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SOCIAL TRANSFORMATION
Toward Sustainable Society
Social Transformation Toward Sustainable Society

The International-Conference Proceeding Papers

Collaboration works of

→ Indonesia Student Association at Universiti Utara Malaysia
→ International Student Society at Universiti Utara Malaysia
→ Centre for International Affair and Cooperation, Universiti Utara Malaysia
→ Centre for Business and Industrial Study, Universitas Surabaya Indonesia
→ Indonesia Embassy in Kuala Lumpur, Malaysia
Social Transformation toward Sustainable Society

This book is proceeding report from international conference titled Social Transformation toward Sustainable Society, held by Indonesia Student Association in Universiti Utara Malaysia in associate with International Student Society, Centre for International Affair and Cooperation Universiti Utara Malaysia, Indonesia Embassy in Malaysia, Centre for Business and Industrial Studies Universitas Surabaya. The activities was held at EDC Hotel seminar room, Kedah Malaysia on December 16, 2013.

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Preface

Distinguished Delegates,

As the President of Indonesian Students Association (Persatuan Pelajar Indonesia) Universiti Utara Malaysia or Commonly Called as PPI UUM, it gives me great pleasure to extend my warm welcome to all the delegates of the First International Conference on Social Transformation toward Sustainable Society 2013 (1st ICSTSS). I would like to express my great appreciation and thanks to all reviewers, editors, committee and sponsors. Without the tremendous willingness and support, this special event would not have been well organized. On behalf of the PPI UUM 2012-2013 Board, I would like also to acknowledge our gratefulness and appreciation to all program partners, Presidents of International Students Society Universiti Utara Malaysia (Mr. Saoula Ouassama), Director of Center for International Affair and Cooperation Universiti Utara Malaysia (Assoc. Prof. Dr. Hijatullah Abdul Jabbar), Director of Centre for Business and Industrial Study, Universitas Surabaya Indonesia (Mr. Hery Pratono) and Education Attache of Embassy of the Republic of Indonesia Kuala Lumpur, Malaysia who have been supportive in ensuring the success of this International Conference.

Ladies and Gentlemen

Over coming decades all countries – rich and poor – will face five major drivers of change: (i) a new technological era creating new opportunities and threatening existing industries; (ii) changing labor markets with jobs increasingly based on knowledge and skills; (iii) integrated global production systems and the rise of the global cooperation; (iv) planetary boundaries (climate change, nitrogen cycle, phosphorus cycle, etc.); and (v) rapid demographic change and migration. Each of these drivers operates at local, national, regional and global scales. Under a business-as-usual scenario, many countries will benefit from new opportunities, but others will not. The world will experience divergence, endemic fragile regions, and rapid global environmental change, rising income inequalities and youth unemployment, the risk of a race to the bottom on regulatory and tax standards, and poorly managed migration. The principal reason for the poor results of a business scenario is the failure of global cooperation. A sustainable development scenario is technically possible and would need to be based on the normative principles of economic progress for all countries, convergence in living standards, support for fragile regions, skill development for all, successful decoupling
of economic progress from natural resource use and pollution. Such a scenario requir
the mobilization of all public and private actors around a shared global framework for sustainable development and convergence outlined in this paper.

Then, the need for ongoing structural change is becoming more urgent and pervasive. All countries – rich and poor – will need to pursue economic, social and environment transformations. High-income countries will need to change their consumption and production patterns and invest in human capital formation to maintain their living standards. Developing countries will need to promote structural transformations to meet the aspirations of their people for sustainable growth with equity. Finally and most importantly for the post-2015 development framework, national economic, social and environmental transformations can no longer be pursued in isolation from the challenges the world faces at large. We need a shared framework for sustainable development and convergence as central components of the post-2015 agenda. Recent decades have seen rapid economic growth in many developing regions and a tendency towards convergence in living standards as fast-growing developing countries narrow the income gaps with high-income countries. During the period to 2030, the world has the potential to spread prosperity, end the age-old scourge of extreme poverty and improve economic wellbeing throughout the planet on an unprecedented scale.

Yet, success is far from assured. Countries around the world will need to undertake deep transformations to end poverty, create jobs, improve livelihoods, improve social inclusion, and ensure environmental sustainability. The economic, social and environmental transformations are all inter-related and must come together as a structural transformation to achieve sustainable growth with equity. Most importantly, these transformations for sustainable development must be based on a shared global framework for sustainable development, which this paper sets out to develop. Because of the reality above, the International Conference is needed to be conducted to facilitate the great ideas and findings from brilliant students, lecturers, scholars and researchers on the social transformation towards sustainable society. Therefore, we are from Indonesian Students Association Universiti Utara Malaysia proudly presented the First International Conference on Social Transformation Towards Sustainable Society (1st ICSTSS 2013), which was held at EDC Hotel UUM on 16 December 2013.
Last but not least, I would like to express my gratitude and credit to all members of the PPI UUM 2012-2013 Board for their full assistance and hard work. This event would not have been conducted without their warm hand and their willingness to work in organizing this international conference a success is greatly appreciated.

