

Managerial Performance in Indonesia Local Government: Impact of Budget Participation and Budget Goal Commitment

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Abstract

This study examined the effect of budget participation on managerial performance through budget goal commitment. The study was conducted in local work unit (SKPD) Medan, Indonesia. Respondents in this study were middle managers involved in the budgeting process in SKPD Medan. Data collected by distributing questionnaires as much as 93 questionnaires to respondents. The results show that the budgetary participation and budget goal commitment affects managerial performance directly, budgetary participation also affects the budget goal commitment directly and budgetary participation indirect effect on managerial performance through budget goal commitment.

Keywords : Budgetary Participation, Budget Goal Commitment, Managerial Performance.

1. Introduction

Government organizations both central and local governments have an obligation and is responsible for accountability performance. The excellent performance of an organization can be realized starting the existence of a clear goal of the organization, and for the achievement of the objectives required a good planning. The local government must have a plan that can be contained in the form of budget. Budget is not just a financial plan associated with the establishment of the organization's objectives, costs and revenues responsibility centers within the company, but also a tool for control, coordination, communication, evaluation of performance and motivation (Kenis, 1979). Budgeting is very important to achieve targeted performance in the strategic orientation of the company as well as for direct and indirect relationships with strategy (Yucel & Gunluk, 2007). Budget should reflect the needs of an organizational unit, so that the budget can be used to the maximum, to achieve this required the participation of all personnel involved in the preparation of the budget. Participation is a concept used to describe the extent to which subordinates are allowed to choose their own actions (Milani, 1975). subordinates with high performance tend to have more than the budget participation of subordinates with low performance (Eker, 2008). Budget participation is also an important tool for planning and motivate subordinates performance (Yucel & Gunluk, 2007.).

Chong & Johnson (2007) stated the reason for the participation of the budget is for planning and goal setting, and for the purpose of motivation. Budget participation provides a budget goals that affect the commitment of subordinates (Chong & Chong, 2002). In addition, budgetary participation provides opportunities for subordinates to set goals that are difficult budget but can be achieved (Chong & Johnson, 2007) and participation in the budgeting process serves to stimulate subordinates to accept and are committed to the purpose of their budget (Verbeeten, 2008). Budget participation will make subordinates feel appreciated, so they will try to succeed budget prepared and set goals as well as the budget will seek to commit to run a set budget although it's hard to do. subordinates are very committed to exert extra effort to achieve the goals of their budgets, which in turn increases employee performance (Chong & Johnson, 2007).

Studies that examine the relationship budgetary participation and managerial performance have been done on them is done by Brownell and Mc Innes (1986); Wagner III (1994); Frucot & Stephen (2006); Brownell (1981); Lopez et al. (2009); Chong & Wing (2003); Yahya. Et al (2008); Yucel & Gunluk (2007) and the results show a direct relationship between budgetary participation and managerial performance. Chong & Chong (2002) found that the budget goal commitment is influenced by budgetary participation. While Maiga (2005) examined the relationship budgetary participation and budget goal commitment, participation by dividing the budget into two parts as communication budget and budget influence, the results show that the communication budget and budget influence has a positive and significant relationship with the budget goal commitment. Then Chong & Wing (2003), which examines the relationship budgetary participation and managerial performance through budget goal commitment, results show that the existence of a positive and significant relationship. The problem in this study is whether there is the effect of budget participation on managerial performance either directly or through the budget goal commitment.

2. Review of Literature

2.1 Budget Participation.

Milani (1975) said that Participation is a concept used to describe the extent to which A subordinate is allowed

to select his own courses of action. While Murray (1990) states that participation as mental involvement / thoughts and emotions / feelings of a person in a group situation that prompted him to contribute ideas to the group in an effort to achieve the goals and objectives as well as partly responsible for the achievement. Connected with budget participation, many definitions have been given by the researchers. Brownell (1982) Budgetary participation define as a process whereby subordinates are given opportunities to get involved in and have influence on, the budget setting process. Then Siegel dan Marconi (1989) menyatakan participation in the budget making process is acclaimed by many as a pariacea for meeting the esteem and self actualization needs of organizational members.

