

The Effect of Participative Budgeting, Budget Goal Clarity and Internal Control Implementation on Managerial Performance

Cecilia Lelly Kewo

Accounting Doctoral Program Faculty of Economic and Business

Padjadjaran University-Indonesia

E-mail: lellyceecilia_kewo@yahoo.com

Abstract

This study aim to estimate empirically the influence of participative budgeting, budget goal clarity, and internal control implementation simultaneously or partialy on managerial performance apparatus on local government in North Sulawesi Province Area-Republic Indonesia. The method uses in this research is survey method. The samples selection uses proportionate stratified random sampling method . This study will use t test by $\alpha = 0.05$ to test each of the proposed hypothesis. The research conducted on 78 working unit area device in 15 districts of North Sulawesi Province-Republic of Indonesia. Data used in this research were primary data collected by questioners. Analysis method uses in this research was descriptive analisys and hypothesis testing method used path analysis. The result show that there are the influence of participative budgeting, budget goal clarity and implementation of internal control simultaneously on managerial performance. Partially the participative budgeting, budget goal clarity and implementation of internal control each has a positive influence on managerial performance.

Keywords : participative budgeting, budget goal clarity, internal control, managerial performance

1. Introduction

Since the early 1990s, government paradigm in several countries shifts from formal government to good governance, in order to put the government organization become more effective, efficient and equitable for all citizens. This paradigm shift requires government officials in order to turn out to be more responsive to the demands of their environment, so that the service which is provided to be better, more transparent and accountable (Indra Bastian, 2006).

In Indonesia, the same thing as mentioned above also occured which began after the fall of the Soeharto government in 1998 that brought forth to the era which was known as the reform era (Abdul Halim, 2004). Reform has prompted the creation of changes in national and local government management. One aspect of the reform is the development in the field of accounting and budgeting, especially for the public sector (Mardiasmo, 2009). Corruption rank in Indonesia is still high that the data from Transparency International in 2010 corruption perception index (IPK) stood at 2.8 which shows the weakness of internal control that is implemented in government thus opening the opportunity for the occurrence of irregularities in the budget implementation (APBN / APBD) on the use of public funds.

The study that supports the existence of positive and significant relation between participative budgeting and managerial performance is Brownell (1982), Brownell and Mc Innes (1986) and Nur Indriantoro (1993). The research on participative budgeting has no significant influence on managerial performance which was found by Milani (1975), Kenis (1979), Brownell and Hirst (1986). While the researcher who found negative influence between participative budgeting and managerial performance is Gul et al, (1995) which states that the negative influence between participative budgeting and managerial performance took place in the less decentralized setting.

In addition to participative budgeting, budget has various other aspects such as the characteristics of budget target, budget feedback, budget evaluation, and the difficulty level of budget (Kenis, 1979). Research which is related to budget target clarity and the impact previously had been done by Locke (1968) in Kenis (1979) who conducted research on the influence of budget target characteristic of the managerial attitudes and performance. The results showed that the budget target clarity tends to have positive and significant influence on managerial performance. The clearer the budget target, the better the managerial performance. On the contrary to the research that was conducted by Adoe MH (2002) suggests that the budget target clarity has no significant influence on managerial performance. It means that the more obvious target budget does not affect the performance of managers.

In addition to the variables of participative budgeting and budget target clarity, other variable which is interested to be examined is implementation of internal control. Internal control within government organizations is often also termed as management control. In budget management control system serves as a means of planning and control (Jones and Pendlebury (2003), Mardiasmo (2009), Anthony and Govindarajan (2003). Research on the relation between management control systems and managerial performance was conducted by Miah and Mia (1996) on government organizations in New Zealand, Gramberg (2000) at the Victorian state government in

Australia and Soobaroyen (2006) on the companies' managers in Australia. Besides, budget and accounting are two important pillars for region financial reform (Emilia Darma and Abdul Halim, 2005). Control system is one of the aspects that influence the achievement of better performance. Management control and supervision start from budget planning, budget preparation, budget implementation until budget detection will facilitate the budget reparation and preparation in the current and subsequent years (Chenhall and Morris, 1996).