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The Moderating Effect of Interactive Control System and Diagnostic Control System in the Relationship between Budget Participation and Budget Slack

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Abstract

Various studies have been conducted to examine the relationship between budget participation and budget slack with inconsistent results. The purpose of this study is to examine the relationship between budget participation and budget slack, moderated by interactive control system and diagnostic control system. In this study, a sample of the study is 140 functional managers of Indonesian manufacturing companies. The results of this study show that budget participation and budget slack have a negative relationship. The results also show that interactive control system and diagnostic control system as an individual contingent variable, moderates significantly the effect of the relationship between budget participation and budget slack. One of the main contributions its ability to demonstrate that interactive control system and diagnostic control system lead to a significant reduction in the amount of budget slack.

Keywords: Budget participation, budget slack, interactive control system, diagnostic control system

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Selection and peer-review under responsibility of ICSTTS 2013.

Introduction

In the literature, the field study result of budget participation and budget slack relationship were inconsistent. Some researchers have found a positive relationship, such as Oktorina and Soenarno (2012), Triana et al., (2012), Putranto (2012), Afian (2010), Maksum (2009), Veronica and Komang (2008), Lowe & Shaw (1968), Young (1985), and Luke (1988), and conversely other researchers found negative relationship, such as Rachman (2012), Kristianto (2012), Sujana (2010), Tjahjanti (2004), Muhammad (2001), Dunk (1993), Merchant (1985), Cammann (1976) and Onsi (1973). Dunk and Nunn (1998) argued that, budget slack cannot be directly influenced by budget participation, but through intervening or interaction variables. Soebary and Rack (2006) asserted that in the budget process, one of the dysfunctional behaviors is budget slack. Budgetary slack as dysfunctional behaviors can be reduced using a management control system (MCS) (Hongren et al., 2008). Simons (1995) and Widener (2001) used four levers of control consist of: beliefs, boundary, interactive and diagnostic control systems. Based on Simon (1955) and Widener (2007), the current study investigates the effect of interactive (ICS) and diagnostic (DCS) on the relationship between participation in the budget process and slack. The collection of data got from functional managers of Indonesian manufacturing companies.

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Relationship between Budget Participation and Budget Slack Hypothesise

Some researchers stated that participation in budget considered as a prospect for budget slack. In this case, when managers have participated in the budget setting process, they incorporate slack because of the compensations linked to the budget objective that they desire to achieve (Triana et al., 2012; Putranto, 2012; Afiani, 2010; Walker & Johnson, 1999; and Douglas & Wier, 2000). On the contrary, other researchers such as Rachman (2012), Kristianto (2012), Sujana (2010), Tjahjanti (2004), Lal et al., (1996) argued that budget participation does not affect the slack. Harvey (2012) argued that budget slack used in the process of negotiating an agreement between managers and top management to align incentives and budget. Based on this description, the hypotheses are formulated as follows;

\[ H_1: \text{The positive relationship between participation and slack.} \]

Participation and Slack Moderated by ICS

Shield and Shield (1998) argue that one of the main reasons of budget participation is the exchange of information between subordinates and superiors. This includes the exchange of private information held by the subordinates. A number of accounting researchers (e.g.; Zhang & Zhou, 2007, Dunk, 1993) state that subordinates have private information about their areas of responsibility. Zhang and Zhou (2007) stated that 62% the subordination has higher amount of information, 27% the individual manager has information and 11% top management grasps higher amount of information. The purpose of the interactive process is to discuss or challenge the underlying assumptions and action plans to support the activities of the organization. An interactive process allows an organization to bring together individuals with different kinds of information about the activities of the organization (Abernethy and Lillis, 1995; Speklé, 2001). Interactive processes recognize to have abreast of the activities of employees, but they also open the discussion in a "non-invasive" way the facilitator (Bisbe et al., 2006). Widener (2007) stated that ICS positively contributed to organizational performance. Therefore, on the basis of the result above, present study predicts the ICS may moderate participation and slack relationship. Based on this description, the hypotheses are formulated as follows;

\[ H_2: \text{Participation and slack relationship moderates by ICS} \]