2.2. Budget Goal Commitment.

Sheldon (1971) defines commitment as a positive evaluation of the bond between the individual (employee) and organization (employer). Commitment is the key to superior performance and development of a strategy to build the commitment (Coe et al, 2008). Meyer and Allen (1991) identified three types of commitments that affective commitment, continuance commitment, and normative commitment. Affective commitment is defined as the identification of emotional attachment and involvement that an employee has been involved in the organization and its objectives (Mowday et al, 1997, Meyer & Allen, 1993; O'Reily & Chatman). Porter et al (1974) characterizes the affective commitment on three factors:

1. Confidence and acceptance of the organization's goals and values,
2. Willingness to focus its efforts on helping the organization achieve its objectives,
3. Desire to maintain organizational membership.

Continuance commitment is the willingness to remain in an organization because the employee is also an investment that can not be transferred. Continuance commitment also includes factors such as length of employment or benefits that can be received by employees which is a special feature of the organization (Reichers, 1985). Meyer & Allen (1997) further explains that employees who are committed to the continuation of the employer would be difficult for the employee to leave the organization. According Bolon (1993), normative commitment is a commitment which a person believes that the company is part of their responsibility. Budget goal commitment is the encouragement of the individual to do something in order to support the success of the organization through the internalization of budget goals (Wentzel, 2002). While Locke et al.(1981) defines budget goal commitment as strong determination to strive to achieve the objectives of the budget and constantly strive to achieve it all the time.

2.3. Managerial Performance

Performance is a multidimensional construct, measurement also varies depending on the complexity of the factors that make up the performance (Mahmudi, 2010: 6) Mahoney et al (1963) see the manager's performance based on the manager's ability to carry out his managerial duties. Manager's performance includes the ability of managers in planning, investigating, coordinating, evaluating, supervising, staffing, negotiating and representating. Based on the above understanding can be said that the managerial performance gains of managers in managing the organization in its function as a manager.

3. Theoretical Framework and Hypothesis Development

3.1. Effect of Budgetary Participation On Managerial Performance.

Budgeting is essential to achieve the targeted performance in the strategic orientation of the company as well as for direct and indirect relationships with strategy (Yucel & Gunluk, 2007). Budgetary participation define as a process whereby subordinates are given opportunities to get involved in and have influence on, the budget setting process (Brownell,1982). Then Yucel & Gunluk (2007) states budgetary participation is an essential tool for planning and motivate subordinates performance. Involvement of managers in the budgeting process is expected to cause a feeling appreciated, increasing the sense of responsibility for the budget has been prepared, and will improve the performance of manager. Research that examines the effect of budget participation on managerial performance have been carried out. Yucel & Gunluk (2007) examined Effects of budgetary control and justice perceptions on the relationship between budgetary participation and performance, the results of this study indicate that budget participation effect on managerial performance directly. And then Yahya et.al (2008) examined the effect of budget participation on managerial performance in Malaysia, the results showed that a direct relationship between budget participation and managerial performance. Brownell and McInnes (1986), Frucot and Shearon (1991), Wagner III (1994), Leung & Chan (2001) Chong & Chong (2002), Chong & Wing (2003), Maiga (2005), Frucot & Stephen (2006), Lopez et al (2007), Lopez et al (2009), examined the relationship of participation in budgeting and managerial performance, and the results showed a direct relationship between budget participation and managerial performance. Based on the theoretical framework researchers hypothesize:

H1: Budget participation effect on managerial performance

3.2. The Effect of budget participation on managerial performance through budget goal commitment.

A budget is a reflection of the plans and programs of a unit of an organization that is contained in the form of financial. Involvement of managers in the budgeting process is expected to cause a feeling appreciated, increasing the sense of responsibility for the budget has been prepared, and will lead to the managers committed to achieving the goals set budget, which in turn will improve the performance of managers. Lower level managers who are involved in the budgeting process will be motivated to work seriously and strive with all his ability both communication and cooperation with other employees to be able to perform their jobs well. They will work energetically and in the end will create a high sense of responsibility and commitment on a set budget, and strive to achieve the set budget. The emergence of highly committed managers will ultimately improve their performance.

