

Influence of budget participation and leadership style against rebudgeting on work unit of apparatus

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Key words

Budget participation, leadership style, behavior, regional apparatus.

Abstract

The purpose of this research is to test influence of Budget Participation and Leadership Style against rebudgeting on the work unit of regional apparatus (SKPD). Data were collected using questionnaires filled out by respondents from SKPD at 18 (eighteen) local government regencies/cities in Aceh, Indonesia for 110 (one hundred) questionnaires out of 150 were distributed. The results showed that Budget Participation and Leadership Style had a positive influence on SKPD rebudgeting. The finding of this research is to find that agency problems in regional budgeting have a bearing on leadership. In addition, the leadership style of the regional head as the regional financial authority is related to the process of budgeting based on the performance-based budget of local government and should be used on the performance indicators in the proposal of every program and activity.

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Introduction

The rebudgeting is an effort by the local government to adjust the financial plan to real conditions in the field and improve the performance of the work unit (*agencies*). The process of preparing for rebudgeting is in principle no different from the initial budget process, both in terms of substance and politics (Anessi-Pessina, Eugenio, M. Sicilia, & I. Steccolini, 2012; Nurzaimah *et al.*, 2016; Yahya *et al.*, 2017; Nasir *et al.*, 2017; Hasan *et al.*, 2017 & Azlina *et al.*, 2017). The resulting budget document is the most important document in government as it becomes the foundation in the administration of government functions and public services (Rubin, 2006 & Pohan *et al.*, 2018). As a plan, the budget reflects development priorities, public alignments, and the power of decision-makers (budget actors), which will be implemented during one fiscal period (Wildavsky, 1992; Muda *et al.*, 2016; Lubis *et al.*, 2016 & Tarmizi *et al.*, 2016). Issues during the implementation of the budget in the first half of the year and the examination outcome of the results of the previous year's budget execution led to the need for adjustment during the year. This change occurs due to developments that are not in line with assumptions in budget policy, such as the occurrence of exceedances or non-achievement of projected regional revenues, allocation of local spending, sources and the use of predetermined costs (Abdullah & Junita, 2016). If so, the regional head formulates the matters that result in the APBD (local government budget) amendment in a general policy draft of APBD amendment as well as the temporary priorities and ceilings of APBD amendment. Amendment to APBD is also called revised APBD (APBD-P) which is a necessity when

assumptions and other uncontrollable factors are not as predictable from the start, that was when the agreement on the policy and priorities of the APBD is signed.

Draver and Pitsvada (Forrester and Mullins, 1992) states that rebudgeting is a means for legislatures, executives, and bureaucrats to tailor each other's agenda, so that in the end there is always a consensus reached. Therefore, policy, direction and strategy in budgeting become the arena of power struggles, in which each party seeks to fulfill its self-interest, thus often sacrificing the public interest (Abdullah, 2012). Considering that the budget is the most important document in government financial management, the discussion of the critical success factors in its compilation, implementation and accountability has not been completed over the last few decades (Abdullah, 2012). Aspects of behavior, politics, social and economic issues become important issues in the determination of performance targets and budget allocations to achieve these performance targets, both discretionary and non-discretionary (Anessi-Pessina, *et al.*, 2012).

The budgeting process contains high political nuances (Wildavsky, 1986; Rubin, 2014; Muda and dharsuky, 2015; Purwanto, 2016; Badaruddin *et al.*, 2017 and Erlina *et al.*, 2017), opportunistic behavior (Moe, 1984; Abdullah, 2012; Forrester, 2002) and participation at the time of preparation of the budget are some of the ways to solve the problem (Mardiasmo, 2002; Marlowe & Potillo, 2006; Im, *et al.*, 2014) so public trust to the government could be better (Gibson, 1995). Participation in the rebudgeting process is lower so the transparency of the budgeting process also becomes lower which then creates a bias in resource allocation decisions within the government budget (Larkey dan Smith, 1989). The bias in determining budget can be caused by bias in income revenue forecasting (Cassidy, *et al.*, 1989). The agency problem in regional budgeting has to do with leadership (Moe, 1984; Abdullah, 2012 & Erlina *et al.*, 2017). The existence of information asymmetry, decentralization of authority and representational politics cause the leadership style to have implications on the accuracy of budget estimates (Kyj dan Parker, 2008). Aspects of leadership play an important role in achieving performance targets in government, including budget performance (Forrester & Adams, 2014). Leadership styles are linked to policies, priorities for setting performance targets, and budgeting processes (Moynihan, 2004). Leadership in public budgeting is embedded in the executive as well as the legislature (Meier, 2000). This research would like to analyze whether budget participation and leadership style can influence rebudgeting.

