

BUDGETARY PARTICIPATION-BASED AS MEDIATING TO ESCALATE MANAGERIAL PERFORMANCES

Evidences from Local Government Officials, Palu, Central Sulawesi

Muhammad Din

Doctoral Student, Faculty of Economics & Business, Diponegoro University
And Lecture Faculty of Economics & Business, Tadulako University
Email: didi_kaili@yahoo.co.id

Tarmizi Achmad

Faculty of Economics & Business, Diponegoro University
Email: t_achmad@yahoo.com.au

ABSTRACT

Current research is aiming at investigating the need for achievement as a prerequisite on local government managerial performances through Budgetary participation-based. This study is to replicate research conducted by Yuen (2007). SKPD of Local Government, Palu, and Central Sulawesi is as the object of this study.

To collect the data, this empirical study deployed purposive sampling technique. 266 questionnaires were distributed within 66 SKPD, which covered the area of Central Sulawesi. Responds rate of questionnaires, 175 respondents returned the questionnaires (66, 29%) which contains of 35 respondents from the head of local government, and 140 respondents from other subordinate local government officers. Structural Equation Model with Warp-PLS 3.0 statistical software was used to analyze data and Sobel test method was used to test mediating variables.

Statistical output demonstrated that need for achievement showed a positive significant relationship on local government managerial performance through the budget participation-based.

Key words : need for achievement, budgetary participation, local government managerial performance.

INTRODUCTION

The change in governmental code of conduct was started since the enactment of law No. 22 in 1999 in Indonesia. Furthermore, it enhanced by the issuing the law No. 32 year 2004 in regards of local government and Law no.33 year 2004 on the equivalency financial between central and local government. These Regulations confirm that local governments have the right to self regulation and administer their interests and manage the funds in accordance with the needs and priorities of each region. In addition to the authorities shifting, technical aspects as well shifting from traditional budget into performance budget (Rahayu, et al: 2007). Performance Budget is based on communities' aspiration in consideration of local condition and capabilities aligned with service performances achieved previous fiscal years.

The process of budget preparation and local budget in local government during the budgetary preparation plan should be conducted participatory by local government working unit (SKPD) with the adjustment limit of KUA and PPA in accordance with executive and legislative establishment. Budgetary participation is considered as managerial approach that could leverage the organizational effectiveness through improved performance of each individual member of the organization or group based on what the executive and legislative established.

Previous research which concerned on the consequences' of budgetary participation in regards of the relationship between budgetary participation and managerial performance showed the inconsistencies. For example Brownell (1982b), Brownell and McInnes (1986), Frucot Shearon (1991), Indriantoro (1993), Sardjito and Muthaher (2007) claimed that the Budgetary participation have a positive significant effects on managerial performance. On the other hands, Millani (1975), Kenis (1979), Brownell and Hirst (1986), stated that budgetary participation has an impact but insignificantly on managerial performance, even in the works of Bryan and Locke (1967) showed the negative effects between these variables.

Due to the inconsistencies, some studies have tried to explain the antecedent of budgetary participation which affects the indirect managerial performance. Shields and Shields (1998) concluded that the study was required not only to notice the consequences' of budgetary participation but also to investigate its antecedents. Current study is going to explain the individual causes to willingly participate during budgeting process. Based on the theory of achievement motivation proposed by McClelland in Robbins (2006), the needs for work achievement as the key factor to succeed, as well as the desire to perform better and efficiently. Thus this participatory budget is considered as an individual method application to do better than before.

The variable of self work achievement is as strongest needs. To achieve the goals, all works should be performed as it s used to. A high self achievement is obtained when it is conducted and performed better than others. Brownell and McInnes (1986) suggested that the manager need motivation to perform better in budgeting, and they who have needs will achieve higher performance and more self motivation to participate compare those with less motivation. Randal (1990) and Yuen (2007) also found that the manager unit satisfaction on need for achievement are shown by the less of less punctuate employees and the attendance.

