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The Influence of Budgetary Slack on Managerial Performance with Leadership Style as a Moderating Variable

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Abstract: This study aims to analyze the effect of budgetary slack on managerial performance with leadership style as a moderating variable in companies in DKI Jakarta. The research uses a quantitative approach with the explanatory research method. Data were collected thru questionnaires distributed to 220 respondents, consisting of middle and upper-level managers from 68 companies. The analysis technique used is Partial Least Square-based Structural Equation Modeling (SEM-PLS). The research results show that budgetary slack has a positive and significant impact on managerial performance. This indicates that slack can provide flexibility for managers in facing uncertainty and achieving performance targets. Additionally, leadership style has also been proven to have a positive and significant impact on managerial performance and is the most dominant variable in the research model. Furthermore, leadership style is capable of moderating the relationship between budgetary slack and managerial performance, although with a relatively small influence. This research implies that companies need to effectively manage budgetary slack practices and improve the quality of leadership styles to support managerial performance. Future research is recommended to add other variables and expand the research subjects to obtain more comprehensive results.

Keywords: Budgetary Slack, Managerial Performance, Leadership Style, Moderation.

INTRODUCTION

In an increasingly competitive and dynamic business environment, budgets have become one of the important instruments in the management control system (Spahat, 2011)(Koomson, 2025). Budgets not only function as financial planning tools but also as tools for coordination, communication, and performance evaluation within organizations (Nesi Suntiarli Togatorop et al., 2025). Thru the budget, management can set performance targets, allocate resources efficiently, and monitor the achievement of organizational goals. In the era of digital transformation and global economic uncertainty post-pandemic, the role of budgeting has become increasingly crucial as companies are required to be adaptive, efficient, and responsive to changes in the business environment (Abraham, 2025). Recent research shows that structured budgeting practices supported by managerial competencies can enhance operational

efficiency and long-term business stability. Therefore, the quality of the budgeting process becomes a determining factor for the organization's success in achieving optimal performance.

According to (Kompensasi et al., 2025) the management control system, the budget has a strategic role as a tool for planning, coordination, and performance evaluation. One of the indicators of organizational success is often measured thru managerial performance, which is the ability of managers to plan, organize, direct, and control resources to achieve the company's goals. However, the effectiveness of the budget as a performance evaluation tool does not always run optimally due to dysfunctional behavior in its preparation process. One of the phenomena widely studied in management accounting is budgetary slack, which is the intentional act of creating a surplus in the budget to make the set targets easier to achieve (Zhuang et al., 2025). In the context of managerial performance, budgetary slack has quite significant implications. On one hand, slack can provide managers with room to face uncertainty and operational pressures, so more flexible targets can enhance a sense of security in their work. According to (Zhuang et al., 2025) (Khanh et al., 2026), budgetary slack can actually reduce performance quality because the targets used as the basis for evaluation do not reflect the organization's real capabilities. As a result, performance evaluations become biased and do not encourage optimal productivity improvement. In addition, the presence of slack can also reduce the motivation to achieve the best performance because managers tend to play it safe with targets that have already been "relaxed."

The budgeting process is not free from various behavioral issues, one of which is the phenomenon of budgetary slack (Wijaya & Lucyanda, 2010) (Payne et al., 2025). Budgetary slack is a condition where budget preparers intentionally lower revenue estimates or raise cost estimates to make targets easier to achieve (Koomson, 2025). This phenomenon is a form of opportunistic behavior often associated with conflicts of interest between management (agent) and owners (principal) from the perspective of agency theory. In the context of modern organizations, especially in Indonesia, budgetary slack remains a relevant issue due to performance achievement pressures, incentive systems, and information asymmetry between superiors and subordinates. Research shows that slack often occurs because individuals strive to secure targets and minimize the risk of failure in performance evaluations.

The phenomenon of budgetary slack in Indonesia has also received increasing attention in recent years (Aditiya & Mannan, 2025), particularly in relation to the quality of governance and organizational accountability. According to (Khanh et al., 2026), the practice of budgetary slack can affect the quality of governance and even relate to perceptions of corruption in a country. Slack can be identified when actual revenue exceeds the set target, while actual costs are lower than the budget, indicating manipulation of estimates from the outset. This condition causes the budget to lose its function as an objective performance evaluation tool, because the set targets do not reflect the organization's real capacity. In regions like DKI Jakarta, which have high economic complexity and serve as the center of national business activities, the potential for budgetary slack becomes increasingly significant due to the high performance pressure and competition among companies.

