

The Effect of Budget Formulation on the Public Sector Effectiveness Moderated by Participative Budgeting

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ABSTRACT

The effectiveness of the public sector refers to how well government institutions and organizations can efficiently achieve their goals in providing public goods and services, promoting citizen welfare, and implementing public policies. It encompasses various aspects, including the delivery of high-quality services, effective policy formulation, responsible use of resources, responsiveness to citizen needs, transparency, and accountability. In this specific study conducted in the Addis Ababa City Administration, the researcher aimed to investigate the effect of budget formulation on public sector effectiveness moderated by participated budgeting. The study employed a pragmatic research paradigm involving a mixed research approach to achieve the research objective. Qualitative data were collected from employees working in selected public sectors through a 7-point Likert scale questionnaire. A mixed sampling method was utilized in this study. Once the data was gathered using the aforementioned methods, it was analyzed using SPSS version-26 and AMOS-23. The analysis focused on factors related to budget formulation (which included strategic planning, budget preparation, the competence of human resources, and budget approval) and the study also examined the influence of budget participation, as a moderating variable on the effectiveness of public sectors. The findings were presented using descriptive and explanatory research techniques, leading to a discussion of the results. The study result revealed a direct and significant positive relationship between the independent and dependent variables, as well as a significant effect of the moderating variables. To achieve effectiveness in the public sector, the city administration's public sectors should consider strategic planning, participative budgeting, and the existing line-item budget system during budget formulation.

Keywords: approval, Budget, Effect, effectiveness, Ethiopia, formulation, planning, preparation

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Background of the Study

Since Emperor Haile Selassie's regime, national development planning has been recognized as an effective approach for resource mobilization and allocation in Ethiopia. Over the past sixty years, multiple economic development plans have contributed to economic growth, job creation, poverty reduction, and advancements in critical sectors (Asfaw, 2007). The Homegrown Economic Reform (HGER) is a ten-year plan in Ethiopia aimed at sustaining economic growth, achieving macroeconomic stability, and addressing income disparities. It emphasizes private sector-led growth, productivity improvement, and competitiveness enhancement. Planning and budgeting are closely linked, with annual plans translating policies into actions and local budgets supporting specific programs. The government prioritizes budget administration, auditing, and monitoring to ensure responsible resource management. The public sector's effectiveness is evaluated based on service quality, responsiveness, transparency, accountability, and impact on citizens' well-being. In Ethiopia and other developing countries, the legislative and executive branches are crucial in resource allocation and management for government activities, focusing on public priorities. These responsibilities are vital in ensuring the efficient and effective use of resources in support of national development. In most governments, one of their major functions is financing their public goods and services which requires huge financial resources (Goode, 2010). Thus, these fund allocation needs adequate budget management for their organizational effectiveness.

Various studies have examined different aspects of budgeting in various contexts. Shields (2006) found that budgets are primarily used for short-term operational plans, while Dunk (2009) discovered a positive correlation between budgetary participation and managerial performance in nonprofit organizations. Baulmer (2012) highlighted inadequate budgetary control practices in government-owned firms. Isaboke (2014) noted a gap between budget objectives and organizational performance. Asefa (2007) and Tilahun (2010) identified challenges

in budgeting processes in public sectors. Abera (2014) emphasized the connection between transparency, accountability, and effective fund utilization in public schools. Ketema (2015) found challenges in budget utilization in the health sector. Taye (2016) discussed challenges in budget allocation in the public sector in Ethiopia. Elias (2018) and Darge (2018) identified shortcomings in budget implementation and control in specific administrative bureaus. However, there is a lack of comprehensive research on the effects of budget management on public sector effectiveness. This study aims to fill this gap by assessing budget formulation in Addis Ababa's public sector using a mixed approach, including descriptive, explanatory, and Structural Equation Modeling (SEM) methods.

Objectives of the Study

The primary aim of this study is to analyze the effects of budget formulation practices on organizational effectiveness, with a specific focus on the case of the Addis Ababa city administration.

Literature Review

A budget is a consolidated representation of an organization's financial elements and serves as a planning tool for resource allocation (Sharma, 2012). It outlines a plan of action for a specific period and guides organizational activities (Horngren et al., 2014). Good budget formulation and implementation are essential for achieving organizational goals and evaluating performance. In addition, budgeting involves planning, while budgetary control ensures adherence to the plan (Joshua & Mohammed, 2013).

Budgets also facilitate communication of objectives and expectations within an organization (Horngren et al., 2014). In the context of national budgeting in Ethiopia, the Financial Calendar and the Macro-Economic and Fiscal Framework (MEFF) guide budget practices (MOFED, 2004; Yimer, 2015). The budget process in Ethiopia includes stages such as preparation, approval, execution, and control (MOFED, 2004). In summary, budgets serve as planning tools, facilitate communication, and play a crucial role in economic policy and resource allocation. In Ethiopia, the budget process follows a four-stage approach, guided by the Financial Calendar and the MEFF.

Strategic Planning and the Public Sector Effectiveness

Strategic planning is a crucial process in administration that involves organizing activities, delegating authority, and establishing relationships to achieve mutual objectives. It is considered the most important aspect of administration (Steiner, 2010). Effective strategic planning involves preparing strategies and procedures to accomplish organizational objectives and allocate resources to achieve goals.

Planning, as discussed by Jimenez (2014), is a component of budgeting systems that encompasses long-range, strategic, and short-term planning. Short-term budgeting requires considering the organization's present environment and available resources. Planning involves setting objectives and identifying necessary actions to achieve them. It is a forward-looking process closely tied to budgeting, enabling the organization to evaluate its progress toward goals and objectives. Blumentritt (2006) suggests that organizations should integrate budgeting and strategic planning, but many still treat them as separate processes. Shields (2006) found that budgets are primarily used to implement short-term operational plans, with the majority of long-term plans being implemented before a planned budget is in place.

Proper strategic planning is crucial for setting priorities and establishing a planning control cycle within organizations. With numerous activities to be carried out, prioritization becomes necessary. Budgets are formulated in advance of budget periods, based on anticipated circumstances or environments. Long-term planning involves making significant decisions, and the annual budgeting process refines these plans by requiring managers to create detailed plans for implementing long-range strategies. Without the annual budgeting process, managers may neglect planning for future operations due to immediate operational pressures.

Following the steps in the strategic planning process, as outlined by Ongong (2013), is expected to enhance organizational effectiveness and enable the achievement of goals and objectives. Bryson (2018) supports the idea that aligning the budget with strategic planning serves as a managerial tool to effectively organize and formalize the planning process for an organization's goals and objectives. Additionally, it acts as a financial tool for monitoring, evaluating, and aiding in future planning. However, in practice, it is often observed that public sectors fail to align their budgets with their strategic planning and established management processes.

H₁: Strategic planning has a positive and significant effect on organizational effectiveness

Budget Preparation and the Public Sector Effectiveness

The process of budget preparation involves careful attention from the budget user, as it is the means of translating the overall objectives of the organization into a detailed, feasible plan of action. Igbinosun and Ohiokha (2012) emphasize the importance of budget preparation for public organizations, noting that it needs important energy, period, and expense. The budget serves as the financial expression of a country's plan for a specific period, and budget preparers need to carefully consider their previous budget and make adjustments based on expected changes for the next period. The prepared budget serves as a blueprint detailing how an organization will allocate and spend its funds. It provides a clear plan on how the organization intends to use its financial resources and identifies the sources from which funds will be obtained to cover these expenses.