Based on the aforementioned findings, the present research is again to reinvestigate the impact of need for achievement on managerial performance with budgetary participation as the intervening based on research conducted by Yuen (2007), with the different research object. The distinguish with the previous research is laid on the analysis unit on administration service and justice department which contain three public services in Macau, whilst the research conducted in local government own local working officer unit that provide various services for society.

This study uses path analysis tool with warp PLS statistical software to analyze the impact of need for achievement on managerial performance with budgetary participation as intervening variable as shown at fig. 1 below:

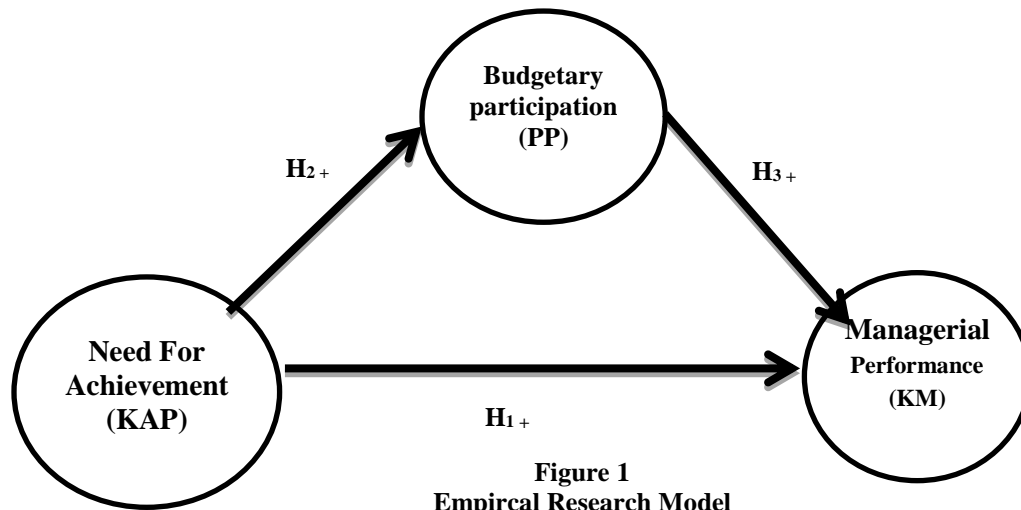


Figure 1
Empirical Research Model

CONCEPTUAL FRAMEWORK

Effect of need for achievement against local government officials Managerial Performance

Alam and Mia (2006) found that there was positive effects between need for achievement with managerial performance mediated by budgetary participation, though didn't show any direct effect between need for achievement and managerial performance. This finding supported by Yuen (2007) that also claim the need for achievement has a positive impact on managerial. Furthermore, Locke (1991) also stated that work achievement will increase the motivation and to achieve performance. Ravlin and Meglino (1987) stated that the need for achievement had the crucial role to motivate employee during the budgetary participation, due to gaining the related information in order to enhance performance.

Thus, local government officer who is willingly to achieve higher work achievement would increase their self motivation to achieve managerial performance during local budget expenditures policy. Based on the previous findings, this research proposed the following hypotheses.

H1: The need for achievement has a positive impact on managerial performance of local government officials.

The effects of work achievement need on budgetary participation

Locke (1982, 1991) and Yuen (2007) stated that a will to work better will trigger the motivation and better work performance. Ravlin and Meglino (1987) and Yuen (2007) suggested also that need for achievement have a determinant factor to motivate the employees to perform better during budgetary participation. A high individual working motivation will bring benefits for organizational members due to the competition interest, individual work tendency and own competitive (Ward, 1993; Subramaniam et al, 2002). Subramaniam et al (2002) highlighted that, there are two reasons for individual to own high work achievement, as they will tend to pursue organizational process as Budgetary participation, firstly, being motivated to direct his or own path carriers, secondly, being involved in budgetary participation will lead them to gain relevant information to guide them to precisely goals. Brownell and McInnes (1986) also found that the managers need motivation to work better during budgetary participation, and they who keen on better work achievement and certain motivation will perform better and more actively to participate compared with those with less work achievement.