Literature Review

Rebudgeting on Local Government

Changes or revisions to the budget that are being implemented in the current year are a common phenomenon in government budgeting. Formally, the preparation of the budget and its amendments are regulated in legislation relating to state and regional finances. Such arrangements are binding and their implementation will be monitored and accounted for through financial reporting and performance (Halim & Abdullah, 2006). However, in practice this adjustment is not always in accordance with the ideal concept because of agency problems to budget actors (Halim & Abdullah, 2006). Rebudgeting reflects a commitment made at different times (Wildavsky, 1988). Comprehensive understanding requires a shift to the focus of budget analysis, such as addition and deficiency of budgeting, and other possible revisions as a precautionary act to critical budget (Axelrod, 1988; Wildavsky, 1988). Rebudgeting is made to adjust between target and allocation with the latest developments in the field. Adjustments are made due to changes in assumptions that lead to the need for changes in the revenue and expenditure estimates, so that pre-determined targets can be achieved as expected (Bland & Rubin, 1997; Dougherty, *et al.*, 2003; Forrester & Mullins, 1992). Changes to each component of APBD have different backgrounds and reasons (Abdullah & Nazry, 2014).

Draver and Pitsvada in Forrester and Mullins (1992) stated that rebudgeting is a means for legislatures, executives, and bureaucrats to tailor each other's agenda, so that in the end there is always a consensus reached. Therefore, policy, direction and strategy in budgeting become the arena of power struggles, in which each party seeks to fulfill its self-interest, thus often sacrificing the public interest (Abdullah, 2012). The process of discussion and the determination of rebudgeting is relatively more closed from public observations so that it contains a relatively large agency problem (Abdullah dan Nazry, 2014). The process of rebudgeting in principle is no different from the initial budget (Anessi-Pessina, *et al.*, 2012). Bland & Rubin (1997) in Abdullah & Rona (2014) mentioned that budget performance will influence the

revision of next period's budget. Rebudgeting becomes an arena for opportunistic behavior of budget actors (Abdullah & Rona, 2016).

The Influence of Budget Participation on Rebudgeting

Participation is an important concept in budgeting, both in the business sector and the public sector. Participation has an influence on effectiveness and efficiency in budgeting. Participation is seen as a way to increase trust in government about activities and programs of the government (Frisby & Bowman, 1996; King, Feltey & Susel, 1998; Lubis *et al.*, 2017; Tarmizi *et al.*, 2017; Sihombing *et al.*, 2017; Sirojuzilam *et al.*, 2017 & Muda, 2018). Participation in budgeting has an influence on commitment to budget goals. This view is consistent with Shields and Shields (1998) in Chong and Chong (2002), who argued that participation enhances subordinate trust, control, and ego involvement with organizations, leading to resistance to changing commitment to budget goals. Budget participation motivates subordinates to accept and commit to budget goals (Argyris 1952; Becker and Green 1962; Hofstede 1968). Hofstede (1968) argued that participation influences commitment through the internalization of goals. Research that supports a positive relationship between participation and commitment to budget goals (Locke, 1968; Erez *et al.*, 1985; Erez dan Arad, 1986). Locke (1968) in Chong and Chong (2002) argued that the direct influence of participation is subject to the decisions reached. Participation in the budgeting process has become a major topic in the field of public administration and public policy research. Requests submitted by subordinates to the allocation process should be appropriate to the needs of government agencies, projects and other recipients (Sirojuzilam *et al.*, 2016 and Dalimunthe *et al.*, 2016). The quality of the budgeting decision depends on the available data, as well as on the analytical tools used to process the information to be used, so the government needs to rethink what has been planned and how to run the plan so as to produce good performance in line with the public expectations (Redburn, 2008). The purpose of budget participation includes (1) inform the procedure of decision-making, (2) educate participants who participate in the budget process, (3) gain support for budget proposals, (4) involve subordinates in decision making, and (5) increase trust and create a sense of budget (Ebdon, 2006). Based on the above description, the first hypothesis can be expressed as follows:

H₁: Budget participation influences rebudgeting.

