, coordination, staffing, negotiating, and others.

Manager performance using the talents and abilities he has, and coordinate the people who are under his jurisdiction. Good performance is one factor that can increase the effectiveness of an organization. While managerial performance is one's skill level in carrying out management activities that include planning, investigation, coordination, evaluation, supervision, staff selection, negotiation, representation and overall performance.

2.3. Performance Assessment System

The performance assesment system according to Anthony and Govindarajan (2004) are as follows:

1. Outcome measures and a trigger. Outcome measures inform management about what had happened, while the size of the trigger indicates the progress of the key areas in implementing a strategy.
2. Financial measures and non-financial. Financial measures include achievement in finance, while non-financial including quality, customer satisfaction, which in turn affects the company's financial performance affects.
3. The size of internal and external. Internal measures include internal business processes such as production, external measures include customer satisfaction.

2.4 Cost Management

Management cost is everything associated with the management cost ranging from planning, controlling, monitoring and evaluation of existing costs. To manage the cost, we necessary have the information abuat the cost of effectively manage the company either in the form of financial information about costs and revenues, as well as non-financial information relevant to the productivity, quality and other key success factor for companies.

As according to Blocher *et al.*, (1999), the scope of the management cost are as follows:

1. The calculation of the cost of products and services.
2. Cost allocation.
3. Analysis of cost-volume-profit.
4. The use of resources and relevant cost calculation.
5. Capital investment decisions.
6. Inventory management.
7. Analysis of prices and incomes.
8. Analysis of profitability.
9. Budgeting.
10. Determination of standard costs.
11. Performance evaluation.
12. Responsibility Accounting.
13. The cost of quality.

14. Productivity.

2.5. Knowledge of Cost Management

Shields and Young (1994) in Agbejule and Saarikoski (2006) states that there are 3 forms of Knowledge of Cost Management namely:

1. Line-Item Watching
   Line-Item Watching begins with the monitoring of purchase and use of resources. This relates to the need for oversight of budget expenditures. This is needed because the required supervision and overall monitoring of all resources in order to avoid diversion of resources which will lead to disinformation.
2. Customer Based
   Customer Based originated from the realization that the consumer is an important thing that should not be overlooked, because the consumer is the pulse of a company. Things to consider are the costs based on customer demand, but it also needs to consider the costs for the products to be manufactured in the future. So the required full attention and special handling of consumer behavior, as this will affect how the budget in the future.
3. Balanced Perspective
   Balanced Perspective is characterized by several important points of long-term perspective, building relationships with organizational goals and the balance between the need of resources for short-term and long term. In other words, in making a commitment to long-term resources, managers should realize the impact of this commitment to short-term resource management. Managers are required to have a broader understanding of how the costs associated with *output* and other important variables (eg quality and speed) as well as evaluating the outcomes and costs involved. In general, the Balanced Perspective begins with the experience of economic management, training and education.

Knowledge of cost management is owned by a person when someone has experience in managing costs (through training, education and practice of repeatedly), as well as have an understanding of costs, cost driver and the treatment of costs that exist.

2.6. Hypothesis Development

2.6.1 Budgatory Participation and Managerial Performance

Participatory budget involving most of the personnel in the organization in formulating all or part of the budget can be an effective motivational tool (Blocher *et al.*, 1999). Budgetary participation can improve morale and encourage greater initiative at all levels of management. Employees who are directly involved in the preparation of the budget will feel that the budget belongs to them and of course when individuals participate aspirations then they will be more motivated in the implementation of the budget. This will make participants more actively in the implementation of the budget, which will ultimately make the participants continue to make improvements so that in the future to better their performance.

Argyris, 1952; Becker and Green, 1962; Bass and Leavitt, 1963; Brownell, 1982; Bass and Leavitt (1963); Schuler and Kim (1976) in Sumarno (2005) found that budgetary participation has positive and significant impact on managerial performance. Brownell and McInnes (1986) in Sham and Djalil (2006) found that high participation in the budgeting improve managerial performance.

Based on the findings of the researchers above, the hypothesis is:

H_1: Budgetary participation has a positive effect on managerial performance.

2.6.2 Knowledge of Cost Management, Budget Participation and Managerial Performance

The principle of contingency theory is not one type of organizational structure and management systems more efficient and effective for all organizations. Management accounting system is generally a contingency approach of conditional factors as variables that moderate the relationships. Govindarajan (1986) in Robinson (2006) stated that the contingency approach would be better used in testing the effect of budget participation on managerial performance.