Participation and Slack Moderated by DCS

The diagnostic control system is known to be a system of information feedback and use to refer the comparison between the actual achievement and the predetermined goals and substantial variation refers to the managers in order to take the necessary actions (Anthony and Govindarajan, 2006; Abernethy & Brownell, 1999; Simons, 1995, 1999). Widener (2007) found that the DCS is designed to motivate the workers to achieve with organizational goals. Based on this description, the hypotheses are formulated as follows;

\[ H_2: \text{Participation and slack relationship moderates by DCS} \]

Method

The population of the study is manufacturing of Indonesian companies (base year 2011). The sampling consist of a finance/ accountant manager, production manager, marketing manager who are involved directly in the budget process. A mail survey method was used, and the questionnaires were sent to the
managers of production, marketing and accounting/finance from 151 manufacturing companies in Indonesia.

Data Analysis

For validity test, this study used factor analysis as techniques to underlying the structure of 1 matrix (Hair et al., 2010; Pallant, 2001). The scale of each variable is as follows:
The result shows that KMO.924 and factor loading more than .50, it is mean that the items significant correlation and the factor loadings ranging from .937 too .958. The result shows that KMO.900 an loading more than .50, it is mean that the items significant correlation and the factor loadings ranging from .884 too .923. The result shows that KMO.947 and factor loading more than .50, it is mean that the items significant correlation and the factor loadings ranging from .751 too .902. The result show KMO.830 and factor loading more than .50, it is mean that the items significant correlation and the loadings ranging from .638 too .841. The result of the reliability testing shows

Reliability Analysis

<table>
<thead>
<tr>
<th>Variable</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Participation (BP)</td>
<td>.918</td>
</tr>
<tr>
<td>Interactive Control System (ICS)</td>
<td>.975</td>
</tr>
<tr>
<td>Diagnostic Control System (DCS)</td>
<td>.960</td>
</tr>
<tr>
<td>Budgetary Slack (BS)</td>
<td>.975</td>
</tr>
</tbody>
</table>

For each variable Cronbach’s alpha value ranges from .918 too .975 representing the output recommends that the variables are fit for further analysis.

Descriptive Statistical Analysis

The unit of analysis in this study is Indonesian managers in manufacturing companies, those managers which involved in the budget process in the forums. From 453 questionnaires were distributed only 140 questionnaires returned and it produced 34.22% of respondent rate. 15 questionnaires were rejected because they were not completely filled. The rest, 140 questionnaires utilized for further analysis which represented 30.90% of the valid response rate. This response rate is considered good according to Sekaran (2006). Results from the analysis are shown in Table 2 below.

Table 2 - Descriptive Statistics

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Median</th>
<th>St Deviation</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budgetary Slack</td>
<td>21.200</td>
<td>24.000</td>
<td>6.637</td>
<td>7</td>
<td>39</td>
</tr>
<tr>
<td>Budget Participation</td>
<td>35.135</td>
<td>36.000</td>
<td>5.671</td>
<td>12</td>
<td>42</td>
</tr>
<tr>
<td>Interactive Control System</td>
<td>19.892</td>
<td>16.000</td>
<td>10.296</td>
<td>6</td>
<td>38</td>
</tr>
<tr>
<td>Diagnostic Control System</td>
<td>64.442</td>
<td>67.000</td>
<td>10.564</td>
<td>39</td>
<td>77</td>
</tr>
</tbody>
</table>

Table 2 shows that 64, 44 percent of the sampled manufacturing company in Indonesia engage diagnostic control system. This result reveals that managers of the sampled manufacturing companies in Indonesia are likely becoming more concern on the used diagnostic control system to ensuring probability of reduced budget slack. The analysis also reveals that on average 35, 13 percent of
manufacturing companies in the study applied budget participation and on average 19, 89 percent of the manufacturing companies applied interactive control system.

Results

Before using the regression results, some tests are undertaken to make sure that some assumptions underlying regression models have been met. The important assumptions include: (1) normality, (2) linearity, and (3) multicollinearity. By using linear regression analysis one of the assumptions is that the residuals are normally distributed. It is important for the p-values for t-test (of the regression results) to be valid. According to Hair et al. (2010), normality is attained if the ratio of skewness and standard error and the ratio of kurtosis and standard error fall between ± 1.96, at the alpha of 0.05, and ± 2.58, at the alpha of 0.01. As shown in Table 3, both ratios of skewness/standard error and kurtosis/standard error fall in the rule of thumb. It is mean that normality is met. As mentioned in the previous section, in order to use regression analysis, the relationship between independent variables and dependent variables should be linear. The result of testing for linearity by using the simple regression analysis is shown in Table 4 below.