Budget preparation involves identifying activities based on their priority. This ensures that the most important needs of the budget user are met first, while less important needs are deferred until sufficient funds are available. Shah (2007) mentions that budget preparation typically takes several months and involves all budgetary institutions. In Ethiopia, the process includes steps such as preparing the macro framework, allocating public expenditures between federal and regional governments, allocating between recurrent and capital budgets at the federal level, budget call and ceiling notification by the Ministry of Finance, submission of the budget proposal, budget hearing with the Ministry of Finance, review and recommendation by the Ministry of Finance, submission to the Council of Ministers, submission to the Council of Peoples' Representatives, notification, publication, and allotment.

The Ministry of Finance plays a central role in managing the budget preparation process, including approving policy priorities, aligning ministry plans with resource needs, and facilitating government review and approval. Budget preparation involves making decisions on allocating limited resources to competing demands and should be informed by strategic planning. Through this process, management can effectively organize and allocate resources, evaluate performance, and make adjustments when needed. Managers face numerous choices and decisions when formulating budgets to assess and improve organizational performance.

H₃: Budget preparation has a positive and significant effect on organizational effectiveness

Budget Approval and the Public Sector Effectiveness

Once a budget preparation is completed it has to be approved by the legislative body to become effective. At the budget approval stage, legislators had a detailed discussion on the executive's budget. The legislators can accept it as it is or accept it with some amendments and adjustments. The process concludes when the legislature adopts the budget, either in its original form or with modifications. During the budget approval stage, the legislature has the option to accept or reject the proposed budget, and in certain countries, they may substitute it with their proposal (Gomes, 2017). Conversely, Wehner and Byanyima (2004) contended that active involvement of the legislature in the budget process establishes mechanisms for oversight and accountability, which are crucial for promoting transparency and ensuring the effective provision of public services.

Posner and Park (2018) also discuss that the budget enactment stage grants the legislature the opportunity to deliberate and ultimately endorse the budget. This phase typically commences with the executive formally presenting the budget to the legislature. The legislature engages in discussions surrounding the budget, often entailing extensive work within legislative committees. During the budget approval phase, public hearings take place, allowing members of civil society to provide input on the budget proposal. It is generally during the budget refinement stage that public interest in the budget is at its peak, and the media plays a significant role in widely disseminating information about the budget (Amenu, 2016).

H₅: Budget approval has a positive and significant effect on organizational effectiveness

Competence of Human Resources and the Public Sector Effectiveness

Competency in human resources is a vital component for enhancing the effectiveness of governmental, non-governmental, and private organizations. To effectively conduct their operations, organizations must ensure they have competent personnel who possess the necessary knowledge and skills to execute budgetary control processes and procedures efficiently and effectively (Horngren, et al., 2014). For organizations to thrive in budgetary control, it is essential to have knowledgeable and skilled employees who can proficiently execute budgetary control measures and effectively implement budgetary control processes and allocations. The success of budgetary control within an organization is centered on the recognition and appreciation of the importance of strong interpersonal relationships among employees across different job levels, particularly within top management. Senior

management can inspire and motivate lower-level employees through their practices in budgetary control. It is crucial to acknowledge that organizational culture, management style, and attitudes toward employees significantly influence the approach to budgeting within a firm (Raghunandan, et al., 2012). The accomplishment of organizational objectives is heavily reliant on the quality and capabilities of its human resources. In the context of public sector organizations, human resources play a pivotal role in delivering exceptional services to the community. Emphasizing the delivery of superior service ensures that the organization maintains a reputation for outstanding performance and accountability in the eyes of the community (Luh, Anik, Nengah, & Putu, 2019).

H7: Competence of human resources has a significant and positive effect on organizational effectiveness

Budgetary Participation and Public Sector Effectiveness

Participatory budgeting is a budgeting approach that involves lower-level managers in the budget preparation process, granting them a sense of ownership in the business instead of imposing the budget on top management. Amir et al. (2021) indicate that increased budget participation is linked to improved performance in regional government bodies. Similarly, Safitri and Agusti (2014) found a positive impact of budgetary participation on the effectiveness of local governments, while Ferdiani and Rohman (2012) discovered a positive influence of budgetary participation on managerial performance. However, studies conducted by (Nazaruddin and Setyawan 2016; and Puri 2015) yielded differing results, showing no positive relationship between budgeting participation and the performance of local government bodies. Participative budgeting also tends to generate more achievable budgets since lower-level employees have a better understanding of where funds should be allocated and can inform their supervisors accordingly. Implementing participative budgeting demonstrates top management's confidence in their staff (Jatmiko, Laras, & Rohmawati, 2020), fostering a sense of ownership and motivating employees to work hard toward the goals they helped shape.

For a participative budgeting process to be effective, organizations should establish checks and balances to prevent managers from abusing their authority. The budget draft should undergo review at each level of management, with final approval resting with top managers. Lower-level managers should be involved in proposing changes to the budget draft and providing their justifications. Collaboration between managers and accounting staff is crucial for the effective utilization of funds (Klitgaard, et al., 2010).

Active participation plays a critical role in the budget process, particularly during the formulation phase, to ensure efficient allocation of resources and a fair distribution (Shapiro, 2001). Encouraging and motivating employees to dedicate themselves to the assigned budget is essential, emphasizing the need for budget education. Diligent work by employees significantly enhances an organization's ability to achieve its objectives efficiently. However, the public sectors often overlook employees' participation in the budget process (de Azevedo, Cardoso, Cunha & Wampler, B., 2022).

Additionally, Burhan and Abraham (2020) suggest that government finance organizations should identify stakeholders and actively engage them in the budgeting process to enhance the chances of success and maintain alignment between budget planning and implementation. John and Nnah (2019) further emphasize the importance of accountants and managers responsible for budget preparation in encouraging other managers and individuals involved in budget utilization to understand the financial consequences of their plans. This understanding enables timely investigation and reporting of any deviations from set targets. However, their study highlights significant issues in budget management in Nigeria, particularly in the preparation stage, where user participation is lacking. Berhanu (2011) asserts that citizens, as the primary providers of budget funds, play a crucial role and should actively participate in both formulating and implementing the budget. This participation not only allows different levels of government to understand the community's unmet needs and demands but also ensures a more inclusive and representative budgeting process.

H₂: Participative budgeting moderates between strategic planning and organizational effectiveness

H₄: Participative budgeting moderates between Budget preparation and organizational effectiveness

H₆: Participative budgeting moderates between Budget approval and organizational effectiveness.

H₈: Participative budgeting moderates between the Competence of human resources and organizational effectiveness

H₉: Participative budgeting has a positive and significant effect on organizational effectiveness

Research design and Methodology

Description of the Study Area

The Addis Ababa City Administration manages the finances of public sector entities in Ethiopia's capital city. Effective budget management is crucial for providing essential services, developing infrastructure, and promoting the well-being of the population. The administration governs Addis Ababa, an important city in Ethiopia, with separate administrative status. Good financial management supports the diverse needs of the population and enhances the effectiveness of public sector organizations. A study by Poister, Aristigueta, and Hall (2014) examined budget management practices in the Addis Ababa City Administration, highlighting strengths, weaknesses, and ways to improve budgetary processes. Improving budget management can lead to better organizational effectiveness and public service delivery in Ethiopia.