Brownell (1980) examined several studies and found the effect of the conditional factors as variables moderating the relationship between independent variables and the dependent variable. Conditional factors can be grouped into four variables, namely the cultural, organizational, interpersonal, and individual. In this study of contingency theory approach was adopted to evaluate the relationship budgetary participation and managerial performance. The selected conditional factors are individual factors, one of the factors individually attached to an individual is human resources. Wati (2010) stated that human resources include experiences, capability, knowledge, skills, and judgment of all employees of the company.

Previous research has found that participatory decision-making would be very helpful in decision quality when participants have the relevant knowledge (Davis, 1963; Derber, 1963; Strauss and Rosenstein, 1970; Vroom, 1969 in Agbejule and Saarikoski, 2006). According Shunn (1999) in Robinson (2006), the knowledge possessed by a person, both general and specific affect its performance in carrying out the task. Knowledge moderate the relationship between accountability and performance, besides the type of knowledge is as important as performance components (Stone *et al.*, 2000; Stone *et al.*, 2000 in Agbejule and Saarikoski, 2006).

Agbejule and Saarikoski (2006) conducted a study on the effects of budget participation with managerial performance using a variable moderating the research results of cost management knowledge is knowledge of cost management (particularly the Balanced Perspective*)* moderate the influence of a manager's budget artisipasi participation of internal managerial performance. Participating with the knowledge of good cost management will improve the quality of the decisions that will be poured in the next budget and will improve managerial performance.

Based on the findings of the researchers above, the hypothesis is:
H_{2}: Knowledge of cost management moderate the relationship between Budgetary participation and managerial performance.

3. RESEARCH METHOD

3.1 Sampling Method

The population in this study was middle-level managers in manufacturing companies in Jakarta. Sample was selected using the purposive sampling method with the criteria:
1. Middle-level managers who involved in the preparation of the budget.
2. Middle-level managers who has atleast one year experience.
3. Middle-level managers who work at 15 selected manufacturing companies (the company that has a sales turnover 500jt-250M/thn).

3.2 Data Collection Methods

The data used in this study is the primary data. Data collection methods used in this study is a survey method. Survey method is the technique of data collection and analysis of opinions from the object under study through a question and answer with the tools in the form of questionnaires (Indriantoro and Supomo, 2002).

3.3 Operational Definition and Measurement of Variables

3.3.1 Independent Variable

Independent variable in this study was the participation of the budget, which meant the budget participation in this study is the level of involvement and influence of individuals in the preparation of the budget. This variable was measured using an instrument adopted from Milani (1975) in Agbejule and Saarikoski (2006), as measured by 5-point Likert scale of six elements of manager participation in budgeting is the involvement of managers in preparing budgets, budget revisions, discussions with employers over initiative of managers, involvement in the preparation of the final budget, the contribution of discussions with managers and superiors at the initiative of employers. This instrument has been widely used by previous researchers with a level of satisfactory validity and reliability.

3.3.2 Moderating Variable

Moderating variable in this study is the knowledge of cost management, cost management Knowledge consists of three forms of the Line-Item Watching, Balanced and Customer-Based Perspective. Knowledge management costs used in this study only the Line-Item Watching and Balanced Perspective. Based costumer is not included because Costumer Based necessary to measure the opinions of consumers, so this is not possible to do given the geographical location of customers scattered, so that knowledge management costs used in this study only two of the Line-Item Watching and Balanced Perspective, which is defined as :

1. Line-Item Watching is the examination of the costs spent and outcomes, monitoring of each line item in the budget carefully, and compare the amount spent to the amount in the budget.
2. Balanced Perspective is how to understand the costs associated with the output, having a balance between short-term perspective with the long-term perspective, has vast experience in managing costs and evaluating the outcomes and costs involved.

The instrument used to measure the adoption of cost management knowledge Shields and Young (1994) in Agbejule and Saarikoski (2006). Variables measured with a scale measuring five points on seven elements of cost management knowledge. Line-Item Watching measured by the instrument points 1, 2, 3 and Balanced Perspective measured by the instrument points 4, 5, 6, 7.

3.3.3 Dependent Variable

Dependent variable in this study is the managerial performance. Managerial performance is the skills of managers in carrying out managerial activities include planning, investigation, coordination, evaluation, supervision, staffing, negotiation and representation. Managerial performance is measured by self-rating instrument adapted from Mahoney *et al.* (1963) in Agbejule and Saarikoski (2006). The choice of approach to self-rating with a reason to avoid the possibility of performance measurement are not representative because if used superior-rating there is less likelihood of a superior understanding of actual conditions. Variable measured by ranking themselves (self-rating*)* managers on a scale measuring *five-point scale* on eight dimensions of managerial performance to achieve the goal peganggaran which include planning, investigation, coordination, evaluation, supervision, staffing, negotiation, and representation. Lowest score (point one) shows the performance of managerial below average, while the highest score (points 5) demonstrated managerial performance above average.