Managerial performance of local governments can be reflected in the financial statements of the local government. The financial statements of the local government opinion development from 2007 to 2011 is known that opinion in 2011 showed an increase in the number of local governments who obtained an unqualified and a qualified opinion compare to in 2009 and 2010. Meanwhile, the number who obtained disclaimer opinion shows a decrease compared to 2010 and 2009, and the adverse opinion shows a decrease compared to 2010 and 2009. It generally describes improvements in the quality of financial statements which is presented by the local government eventhough the improvement is not significant. Opinion does not give notion and unfair notion that is given by BPK is largely due to the weakness of the internal control system to the financial statements of local governments. The weakness reflected inadequate physical control over assets, cash management weaknesses, accurate and timely recording of transactions, yet budgetary discipline problems. (BPK, 2012)

There are still quite a lot of the financial statements of the local government obtain red report card from CPC showed the inability of local governments to take responsibility for the use of funds (BPK, 2012). BPK expects an understanding of the importance of the Government Internal Control System which is a means of controlling the activities and budget, can be followed up with the implementation of government activities in all aspects. It should be well understood by the local government so that, in the future, local government financial management will be better. The aim of this study was to measure (1) how much influence participative budgeting, budget goal clarity and implementation of internal control simultaneously on managerial performance (2) how much influence participative budgeting, budget goal clarity and implementation of internal control partially on managerial performance.

2. Review of Literature

2.1 Participative Budgeting

Related to the budgeting process, participation in budgeting will enable individuals to participate and to be responsible for the performance of the organization. (Libby 1999). The advantages of having role, first is to increase the challenge and sense of responsibility, secondly, to increase the possibilites of goals/objectives that can be achieved/received (Lau and Lim, 2006; Moreno, 2005). It is also a means to meet the objectives/targets of individuals who are involved in it (Vagneur and Peiperl, 2000). Participation in budgeting is a perspective reflection of the subordinate managers about the level of involvement that is experienced by subordinates in the budget preparation (Milani, 1975). Motivation theory assumes that participatory budgeting provides information exchange between superiors and subordinates (Locke and Latham, 1990; Sumarno, 2005). Therefore, there are two main reasons why participatory budgeting is necessary

- 1) The involvement of superiors and subordinates in the participatory budgeting encourages controlling asymmetric information and uncertainty of task.
- 2) Through participatory budgeting can reduce the pressure in the task and get the job satisfaction, can further improve its performance. (Brownell, 1982; Sumarno, 2005)

Furthermore Kenis (1979) defines the extent of participation in budgeting as how much further a manager involved in the budget preparation and the influence of managers on budget goals organizational unit which becomes their responsibility. This participation allows managers (as a subordinate) to negotiate with the employer according to their budget targets which can be achieved (Brownell and Mc Innes, 1986). Application of participation in budgeting provides many benefits, which will increase the sense of participation in the group and consequently will increase cooperation group members in goal setting. Siegel and Marconi (1989).

2.2 Budget Goal Clarity

Budget goal clarity is the extent to which the budget targets set out clearly and specifically with the aim that the budget can be understood by the person who is responsible for the achievement of the budget targets. Kenis (1979). Budget targets are clearly defined, that targets budget focuses on the preparation of the activities which are specific, detailed, measurable and achievable (Emilia Darma and Abdul Halim, 2005). Budget targets are said specific which means the budget target should describe the specific results that are desired to be achieved. Budget targets should provide direction and clear benchmarks that can be used as a basis for the preparation of strategies and specific activities. Targets should also be assessed and measurable means that it can be used to ascertain what will be achieved and when to be achieved.

Budget goal clarity in the organization of government is a description of the goal, which is something to be achieved or produced within a period of annual, semiannual, or quarterly. Budget target is arranged in the form of quantitative so that can be measured. It should illustrate the things to be achieved through actions that will be

taken to achieve the goal. Budget target focuses on the preparation of the activities that are specific, detailed, measurable and achievable (Emilia Darma and Abdul Halim, 2005)