The study used a mixed research approach, combining quantitative and qualitative methods to gather and analyze data. The research design was explanatory and descriptive. Sampling techniques included stratified sampling, purposive sampling, proportional sampling, and simple random sampling. The sample size was determined using a formula, resulting in a total of 368 questionnaires distributed across different sub-cities and public sector directorates. Primary data was collected through Likert scale questionnaires and structured interviews, while secondary data was obtained from reports and relevant documents about the budget process in public sectors.

Methods of Data Analysis

Data analysis involves examining, refining, transforming, and modeling data to gain insights for decision-making (Sharma, 2018). In this study, data from the Addis Ababa City Administration's public sectors was analyzed using SPSS-26/Amos-23 software (Author, Year). Structural equation modeling (SEM) was used to test the hypothesized model and assess its compatibility with the data, following Byrne's methodology (2013).

The validity of the measurement model in SEM was evaluated based on goodness of fit and construct validity evidence (Author, Year). Fit indices such as χ^2/df , CFI, NFI, and RMSEA were used for model assessment (Hair et al., 2010). Out of 368 distributed questionnaires, 350 were returned, resulting in a 95% response rate (Author, Year). After excluding incomplete questionnaires, 346 (94%) were used for analysis. This response rate exceeds the threshold for reliable information and aligns with previous research (Franklin & Ballan, 2001; Malhotra & Grover, 2014; Wiils & Nilakanta, 2007). A response rate of 50% and above is considered sufficient for conclusion (Nulty, 2008). Measurement models were developed to meet fit criteria, followed by testing research hypotheses with structural models. The results supported the research hypothesis and provided insights for further study.

Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy/Bartlett's Test of Sphericity

Before conducting factor analysis, it is important to assess the appropriateness of the respondent data using the KMO Measure of Sampling Adequacy and Bartlett's Test of Sphericity (Bartlett, 2010). The KMO value should be at least 0.50 for factor analysis to be appropriate (Tabachnick, 2007), and Bartlett's Test of Sphericity should yield a significant result ($p < 0.05$) (Awang, 2014). In this study, the KMO value of 0.972 indicates high suitability for factor analysis, exceeding the threshold of 0.5. The p -value of $0.000 < 0.05$ from Bartlett's Test of Sphericity suggests the presence of meaningful correlations among the variables (Tabachnick, 2007; Awang, 2014). This information supports the use of factor analysis for further analysis.

Measurement model

The evidence of a good measurement model should have all the items loading greater than 0.70. In addition, the traditional method using Cronbach alpha is with a minimum threshold of 0.70. This is also applied using the Composite reliability with a threshold value of 0.70. While the average variance extracted is set to the minimum threshold of 0.50 (Awang, 2014; Hair, et al., 2015; Heller et al., 2015). The researcher uses a measurement model of factor analysis with constructs. Six constructs were observed: strategic planning (STPL), budget preparation (BUPR), budget approval (BUAP), participative budgeting (PABU), competence of human resources (COHR), and public sector effectiveness (OREF). In the measurement model factor analysis, all the factor loadings are greater than 0.70 which is the minimum threshold. In addition, the results of, Chi-square, Chi-square/DF, Incremental fit index, Comparative fit index, Normed fit index, Tucker Lewis index, and Root mean square error of approximation meet the standard threshold. This indicates that the model is fit. The diagram of the measurement model and its output is given below.

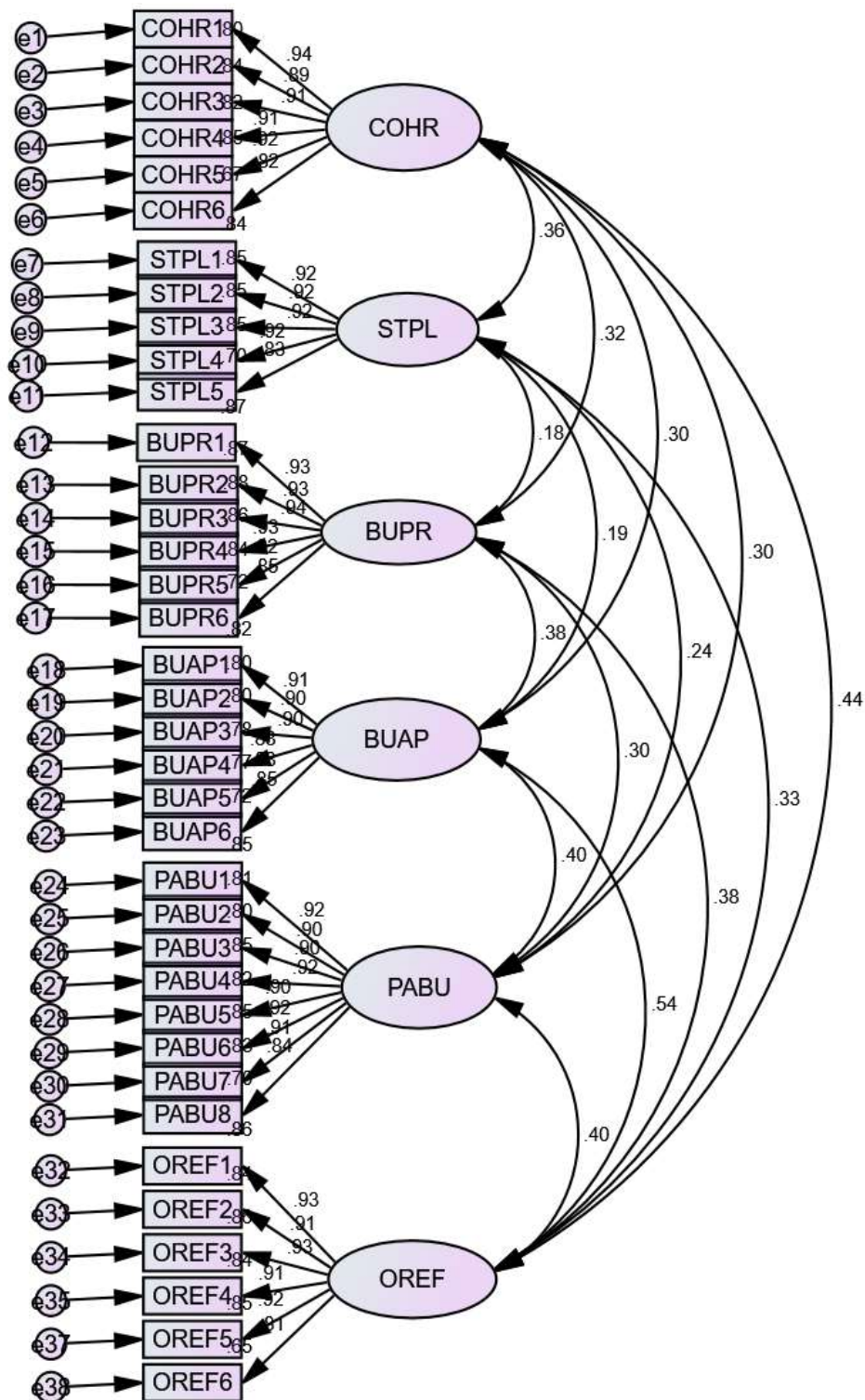


Figure 1.1: measurement Model

Standardized loading

In SPSS AMOS, factor loading estimates the strength and direction of the relationship between observed variables and latent factors in a structural equation model (SEM) (Awang, 2014; Hair et al., 2015; Heller et al., 2015). It quantifies the contribution of each observed variable to its associated latent factor. The loading factors for the measurement variables in this study surpass the threshold of 0.70. Variables from strategic planning (STPL), budget preparation (BUPR), budget approval (BUAP), participatory budgeting, the competency of human resources (COHR), and public sector effectiveness were examined, and all variables reached the minimum threshold, ranging from 0.805 to 0.940. This indicates that the variables effectively measure the latent variables (Awang, 2014; Hair et al., 2015; Heller et al., 2015).