Based on to the aforementioned findings, this study would like to reassess the impact of need for achievement on budgetary participation. Therefore, the second proposed hypothesis is as follows:

H2 : The needs of higher work achievement will be positively affect budgetary participation.

The impact of budgetary participation on local government managerial performance

As mentioned before, managerial performance is a key factor that could leverage organizational effectiveness. The impact of budgetary participation on managerial performance is claimed as an interesting theme and topic in the area of management accounting perspective (Lukkas, 1998). Brownell (1982b) mentioned two reasons why it is called so, firstly commonly, participation is evaluated as managerial approach that could increase the performance of organizational members, secondly, various inconsistencies research finding. Merchant (1981), Brownell (1982b), Brownell and McInnes (1986), Frucot Shearon (1991), and Nouri and Parker (1998) showed the significantly positive impact between participatory and managerial. Meanwhile, the insignificant impact demonstrated by Millani (1975), Kenis (1979), Brownell and Hirst (1986). Even the negative impact finding was shown by Sterdy (1960), Bryan and Locke (1967) in Supomo (1998).

Budgetary participation is not always bringing benefits. Previous studies showed the evidences that some factors such the environmental uncertainty (Gul et al, 1995), uneasy tasks (Mia, 1989), organizational structure (Gul et al, 1995), budgetary pressure in working assessment (Brownel, 1982). These variables could moderate the relationship between budgetary participation and managerial performance. For example, Mia (1989) showed that participatory has a positive relationship on managerial performance within complex environmental and uneasy tasks, but has a negative relationship within conducive condition. Gul et al (1995) stated that budgetary participation has a negative relationship on managerial performance with less centralized or even centralized. Current research admits that the relationship between budgets participatory on managerial performance is somehow different within different working condition.

The underlying reason that underlying that participation of managers in the budgetary preparation has an impact on managerial performance, such as psychological theory stated that participatory budget has a correlation on performance through self identification and ego involvement in setting budget goals (Murray, 1990). Secondly, participatory could increase information flow between subordinates and superiors, which leads to increase the observation and decision-making (Locke and Schweiger, 1979; Shield and Young, 1993, in Yuen, 2007). At the end, participatory could show the better performance through learning facilities and knowledge (Parkers and Wall, 1996 in Yuen, 2007).

In accordance to the previous discussion, this current study is intended to investigate the impact of budgetary participation on managerial performance, this to propose the third hypothesis as follows:

H₃ : Budgetary participation has a positive impact on local managerial performance.

RESEARCH METHODS

Current population research is local government officials unit (civil servants) that service in working units (SKPD) Palu, provincial Government. Purposive sampling method was deployed as sampling technique, furthermore this study would like to know the information relates with Budgetary participation that involve middel to low level managers with contains of the head of SKPD or subordinates. The head of SKPD that involves during budgetary preparation and plan. Data collection is conducted by sending the questionnaires. Field visiting is also conducted to distribute the questionnaires. 175 questionnaires were distributed with the 35 unit of local government offices.

This study applies the previous instrument alam and Mia (2006), Yuen (2007). Present study is consisted of endogenous and exogenous variables Variabel dalam penelitian ini terdiri dari variabel endogen dan eksogen. Need for achievement as the exogenous variable whilst managerial performance and Budgetary participation as the endogenous variables. Likert scale with 1 to 7 is applied.