The impact of budgetary slack is not limited to the distortion of financial reports, but also directly affects managerial performance. Managerial performance, which should reflect planning, coordination, and control abilities, becomes biased when the targets used as the basis for evaluation are unrealistic (Liu, 2025). High slack can reduce work motivation, decrease resource utilization efficiency, and create an unhealthy organizational culture. Several studies indicate that the practice of budgetary slack has negative implications for organizational performance and decision-making effectiveness. According to (Sun & Li, 2026) (Tian & Zhao, 2025), there are also inconsistent findings, where under certain conditions, slack is considered an adaptive strategy to cope with uncertainty, thus opening up space for further research.

In addition to individual factors and budgeting systems, leadership style is also an important factor that can influence the relationship between budgetary slack and managerial performance. An effective leadership style, such as transformational, is capable of building good communication, increasing trust, and reducing opportunistic behavior within the organization. On the other hand, less effective leadership styles can increase the likelihood of slack due to weak supervision and control (Prayoga et al., 2023). Empirical research shows that leadership style has a significant impact on managerial performance and is a dominant factor in enhancing organizational effectiveness. Therefore, leadership style not only acts as an independent variable but also has the potential to serve as a moderating variable that strengthens or weakens the relationship between budgetary slack and performance.

Based on the description, it can be concluded that it is important to further examine the influence of budgetary slack on managerial performance by considering the role of leadership style as a moderating variable, particularly in the context of companies in DKI Jakarta. This research is relevant because it integrates behavioral aspects, management control, and leadership into a single conceptual model. Furthermore, this research is expected to contribute both theoretically to the development of management accounting literature and practically to companies in designing more effective budgeting systems and leadership capable of minimizing dysfunctional behaviors such as budgetary slack.

Literature Review

According to Dunk (1993), the behavior of agents or subordinates in creating budgetary slack cannot be separated from the drive to gain personal benefits, particularly in the form of future compensation. When the organization's performance evaluation system heavily relies on budget achievement, subordinates tend to view the budget not just as a planning tool, but also as a strategic means to secure a good performance evaluation. In this condition, subordinates have an incentive to set more easily achievable targets, for example by lowering revenue estimates or raising cost estimates. This behavior arises due to information asymmetry, where subordinates have more detailed information about operational conditions compared to their superiors, allowing them to manipulate budget figures without being easily detected.

This view is also supported by several previous studies such as Lowe and Shaw (1968), Schiff and Lewin (1968, 1970), and Waller (1988), which show that employe involvement in the budgeting process (budget participation) can increase the likelihood of budget slack. Additionally, Baiman and Lewis (1988) emphasize that a strong emphasis on the budget as a performance evaluation tool further increases this tendency. When achieving budget targets becomes the main indicator in performance evaluation and incentive distribution, subordinates will focus more on ensuring the targets are met rather than improving the organization's actual performance. As a result, the budget loses its function as an objective control tool and instead becomes a means to serve individual interests.

Budgetary Slack

Budgetary slack is a condition where budget preparers intentionally set unrealistic estimates, such as lowering revenue targets or raising cost estimates, to make the budget easier to achieve. This practice usually arises due to conflicts of interest between management and owners, as well as information asymmetry possessed by subordinates. Other contributing factors include pressure to achieve targets, performance-based budget incentive systems, participation in budget preparation, and weak internal control systems within the organization (Karsam, 2015b) (Zhuang et al., 2025).

The impact of budgetary slack on the organization tends to be negative because it can reduce efficiency and effectiveness. An inaccurate budget leads to suboptimal decision-making and obscures the assessment of managerial performance. Moreover, slack can create an

unhealthy work culture, where individuals are more focused on achieving artificial targets rather than improving real performance. In the long term, this has the potential to harm the organization because resources are not utilized to their fullest.

Managerial Performance

Managerial performance or managerial effectiveness is the ability of a manager to carry out management functions such as planning, organizing, directing, and controlling to achieve organizational goals. This performance reflects the extent to which a manager is able to optimally manage resources and make the right decisions in various situations. In the context of modern organizations, managerial performance is not only measured by the end results but also by the effective and adaptive management processes in response to changes in the business environment (Müller et al., 2025).

Managerial performance indicators generally include effectiveness, efficiency, and target achievement. Effectiveness relates to the manager's ability to achieve the set goals, while efficiency refers to the optimal use of resources at minimal cost. In addition, target achievement becomes an important indicator because it shows the manager's success in meeting the predetermined performance standards, particularly those related to the organization's budget and planning. These three indicators are interconnected in assessing the overall quality of managerial performance (Karsam, 2015a).

Leadership Style

Leadership style or gaya kepemimpinan is a pattern of behavior demonstrated by a leader in influencing, directing, and managing subordinates to achieve organizational goals. Two leadership styles that are often discussed are transformational and transactional. Transformational leadership focuses on inspiring, motivating, and developing subordinates thru a strong vision and effective communication. On the other hand, transactional leadership places more emphasis on exchange relationships, specifically the provision of rewards and punishments based on predetermined performance achievements (Fathoni et al., 2021) (Essilfie et al., 2026).