Table 3: Linearity Test

<table>
<thead>
<tr>
<th>Pair of variables</th>
<th>df</th>
<th>F</th>
<th>Sig. F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Participation – Budget Slack</td>
<td>1</td>
<td>412.725</td>
<td>0.000**</td>
</tr>
<tr>
<td>Interactive Control System - Budget Slack</td>
<td>1</td>
<td>876.264</td>
<td>0.000**</td>
</tr>
<tr>
<td>Diagnostic Control System - Budget Slack</td>
<td>1</td>
<td>417.916</td>
<td>0.000**</td>
</tr>
</tbody>
</table>

** Significant at 0.05 level

Table 3 shows that all the variables have a linear relationship. As the assumption of a linear relationship between these two variables, care should be taken in the interpretation of the results.

The Collinearity diagnostic test is used to examine the possibility of the existence of multicollinearity problems in the model. To detect the severity of multicollinearity, the variance of inflation factors (VIF) procedure is used in the culinary diagnosis.

Table 4: Collinearity Diagnostic Test

<table>
<thead>
<tr>
<th>Variable</th>
<th>Tolerance Value</th>
<th>VIFs Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Participation</td>
<td>0.109</td>
<td>9.215</td>
</tr>
<tr>
<td>Interactive Control System</td>
<td>0.334</td>
<td>2.992</td>
</tr>
<tr>
<td>Diagnostic Control System</td>
<td>0.100</td>
<td>9.982</td>
</tr>
</tbody>
</table>

According to Hair et al. (2010), for analysis of regression tolerance value of Collinearity more than 0.10 or the VIFs value of less than 10. Table 4 showed in the relationships between each construct in the model, there is no evidence of the existence of severe multicollinearity. For all variables have tolerance values of more than 0.10 and the VIFs value of less than 10. Therefore, the collinearity should not be a severe problem.

To examine the relationship between one dependent variable and many independent variables can be used multiple regression (Hair, 2010). Hierarchical multiple regression is used as suggested by many previous researchers, such as Baron and Kenny (1986), Sharma (2002), Bisbe and Otley (2004) and Harrington and Kendall (2006). The moderating effect happens when the level of the third variable (in this case the ICS and DCS) influences or affects the degree of the relationship between two variables (in this case the BP and the BS). Baron and Kenny (1986) suggested that for testing the moderating effect, moderated
hierarchical multiple regression analysis should be used moderated hierarchical multiple regression analysis. This suggestion was supported by Busby and Otley (2004) and Harrington and Kendall (2004) who argue that the moderated multiple regression analysis allows the relationship between the independent variables and dependent variables count on the other independent variables (i.e. Moderator).

The first hypothesis testing using simple regression model and the results indicates that there is a negative effect of budget participation on budget slack. Overview of the results of this test can be seen in Table 5 below.

**Table 5 Result of Examination of Hypotheses 1**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficients</th>
<th>Standard Error</th>
<th>t-value</th>
<th>P</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>21.200</td>
<td>.281</td>
<td>75.323</td>
<td>.000</td>
<td>Sig</td>
</tr>
<tr>
<td>Budget Participation</td>
<td>-.866</td>
<td>.050</td>
<td>-20.335</td>
<td>.000</td>
<td>Sig</td>
</tr>
<tr>
<td>R Square = 0.750</td>
<td>F = 413.500</td>
<td>p = .000</td>
<td>n = 140</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted R Square = .748</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

As Table 5 shows that the 75% change in budget slack can be explained by changes in the budget participation with a significance level of 1% (p = 0.000). This means that the model proves that budget participation may affect budgetary slack. The next beta coefficient (standardized β coefficient) for the variable of budget participation is -0.886 with a significance level of significance 1%. This means that an increase 1 in the budget participation related to the decrease of 0.8 in the budget slack. It can be concluded that BP statistically has negative effect on BS. In other words, hypothesis 1 were rejected.

The second hypothesis states that the effect of budget participation on budget slack can be moderated by the interactive control system. The hypothesis testing was conducted by using moderated regression analysis. Results are reported in Table 7 below.