Hypotheses testing used Multivariate Structural Equation Model (SEM). Modeling is consisted of model measurement and structural model. Structural model is intended to test the relationship exogenous and endogenous. Meanwhile model measurement is intended to investigate the relationship among the indicators and constructs or latent variable. This study used SEM with Warp PLS 3 statistical software to analyze the hypotheses. Meanwhile, the mediating variable was analyzed through the sobel test with two steps (baron and Kenny, 1986; Hair, et al, 2011; kock, 2011,2013; Solihin and ratmono, 2013), suggested that in conducting the estimation, the direct impact of need for achievement with managerial performance and the indirect impact of need for achievement with managerial performance mediated by Budgetary participation

FINDINGS

The procedures of hypothesis testing were conducted through two stages of testing related mediating variables, as follows:

1. Direct effect estimation on the need for achievement on managerial performance.
2. Indirect effect estimation with triangle PLS SEM Model, that is the impact of need for achievement on managerial performance, the impact of need for achievement on Budgetary participation and Budgetary participation on managerial performance.

The following is the WARP PLS output on the direct and indirect model.

1. The impact of direct estimation output on need for achievement on managerial performance.

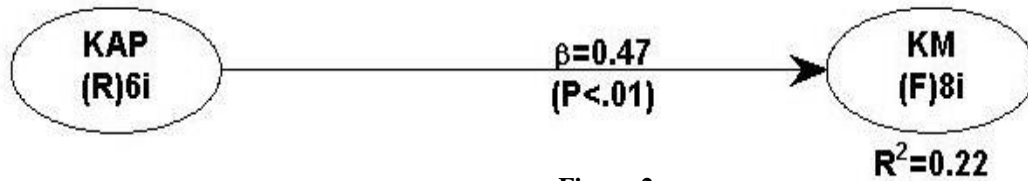


Figure 2
Direct Model
 Need for achievement and Managerial Performance
 Source : Output Warp PLS (Analyzed data, 2014)

2. The impact of indirect estimation output of the need for achievement on managerial performance through the Budgetary participation.

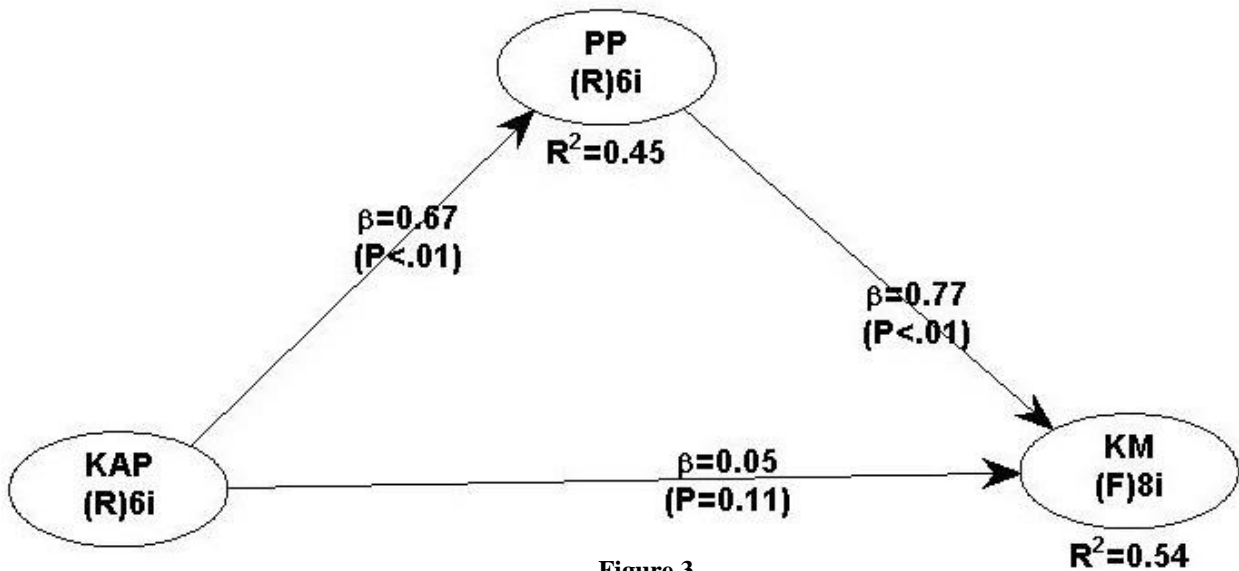


Figure 3
Indirect Model
 Budgetary Participation-Based As Mediating Variable
 Source : Output Warp PLS (Analyzed data, 2014)