In the context of controlling subordinate behavior, leadership style plays a very important role. Transformational leaders tend to be able to build commitment and integrity among subordinates, thereby minimizing opportunistic behaviors such as budget manipulation. Meanwhile, transactional leadership is effective in creating discipline thru a clear system of rewards and sanctions, but it has the potential to encourage subordinates to focus only on short-term targets. Therefore, choosing the right leadership style can help the organization control subordinates' behavior and optimize performance.

As for the framework of thinking in this research:

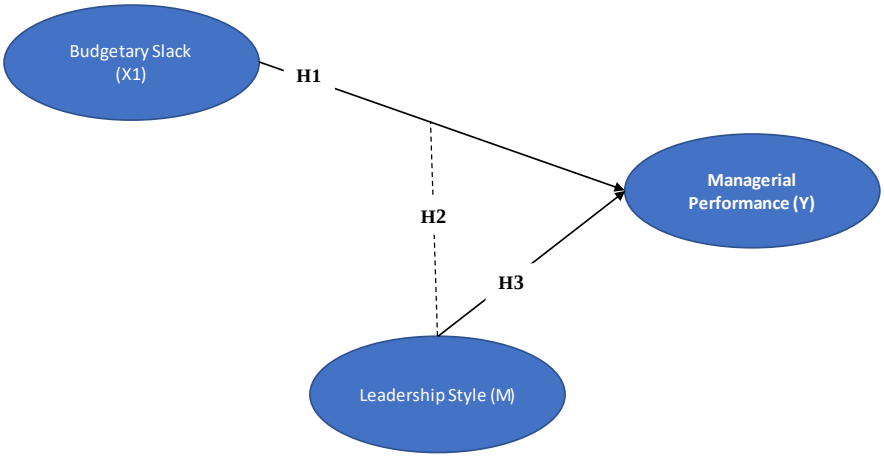


Figure 1: framework

According to (Aditiya & Mannan, 2025), budgetary slack is a dysfunctional behavior in the budgeting process that is deliberately carried out to facilitate the achievement of targets. In the perspective of agency theory, managers as agents tend to maximize personal interests, one of which is by creating slack to make performance appear good in the eyes of superiors. According to (Khanh et al., 2026), this practice can actually lower the quality of managerial performance because the targets used as the basis for evaluation do not reflect the organization's real capabilities. As a result, managers are not motivated to improve productivity and efficiency optimally. Moreover, slack can lead to inefficient resource allocation and obscure the decision-making process. Several empirical studies also show that budgetary slack negatively affects managerial performance because it creates bias in performance evaluation.

H1: Budgetary slack negatively affects managerial performance.

Leadership style is an important factor that influences the effectiveness of managerial performance within an organization. According to (Sun & Li, 2026) Transformational leadership, for example, is capable of enhancing subordinates' motivation, commitment, and performance thru an inspiring vision and strong interpersonal relationships. According to (Ambawani et al., 2024), transactional leadership provides clarity in work structure thru a system of rewards and sanctions. Both leadership styles contribute to improving managerial performance, whether thru motivational or control approaches. Effective leaders can create a conducive work environment, improve coordination, and encourage the optimal achievement of organizational targets. Therefore, the right leadership style is believed to have a positive impact on the improvement of managerial performance.

H2: Leadership style has a positive effect on managerial performance.

According to (Mustotiah et al., 2025), in addition to having a direct impact, leadership style also acts as a moderating variable in the relationship between budgetary slack and managerial performance. In conditions where budgetary slack is high, an effective leadership style can minimize the negative impact of such behavior. According to (Rahmat et al., 2023), transformational leadership, for example, is capable of instilling values of integrity and commitment, making subordinates tend to avoid budget manipulation. On the other hand, transactional leadership can strengthen control thru a strict reward and punishment system, thereby limiting the space for slack practices. Thus, the leadership style can weaken the negative impact of budgetary slack on managerial performance. This indicates that leadership factors are an important element in creating an effective control system within the organization.

H3: Leadership style moderates the relationship between budgetary slack and managerial performance.

METHODS

This research uses a quantitative approach with explanatory research type, which aims to test the causal relationships between variables, namely budgetary slack, leadership style, and managerial performance. The quantitative approach was chosen because it can provide objective results thru structured measurement of variables using research instruments in the form of questionnaires. Additionally, explanatory research is used to explain both direct and indirect influences between variables, including the moderating role of leadership style in the relationship between budgetary slack and managerial performance. Data analysis was conducted using relevant statistical methods, such as moderation regression or Structural Equation Modeling (SEM), to provide more comprehensive and generalizable conclusions.

