

Assessment of Financial Performance : Transformational Leadership and Budget Participation Effect with Mediating of Strategy Management (Study of Indonesian Hospitals)

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Abstract

The purpose is obtain empirical evidence about the effect of transformational leadership and participation in budget towards on strategic management, strategic management influence on financial performance, and the effect of transformational leadership in budgetary participation, the influence of transformational leadership on financial performance through participation in a budget, and the effect of transformational leadership and participation in the budget financial performance through strategic management. Research used survey data collection methods. Samples were obtained from government and private hospitals in the city of Bandung Indonesia. The research using a survey organization level, by collected samples from 30 hospitals with 110 units of the respondent, the lowest value represent by adjusted R square.

Keywords Indonesian, Hospitals, Transformational Leadership, Budgetary Participation, Management Strategy, and Financial Performance

1. Introduction

The important indicator of economic development that affect the quality of human life is the Human Development Index (HDI) it was introduced by Amartya Sen by using the three calculation basis of healthy, education and decent living (Firmanzah, 2012). Under IPM, then healthy is one of the bases the calculation on how the general condition of healthy services in Indonesia. Some phenomena of this is shown through the State Audit Board report for the period of 1st July to 31 December 2011 which was submitted to the legislature in the House of Representatives plenary session in Jakarta concluded that the healthy care government hospitals and healthy services are still poor and government healthy services is still less effective, healthy care in the inpatient unit below three standard classes and the additional increase of drug prices charged to patients (Purnomo, 2012a).

To that end, healthy stakeholders must be able to making a planning, financing, implementation, evaluation, treatment, development of healthcare services throughout the media in a professional manner with respect to the values of philosophy economical, efficient, effective, and outcome (Value For Money) clear, (Mardiasmo, 2009:4).

In hospital business management often thought that is just about the product, but more important element is services and a mindset is often overlooked (Subanegara, 2008). That is why several patients seek treatment to abroad, and the country was losing foreign exchange in category of health care spend of U.S. \$ 700 million (around Rp 6,3 trillion). The highest treatment rate in Indonesia was not separated from the high taxes imposed by the government on medical devices, pharmaceuticals production tax (90 % of imported raw materials), import duties and luxury taxes that total could reach 15 % -30 %, as well as specialist services that until now there has been no default (Widjayarta, 2011). The other hand, to recruit specialists in general hospitals (hospitals) it is very difficulty, because of they already practicing in private hospitals and procurement personnel will have an impact on the budget (Hadianto,2012).

Findings Maiga and Jacobs (2009) said that managers in a hospital is very important because it is intended for hospital managers to achieve process and clinical quality while reducing cost and patient satisfaction in order to achieve a desired profitability.

Another phenomenon that appears in every healthcare organization is facing significant pressure to provide various services to public within a limited budget.. The function of participatory approaches is expected to the affect subordinate commitment to budgetary goals through their involvement in budgeting process (Brownell, 1982) and within budget targets (Shield and Shield, 1998). In addition to the performance-based budgeting of output-oriented organization and is a tool to improve the performance and accountability (Shah and Shen, 2007).

Research conducted by Kyj and Parker (2008) found that subordinate participation in the budgeting process can also be increase for a job satisfaction and impact on the fairness and honesty in evaluation of their performance. Another occasion, Chong and Leung (2003), found that the level of budgetary goal difficulty and goal commitment budget. (Wickramasinghe, 2008; Wickramasinghe et al., 2008), in Lonial et al. (2008) that in

the service sector, especially on the healthy care industry has become one of the fastest growing industries that are characterized by increased competition.

Edward (1986), said that the management strategies associated with choosing a domain environment, specify a natural interaction, and make internal adjustments made suggested or required by these choices. (Barney and Hesterly, 2010; 4) provides that the definition of a strategy is defined as a theory about how to gain competitive advantage.

On the fact, customer in healthy care is not only important for achievement of continuous profit or hospital survival, but also increase the effectiveness, efficiency, and the best way bring into reality outcomes according Baalbaki, et al. (2008).

Be based on background of this research, the researcher is interesting in study the phenomenon of transformational leadership, participatory budgeting, strategic management and financial performance in the healthcare industry particularly hospital services in the Greater Bandung area. The reason for choosing the hospital because of (1) The budget process in generally hospitals have a level of complexity, (Purnomo, 2012b), (2) The hospital is now facing demands from society in order to improve the quality of service, as well as efficiency and effectiveness in providing healthy care services to the condition of a limited amount of budget (Maddalena, V, 2012), (3) The level of competition is more competitive, (Wickramasinghe, 2008) in Lonial, et.al. (2008).