2.3 Internal control

Internal control over financial reporting has long been introduced as an important feature in the company (Kinney et al., 1990; Kinney, 2000; Kinney, 2001). Internal controls are the safeguards of assets to expropriation, the use and disposition of assets illegally. (Boyton et al, 2006:326), which consists of internal control policies and procedures designed to provide reasonable assurance to management that the company has achieved its goals and objectives (Elder et al, 2010). An internal control system consists of several components, namely: (a) control environment, (b) risk assessment, (c) information and communication systems, (d) control activities, (e) monitoring and control (COSO, 2009; Arens et.al., 2010; PP. 60/2008; Bodnar & Hoopwod 2010). There are two main parts of the internal control, namely the *Administrative Control* and *Accounting Control*. (1) *Administrative Control* includes but is not limited to, the organization plans, procedures, and records relating to the management authorization process in the decision making process; and (2) *Accounting Control* which includes the plan of organization and the procedures and records relating to the security of company assets (Sawyer, 2003). According to Sawyer (2003:82) transactions are executed should obtain organization authorization from the management that transactions are recorded for preparing financial statements prepared in accordance with generally accepted accounting principles or any other criteria that can be specified in the report and also to emphasize accountability for company assets.

Management and local governments have reason to design an effective system of internal control in order to achieve the objectives of internal control, they are: (a) the reliability of financial statements (*Reliability of financial reporting*); (b) the effectiveness and efficiency of operations (*effectiveness and efficiency of operations*); and (c) compliance with applicable laws and regulations (*compliance with applicable laws and regulations*). Management should implement the components of internal control in each operating activities (Messier et al, 2006; Arens, Elder & Beasley 2012:315), so as to achieve state financial management which is effective, efficient, transparent, and accountable, then the minister/leaders of institutions, both local governments and governor, regent/mayor shall perform internal control over implementation of government activities. (PP No 60 in 2008, article 2, paragraph 1)

2.4 Managerial Performance

Performance is an overview of the level of achievement or implementation of activities/programs/policies in realizing the goals, objectives, mission and vision of the organization as stated in the formulation of strategic schemes (*strategic planning*) of an organization. It is generally described that performance is a feat which can be achieved by the organization in a given period. (Indra Bastian, 2006). Managerial performance is based on management functions which include planning, organizing, controlling and leadership (Mahoney et al.1963). Performance measurement system can be used as a means of controlling the organization, because the measurement of performance is strengthened by establishing a *reward and punishment system*. Default behavior can be either a management policy or formal plan as outlined in the budget (Siegel and Marconi, 1998). Measurement/appraisal performance is the process of recording and measuring the achievement of the implementation of activities under the missions direction assessment (*mission accomplishment*) over the results displayed in the form of products, service or process (Indra Bastian, 2006). It means any operation must be measured and expressed its association with the achievement of the organization in the future which is expressed in its vision and mission. Products and services produced are measured by its contribution to the organization's vision and mission.

Public sector performance measurement system is done to fulfill three purposes. (1) It helps to improve government performance. (2) It is used for resource allocation and decision making. (3) It is intended to create public accountability and improve institutional communication (Mardiasmo, 2009). In this study, the measurement of managerial performance refers to Mardiasmo (2009) and Mahoney et al. (1963) which are also consistent with the theory of Wehrich and Koontz (2005) which says that the evaluation focus of management control is sufficient (control), planning, adequate organizational structure (organization) and the effectiveness of management leadership (leadership).

3.Theoretical Framework

Budget in the public sector management accounting gets a large portion to be discussed, because the budget is the most important part of the public sector management accounting. Participatory budgeting adopts the approach which is used in many countries in the world (Ahmed, 2005). The approach that is intended is the budgeting with performance approach (*performance budgeting approach*). Budgeting approach based on performance has several characteristics related to budget goal of which, are: (1) participation in budgeting; (2) the enactment of the budget targets which are clear and (3) feedback, and (4) budget evaluation (Kenis, 1979).