The population in this study consists of companies located in DKI Jakarta, considering that the region is the center of business and economic activities in Indonesia with a high level of organizational complexity. The research sample was determined using purposive sampling technique, with the criteria for respondents being managers at the middle to top level (middle and top level management). The selection of respondents is based on the consideration that they have a direct role in the budgeting process and performance evaluation, thus deemed to have adequate understanding of the variables being studied. It is expected that the data obtained will be able to represent the actual conditions in budgeting practices and managerial performance in the company.

Thus, the research sample used in this study consists of 68 companies. Within each of these companies, there are several respondents who meet the research criteria, resulting in a total of 220 respondents who can be used as the unit of analysis in this study.Table 1: operational definition of variables

Table 1: operational definition of research variables

Variable	Indicator	Skala Likert
Budgetary Slack, Dunk (1993)	Budget participation Information asymmetry Target achievement pressure Budget gap	(1-5) STS- 1, CS-2, N-3, S-4, SS-5
Managerial Performance, Mahoney et al. (1963)	Planning Coordination Evaluation Target achievement	(1-5) STS- 1, CS-2, N-3, S-4, SS-5
Leadership Style, Bass & Avolio (1995)	Target achievement Transactional	(1-5) STS- 1, CS-2, N-3, S-4, SS-5

RESULTS AND DISCUSSION

Company Overview

This research was conducted on companies located in DKI Jakarta, which is the center of economic and business activities in Indonesia. The companies that are the subjects of the research come from various industrial sectors, including banking, telecommunications,

manufacturing, construction, finance, as well as the service and technology sectors. The diversity of these sectors reflects the real conditions of the business world in Jakarta, which has a high level of complexity and dynamism, making it relevant to examine budgeting practices and managerial performance. Most of the sampled companies are medium to large-scale enterprises that already have a management control system and a structured budgeting process. In those companies, the budget is used as the main tool in planning, control, and performance evaluation. The respondents in this study are middle to upper-level managers who have a direct role in budget preparation and strategic decision-making, thus the information obtained is considered representative. With these characteristics, the companies that are the subjects of the research have a competitive work environment and demand effectiveness in resource management. This makes the research context highly relevant for analyzing the relationship between budgetary slack, leadership style, and managerial performance in the actual practices of the organization.

Description Analysis

Table 2. Budgetary Slack

Item	Min	Mean	Max	Standard Deviation
X_1	1.000	3.782	4.000	0,35
X_2	1.000	3.595	5.000	0,47
X_3	2.000	3.786	4.000	0,33
X_4	1.000	3.600	4.000	0,46
X_5	1.000	3.591	5.000	0,48
X_6	1.000	3.618	5.000	0,46
X_7	1.000	3.623	5.000	0,47
X_8	2.000	3.786	4.000	0,31
Average	**1.250**	**3.673**	**4.500**	**0,41**

Based on the results of the descriptive analysis of the budgetary slack variable, it is known that the overall mean value is 3.673, indicating that the level of budgetary slack among respondents falls into the fairly high category. The highest mean values are found in items X_3 and X_8, both at 3.786, which indicates that respondents tend to have a relatively high inclination in certain aspects of budget slack practices. Meanwhile, the lowest mean values are found in items X_2 and X_5, at 3.595 and 3.591 respectively, but they still fall into the fairly high category. This indicates that, in general, respondents tend to make adjustments in budget preparation.

From the perspective of data dispersion, the average standard deviation value of 0.41 indicates that the variation in respondents' answers is relatively low, resulting in data that tends to be homogeneous and not too far from the average value. The minimum value ranges from 1 to 2, while the maximum value reaches 4 to 5, indicating some variation in perception among respondents, although not very significant. Overall, these results indicate that the practice of budgetary slack occurs fairly frequently within the organization, but with a relatively controlled level of variation among the research respondents.

Table 3. Managerial Performance

Item	Min	Mean	Max	Standard Deviation
M_1	1.000	3.773	4.000	0,35

M_2	1.000	3.600	5.000	0,47
M_3	3.000	3.736	5.000	0,32
M_4	1.000	3.582	4.000	0,38
M_5	1.000	3.595	5.000	0,46
M_6	1.000	3.609	5.000	0,46
M_7	1.000	3.595	5.000	0,48
M_8	2.000	3.786	4.000	0,33
Average	**1.375**	**3.660**	**4.625**	**0,41**

Based on the results of the descriptive analysis of the managerial performance variable, an overall mean value of 3.660 was obtained, indicating that the respondents' managerial performance level falls into the fairly high category. The highest mean value was found in item M_8 at 3.786, followed by M_1 at 3.773, indicating that respondents perceive certain aspects of managerial performance to be functioning well. Meanwhile, the lowest mean value was found in item M_4 at 3.582, but it still falls within the fairly high category, so overall, all indicators show relatively good performance.