2. Review of Literature

2.1. Agency Theory

Application of Law No. 22/1999 in Regional Autonomy of the Local Government in particular on 2001, opening the opportunity for researchers to examine of using agency perspectives (agency theory). In this condition, the relationship between two exist its called agency relationship, gives the authority and the receiving authority (agent) (Abdullah, 2004).

2.2. Transformational Leadership

Yukl (2010:277) registered some theories of transformational leadership or inspirational strongly influenced by the ideas of Burns (1978). Bass (1990) in research distinguish between transformational and transactional leadership.

The transformational leadership generally involves values, trust, integrity, fairness, ethics, vision, charisma, agents of change, motivation, communication, clear goals and standards (Avolio and Bass, 2002; Bass, 1985), (Bass, 1985). Transformational leadership transform followers into the leaders (Avolio and Bass, 2002). Bass (1990) suggested that transformational leadership can make a difference in organizational performance.

2.3. Budget and Budget Participation

Public sector accounting has developed very rapidly because of the greater demands from the public to do the transparency and public accountability (Mardiasmo, 2009:1). Employee participation is needed in the organization to enable the effective integration of critical information from a variety of sources in order to obtain individual managerial commitment to the budget (Barfield, et al., 2004).

2.4. Strategic Management

Strategic management is the process of identifying, collecting, selecting and analyzing accounting data to help management team for making strategic decisions and to assess the effectiveness of the organization.

2.5. Financial Performance

The selection of performance measures its depend on the nature of the incentives conflict in organizations, industry, and competitive environment.. Dunk (2005) wrote the performance measurement system plays an important role in the development of planning –(strategies and in evaluating the organization's goals) .

Kaplan and Norton (1992) suggests that financial performance measures should be complemented by measures that are operational in order to obtain a better understanding of the performance of the company.

Dunk (2005) provide articulati company theoretical and empirical evidence on the role of four specific non-financial measures is considerable concern in the performance evaluation literature.

3. Theoretical Framework

Framework of this research begins on a reasoning about human aspect of the business needs, the theory underlying consideration of the theory hierarchy needs proposed by Maslow. Humans first requires psychological needs as demand is directly related to human physical such as clothing, food, housing, and family needs. According to Maslow's pyramid of needs theory. Agency theory can be used to explain the phenomenon of the interaction between the principal and the agent. Jensen and Meckling (1976) it was explained that the

organization is a nexus where the contract between the principal and the agent, then both parties have an interesting in maximizing their economic benefits.

3.1. Effect of Transformational Leadership Against Strategic Management

Recognition of significant leadership in effecting change a successful strategy in the organization has grown in recent years (Lorne Hartman, 1999).

Ozur Ugurluoglu et al. (2010), all actions as leaders, change, manage, politics and ethics are used, the effectiveness of careers related to health managers. Transformation and political action is more often used as an environment perceived to be more stable (Anna C. Gaughan, 2001).

3.2. Effect of Budget Participation on Strategic Management

Research Purvanova, et al, (2006) showed a positive relationship between transformational leadership and followers managers' citizenship performance. Masi and Cooke, (2000) the leadership single method may not be a strong enough stimulus to change norms.

Whittington and Goodwin (2001) showed that transformational leadership is consistently associated with higher levels of follower effort, performance, and satisfaction with the leader.

3.3. Influence on Performance Management Strategic Finance

The high- speed of changes caused by globalization, technological innovation, fierce competition, and the growth rate of knowledge has created great turbulence within the organization. Speed and uncertainty these changes makes it difficult to use past experience to plan future action (Davis and Bryant, 2003). Schein , (2004), said that globalization and competition requires extensive bureaucratic organizations for further improve the quality of its performance.

Mohammed H, (2010) says that managers use management accounting information system as a process of determining company's strategy. The study of management strategy emphasizes monitoring and evaluating external opportunities and threats to determine the strengths and weaknesses of an organization (Kenneth, 1987).

3.4. Effect of Transformational Leadership Against Budget Participation

Adler and Reid (2008) suggests that the interaction between transformational leadership with participation increasing budgetary impact on job satisfaction and job performance.