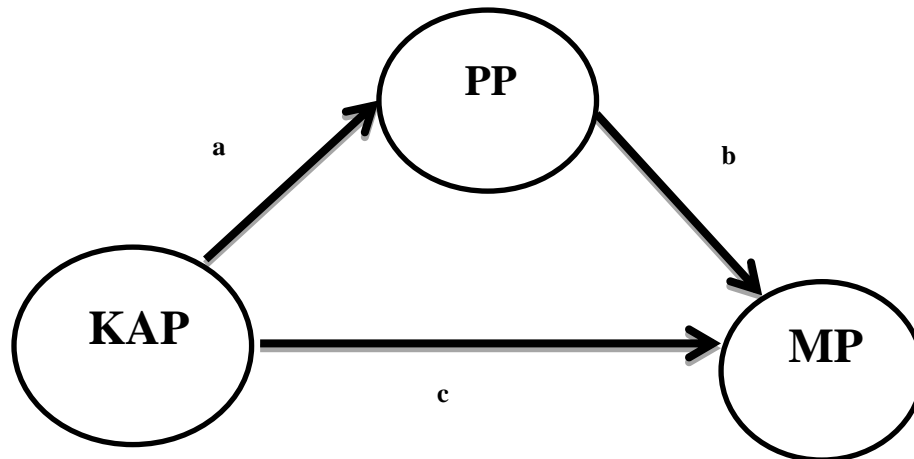
The models Measurement have met the specified criteria (appendix 1). Further assessment is to structural models with the following research hypothesis testing:

Hypotheses Testing

The first hypothesis testing Based on Figure 2, shows that the impact of need for achievement affects managerial performance of local government officials 0.47 with $p < 0.01$., Which means that it has a significantly positive on managerial performance of local government officials. Thus the first hypothesis is supported.

While the second hypothesis is discussed based on Figure 3, it shows that the impact of need for achievement on Budgetary participation at 0.67 with $p < 0.01$., which means that need for achievement has and a significant positive impact on Budgetary participation. Thus the second hypothesis is supported. The third hypotheses indicated that budgetary participation coefficient has an impact on managerial performance at 0, 77 with $p < 0, 01$; this could be meant that budgetary participation has a significantly positive impact on managerial performance, and then the third proposed hypothesis is supported.

Based on the previous model mentioned above, direct and indirect model, the mediating testing is conducted as the budgetary participation plays the mediating variable with sobel test.



| Inputs | | |
|--|---------|---|
| N | 175 | (Sample size) |
| a | 0,6690 | (Path coefficient calculated by WarpPLS) |
| b | 0,7730 | (Path coefficient calculated by WarpPLS) |
| Sa | 0,0470 | (Standard error calculated by WarpPLS) |
| Sb | 0,0480 | (Standard error calculated by WarpPLS) |
| Outputs | | |
| Sab | 0,0485 | (Sobel's standard error for mediating effect) |
| Source : Output Sobel Test with Excel (Analyzed data 2014) | | |
| Tab | 10,6537 | (T value for mediating effect) |
| Pab | 0,0000 | (P value for mediating effect, one-tailed) |
| Pab' | 0,0000 | (P value for mediating effect, two-tailed) |

The following is the summary for Sobel tests

Table 1.1
 Estimated coefficient of direct and indirect model testing

| Effect | Direct Model | Indirect Model |
|-----------------------------|--------------|----------------|
| KAP → KM | 0,47 *** | 0,05 |
| KAP → PP | | 0,67*** |
| PP → KM | | 0,77*** |
| R square (R ²) | 0,22 | 0,54 |
| Indirect Effect (KAP→PP→KM) | | 0,517*** |

Source : Warp PLS Output (Analyzed data, 2014)

Some criterions to be fulfilled as a mediating variable, Baron and Kenny (1986): If the impact of Budgetary participation on managerial performance at the indirect model is significantly and remain still from direct model, thus the hypothesis is not supported.