From the perspective of data distribution, the average standard deviation of 0.41 indicates that the variation in respondents' answers is relatively low, resulting in data that tends to be homogeneous. The minimum values range from 1 to 3, while the maximum values range from 4 to 5, indicating a difference in perception among the respondents, although not very significant. Overall, these results indicate that the managerial performance within the organization being studied is functioning quite well and steadily, supported by the consistency of the respondents' evaluations.

Table 4. Leadership Style

Item	Min	Mean	Max	Standard Deviation
Y_1	1.000	3.582	4.000	0,47
Y_2	2.000	3.723	5.000	0,33
Y_3	1.000	3.609	5.000	0,38
Y_4	1.000	3.773	4.000	0,36
Y_5	1.000	3.595	4.000	0,46
Y_6	2.000	3.791	5.000	0,33
Y_7	2.000	3.805	5.000	0,32
Y_8	1.000	3.600	5.000	0,46
Average	**1.375**	**3.685**	**4.625**	**0,39**

Based on the results of the descriptive analysis of the leadership style variable, an overall mean value of 3.685 was obtained, indicating that the leadership style within the organization being studied falls into the fairly high category. The highest mean value was found in item Y_7 at 3.805, followed by Y_6 at 3.791 and Y_4 at 3.773, indicating that respondents assessed certain aspects of the leadership style, such as motivation, direction, and supervision, as having been well implemented. Meanwhile, the lowest mean value was found in item Y_1 at 3.582, but it still falls within the fairly high category, so overall, all indicators show a positive perception of the leadership style.

From the perspective of data distribution, the average standard deviation of 0.39 indicates that the variation in respondents' answers is relatively low, resulting in data that tends to be homogeneous. The minimum value ranges from 1 to 2, while the maximum value falls within the range of 4 to 5, indicating some differences in perception among respondents, although not

very significant. Overall, these results indicate that the leadership style within the organization has been quite effective and consistent, and is capable of creating a work environment that supports the improvement of managerial performance.

Feasibility Study
Convergent Validity

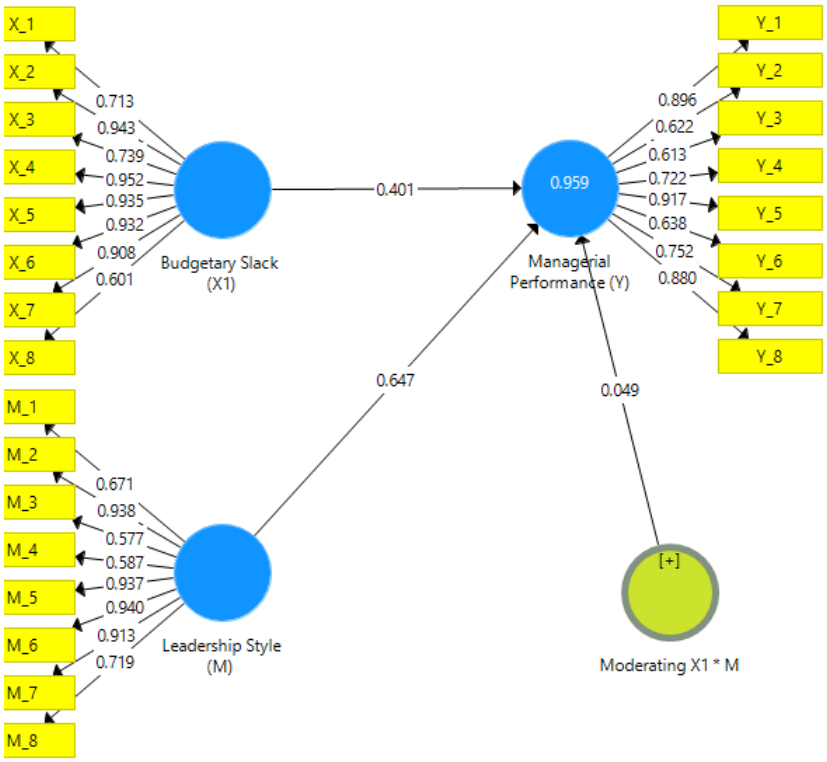


Figure2: Outer Model

The outer loading value for the X1 indicator is in the range of 0.601 – 0.952. Most indicators have values above 0.70, indicating that these indicators are valid and capable of reflecting the variable well. However, there is one indicator, X_8 (0.601), which is below the ideal threshold of 0.70. Nevertheless, the value is still acceptable in exploratory research because it is above 0.50. Overall, the budgetary slack variable can be said to have good convergent validity.

Leadership Style Variable (M) The outer loading values of the leadership style indicators range from 0.577 to 0.940. Most indicators have values above 0.70, such as M_2, M_5, M_6, and M_7, which show a strong contribution to the construct. However, there are some indicators with values below 0.70, namely M_3 (0.577) and M_4 (0.587). These values indicate that both indicators are relatively weak, but they can still be retained if they do not disrupt the overall validity of the model. Thus, the leadership style variable is generally quite valid, although there are indicators that need to be considered for further evaluation.