Healthcare organizations face immense pressure in providing various services to the community in a situation of limited budget. (Maddalena, 2012). A transformational leadership method and human resource management practices are strong have helped Majan University College, Oman, to win a series of awards for good business practice. The main leadership styles that exist between senior and middle managers in Majan college is transformational, although there is also evidence of the authoritarian, participative and delegative leadership style (Ahmed et al, 2003).

3.5. Effect of Transformational Leadership Against Financial Performance of Direct Indirect Through Participation Nor Budget

Maiga and Jacobs, (2009) suggests that the role of leadership in health care can not be overemphasized. According Maiga and Jacobs (2009) health care institution is now required in order to improve the quality of care, so that patients are willing to pay for the use of healthcare services. Transformational leadership encourages followers to achieve performance improvements, Bass, (1985).

Nemanich and Keller (2007) found that the transformational leadership relates to the performance of subordinates, job satisfaction, and revenue acquisition in the context of major changes in the organization of acquisition integration. Krishnan (2005) shows that there is a positive effect of transformational leadership on outcomes with increasing duration of the relationship between leaders and followers in terms of suitability and identification. Barling, et al. (1996) demonstrated the effectiveness of training managers in transformational leadership significantly affect subordinate organizational commitment and subsequent support level changes in the financial performance of branch offices. The same thing is showed by Avolio and Bass (2002).

3.6. Effect of Transformational Leadership on Financial Performance Directly or indirectly through Management Strategy

Maiga (2005) stated the importance of participation in the budget as a tool to improve performance, budgetary participation also serves as an information function, which subordinates can gather, exchange and disseminate information relevant work to facilitate the decision-making process and communicate personal information to organizational decision makers.

Deery and Shaw (1999) and LaLopa (1997) in Desmond Yuen (2006) stated that the healthcare services industry is characterized by low employee morale and high employee turnover. The draft budget which

means better employee job satisfaction and morale can be improved and a high turnover rate can be reduced. Fisher, et al. (2002) use the budget for two purposes such as allocating resources and evaluating the performance of not only reduce budget slack indication, but also increase subordinate effort and task performance.

3.7. The effect of Budget Participation on Performance Financial Directly and indirectly through strategic management.

Organizations use budgets to plan, coordinate, and communicate the performance in question, then to evaluate and appreciate the actual performance. Roman L. Weil and Michael W. Maher (2005: 9). Budgeting is basically just the operating plan, and even the most basic business efforts must be motivated by some kind of plan Vataliya (2009). Budget participation may mediate the association between the use of evaluative budget and the work of Larissa Kyj and Parker (2008). Maiga (2005) found that environmental uncertainty as antecedents and commitment to budgetary goals as a consequence of both budgetary participation variables that provide information in explaining the relationship between budgetary participation and managerial performance.

4. Study Models and Hypothesis

Based on the prior literature discussion, the conceptual model is shown in figure below:

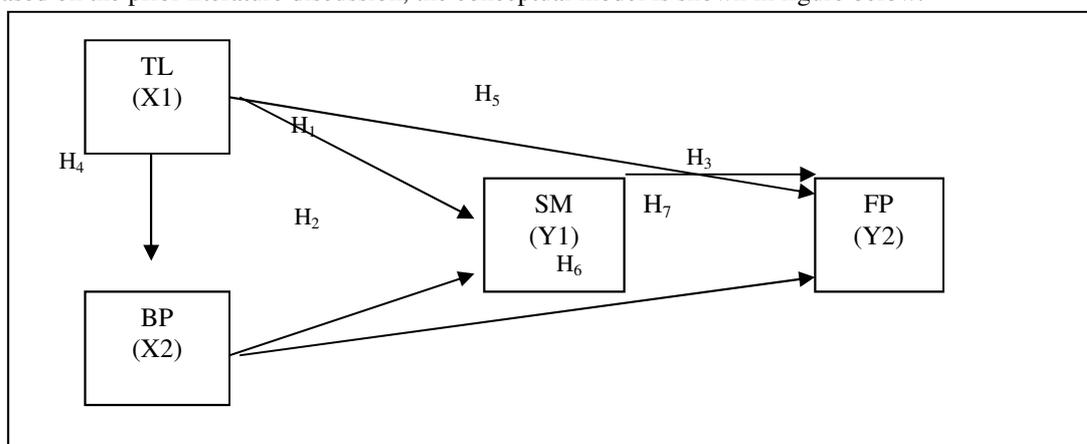


Figure: Theoretical Framework Model

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

- H1: Transformational Leadership influence on strategic management
- H2: Participation in Budget effect on Strategic Management
- H3: Strategic Management influence on Financial Performance
- H4 : Transformational Leadership influence on Budget Participation
- H5: Participation budget transformational leadership mediates the relationship with financial performance.
- H6: Management strategy transformational leadership mediates the relationship with financial performance
- H7 : The management strategies mediate the relationship budgetary participation and financial performance.