Influence of Leadership Style on Rebudgeting

According to Rhee (2009) different characteristics of leadership led to different patterns in connecting performance information used for programming and resource allocation. Bureaucrats often prioritize their own interests, which may not be in accordance with the intentions or interests of elected officials (Downs, 1967; Crowell, 1975; Horn, 1997). Leadership style describes the behavior of managers in facing or interacting with the situation. A leadership style is a behavioral pattern designed to blend organizational and personnel interests to pursue multiple goals (Flippo, 1995). Hansen & Villadsen (2010) states that leadership in the public sector is different from that in business. Research that focuses on the implementation of performance measurement shows leadership characteristics applied inconsistently, thus endangering the successful implementation of performance measurement of budgeting practices in particular (Grizzle dan Pettijohn, 2002; Julnes and Holzer, 2001; Lee and Burns, 2000). Consistent executive support, correct information sharing from the legislature, and organizational capacity are important components of an effective performance measurement system (Berman dan Wang, 2000; Franklin, 2002; Lubis *et al.*, 2016 & Dalimunthe *et al.*, 2017).

Leadership deals with the characteristics of the individual who is present in the leader (Kirkpatrick & Locke, 1991), behavior in interacting with subordinates (Stogdill, 1963), and how to motivate subordinates to achieve common goals. Effective leaders set challenging and specific goals, encourage subordinates to participate in goal setting, demonstrate commitment to personal and organizational goals, and provide feedback on achieving goals (Bass, 1985; Bono & Judge, 2003). Meanwhile, according to Van Wart (2003) effective leadership will provide higher quality of products, more efficient service, sense of cohesiveness, personal growth opportunities, and higher subordinate job satisfaction. Hansen and Villadsen (2010) explain why leadership in the public sector prefers participative leadership, while private/business sector leadership prefers directive leadership. The nodes in the process of budgeting on the local government are in the budget actors, namely the regional head and members of

parliament. The regional head as an executive is a leader who has full power in the management of local finances (Article PP No.58/2005), who delegate their power to the head of the work unit underneath. Delegation always has a tendency of moral hazard to the agent, so that control is required from separate units. Therefore, budget proposal by head of work unit to regional head can be biased and not in line with the expectation of regional head (Abdullah & Halim, 2006). The leadership style of regional head as the “ruler” of regional finance is closely related to the process of local government budgeting. Based on the above description, the second hypothesis can be expressed as follows:

H2: Leadership style influences the rebudgeting.

Research Method and Measures

The research was conducted in Aceh, which included 23 regencies and cities in local governments. The data used were quantitative data collected by using questionnaire. The population in this research was all individuals involved in the budgeting process of SKPD which has the function of public service in 23 regencies and cities in Aceh, consisting of Head of Department and Head of Division. As a whole, there were 306 departments/heads of departments and 1224 heads of division, with 1530 in total (Table 1).

Table 1. Research Population

Regency/City	Number of Departments	Departments	Divisions	Total
Regency Aceh Barat	15	15	60	75
Aceh Barat Daya Regency	14	14	56	70
Aceh Besar Regency	14	14	56	70
Aceh Jaya Regency	13	13	52	65
Aceh Aceh selatan Regency	14	14	56	70
Aceh Singkil Regency	13	13	52	65
Aceh Tamiang Regency	14	14	56	70
Aceh Tengah Regency	13	13	52	65
Aceh Tenggara Regency	13	13	52	65
Aceh Timur Regency	14	14	56	70
Aceh Utara Regency	15	15	60	75
Bener Meriah Regency	14	14	56	70
Bireun Regency	13	13	52	65
Gayo Lues Regency	14	14	56	70
Nagan Raya Regency	14	14	56	70
Pidie Regency	13	13	52	65
Pidie Jaya Regency	12	12	48	60
Simelue Regency	13	13	52	65
Banda Aceh City	12	12	48	60
Langsa City	13	13	52	65
Lhokseumawe City	10	10	40	50
Sabang City	14	14	56	70
Subusalam City	12	12	48	60
Total	306	306	1224	1530

Sampling was done using stratified random sampling based on position, namely head of department and head of division in SKPD. This research used Partial Least Square (PLS) based on SEM application. PLS was chosen because it was able to estimate large and complex models with hundreds of latent variables and thousands of indicators. The number of samples or respondents in this research was 110 people. The data collection in this research is primary data from questionnaire answers distributed to all regencies and cities in Aceh. Statement in questionnaires applied Likert scale to facilitate the respondents in understanding the scoring from the highest to the lowest (Gusnardi *et al.*, 2016 and Achmad *et al.*, 2017). Data analysis used regression model with two independent variables, which were: Budget Participation (P) and Leadership Style (G), and one dependent variable, which was Rebudgeting (PA). Participation Variable (X_1) was measured by 6 (six) indicators, leadership variable (X_2) was measured by 8 (eight) indicators, and rebudget variable (Y) was measured by 5 (ima) indicators. Data

were processed using SmartPLS software, model was executed by using PLS Algorithm and Bootstrapping.