Managerial Performance Variable (Y) The outer loading values for the managerial performance variable range from 0.613 to 0.917. Indicators such as Y_1 (0.896), Y_5 (0.917), and Y_8 (0.880) show very good validity. However, there are several indicators with values below 0.70, such as Y_2 (0.622), Y_3 (0.613), and Y_6 (0.638), which indicate a weaker contribution to the construct. However, these values are still acceptable in social research as long as they do not diminish the overall construct reliability.

Moderating Variable (X1 * M) The outer loading value for the moderating variable is 1.666, indicating an interaction between budgetary slack and leadership style. This value does not follow the general interpretation like reflective indicators, because the moderating variable is the result of an interaction (interaction term). Therefore, the main focus is not on the loading value, but on the significance of the moderation effect on the structural model.

Reliability and Validity Test

Table 5. Construct Reliability and Validity

Variable	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted
Budgetary Slack (X1)	0,941	0,952	0,953	0,723
Leadership Style (M)	0,912	0,932	0,932	0,640
Managerial Performance (Y)	0,895	0,923	0,917	0,585
Moderating X1 * M	1,000	1,000	1,000	1,000

Based on the results of the construct reliability and validity tests, all variables in this study demonstrate a very good level of reliability and validity. The Cronbach's Alpha values for each variable are above 0.70, namely Budgetary Slack (0.941), Leadership Style (0.912), and Managerial Performance (0.895), indicating high internal consistency. Additionally, the Composite Reliability values also exceed the minimum threshold of 0.70, further reinforcing that the constructs used in this study are reliable.

From the perspective of convergent validity, the Average Variance Extracted (AVE) values for all variables are above 0.50, namely Budgetary Slack (0.723), Leadership Style (0.640), and Managerial Performance (0.585). This indicates that each construct is able to explain more than 50% of the variance of its indicators. Meanwhile, the moderating variable has a perfect value (1.000) because it is the result of the interaction between variables. Thus, it can be concluded that the measurement model in this study has met the criteria for good reliability and validity.

Discriminant Validity

In the discriminant validity test, it was observed that the square root of the Average Variance Extracted (AVE) value is higher than the correlation value between constructs, indicating that each variable has good discriminant validity (Hair et al., 2017). Thus, this model demonstrates reliability in measuring the intended variables separately and accurately. Here is the table of the discriminant validity test results:

Table 6. Discriminant Validity - Fornell-Larcker Criterion

Variable	Budgetary Slack (X1)	Leadership Style (M)	Managerial Performance (Y)	Moderating X1 * M
Budgetary Slack (X1)	0,850			
Leadership Style (M)	0,774	0,910		
Managerial Performance (Y)	0,814	0,876	0,965	
Moderating X1 * M	0,812	0,752	0,735	1,000

The results of the discriminant test show that the square root of the AVE value for each variable is higher than the correlation between variables, thus meeting the Fornell-Larcker

criterion. This indicates that each construct has good discriminant validity and is able to clearly distinguish itself from other constructs in the research model.

Collinearity Statistics

Table 7. Outer VIF Values

Budgetary Slack		Leadership Style		Managerial Performance	
Item	**VIF**	**Item**	**VIF**	**Item**	**VIF**
M_1	4,427	X_1	4,569	Y_1	1,284
M_2	2,558	X_2	2,310	Y_2	1,553
M_3	1,628	X_3	2,312	Y_3	1,526
M_4	1,644	X_4	1,443	Y_4	3,979
M_5	4,700	X_5	1,029	Y_5	1,907
M_6	4,825	X_6	1,891	Y_6	2,576
M_7	1,789	X_7	2,294	Y_7	3,617
M_8	4,795	X_8	2,357	Y_8	2,412

Based on the results of the Outer VIF Values test, all indicators on the budgetary slack, leadership style, and managerial performance variables have VIF values below the critical limit of 5. This indicates that there is no multicollinearity issue among the indicators in the measurement model. Some indicators such as M_6 (4.825), M_8 (4.795), and X_1 (4.569) have relatively high VIF values, but still within acceptable limits. Meanwhile, most of the other indicators fall within the low to moderate VIF range. Thus, it can be concluded that the research model has a good level of collinearity and is suitable for further analysis.

Model Fit

Table 8. Fit Summary

Compute	Saturated Model	Estimated Model
SRMR	0,064	0,066
d_ULS	4,070	4,223
d_G	13,647	13,374
Chi-Square	101,333	101,089
NFI	0,991	0,993

Based on the fit summary results, the SRMR values of 0.064 and 0.066 indicate that the model meets the good fit criteria as they are below the 0.08 threshold. The NFI values of 0.991 and 0.993 also indicate a very high level of model fit as they exceed 0.90. In addition, the values of d_ULS and d_G are relatively small, indicating that the difference between the theoretical model and the empirical data is relatively low. Overall, the research model is deemed feasible and has a good level of fit.