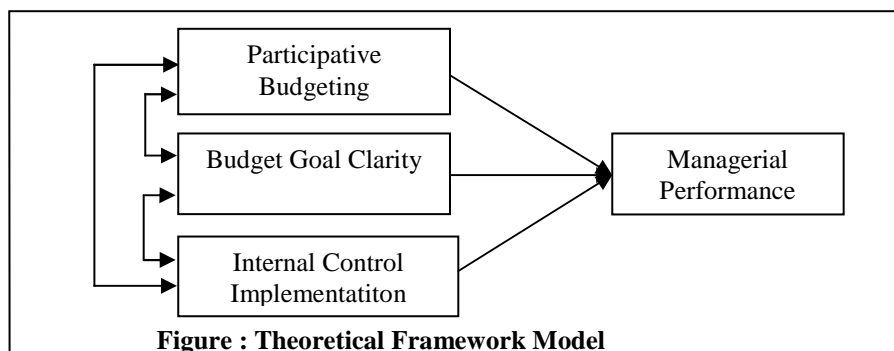
In regard to participatory budgeting, particularly the involvement of structural officials in the sphere of local government then the expected goals which are expected to be achieved by Ahmed (2005) are: 1) acquired programs/activities that better suit the needs and 2) that the parties involved feel they have program/activities that they plan together so that more conscientious and responsible in its implementation. Budget goal clarity (*budget goal clarity*) has positive effect on organizational commitment, satisfaction and achievement of employees (Kenis. 1979, Michele, 2003, and Darma and Halim, 2005). Participation in the budgeting process will motivate individuals to share information involved in making the decision to give the best for the organization that have an impact on their performance in carrying out the task (Kong, 2005). Participation in budgeting (*budgetary participation*) and the clarity of the budget target (*budget goal clarity*) is a dimension of budget characteristic (Kenis, 1979). Clarity of budget target (budget goal clarity) illustrates the extent of the budget which is stated clearly and specifically, as well as understood by the parties who are responsible for achieving the budget targets set (Kenis. 1979). The research results of Locke and Latham (1990) stated that the determination of the specific budget targets are more productive than if there was no targeting. Targeting budget will clearly encourage employees to show their best performance (Darma and Halim, 2005). From the previous description it can be said that the budget goal clarity of government organizations is crucial in achieving success of local device working unit.

The failure of the organization in achieving its intended purpose can occur because of weakness in one or several stages in the internal control process (Utlely.1999). So that organizational goals can be achieved, the control system must be supported by other devices in the form of organizational structure in accordance with the type of management control which are used, human resource management and supportive environment. All of the above elements should be able to support the implementation of organizational strategy. The organizational structure is manifested in the form of the central structures of accountability (*responsibility centers*) (Mardiasmo, 2009). The use of the control system will lead to better improved organizational performance to drive decision-making by managers (Fogelberg and Griffith, 2000).

The purpose of management control systems in the public sector is essentially inseparable from efforts to improve management performance and improve internal accountability that have an impact on society (Jones and Pendlebury, 2000: Mardiasmo, 2002, and Soebaroyen, 2006).

Relation of participatory budgeting variables, budget goal clarity, internal control and performance is that high participation in budgeting gives managers the opportunity to participate in determining how the budget will be prepared in accordance with the budget target of part or their respective divisions. The officers are involved in the budgeting process because they have sufficient information to accurately predict the future, so their involvement or participation in budgeting will clarify the objectives to be achieved in each their work unit. Then with clear goals, it will facilitate the individual preparing the budget targets, that the budget targets can be achieved if they are run in accordance with the principles of internal control that are set so that the performance of the organization can be achieved completely.

Linkages between research variables can be described in the following chart framework



To test this model, the following hypothesis were proposed as follows:

Hypothesis 1: There is the influence of participatory budgeting, budget goal clarity and implementation of internal control simultaneously on managerial performance

Hypothesis 2: There is the influence of participatory budgeting, budget goal clarity and implementation of the internal control partially on managerial performance .

4. Methods

The research method is descriptive verification and survey. Unit of analysis in this study is the North Sulawesi provincial government and the research sample unit is head of working unit (SKPD) district/city of North Sulawesi province Republic Indonesia. The sampling method used is proportionate stratified random sampling

the sample size is as much as 78 working unit (SKPD). Before analyzed, firstly the data collected tested by test of validity and test of reliability. Testing is done by testing the data path analysis (path analysis) so that the ordinal data obtained is converted into interval data by using the method of successive intervals (MSI).

5. Results and Discussion

The results of the study path coefficient calculation obtained from the calculation of the path coefficients as shown in the following path structure equation: $Y = 0.532 X_1 + 0.418 X_2 + 0.522 X_3 + \epsilon_1$. The results were obtained path coefficient for the effect of participative budgeting on managerial performance (P_{yx1}) of 0.532. Path coefficient for the effect of budget goal clarity on managerial performance is (P_{yx2}) 0.418 and the path coefficient for the effect of the implementation of the internal control on managerial performance is (P_{yx3}) 0.522.