1. If the impact of Budgetary participation on managerial performance at the indirect model less than indirect model but keep remain significant, thus this is called partial mediation.
2. If the impact of Budgetary participation on managerial performance at indirect model lest than direct model and insignificantly, it is so called fully mediated.

Table 1.1. shows the direct model, Budgetary participation has a significant positive impact on local government managerial performance at coefficient 0,47, meanwhile the indirect model changed at 0,05 and found insignificant. This is to show that the Budgetary participation is fully mediating. In addition, coefficient of Budgetary participation mediation 0,517 and significant which is less than 1 percent. This is to prove that the need for achievement is positively and has a significant impact on managerial performance through Budgetary participation. Besides the output of warp PLS (General Result) showed the APC 0,496 and ARS 0,495 and significant. Meanwhile, the AVIF $1,816 < 5$ (appendix 2). Again, this is to prove that model is supported by data.

Discussion

This findings show the indirect impact of the need for achievement on managerial performance through budgetary participation 0.517. whilst the direct impact of need for achievement on managerial performance 0,47. This finding again to prove that Budgetary participation could mediate the indirect impact of the work achievement needs on managerial performance compared with the direct impact.

This finding aligned with McClelland (in Robbin, 2006), stated that one of the natures in high need for achievement is the individual with strong desires to get the feed back or responses over what he had done on his duty. This, the local government has the high need for achievement try to search relevant information through the Budgetary participation and expect to get the feed back in return for what has been targeted (performance evaluation).

Current finding support previous finding Brownell (1982) which stated that individual variable (need for achievement) showed the significant role which influence the employee participation in budgetary. Besides, this current finding also support the finding conducted by Subramaniam, et al (2002) ; Alam and Mia (2006) dan Yuen (2007).

Furthermore, this finding also support what underlines the notion of manager participation in budgetary affects the managerial performance, firstly, psychology theory that stated participatory budget related with performance through self identification and ego involvement in fixed the budgetary goals (Murray, 1990). Secondly, the participatory could increase the flow of information from top to down or subordinates and vice versa, which at the end will lead to observation and decision making (Locke and Schweiger, 1979; Shield and Young, 1993, in Yuen, 2007). Finally, the participatory could show the best performance through learning facilities and knowledge (Parkers and Wall, 1996 in Yuen, 2007).

The current finding also claim that, it strengthen the finding of Merchant (1981), Brownell (1982b), Brownell and McInnes (1986), Frucot Shearon (1991), Nouri and Parker (1998), Alam and Mia (2006), Munawar (2006), Sardjito and Muthaheer (2007) and Yuen (2007) that summarized the positive and significant impact between Budgetary participation and managerial performance.

CONCLUSION AND LIMITATIONS

Finding showed that the need for achievement has a positive significant impact on managerial performance through the budgetary participation. This is aligning with Subramaniam, et al (2002), Alam and Mia (2006) and Yuen (2007). Like in general, this study has some limitations such as the usage of self rating scale in measuring managerial performance that could lead to higher performance evaluation tendency (Brownell and Hirst, 1986); however, it is not reducing the subjectivity of the reliability and validity assessment

Theoretically, the confirmation of research finding lead the implication for the development of management accounting and related public sector, with the effectiveness of the planning system and accounting control over Budgetary participation. Moreover, the finding also has some implication to indicate activities planning in regard of budgetary planning for local government to improve the performance of local government officials. Furthermore, local

governments may have applied the subordinate participatory media during budget preparation as a learning process and information exchanges information from top management and subordinates to increase the performance of local government holistically.