Predictive Relevance Test

The Predictive Relevance Test (Q^2) is a method to evaluate the model's ability to predict the indicator values on the endogenous construct (dependent variable). This test is conducted using the blindfolding technique in Partial Least Squares Structural Equation Modeling (PLS-SEM) analysis.

• $Q^2 > 0$: The model has good predictive ability.

• $Q^2 \leq 0$: The model does not have predictive ability.

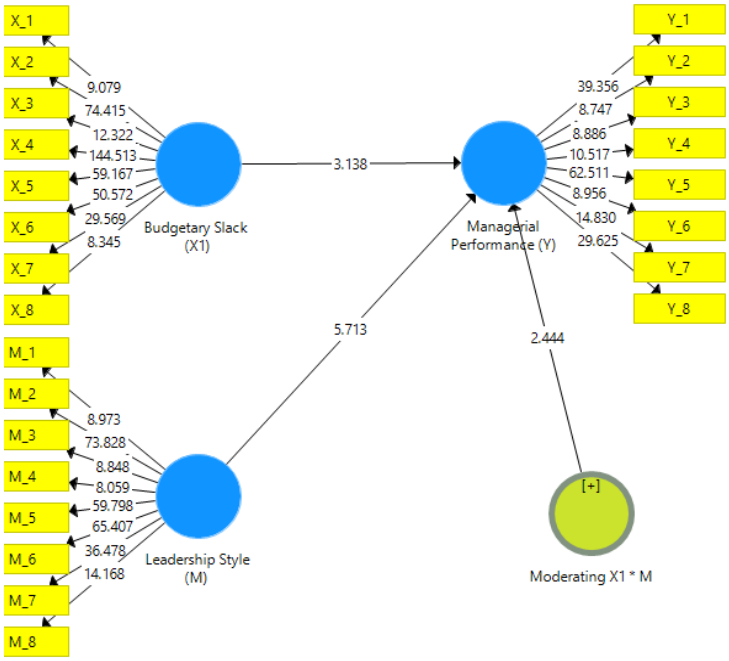
If the Q^2 value of the endogenous construct shows a positive and significant number, it can be concluded that the model is predictively relevant, meaning the model is able to explain data variation well and can be relied upon for further analysis or decision-making.

Table 9. Construct Cross Validated Redundancy

Variable	SSO	SSE	Q^2 (=1-SSE/SSO)
Budgetary Slack (X1)	1.760,000	1.760,000	
Leadership Style (M)	1.760,000	1.760,000	
Managerial Performance (Y)	1.760,000	900,262	0,488
Moderating X1 * M	220,000	220,000	

Based on the results of construct cross-validated redundancy, the Q^2 value for the managerial performance variable (Y) of 0.488 (> 0) indicates that the model has good predictive ability. Meanwhile, other variables do not have Q^2 values because they are exogenous. Thus, the model is able to explain and predict endogenous variables quite strongly and relevantly.

Inner Model



f Square

Table 10. f Square

Variable	Managerial Performance (Y)
Budgetary Slack (X1)	0,132
Leadership Style (M)	0,459
Managerial Performance (Y)	
Moderating X1 * M	0,045

Based on the results of construct cross-validated redundancy, the Q^2 value for the managerial performance variable (Y) of 0.488 (> 0) indicates that the model has good predictive ability. Meanwhile, other variables do not have a Q^2 value because they are exogenous. Thus, the model is able to explain and predict the endogenous variables quite strongly and relevantly.

Inner Model Based on the f-square (f^2) results, the influence of budgetary slack on managerial performance is 0.132, which falls into the small to medium category, indicating a fairly significant contribution. Meanwhile, the leadership style has an f^2 value of 0.459, which is classified as large, making it the most dominant variable in influencing managerial performance. The moderation variable (the interaction of budgetary slack and leadership style) has an f^2 value of 0.045, which falls into the small category, indicating that its moderating effect is relatively weak. Overall, these results indicate that leadership style plays the most significant role in improving managerial performance compared to other variables.

R Square

Table 11. R Square

Variable	R Square	R Square Adjusted
Managerial Performance (Y)	0,959	0,958

Based on the R Square results, a value of 0.959 indicates that the managerial performance variable can be explained by the budgetary slack, leadership style, and moderation variables by 95.9%, while the remaining 4.1% is influenced by other variables outside the research model. The Adjusted R Square value of 0.958, which is not much different, indicates that the model has a very good level of stability. Overall, this value falls into the very strong category, so it can be concluded that the research model has a very high explanatory power regarding the managerial performance variable.