Model Fit Summary

In AMOS, model fit refers to assessing how well a structural equation model (SEM) aligns with observed data. Fit indices, such as the chi-square test, CFI, RMSEA, SRMR, and TLI/NNFI, are used to evaluate the extent to which the model accurately represents the data. The study's model fit results and threshold values for evaluating model fit are presented in the tables.

Table 1.1 Summary of Model Fit

Measure	Threshold	Result	Interpretation
Chi-square	Insignificant	.000	Not a good fit, it is expected for a large sample
Chi-square/DF (1184.275/615)	Between 1 and 3	1.926	Good fit
Incremental fit index (IFI)	>.95	.964	Good fit
Comparative fit index (CFI)	>.95	.964	Good fit
Normed fit index (NFI)	>.90	.928	Good fit
Tucker Lewis index (TLI)	>.95	.961	Good fit
Root Mean Square Error of Approximation (RMSEA)	<.08	.052	Good fit

Source: Hair et al. (2010) and SPSS-Amos output (2024)

In general, the structural equation model generated through AMOS was used to test the relationship. All the given criteria fulfilled the minimum threshold. Thus, the model is good and accepted for further analysis.

Construct Reliability and Construct Validity Analysis

Construct Reliability

Reliability is the measure of the internal consistency of constructs in the study. Hair et al. (2010) stated that reliability is one of the indicators of convergent validity. High reliability shows that internal consistency exists, indicating that measures can represent the same latent construct. In this study, we can see both Cronbach's alpha and Composite Reliability.

Cronbach's alpha

Hair et al. (2010) state that a construct is considered reliable if Cronbach's alpha (α) value exceeds 0.70. In this study, construct reliability was assessed using Cronbach's alpha. The results indicated that strategic planning ($\alpha = 0.970$), budget preparation ($\alpha = 0.975$), budget approval ($\alpha = 0.965$), participative budgeting ($\alpha = 0.927$), competence of human resources ($\alpha = 0.966$), and public sector effectiveness ($\alpha = 0.972$) all exhibited high reliability. All constructs had alpha values greater than 0.70, ranging from a minimum reliability of 0.927 (participative budgeting) to a maximum reliability of 0.975 (budget preparation).

Composite reliability

Composite reliability measures the internal consistency of indicator variables loading on a latent variable. A composite reliability greater than 0.7 indicates that the indicator variables share variance among them (Gaskin & Lim, 2016). It allows for evaluating the consistency of a variable or set of variables in measuring what it intends to measure (Straub, Boudreau & Gefen, 2004). Table 5.8 displays the composite reliability (CR) of all constructs: strategic planning (STPL) with a CR of 0.957, budget preparation (BUPR) with a CR of 0.969, budget approval (BUAP) with a CR of 0.956, and competence of human resources (COHR) with a CR of 0.962. These results indicate that there are no validity concerns as all constructs demonstrate high composite reliability.

Table 1.2: Composite Reliability and Validity Measures

	CR	AVE	MSV	MaxR(H)	BUAP	BUPR	COHR	OREF	STPL	PABU
BUAP	0.956	0.782	0.287	0.957	0.885					
BUPR	0.969	0.839	0.146	0.972	0.376***	0.916				
COHR	0.962	0.810	0.197	0.967	0.302***	0.316***	0.900			
OREF	0.963	0.814	0.287	0.968	0.536***	0.382***	0.444***	0.902		
STPL	0.957	0.815	0.133	0.960	0.195***	0.178**	0.364***	0.333***	0.903	
PABU	0.972	0.814	0.164	0.974	0.397***	0.303***	0.300***	0.405***	0.241***	0.902

Source: SPSS-AMOS output (2024)

Significance of Correlations:

† p < 0.100, * p < 0.050, ** p < 0.010, *** p < 0.001

Construct Validity

Validity is the ability of the scale or measuring instrument to measure what it is intended to measure (Hair et al., 2010). It is the measure of how well the items selected for the construct measure the construct. Construct validity refers to the degree to which multiple measures of a construct that theoretically should be related are related (Gefen, Straub & Boudreau, 2000). Construct validity is established through two forms of validity, such as convergent validity and discriminant validity.

Convergent validity

Convergent validity is the kind of validity when multiple indicators converge or are associated with one another. It means that multiple measures of the same construct hang together or operate in similar ways. Hair et al. (2010) explain that convergent validity is the extent to which the scale correlates positively with other measures of the same construct. Fornel and Larcker (1981) have suggested that convergent validity is established when the variance extracted value is higher than 0.5 for one factor. From Table 5.9 we can observe that all the construct, variance extracted value (VAE) for Strategic planning (STPL) 0.815, budget preparation (0.839), budget approval (BUAP) 0.782, the competence of human resources (COHR) 0.810 Participative budgeting (PABU) 0.814, public sector effectiveness 0.814 respectively. Thus, since the values are greater than 0.5 which is the minimum criteria there is no validity concern. i.e. The minimum criteria are met.

Discriminant Validity

Discriminant validity, also known as divergent validity, refers to the extent to which measures that should not be highly correlated with each other are distinct. It ensures that different constructs have their own unique identity without overlapping. Hair (2010) explains that discriminant validity is the ability of measures to have low correlations with measures of dissimilar concepts.

In this study, discriminant validity was assessed using two methods. First, the pairwise correlations between constructs were compared with the variance extracted estimates (VAE) for each pair. According to Fornell and Larcker's criterion, the shared variance between constructs should not exceed their VAEs. The maximum shared variance (MSV) between the six constructs in the model, including strategic planning, budget preparation, budget approval, competence of human resources, participative budgeting, and public sector effectiveness, was found to be below their respective VAEs. Specifically, the MSV values were 0.133, 0.146, 0.287, 0.197, 0.164, and 0.287, indicating that discriminant validity is established.

However, it is worth noting that recent research has questioned the sensitivity of this shared variance approach in capturing discriminant validity issues. As an alternative, the Hetrotrait-Monotrait ratio of correlation (HTMT) technique has been proposed. This method examines the ratio of correlations between indicators across constructs to correlations within the constructs. A value below 0.90 for HTMT indicates discriminant validity between two reflective constructs. In this study, the HTMT method is also applied to assess discriminant validity, but specific results or values are not provided.

Table 1.3: Hetrotrait-Monotrait ratio discriminant validity

	OREF	COHR	PABU	BUAP	BUPR	STPL
OREF						
COHR	0.444299					
PABU	0.536168	0.299722				
BUAP	0.536168	0.302317	0.39721			
BUPR	0.381908	0.316367	0.302919	0.375917		
STPL	0.333252	0.364539	0.241582	0.194633	0.178002	

Source: SPSS-AMOS output (2024)

Table 1.3 shows that the Hetrotrait-Monotrait ratio is less than the threshold of 0.90. Thus, discriminant validity is established. Therefore, we can say that both the Fornel and Larcker criterion and Hetrotrait-Monotrait ratio criterion discriminant validity are met.