**Table 6: Result of Examination of Hypotheses 2**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficients</th>
<th>Standard Error</th>
<th>t-value</th>
<th>p</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>22.817</td>
<td>.327</td>
<td>69.722</td>
<td>.000</td>
<td>Sig</td>
</tr>
<tr>
<td>BP</td>
<td>-.792</td>
<td>.100</td>
<td>-9.303</td>
<td>.000</td>
<td>Sig</td>
</tr>
<tr>
<td>ICS</td>
<td>-.294</td>
<td>.047</td>
<td>-4.039</td>
<td>.000</td>
<td>Sig</td>
</tr>
<tr>
<td>BP x ICS</td>
<td>-.298</td>
<td>.006</td>
<td>-5.547</td>
<td>.000</td>
<td>Sig</td>
</tr>
<tr>
<td>R Square = 0.931</td>
<td>F = 613.565</td>
<td>p=.000</td>
<td>n = 140</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted R Square = .930</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The result shows the value of R Square of 0.931 that 93.1% change in budget slack can be explained by the interaction between BP and ICS with a level of significance 0.000. Anova F test shows a F value of 613.565 with 0.000 significant level smaller than 0.05, which indicates that the regression model can be used to predict budget slack or variable budget participation, interactive control system, or the interaction of both, shows that the beta coefficient for the interactive control system variable shows a value of -0.294 with a significance level of 0.000, which proved that the interactive control system variables significantly influence budget slack. However, the interaction between budget participation and interactive control system shows the beta coefficient of -0.298 with a significance level of 0.000.
(significant) so it can be concluded that the interactive control system variable is acting as a moderating variable. This hypothesis 2 can be accepted which states that, if the interactive control system high, then participation will reduce budget slack. Conversely, if a low interactive control system, the budget participation will increase the budget slack. In third hypothesis, the variable diagnostic control system was included as a variable that can moderate the relationship between budget participation and budget slack. The third hypothesis testing is done by using multiple regression models to test the interaction. This hypothesis testing results summarized in Table 8 below.

**Table 7: Result of Examination of Hypotheses 3**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficients Beta</th>
<th>Standard Error</th>
<th>t-value</th>
<th>p</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>21.871</td>
<td>.312</td>
<td></td>
<td>.000</td>
<td>Sig</td>
</tr>
<tr>
<td>BP</td>
<td>-1.028</td>
<td>.076</td>
<td>-15.919</td>
<td>.000</td>
<td>Sig</td>
</tr>
<tr>
<td>DCS</td>
<td>-5.83</td>
<td>.066</td>
<td>-5.562</td>
<td>.000</td>
<td>Sig</td>
</tr>
<tr>
<td>BP x DCS</td>
<td>-3.45</td>
<td>.003</td>
<td>-6.731</td>
<td>.000</td>
<td>Sig</td>
</tr>
<tr>
<td>R Square = 0.830</td>
<td>F = 222.077</td>
<td>p = .000</td>
<td>n = 140</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>= .827</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The result shows the value of $R^2$ of 0.830 that 83.0% change in budget slack can be explained by changes in the interaction between BP and DCS with a significance level of 0.000. Anova F test shows the $F$ value of 222.077 with 0.000 significant levels smaller than 0.05, which indicates that the regression model can be used to predict BS or BP, DCS and the interaction of both, shows that the beta coefficient for the DCS variable showed a value of $-0.583$ with level of significance 0.000, which proved that the DCS variables significantly influence BS. However, the interaction between BP and DCS shows the beta coefficient of $-0.345$ with a significance level of 0.000 (signed) so it can be concluded that the DCS variable is acting as a moderating variable. This hypothesis 2 can be accepted which states that, if the DCS high, then participation will reduce slack.

**Conclusions**

Budgetary participation variables negatively affect budgetary slack, meaning that the higher participation of the budget, the lower the budgetary slack. This study is also in line with research findings such as Rachman (2012), Kristianto (2012), Sujana (2010), Tjahjanti (2004), Muhammad (2001), Dunk (1993), Merchant (1985), Cammann (1976) and Onsi (1973), but not in line with research finding such as Oktorina & Soenarno (2013), Triana et al., (2012), Putranto (2012), Afiani (2010), Maksum (2009), Veronica and Komang (2009), Lowe & Shaw (1968), Young (1985), and Luke (1988). In the subsequent hypothesis testing concluded that the ICS can affect the relationship between BP and BS. Whenever there is a high ICS, BP will reduce BS; otherwise if the application of low ICS, BP will increase BS. This finding is consistent with the theory proposed by Rachman (2012). This study finally concludes that the DCS can affect the relationship BP and BS. Whenever there is a high DCS, BP will reduce BS. Firstly, only 151 Indonesian manufacturing firms as a sample and not represent all Indonesian firms. Otherwise the findings may affect the generalizability. This study obtained 34.22 per cent response rate of survey studies, it is mean nearly good. However, for the future researches it is recommended to incorporate a large sample size to increase generalizability of the results. Secondly, the participants for this study are managers such as: finance, production and marketing managers; and the selected of the sample was not random.
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