Influence Between Variables

Table 12. Path Coefficients Table and Hypothesis Testing

Hypothesis	Variable	Path Coefficients	Sample Mean	STDEV	T Statistics	P Values	Decision
H1	Budgetary Slack (X1) -> Managerial Performance (Y)	0,401	0,417	0,128	3,138	0,002	Accepted
H2	Leadership Style (M) -> Managerial Performance (Y)	0,647	0,633	0,113	5,713	0,000	Accepted

H1: Budgetary Slack → Managerial Performance The test results show that budgetary slack has a positive effect on managerial performance with a coefficient value of 0.401, a t-statistic of 3.138, and a p-value of 0.002 (< 0.05). This indicates that the first hypothesis is accepted. These findings indicate that the higher the level of budgetary slack, the more managerial performance tends to improve. This condition can be explained by the fact that slack provides flexibility for managers in facing uncertainty and facilitates the achievement of targets. This is also expressed by (Rohma & Nahartyo, 2025), indicating the potential for opportunistic behavior that needs to be controlled to prevent a decline in long-term performance quality.

H2: Leadership Style → Managerial Performance The test results indicate that leadership style has a positive and significant effect on managerial performance with a coefficient value of 0.647, a t-statistic of 5.713, and a p-value of 0.000 (< 0.05). Thus, the second hypothesis is accepted. These findings indicate that an effective leadership style can significantly improve managerial performance. Leaders who are able to provide direction, motivation, and good supervision will encourage an increase in the productivity and work effectiveness of their subordinates. This is also expressed by (Fischer et al., 2026) (Randy et al., 2019) that leadership style is a dominant factor in determining the success of managerial performance in organizations.

H3: Moderating Effect (X1 * M → Y) The test results show that the moderating variable has a coefficient of 0.049, a t-statistic of 2.444, and a p-value of 0.015 (< 0.05), thus the third hypothesis is accepted. This indicates that leadership style significantly moderates the relationship between budgetary slack and managerial performance. Although the coefficient value is relatively small, these results indicate that leadership style can strengthen that relationship. In other words, under good leadership conditions, the influence of budgetary slack on managerial performance becomes more optimal, thereby enhancing the overall effectiveness of organizational management. According to (Abdelwahed et al., 2026)(Avelé & Tatoutchoup, 2025), leadership style strengthens the relationship between budgetary slack and managerial performance, thereby enhancing the effectiveness of organizational management in an optimal and sustainable manner.

Discussion

The implications of this research for the companies sampled in DKI Jakarta indicate that budgetary slack practices need to be managed wisely to avoid performance distortion. Although the research results show a positive impact on managerial performance, companies still need to strengthen internal control systems, transparency, and budget evaluation mechanisms to prevent slack from being misused as a target manipulation tool. Management is advised to implement a performance evaluation system that is not only based on budget achievement but also considers the quality of decisions and operational efficiency.

The company needs to improve the quality of leadership style, especially at the managerial level, as it has been proven to have the most dominant influence on performance. Leaders in the sampled companies are expected to adopt adaptive leadership styles, such as transformational, which can motivate, build commitment, and enhance the integrity of subordinates. Leadership training programs and managerial competency development are important to ensure that leaders can effectively direct their teams in achieving organizational goals.

According to (Abdelwahed et al., 2026), the research results indicate that leadership style also acts as a moderating variable, albeit with a relatively small influence. This implies that companies need to integrate leadership practices with budgeting systems to create a balance between flexibility and control. In the context of companies in DKI Jakarta with a high level of competition, the combination of good budget control and effective leadership will be key in improving managerial performance and maintaining organizational sustainability.

CONCLUSION

Based on the research findings, it can be concluded that budgetary slack has a positive and significant impact on managerial performance. This indicates that in the context of the studied company, slack can provide flexibility for managers in facing uncertainty and support the achievement of performance targets. However, this practice still needs to be controlled to prevent opportunistic behavior that could harm the organization.

Furthermore, leadership style has been proven to have a positive and significant impact on managerial performance, and it is the most dominant variable. This confirms that effective leadership can enhance motivation, coordination, and work productivity, thereby significantly contributing to the achievement of organizational performance. In addition, leadership style also acts as a moderating variable that strengthens the relationship between budgetary slack and managerial performance, albeit with relatively small influence.

Suggestions For companies, it is recommended to manage budgetary slack practices more controlledly thru the enhancement of internal control systems and transparency in budget preparation. Companies also need to develop performance evaluation systems that not only focus on achieving budget targets but also consider aspects of efficiency and quality of performance.

In addition, the company is expected to improve the quality of leadership styles, particularly at the managerial level, thru ongoing leadership training and development. An effective leadership style, especially transformational, needs to be implemented to create a conducive work environment and minimize dysfunctional behavior.

For future researchers, it is recommended to add other variables such as organizational culture, management control systems, or organizational commitment, and to expand the research subjects to other sectors or regions so that the research results can be more broadly generalized.

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