5.1 Testing of Research Hypotheses

Once the measurement model demonstrated a satisfactory fit, the author proceeded to construct a structural model or hypothesized model. This structural model serves as a framework to examine and evaluate the hypothesis, and it is presented as follows.

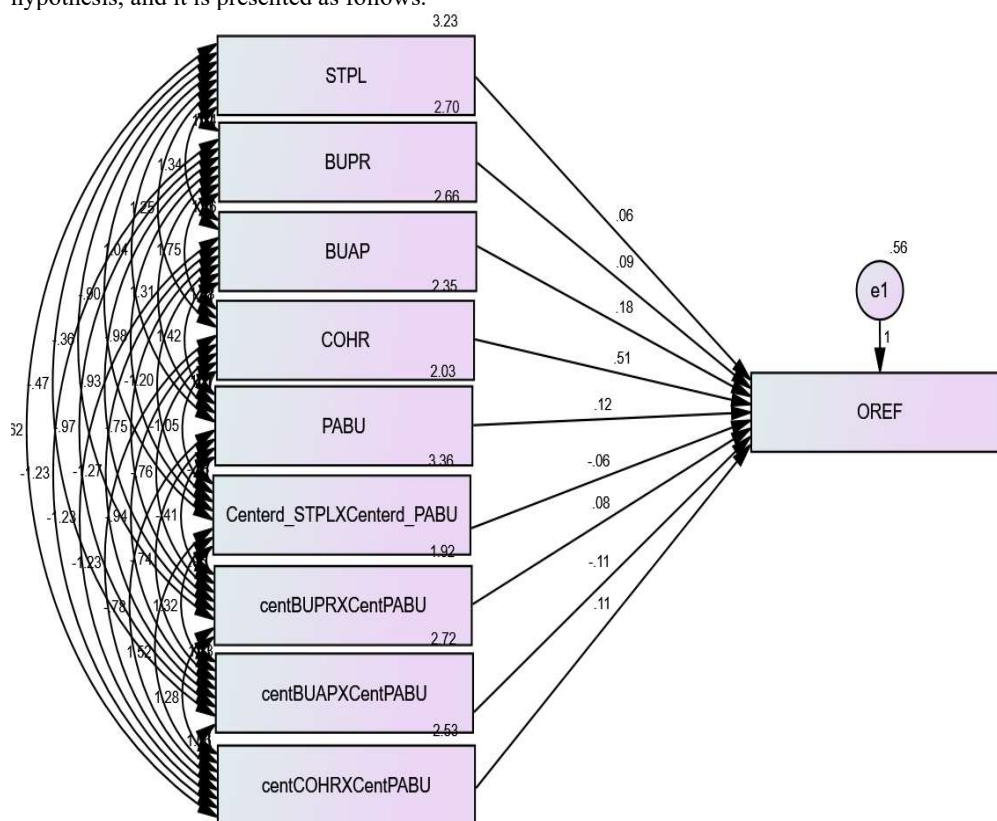


Figure 1.2: Fitted structural model

Source: survey data (2024)

In this model strategic planning (STPL), budget preparation (BUPR), budget approval (BUAP), participative budgeting (PABU) competence of human resource (COHR) had a direct effect on the public sector effectiveness (OREF) and PABU is a moderator between the strategic planning (STPL), budget preparation, budget approval, competence of human resource (COHR) and public sector effectiveness (OREF). Based on the above-fitted model the following Amos output are available for the hypothesis testing.

Table 1.4: SPSS-AMOS output

			Estimate	S.E.	C.R.	P
STPL	→	OREF	.060	.027	2.242	.025
BUPR	→	OREF	.092	.038	2.410	.016
BUAP	→	OREF	.178	.043	4.109	***
COHR	→	OREF	.506	.045	11.229	***
PABU	→	OREF	.119	.038		.001
STP*PABU	→	OREF	-.060	.027	-2.253	.024
BUPR*PABU	→	OREF	.083	.038	2.179	.029
BUAP*PABU	→	OREF	-.115	.035	-3.324	***
COHR*PABU	→	OREF	.109	.039	2.804	.005

Source: SPSS-AMOS output (2024)

Hypothesis testing

In this particular section, the focus is on conducting tests and analyses to determine the direct effect of the independent variables, moderating variables, and dependent variables. The purpose is to investigate the relationship and influence between these variables, shedding light on the hypothesis being tested. By examining these direct effects, researchers can gain a better understanding of how the variables interact and contribute to the overall research question or objective.

Hypothesis One (H₁) and Two (H₂)

The study aimed to examine the direct effect of strategic planning on organizational effectiveness and the moderating role of participative budgeting (PABU) in the relationship between strategic planning (STPL) and organizational effectiveness (OREF). The results of the analysis indicate a positive and significant direct effect ($b = 0.060$, $t = 2.242$, $p = 0.025 < 0.05$), providing support for Hypothesis 1. This suggests that strategic planning has a positive influence on organizational effectiveness. Furthermore, the results reveal a negative and significant moderating effect of participative budgeting (PABU) between strategic planning (STPL) and organizational effectiveness (OREF), ($b = -0.060$, $t = -2.253$, $p = 0.024 < 0.05$), supporting Hypothesis 2. This indicates that the relationship between strategic planning and organizational effectiveness is influenced by participative budgeting. The result of the current study is consistent with the studies conducted by (Robert & Makina 2020, Ponsian & Chrispinal, 2014, Osebo et al., 2019, Ongonge, 2013, Bryson, 2018)

In summary, the findings of the study suggest that strategic planning has a positive direct effect on organizational effectiveness. Moreover, participative budgeting acts as a significant moderator, influencing the relationship between strategic planning and organizational effectiveness negatively. To elucidate the moderating effect, a visual representation in the form of a slope diagram is provided below.