3.4 Test of Hypothesis

To test H_1 and $H_{2,}$ used the following equation:

1. Simple regression analysis to test the hypothesis 1 ($H_{1)}$

$$\mathbf{Y = A + b_1 X_1 + \varepsilon \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots .. (1)}$$

Note:
Y: Managerial Performance
a: Constants
X_1: Participation Budget
b_1 : Regression coefficient
ε: error

2. Test interaction, which is used to test the hypothesis 2 ($H_{2)}$. Test interaction, or often called the Moderated Regression Analysis (MRA) is a special application of linear regression where the regression equation contains elements of the interaction (multiplication of two or more independent variables) (Priest, 2005 in Robinson, 2006). To test the interaction between budgetary participation and knowledge management fee, then the regression equation can be formulated as follows:

$$\mathbf{Y = A + b_1 X_1 + b_2 X_2 + b_3 X_{1.} X_2 + \varepsilon \ldots \ldots \ldots (2)}$$

Note:
Y: Managerial Performance
a: Constants
X_1: Participation Budget
X_2: Knowledge Management Fee
$X_{1.} X_2$: Interaction between Budget Participation and Knowledge of Cost Management
b_{1}, b_{2}, b_3 : Regression coefficient
ε: error

Variable multiplication between X_1 and X_2 is the interaction that describes the influence of moderating variables X_1 and X_2 to Y. While the variables X_1 and X_2 is the direct influence of the variable X_1 and X_2 of Y. Criteria for determining the variable costs of knowledge management as a moderating variable when the coefficient b_3 is significant at level 0.05 or 0.10 (Robinson, 2006)

4. RESULTS AND DISCUSSION

4.1. Demographics of Respondents

Criteria respondents sampled in this study were middle-level managers in manufacturing companies in Jakarta. Demographic overview of respondents based on age, sex, education, the department / section, position and tenure of 56 questionnaires are processed are as follows:

Table 1
Demographics of Respondents

Criteria	Number	Percentage
Age		
25-30 years	7	12.50%
31-40 years	33	58.92%
> 40 years	16	28.57%
Gender		
Male	47	83.92%

Female	9	16.07%
Education Level		
S-1	35	62.50%
S-2	19	33.92%
S-3	2	3.57%
Department / Section		
Production	10	17.85%
Sale	8	14.28%
Stock	9	16.07%
Finance	4	7.14%
Project Management	3	5.35%
Quality Management	8	14.28%
Technology and Information	3	5.35%
Marketing	8	14.29%
Research and Development	3	5.36%
Occupying Old Position		
> 1-3 years	34	60.71%
> 3 years	22	39.28%

Sources: Primary data is processed, 2010

Based on details in Table 1 shows that the processed questionnaires from 56 researchers, more than 50% of middle managers aged 31-40 years. Respondents most middle managers are part of production (17.85%), inventory (16.07%), sales (14.28%), quality management (14.28%) and marketing (14.28%); while the least is the financial section mid-level managers (7.14%), project management (5.35%), and information technology (5.35%); and research and development (5.35%). Respondents who held positions as middle managers for more than 1 to 3 years are as many as 34 people (60.71%) and over 3 years as many as 22 people (39.28%). This shows that respondents in this study in accordance with the specified criteria *(*purposive sampling)

4.2 Descriptive Statistics

Based on the descriptive statistics table (Table 2), the variable participation of the budget shows the average rate of 4.2857 this means that participation is a good budget. Knowledge management costs shows the average value of 3.8929 means that the likelihood of knowledge of cost management to be sufficient. Managerial performance variables have an average of 4.2321, indicating high performance managerial respondents.

Based on the results of testing the first hypothesis by using a simple regression analysis shows that budgetary participation has no effect at all on managerial performance. These results indicate that the involvement and participation of middle managers in the preparation of the budget does not guarantee the manager will have better performance; it takes other factors that allow the influence of budgetary participation on managerial performance will be stronger. Govindarajan (1986) in Robinson (2006) stated that the contingency approach would be better used in testing the effect of budget participation on managerial performance. Contingency theory states that a control system that works on a company is not necessarily going to work when the control system is applied to other companies. Researchers have proved that the effectiveness of budget participation depends on the organizational contextual factors and psychological characteristics of employees (Brownell, 1981; Govindarajan, 1986a; Chenhall and Brownell, 1988; Mia, 1988 in Sumarno, 2005).