Future study is suggested to combine the managerial performance in accordance of financial and non-financial measure to avoid a higher self evaluation tendency and could investigate Budgetary participation by the team identification during participatory budget preparation Coleman et al., (1997) to become a true team and tag team. This is subject to be conducted to minimize bias participatory during budgetary preparation

Goods and Services Tax (GST) is a consumption tax imposed on the sale of goods and services. In some countries it is also called Value Added Tax (VAT). It is a new tax instrument introduced by the Malaysian government soon, estimated in 2012 would be the soonest year of implementation (Customs Department, 2010). The introduction of GST in Malaysia has called many arguments from various parties including academics, professionals and the nation (would become the taxpayers) on how GST affect goods prices-increase or decrease. The onus of GST is to replace the current Sales Tax and Service Tax in line with the government policy of conforming policies of AFTA.

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APPENDIX 1

Profile Responden (Respondent's identity)

| Profile Responden | Frekuensi | Presentase |
|--|-----------|------------|
| Position: | | |
| • Kepala SKPD | 35 | 20% |
| • Satu Tingkat dibawah Kepala SKPD (position lower than Kepala SKPD) | 140 | 80% |
| Working Period: | | |
| • ≤ 10 years | 11 | 6,3 |
| • 11 – 15 years | 58 | 33,1 |
| • 16 – 20 years | 78 | 44,6 |
| • 21 – 25 years | 26 | 14,9 |
| • > 25 years | 2 | 1,1 |
| Tenure: | | |
| • ≤ 1 years | 38 | 21,7 |
| • 2 – 3 years | 116 | 66,3 |
| • 4 – 5 years | 10 | 5,7 |
| • > 5 years | 11 | 6,3 |
| Gender: | | |
| • Pria (Male) | 142 | 18,9 |
| • Wanita (Female) | 33 | 81,1 |
| Education level : | | |
| • SMA | 45 | 25,7 |
| • DIII | 4 | 2,3 |
| • DIV | 4 | 2,3 |
| • S1 | 98 | 56,0 |
| • S2 | 24 | 13,7 |

APPENDIX 2

a. Output Combined Loadings dan Cross Loading

| | KAP | PP | KM | SE | P value |
|------|---------|---------|---------|-------|---------|
| KAP1 | (0.877) | 0.270 | -0.103 | 0.058 | <0.001 |
| KAP2 | (0.782) | -0.498 | 0.138 | 0.070 | <0.001 |
| KAP3 | (0.792) | -0.204 | -0.138 | 0.059 | <0.001 |
| KAP4 | (0.917) | 0.091 | 0.044 | 0.068 | <0.001 |
| KAP5 | (0.880) | -0.011 | 0.055 | 0.048 | <0.001 |
| KAP6 | (0.883) | 0.273 | 0.005 | 0.054 | <0.001 |
| PP1 | 0.037 | (0.906) | -0.049 | 0.048 | <0.001 |
| PP2 | 0.008 | (0.884) | 0.029 | 0.053 | <0.001 |
| PP3 | 0.063 | (0.845) | 0.066 | 0.062 | <0.001 |
| PP4 | 0.189 | (0.890) | -0.025 | 0.056 | <0.001 |
| PP5 | -0.131 | (0.936) | 0.039 | 0.062 | <0.001 |
| PP6 | -0.148 | (0.953) | -0.054 | 0.053 | <0.001 |
| KM1 | 0.172 | -0.123 | (0.601) | 0.072 | <0.001 |
| KM2 | -0.116 | -0.329 | (0.850) | 0.032 | <0.001 |
| KM3 | 0.037 | 0.193 | (0.728) | 0.048 | <0.001 |
| KM4 | -0.131 | 0.251 | (0.870) | 0.050 | <0.001 |
| KM5 | 0.025 | 0.235 | (0.930) | 0.056 | <0.001 |
| KM6 | 0.070 | -0.319 | (0.864) | 0.045 | <0.001 |
| KM7 | 0.024 | 0.389 | (0.575) | 0.075 | <0.001 |
| KM8 | -0.017 | -0.188 | (0.915) | 0.027 | <0.001 |

Note: P values < 0.05 are desirable for reflective indicators.