5. Methodology

5.1. Population, Sample, and Data Collection Techniques.

The study population of leaders, managers and employees the hospital in West Java Province and surrounding areas who are directly involved in preparation of the budget.

Purposive sample was determined based on the criteria of (1) has served as a director and has esalon II, III, and IV in the form of the head and deputy head installation, head office, and the head of sub-areas. Data collection using the survey technique with questionnaires sent directly to the appropriate respondent addressed.

5.2. Operational Definition and Measurement of Variables , and test of Hypothesis

Financial performance is a result of the work is the personal appearance of both quantity and quality within an organization, also the performance can be an individual or group performance personal work (Pane, 2012). Financial performance is measured using the instrument developed by Lonial, et al. (2008). Transformational leadership is an activity undertaken to motivate subordinates to maximize performance through changes in attitudes and beliefs subordinates by articulating a vision, providing care, individually, increasing creatifity, as well as providing personal recognition to subordinates, (Avolio and Bass, 2002). Transformational leadership was measured using multifactor instrument Leadership Questionnaire (MLQ), which has been revised by Bass and Avolio (1996) in Popper , et.al. (2000).

Participation in the budget is a plan to coordinate the various business operations stated in the financial (Vataliya, 2009). This study uses four questions to determine the position of budget participation has been made by Ken Milani (1975). Strategic management is the process of identifying, collecting, selecting and analyzing accounting data to help the management team to make strategic decisions and to assess the effectiveness of organizations by Zahirul Hoque (2003, p 2). This study uses an instrument developed by Hitt et al (1996) in BR Barringer and AC Bluedorn (1999).

All variables were measured using a 5-point Likert scale ranging from strongly disagree (1) to strongly agree (5). Once the data is collected then performed a data quality test validity and reliability. Hypothesis Testing 1, 2, 3, 4, using regression testing and hypothesis 5, 6 and 7 using path analysis.

6. Result

Model test results for Model 1 shows the value of R (0.22) and adjusted R² (0.016) with a p-value (0.237) which explained that the 1.6% variation budgetary participation can be explained by variations in transformational leadership. 2 model test results show that the adjusted R² (0.644) this means that 64.4% of the variation can be explained by the strategic management of variations transformational leadership and budgetary participation variables. While the test results show that the model 3 adjusted R² is 0.258 this means that 25.8% of the variation in financial performance can be explained by variations in transformational leadership, strategic management, and budgetary participation variables.

Hypothesis 1 states transformational leadership influence on strategic management. Statistically significant p value of $0.312 > 0.05$, which means that α has no effect on transformational leadership strategic management, thus H1 is not supported. Non-acceptance of H1 indicates that the phenomenon occurs in carrying out its role, leaders who do not understand well the needs of the organization in the end could not make strategic management. Not influential transformational leadership on strategic management due to: (1) The hospital administrators who responded to the government owned hospital perform its role in accordance with the portion of its authority, (2) At the hospital level promotions and group work that refers to the length of the strategic management process does not require special skills, because all have been determined by the Regional Executive and the Regional Representative Council, (3) In private hospitals, the leadership of the hospital did not have the authority to create a management strategy for all has been determined by the Foundation and the Committee on Trustees.

Hypothesis 2 stated budgetary participation affects the strategic management. Statistical test results showed $p = 0.000 < 0.05$, which means that α budgetary participation affects the strategic management, thus H2 is supported. The acceptance of this hypothesis suggests that the participation of the budget that is well run to give the spirit of innovation, a sense of belonging, responsibility ultimately exceeded its authority that the process is efficient and effective evaluation in strategic management process. In the end, the findings of this study indicate that changes institutional budget planning style can have an impact on better strategic management.