Studies that examine the relationship of budget participation and managerial performance have been carried out and the results showed a direct relationship between both of them. Chong & Wing (2003) examined the relationship between budget participation and managerial performance through budget goal commitment, the results indicate that participation in the budgeting improve managerial performance through budget goal commitment. Based on the theoretical framework researchers hypothesize:

H2: Budget participation effect on the budget goal commitment

H3: budget goal commitment effect on managerial performance

H4: Budget participation effect on managerial performance through budget goal commitment

Based on the description above framework, the framework can be described as the following chart:

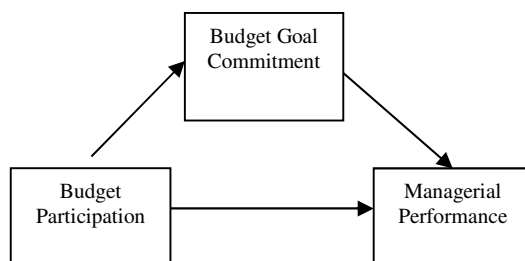


Figure 2.1.
Research Framework

5. Methodology, Finding and Discussion

The method used in this study is exploratory study because it is a study that only inspects or investigates the proposed variables (Cooper and Schindler, 2006). Explanatory study refers to a theory or hypothesis that will be tested as the cause of a phenomenon. The population in this study are all managers involved in the preparation of the budget in the work unit area (SKPD) in Medan City. Respondents in this study is the head of division. Data collection was conducted by questionnaire respondents as many as 99 sets of questionnaires. Budget participation variable was measured using six indicators (Milani, 1975) with a scale of 1-5. Budget goal commitment variable was measured using Latham & Steele (1993) which consists of three indicators, with a scale of 1-5 and Managerial performance variable was measured using Mahoney (1963) with a scale of 1-5.

Hypothesis 1, the results indicate that budget participation influence on managerial performance for middle managers in the SKPD Medan. This suggests that if the involvement of the heads of division in the budgeting process will lead to a sense of belonging and a sense of responsibility towards the work they do, which in turn improve the performance of managerial. The results of this study support the results Brownell and McInnes (1986), Frucot & Shearon (1991), Wagner III (1994), Leung & Chan (2001) Chong & Chong (2002), Chong & Wing (2003), Maiga (2005), Frucot & Stephen (2006), Lopez et al (2007), Lopez et al (2009). The results indicate that participation in budgeting and managerial performance in SKPD Medan is relatively low. One of the causes of low participation in the preparation of the budget is a concern budget users will be delayed their budget approved by the legislature (Parliament) and a delayed local government budget expenditure (APBD) serve local regulations. To avoid delays that the program division along the head of SKPD or budget users and certain people make the SKPD budget without involving the head of division.

Hypothesis 2, the result indicate that budgetary participation influence the budget goal commitment. This shows if the head part involved in the budgeting process will lead to a sense of empathy and have a budget that is structured, so it will lead to a commitment to the head section to achieve the objectives set budget. The results of the study support Chong & Wing (2003), Maiga (2005) and Chong & Johnson (2007). Findings indicate the level of budgetary participation and budget goal commitment commitment for the head of division in SKPD Medan is still low. Their low participation of involvement in the budgeting process causes the lower their commitment to achieving the goal of budgeting.

Hypothesis 3, the result indicate that budget goal commitment effect on managerial performance. It

shows that the higher the budget goal commitment, the higher managerial performance. The influence of the budget goal commitment on managerial performance, due to their commitment to implement of a set budget will boost their morale to achieve a set budget and will ultimately improve performance. This study supports Chong & Wing (2003), Maiga (2005) and Chong & Johnson (2007). Findings indicate the level of budget goal commitment and performance for the head of division in SKPD Medan is still low. The low of commitment by the executors of the budget due to their ignorance of the budget which they will carry. Many programs and activities carried out not optimal even much activity until the end of the budget period is not implemented. It finally showed their performance becomes low.

Hypothesis 4, the result indicate that budget participation effect on managerial performance through budget goal commitment. This study support Chong & Wing (2003).

6. Conclusion

Involvement of the head of division in the budgeting process will improve the performance of the head of division in SKPDs Medan. increased participation in the budgeting process will increase budget goal commitment for the head of division in SKPD Medan. Increased budget goal commitment will improve the performance of the head of division in SKPD Medan. Increased participation in the preparation of the budget will boost the budget goal commitment and will ultimately improve the performance of the head of in SKPDs Medan.

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