The results does not support the results of previous studies such as Argyris (1952), Becker and Green (1962), Bass and Leavitt (1963), Brownell (1982), Brownell and McInnes (1986), which states that the budgetory participation positively and significantly influence managerial performance. However the result of this study alignt with Milani (1975), Sterdy (1960), Bryan dan Locke (1967) Ivancevich,1977; Campbell dan Gingrich,1986 who found that the budgetory participation is not significantly influence managerial performance

Table 2
Descriptive Statistics

Variable	N	Range Theoretical	Average Theoretical	Std. Deviation	Range Actual	Average Actual
Participation Budget	56	1-6	3.5	0.37297	3.33 to 4.83	4.2857
Knowledge Cost Management	56	1-7	4	0.46411	2.71 to 4.57	3.8929
Performance Managerial	56	1-8	4.5	0.48408	3.38 to 4.88	4.2321

Sources: Primary data is processed, 2010

4.3 Hypothesis Testing and Discussion
The first hypothesis of this study was a positive influence budget participation on managerial performance. The result of regression analysis for the first hypothesis is as follows:

Table 3
First Hypothesis Testing Results

Variable	Beta Coefficient	Equation 1		
		Coefficient	**t-Statistics**	**Probability**
Constants	(A)	28.936	4.790	0.000
PAR	(B $_{1)}$	0.191	0.818	0.417
R Square Adj R Square F Sig	0.012 -0.006 0.669 0.417			

Sources: Primary data is processed, 2010

The result of the regression test showed that the first hypothesis has the magnitude of R Square of 0.012, calculated F value is 0.669 and the value Adj R Square of -0.006, with a significance value of 0.417 for the equation (> 0.10) indicating that this equation does not fit. Test results also show the value of the coefficient b $_1$ of 0.191 with a significance value of 0.417 which means the participation of the budget is not a positive influence on managerial performance, thus hypothesis 1 was rejected.

Based on the results of testing the first hypothesis by using a simple regression analysis shows that budgetary participation has no effect at all on managerial performance. These results indicate that the involvement and participation of middle managers in the preparation of the budget does not guarantee the manager will have better performance; it takes other factors that allow the influence of budgetary participation on managerial performance will be stronger. Govindarajan (1986) in Robinson (2006) stated that the contingency approach would be better used in testing the effect of budget participation on managerial performance. Contingency theory states that a control system that works on a company is not necessarily going to work when the control system is applied to other companies. Researchers have proved that the effectiveness of budget participation depends on the organizational contextual factors and psychological characteristics of employees (Brownell, 1981; Govindarajan, 1986a; Chenhall and Brownell, 1988; Mia, 1988 in Sumarno, 2005).

The results does not support the results of previous studies such as Argyris (1952), Becker and Green (1962), Bass and Leavitt (1963), Brownell (1982), Brownell and McInnes (1986), which states that the budgetory participation positively and significantly influence managerial performance. However the result of this study alignt with Milani (1975), Sterdy (1960), Bryan dan Locke (1967) Ivancevich,1977; Campbell dan Gingrich,1986 who found that the budgetory participation is not significantly influence managerial performance

The second hypothesis in this study is the moderating influence of knowledge management fee budget participation on managerial performance. The second hypothesis using MRA *(Moderated Regression Analysis).* Results for testing the second hypothesis can be seen at table 4.

Table 4
Second Hypothesis Testing Results

Variable	**Equation 2**		
	Coefficient	**t-Statistics**	**Probability**
Constants	-0.441	-1903	0.063
PAR	0.240	1.692	0.097
PMB	-0.046	-0.342	0.734
Interaction	0.394	2.292	0.026
R Square Adj R Square F Sig	0.115 0.064 2.255 0.093		

Sources: Primary data is processed, 2010

Table 4. shows the test result of second hypothesis by using the MRA model. R Square value generated is equal to 0.115 and Adjusted R Square of 0.064. The value of the F statistic is 2.255 with a significance of 0.093 which means that equation 3 fit because the probability of significance under 10% which is 9.3%.

Based on the significance test of individual parameters (t test), of the three variables used in regression, budgetary participation and interaction have a significant effect (p <0.10), variable costs can be said of knowledge management as a moderating variable because the coefficient b $_3$ is significant at 0.026 (at level 0.05). Because the interaction between the hypothesized moderating variables with independent variables the results are significant, then according to the *framework* to identify moderating variables proposed by Sharma *et. al* (1981) subsequently tested whether the hypothesized moderating variables relate to the criterion variable (dependent variable).

This study found that cost management knowledge purely moderate the relationship between budgetory participation and managerial performance. This results consistent with Agbejule dan Saarikoski (2006), who found that balanced perspective moderate the relationship between the budgetory participation and managerial performance

5. CONCLUSION

The purposes of study are to examine (1) whether the budgetary participation has a positive effect on the performance of managers and (2) whether there is the moderating effect of management cost budget knowledge on the relationship between participation budget and managerial performance. This study found that cost management knowledge purely moderate the relationship between budgetory participation and managerial performance

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