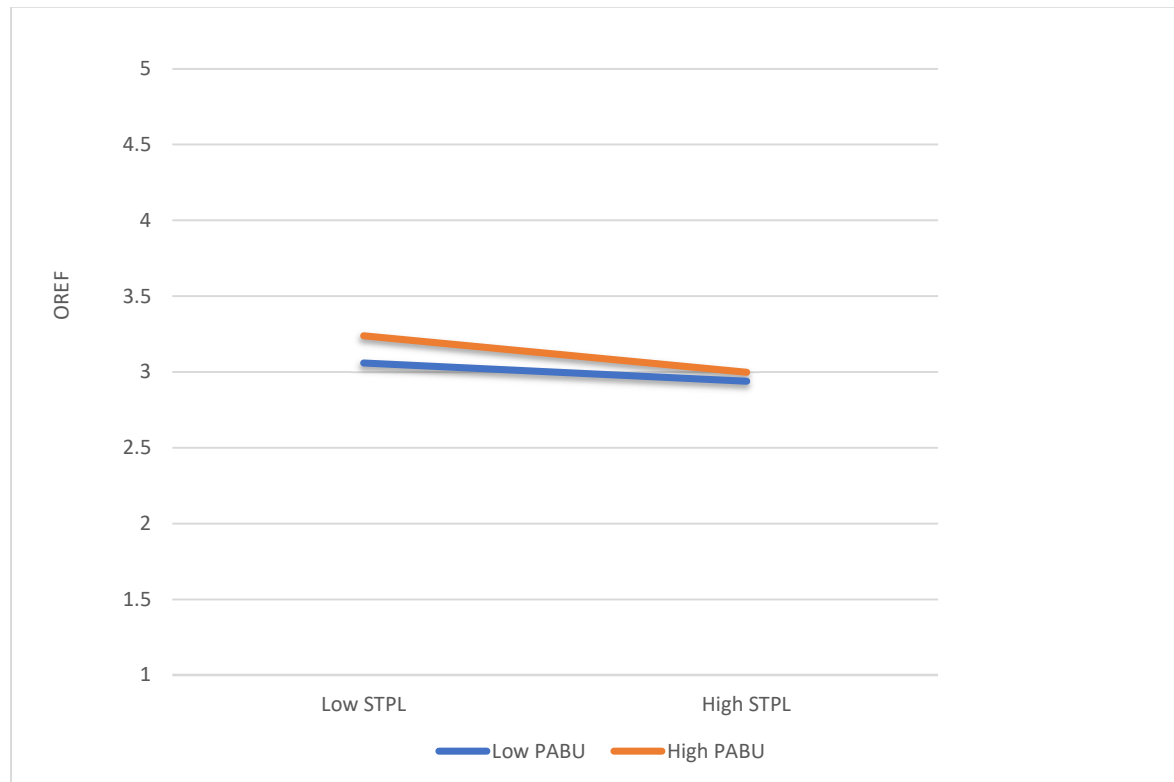


Figure 1.3: Simple slope showing moderating of PABU between STPL and OREF

Source: survey data (2024)

The visual representation of the slope in Figure 5.4 above demonstrates the moderating effect of participative budgeting (PABU) on the relationship between strategic planning (STPL) and organizational effectiveness. It indicates that when there is increased participative budgeting (PABU), the connection between strategic planning (STPL) and organizational effectiveness is weakened. In other words, participative budgeting (PABU) dampened the positive relationship between strategic planning (STPL) and organizational effectiveness (OREF).

Hypothesis three (H₃) and four (H₄)

The purpose of the study was to examine the direct effect of budget preparation on organizational effectiveness and the moderating role of participative budgeting (PABU) in the relationship between budget preparation (BUPR) and organizational effectiveness (OREF). The results indicate a significant and positive direct effect of ($b = 0.092$, $t = 2.410$, $p = 0.016 < 0.05$), providing support for Hypothesis 3. This suggests that budget preparation has a favorable effect on organizational effectiveness. Organizations that engage in effective budget preparation processes are more likely to experience higher levels of effectiveness. Furthermore, the findings reveal a significant and positive moderating effect of participative budgeting (PABU) on the relationship between budget preparation (BUPR) and organizational effectiveness (OREF), ($b = 0.083$, $t = 2.179$, $p = 0.029 < 0.05$), supporting Hypothesis 4. This implies that the influence of budget preparation on organizational effectiveness is enhanced by the presence of participative budgeting. Organizations that involve employees in the budgeting process have experienced even greater improvements in organizational effectiveness. The result of the current study is consistent with the studies conducted by (Robert & Makina 2020; Ponsian & Chrispinal, 2014; Osebo et al., 2019; Getachewu & Amen, 2019)

In summary, the study demonstrates that budget preparation has a direct positive effect on organizational effectiveness. Moreover, the presence of participative budgeting as a moderating factor strengthens this relationship. These findings highlight the significance of effective budget preparation practices and the involvement of employees through participative budgeting in enhancing organizational effectiveness. To improve the clarity of the findings, a clear and straightforward slope diagram has been included below.

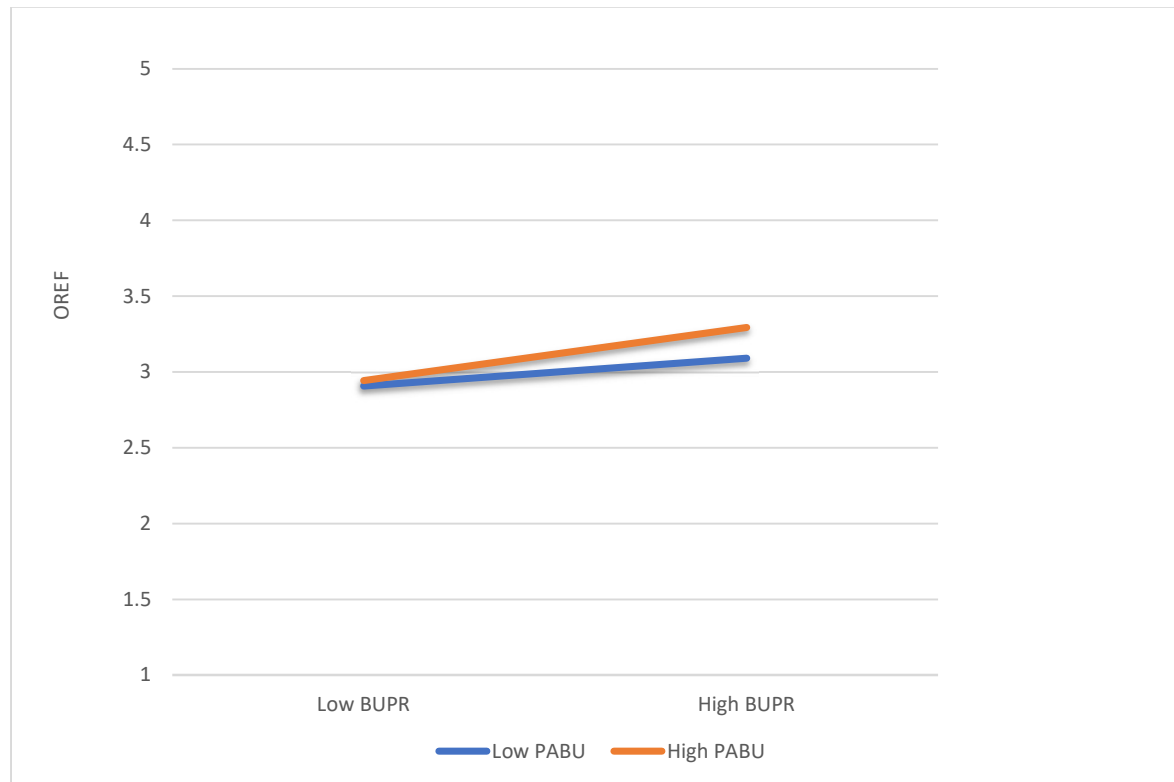


Figure 1.4: Simple slope showing the moderating role of PABU between BUPR and OREF

Source: survey data (2024)

The slope depicted in Figure 5.5 illustrates the visual representation of how participative budgeting (PABU) acts as a moderating factor between budget preparation (BUPR) and organizational effectiveness (OREF). This indicates that the connection between budget preparation (BUPR) and organizational effectiveness (OREF) becomes more robust when there is increased participative budgeting (PABU). In other words, participative budgeting (PABU) strengthens the positive relationship between budget preparation and organizational effectiveness (OREF).