b. Output Indikator weight

| | KAP | PP | KM | SE | P value | VIF |
|------|---------|---------|---------|-------|---------|--------|
| KAP1 | (0.199) | 0.000 | 0.000 | 0.018 | <0.001 | 4.193 |
| KAP2 | (0.178) | 0.000 | 0.000 | 0.020 | <0.001 | 3.503 |
| KAP3 | (0.180) | 0.000 | 0.000 | 0.021 | <0.001 | 3.688 |
| KAP4 | (0.208) | 0.000 | 0.000 | 0.021 | <0.001 | 5.331 |
| KAP5 | (0.200) | 0.000 | 0.000 | 0.020 | <0.001 | 4.537 |
| KAP6 | (0.200) | 0.000 | 0.000 | 0.019 | <0.001 | 4.714 |
| PP1 | 0.000 | (0.185) | 0.000 | 0.019 | <0.001 | 5.502 |
| PP2 | 0.000 | (0.181) | 0.000 | 0.019 | <0.001 | 4.437 |
| PP3 | 0.000 | (0.173) | 0.000 | 0.015 | <0.001 | 2.659 |
| PP4 | 0.000 | (0.182) | 0.000 | 0.014 | <0.001 | 3.674 |
| PP5 | 0.000 | (0.191) | 0.000 | 0.025 | <0.001 | 10.782 |
| PP6 | 0.000 | (0.195) | 0.000 | 0.022 | <0.001 | 13.483 |
| KM1 | 0.000 | 0.000 | (0.117) | 0.015 | <0.001 | 3.154 |
| KM2 | 0.000 | 0.000 | (0.165) | 0.019 | <0.001 | 5.860 |
| KM3 | 0.000 | 0.000 | (0.141) | 0.019 | <0.001 | 7.435 |
| KM4 | 0.000 | 0.000 | (0.169) | 0.014 | <0.001 | 3.258 |
| KM5 | 0.000 | 0.000 | (0.181) | 0.025 | <0.001 | 13.124 |
| KM6 | 0.000 | 0.000 | (0.168) | 0.015 | <0.001 | 4.806 |
| KM7 | 0.000 | 0.000 | (0.112) | 0.014 | <0.001 | 2.281 |
| KM8 | 0.000 | 0.000 | (0.178) | 0.020 | <0.001 | 6.279 |

Note: P values < 0.05 and VIFs < 2.5 are desirable for formative indicators.

c. Output Latent Variabel Coefficients

| | KAP | PP | KM |
|-------------------|-------|-------|-------|
| R-squared | | 0.447 | 0.543 |
| Composite reliab. | 0.943 | 0.964 | 0.934 |
| Cronbach's alpha | 0.927 | 0.954 | 0.916 |
| Avg. var. extrac. | 0.734 | 0.815 | 0.644 |
| Full collin. VIF | 1.811 | 3.160 | 2.233 |
| Q-squared | | 0.444 | 0.544 |

General project information

Version of WarpPLS used: 3.0
Project path (directory): C:\Users\SONY\Documents\Latihan PLSITUGAS FINAL TEST
Project file: UAS2 FORMATIF.prj
Last changed: 03-Jul-2014 17:24:35
Last saved: 03-Jul-2014 17:37:32
Raw data path (directory): C:\Users\SONY\Documents\Latihan PLSITUGAS FINAL TEST
Raw data file: DATA WARP.txt

Model fit indices and P values

APC=0.496, P<0.001
ARS=0.495, P<0.001
AVIF=1.816, Good if < 5

General model elements

Algorithm used in the analysis: Warp3 PLS regression
Resampling method used in the analysis: Bootstrapping
Number of data resamples used: 100
Number of cases (rows) in model data: 175
Number of latent variables in model: 3
Number of indicators used in model: 20
Number of iterations to obtain estimates: 5
Range restriction variable type: None
Range restriction variable: None
Range restriction variable min value: 0.000
Range restriction variable max value: 0.000
Only ranked data used in analysis? No