5.1. Simultaneous Path Coefficient Tests

From Table F for a significance level of 0.05 and degrees of freedom $db_1 = 3$ and $db_2 = 78 - 3 - 1 = 74$ obtained $F_{0.05(3;78)} = 2.728$. Since it was obtained value of F_{count} is greater than F_{table} ($66.279 > 2.728$), it can be concluded to reject H_0 . So based on the test results it can be concluded there is a significant effect (real) jointly between participative budgeting, budget goal clarity and implementation of internal control on managerial performance.

5.2. Partial Path Coefficient Tests

Further partial testing conducted to see the significance of (significant) effect of X_1 , X_2 and X_3 partially on Y . Hypothesis testing is done by looking at the ratio of t_{count} value with t_{table} value. H_0 is rejected because the t_{count} value is greater than the t_{table} value. T_{table} value variables X_1 , X_2 and X_3 for a 5% error rate and degrees of freedom ($db = 78 - 3 - 1 = 74$) was 1.993. The calculation result obtained t_{count} X_1 variable is 8,646, X_2 variable is 6,756 and X_3 variable is 8,328. Empirical test results in partial states X_1 , X_2 and X_3 variables reject H_0 or in other words a significant test accepts H_1 . This decision was taken because obtained t_{count} which was greater than t_{table} and significance value for X_1 , X_2 , and X_3 is smaller than 0.05. Partial test suggests that there is significant influence of each variable on managerial performance.

5.3. Participative Budgeting Influence, Budget Goal Clarity and Implementation of Internal Control on Managerial Performance

The dimensions of the overall/simultaneous participatory budgeting variable, budget goal clarity and implementation of internal control of managerial performance is indicated by the R-square value (R^2) of 72.9%, while the influence of other factors approximately 27.1% as budget gaps, organization commitment, decentralization, and other factors.

The results showed a partial effect of X_1 directly to Y is equal to 23.95%. Interpretation of the results showed that the effect of participatory budgeting on managerial performance. This means that the higher the level of their involvement, it will improve managerial performance. Referring to the table strengths among the variables, the effect of participatory budgeting on managerial performance is in the moderate category. It is suspected that the basic essence of the performance budgeting (*performance budgeting*) is not understood well by officers who are in areas with measurable working indicators that are based on the principle of *value for money* which is known as the economical, efficient and effective.

The influence of X_2 on Y is by 22.08 %. Interpretation of the results showed that the budget goal clarity affects on managerial performance. That is clearer and more specific that budget targets to be achieved and understood by the parties who are responsible for the achievement of the budget targets will improve managerial performance. Referring to the strengths table among the variables, the influence of budget goal clarity is in the moderate category. This indicates that the understanding of the government over the budget target to be achieved still needs to be improved.

The influence of X_3 on Y is by 26.87%. Interpretation of the results showed that the implementation of internal control significantly has positive effect on managerial performance. This means that the better implementation of internal control will improve managerial performance. Referring to the table strengths among the variables, the influence of the implementation of internal control is in the moderate category so that it is necessary understanding and better application over government internal control.

6. Conclusions

Referring to hypothesis testing, analysis results, and discussion and findings of research, it can be argued some research conclusions as follows:

1. Simultaneously participative budgeting, budget goal clarity and implementation of internal control have significant and positive effect on managerial performance. It can be interpreted that the exclusion of the structural officials in the budgeting process, the enactment of the budget targets more clearly and can be well

- understood by those as the implementing agency and supported by good internal control will improve managerial performance of their organizations.
2. Partially participative budgeting, budget goal clarity and implementation of internal control have positive and significant effect on managerial performance. This may imply that the involvement in the budgeting process, the enactment of the budget targets more clearly and can be understood by the implementers, as well as the implementation of internal control systems both at work unit and local government device can improve the performance of managerial personnel in each agency.
 3. This study seeks to combine participative budgeting, budget goal clarity, internal control systems and managerial performance variables by reason of adequate service to the public and stakeholders as a performance indicator will be created when the organization internal conditions are conducive which means the leaders and subordinates involved in the planning process and implementation of the budget, programs, and activities based on the duties and functions of each SKPD, understand what needs to be achieved by the organization and it is supported by good internal control that will affect the improvement of managerial performance of local government.

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