Hypothesis 3 stated strategic management influence on financial performance. Statistically significant value of strategic management variables on financial performance is $0.309 p > 0.05 \alpha$. This means that transformational leadership does not can be affect to the strategic management, the H3 is not supported. So it can be said that it is not influential strategic management of financial performance in this study due to the strategic development process that occurs is not a result of management thinking fruit now because the findings are in line with hypothesis 1, that provide information that transformational leadership does not affect the strategic management. Furthermore, strategic management processes that do not effective, given the hospital organization run its business activities and tasks of social task that required the state to provide maximum services at a relatively low cost as the government-owned hospitals and hospital security defenses (Defense).

Hypothesis 4 states transformational leadership influence on budgetary participation. Statistically significant p value of $0.237 > \alpha 005$ which means that transformational leadership does not affect the budget participation, thus H4 is not supported. These results can be concluded that transformational leadership is a unique leadership model, meaning that application should be determined by the background run business entity. In certain situations eg climate increasing competition and pressure by the public for transparency, this condition is applied motive for transformational leadership model. More over it is not supported this hypothesis is also caused by the characteristics of hospital institution in Indonesia is still traditionally in business environment in view, and the nature of leadership is too poor without course of budgetary participation.

Results of path analysis (path analysis) for the hypothesis formulated 5 budget participation transformational leadership mediates relationship with financial performance. The test results demonstrate the value of interaction paths (1) and (6) -0.08 with p-value $0.003 < \alpha 0.05$, which means that budgetary participation mediates effect of transformational leadership with financial performance. Thus H5 was supported. Accordance with the meaning of beyond budgeting, (Hope and Fraser, 2003), the application of transformational leadership will support the implementation of a flexible organizational structure and design adaptive management process,

to provide the opportunity for subordinates to take part in the business process for the grant of authority and corresponding responsibilities, ultimately to improve financial performance. This condition also shows that the presence of the mediating effect of participation in the budgetary effect of transformational leadership on financial performance in support of the agency theory. Participation in the budget will be able to the lower the tension in the public sector agency problem between the House of Representatives and Local Government.

Hypothesis 6 stated strategic management of transformational leadership mediates the relationship with financial performance. Path value obtained for this hypothesis is 0.034 with a $0.096 > p > 0.05$, which means that α strategic management is not mediate the relationship of transformational leadership with financial performance, for the H6 is not supported. This condition occurs due to strategic management can not be practiced by the real leaders of the hospital organizational unit, because made to the nature of the research unit of analysis is the hospital which was mostly non - profit. The existence of transformational leadership and has not run good fact, because as a leader, chief or head of the field, just run the decisions and policies of " leaders " who according to the writer very tiered and sensitive. To mention a figure or policy when the interviews, respondents were very cautious because they think the " sensitive area ". If this will not affect either exposed for the future " career " of them.

Hypothesis 7 stated that strategic management participation mediates the relationship with financial performance budget. The test results demonstrate the value of the path with $p = 0.000 < 0.226 < 0.05$, it means that α strategic management of participation mediates effect of the budget on financial performance. Thus H7 are supported. Strategic management is a systematic pattern used by organizations in the allocation of available resources, the process of identifying, collecting, selecting and analyzing accounting data to helping the management team for make strategic decisions and to assess the effectiveness of the organization. In the end there was an efflorescence of values, norms and goals of the organization in a comprehensive manner then members of the organization have the same understanding in realizing the ideals of the organization. Path analysis results can be illustrated in the image below.

7. Conclusions

The results showed that transformational leadership does not be affect to the strategic management. Increased participation in the budget will provide an opportunity to evaluate the strategic management. Strategic management is actually a pathway map for the organization, but the effort to reform the institution is not running because of the hospital is still in the intersection, like a business or non - profit. Financial performance is the estuary end a series of management processes and the production of goods or services, more over the good leadership, flexible budgeting, and strategic management are together can be a force in moving the organization towards achieving as a vision and mission. In mediating the strength shown by participation in the budgetary effect of transformational leadership on financial performance, informs that there are benefits if the institution running the hospital 's participation in the preparation of budget, because it will have an impact on financial performance. In mediating the strength shown by the effect of strategic management on budgetary participation on financial performance, providing valuable lessons that strategic management will be effectively if the institution of hospital implementation transformational leadership model as well, as it will encourage the active participation of members in the organization.

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