Hypothesis five (H₅) and six (H₆)

The study aimed to investigate the direct effect of budget approval on organizational effectiveness and the moderating role of participative budgeting (PABU) in the relationship between budget approval (BUAP) and organizational effectiveness (OREF). The results indicate a significant and positive direct effect ($b = 0.178, t = 4.109, p = 0.000 < 0.05$), providing support for Hypothesis 5. This suggests that budget approval has a substantial positive effect on organizational effectiveness. Organizations that have their budgets approved are more likely to experience higher levels of effectiveness. Furthermore, the findings reveal a negative and significant moderating effect of participative budgeting (PABU) on the relationship between budget approval (BUAP) and organizational effectiveness (OREF), ($b = -0.115, t = -3.324, p = 0.000 < 0.05$), supporting Hypothesis 6. This indicates that the relationship between budget approval and organizational effectiveness is influenced by the presence of participative budgeting. The involvement of employees in the budgeting process amplifies the positive effect of budget approval on organizational effectiveness. The result of the current study is consistent with the studies conducted by (Wehner and Byanyima, 2004; Robert & Makina 2020; Ponsian & Chrispina, 2014; Osebo et al., 2019; Getachewu & Amen, 2019)

In summary, the study demonstrates that budget approval has a direct and positive effect on organizational effectiveness. Additionally, the presence of participative budgeting as a moderating factor strengthens this relationship. These findings emphasize the importance of obtaining budget approval and involving employees through participative budgeting to enhance organizational effectiveness. To enhance the lucidity of the findings, a concise and easily understandable slope diagram has been included below.

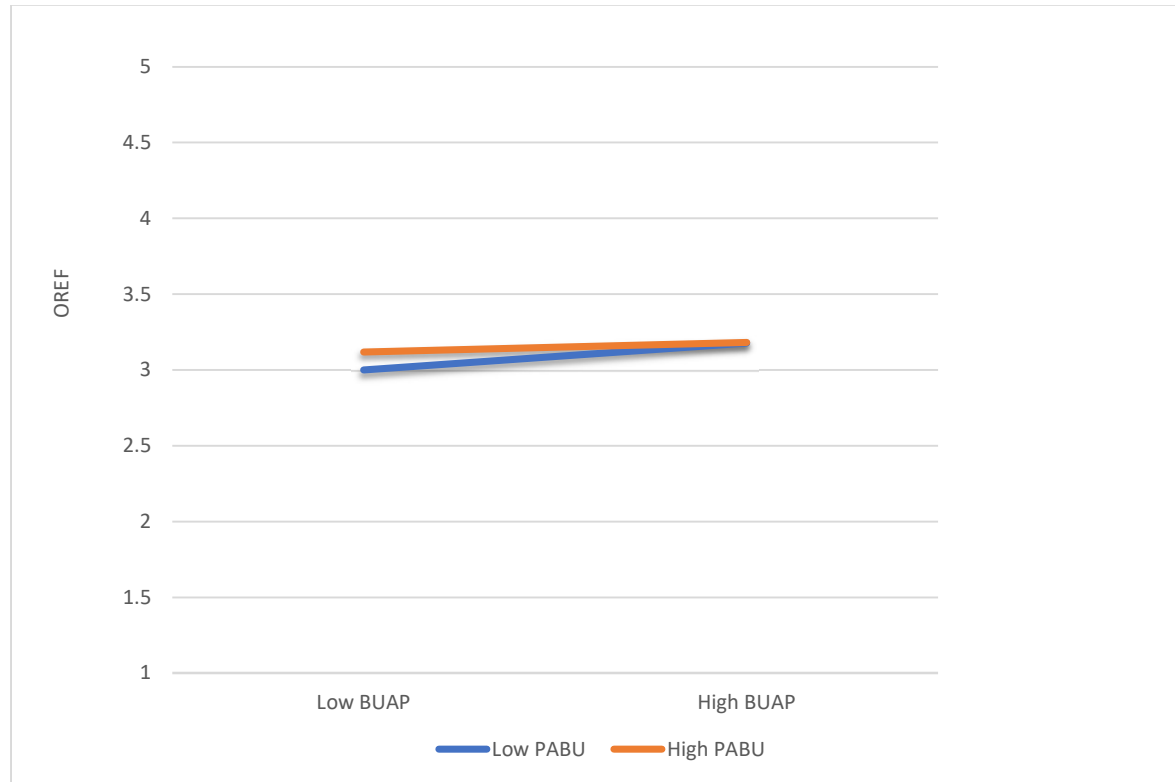


Figure 1.5: simple slop showing the moderating role of PABU between BUAP and OREF
 Source: survey data (2024)

The slope depicted in Figure 5.6 above visually represents the moderating effect of participative budgeting on the relationship between budget approval (BUAP) and organizational effectiveness (OREF). It indicates that when there is increased participative budgeting, the connection between BUAP and OREF is weakened. In other words, participative budgeting dampens the positive relationship between BUAP and OREF.

Hypothesis seven (H7) and eight(H8)

The purpose of the study was to assess the direct effect of the competence of human resources on organizational effectiveness and examine the moderating role of participative budgeting (PABU) in the relationship between the competence of human resources (COHR) and organizational effectiveness (OREF). The results indicate a highly significant and positive direct effect of ($b = 0.506, t = 11.229, p = 0.001 < 0.05$), providing support for Hypothesis 7. This implies that the competence of human resources has a substantial and positive effect on organizational effectiveness. Organizations that have highly skilled and capable human resources are more likely to achieve higher levels of effectiveness in their operations. Furthermore, the findings reveal a significant and positive moderating effect of participative budgeting (PABU) on the relationship between the competence of human resources (COHR) and organizational effectiveness (OREF), ($b = 0.109, t = 2.804, p = 0.005$), supporting Hypothesis 8. This suggests that the influence of human resource competence on organizational effectiveness is amplified by the presence of participative budgeting. When employees are actively involved in the budgeting process, the positive effect of competent human resources on organizational effectiveness is strengthened. The result of the current study is consistent with the studies conducted by (Raghunandan, et al., 2012; Horngren, et al., 2014; Luh, Anik, Nengah, & Putu, 2019; Taye and Tanu, 2021). To ensure the findings are presented in a clear and easily comprehensible manner, a concise slope diagram has been provided below.

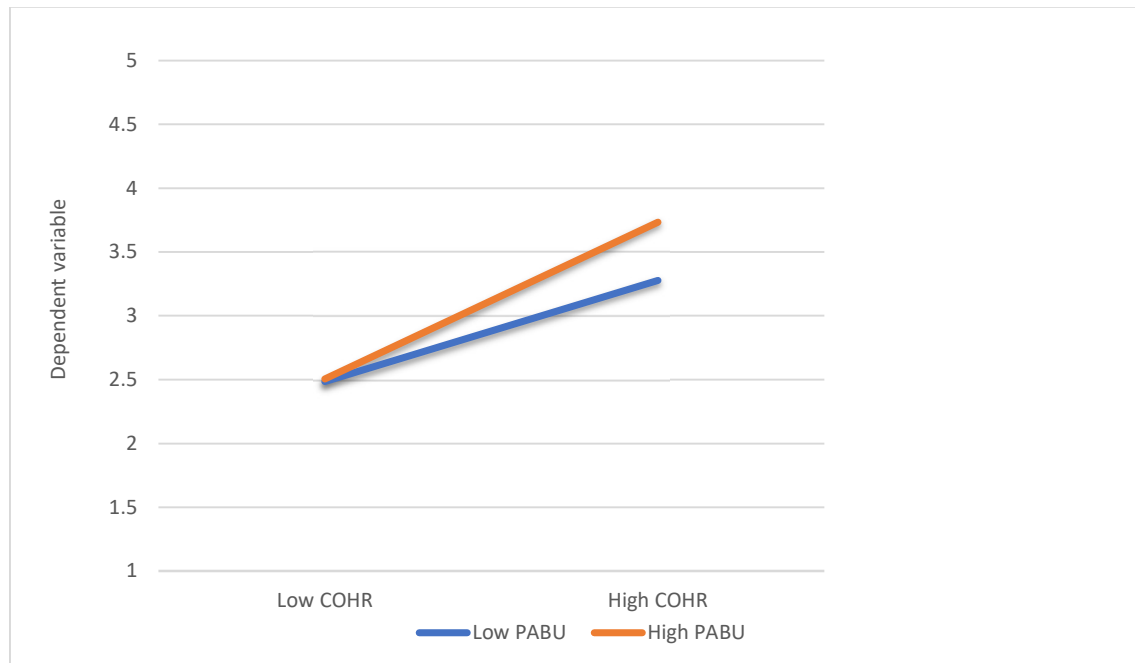


Figure 1.6: Simple slope showing the moderating role of PABU between COHR and OREF
 Source: survey data (2024)

The slope illustrated in Figure 5.7 above visually demonstrates the moderating effect of participative budgeting on the relationship between the competence of human resources (COHR) and organizational effectiveness (OREF). It indicates that when there is increased participative budgeting, the connection between COHR and OREF is strengthened. In other words, participative budgeting enhances the positive relationship between the competence of human resources and organizational effectiveness.

The study aimed to examine the effect of participative budgeting on organizational effectiveness. The results revealed a significant and positive direct effect ($b = 0.119$, $t = 3.179$, $p = 0.001 < 0.05$), providing robust support for Hypothesis 9. This suggests that effective participative budgeting has a substantial and positive influence on organizational effectiveness.

Summary of the Major Findings Descriptive Analysis

The study examined the effect of budget process practices on the organizational effectiveness of the city administration of Addis Ababa. The findings related to strategic planning, budget preparation, budget approval, on organizational effectiveness are summarized as follows:

This analysis focuses on hypothesis testing about the direct effects of independent variables, moderating variables, and dependent variables. The study examines the effect of strategic planning, budget preparation, budget approval, and the competence of human resources on organizational effectiveness, as well as the moderating role of participative budgeting in these relationships.

For Hypothesis one and two, the results indicate a positive and significant direct effect of strategic planning on organizational effectiveness, supporting Hypothesis 1. The study also finds a negative and significant moderating effect of participative budgeting on the relationship between strategic planning and organizational effectiveness, supporting Hypothesis 2. This suggests that strategic planning positively influences organizational effectiveness, and the presence of participative budgeting affects this relationship negatively.

For Hypothesis Three and Four, the study demonstrates a significant and positive direct effect of budget preparation on organizational effectiveness, supporting Hypothesis 3. The results also reveal a significant and positive moderating effect of participative budgeting on the relationship between budget preparation and organizational effectiveness, supporting Hypothesis 4. This indicates that effective budget preparation positively

affects organizational effectiveness, and the involvement of employees through participative budgeting strengthens this relationship.

For Hypothesis Five and Six, the analysis shows a significant and positive direct effect of budget approval on organizational effectiveness, supporting Hypothesis 5. The study also finds a negative and significant moderating effect of participative budgeting on the relationship between budget approval and organizational effectiveness, supporting Hypothesis 6. This suggests that obtaining budget approval positively influences organizational effectiveness, and the presence of participative budgeting affects this relationship negatively.

For Hypothesis Seven and Eight, the results indicate a highly significant and positive direct effect of the competence of human resources on organizational effectiveness, supporting Hypothesis 7. The study also reveals a significant and positive moderating effect of participative budgeting on the relationship between the competence of human resources and organizational effectiveness, supporting Hypothesis 8. This implies that competent human resources positively affect organizational effectiveness, and the involvement of employees through participative budgeting strengthens this relationship.

Conclusion

In conclusion, the results of this analysis provide support for the hypotheses tested regarding the relationships between independent variables, moderating variables, and organizational effectiveness. The findings suggest that strategic planning, budget preparation, budget approval, and the competence of human resources have direct positive effects on organizational effectiveness. Additionally, the presence of participative budgeting is found to have a negative moderating effect on the relationships between strategic planning, budget preparation, budget approval, and organizational effectiveness. However, participative budgeting also has a positive moderating effect on the relationships between budget preparation, budget approval, the competence of human resources, and organizational effectiveness. These findings highlight the importance of strategic planning, effective budget preparation and approval, and competent human resources in enhancing organizational effectiveness. The involvement of employees through participative budgeting can strengthen these relationships, although it may also have a negative impact in certain cases. Overall, this study provides valuable insights into the factors and dynamics influencing organizational effectiveness.

Recommendation

Based on the conclusions drawn from the analysis, the following recommendations can be made:

Emphasize strategic planning: Organizations should prioritize strategic planning as it has a direct positive impact on organizational effectiveness. This involves setting clear goals, developing strategic initiatives, and aligning resources to achieve desired outcomes. **Enhance budget preparation:** Effective budget preparation plays a significant role in improving organizational effectiveness. Organizations should focus on developing robust budgeting processes that consider relevant factors and allocate resources efficiently to support strategic objectives.

Streamline budget approval: The findings suggest that obtaining budget approval positively influences organizational effectiveness. Organizations must establish efficient and timely budget approval processes, ensuring that budgets align with strategic plans and resource allocation is optimized.

Theoretical and Empirical Implications

The research made significant contributions to various theories in the field of study, including agency theory, the theory of budgeting, goal-setting theory, theories of public expenditure, and accounting theory. It provided insights into how budget management practices align with agency theory and the principles of public sector decision-making. The study expanded our understanding of budget formulation and its elements, their effect on the effectiveness of public sectors, and their alignment with established theories and best practices. It also explored how budget formulation practices contribute to goal-setting and the achievement of desired outcomes. Additionally, the research shed light on how budget formulation practices influence government spending decisions and resource allocation, and how they align with theories of public expenditure. It further contributed to our understanding of how budget formulation practices align with accounting principles and ensure transparency and accountability. These contributions advance our knowledge of budget formulation practices and can inform future research, policy development, and decision-making.

Implication for the Policy

Budgeting policies and procedures play a crucial role in the budget management of public sectors. Well-formulated and effective budgeting policies provide a framework for planning and controlling the allocation of resources, ensuring that funds are allocated to priority areas and used efficiently. In the context of the current study, which focuses on the public sectors in Addis Ababa city administration, it suggests that the existing line-item budgeting system needs revision. The study findings indicate that exploring alternative budgeting methods could be beneficial in improving resource allocation and accountability.

Additionally, the study suggests revising the purchase and project management procedures, because, effective procurement and project management procedures are essential for ensuring transparency, accountability, and value for money in public sector spending. By reviewing and enhancing these procedures, the public sector can improve the efficiency and effectiveness of its procurement processes, reduce the risk of corruption, and ensure that projects are delivered on time and within budget.

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