Result and Discussion

Result

This initial model included all items of statements or indicators into the regression equation to obtain the results as shown in Figure 1.

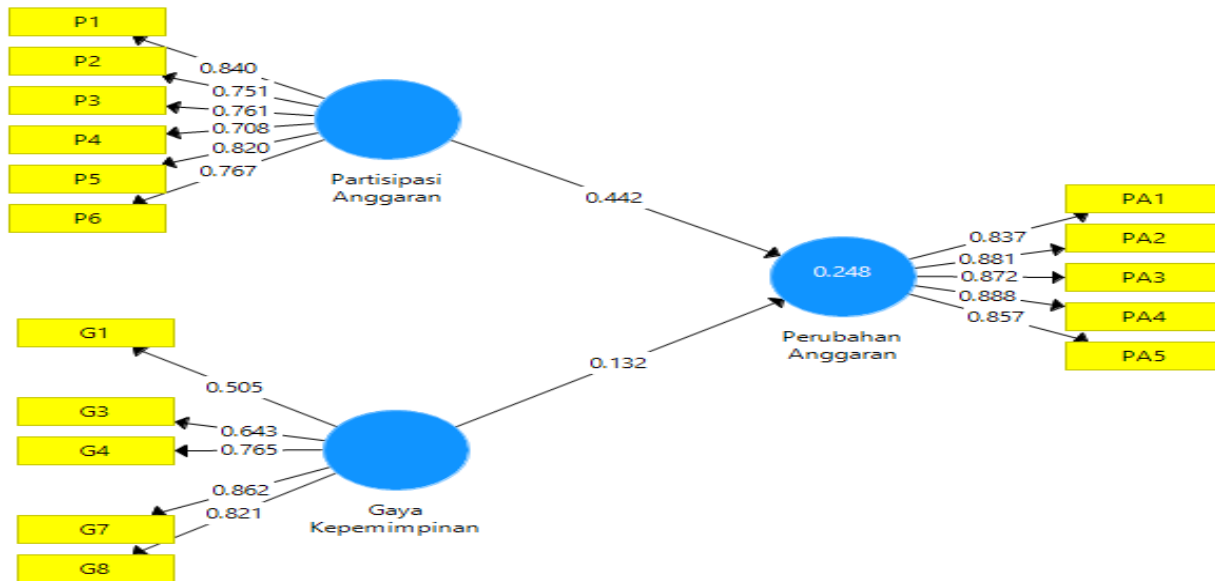


Figure 1. Advanced Model

Testing of Measuring Model (Outer Model)

Testing Construct Validity

1). *Assessing Outer Loading and Convergent Validity*

Outer loading value of the indicator can be seen in Table 2 below.

Table 2. Value of Outer Loading Indicator

Indicator	X ₁	X ₂	Y ₁
X _{1.1}	0,840		
X _{1.2}	0,751		
X _{1.3}	0,761		
X _{1.4}	0,708		
X _{1.5}	0,820		
X _{1.6}	0,767		
X _{2.1}		0,505	
X _{2.3}		0,643	
X _{2.4}		0,765	
X _{2.7}		0,862	
X _{2.8}		0,821	
Y _{1.1}			0,837
Y _{1.2}			0,881
Y _{1.3}			0,872
Y _{1.4}			0,888
Y _{1.5}			0,857

The result of the outer model shows that all indicators have outer loading values above > 0.50 which means that all indicators meet the convergent validity, or all construct indicators are valid. From the value of outer loading can be made equation of measuring model specification for each variable as follows:

$$P = 0,840X_{1.1} + 0,751X_{1.2} + 0,761X_{1.3} + 0,708X_{1.4} + 0,820X_{1.5} + 0,767 X_{1.6} \dots\dots\dots (1)$$

Equation (1) shows the outer loading of each indicator for the Budget Participation variable (X_1). $X_{1.5}$ indicator has the highest value, which is 0.820. It means that the indicator has the greatest influence on Budget Participation variable (X_1).

$$G = 0,505X_{2.1} + 0,643 X_{2.3} + 0,765X_{2.4} + 0,862X_{2.7} + 0,821X_{2.8}..... (2)$$

Equation (2) shows the outer loading of each indicator for the Leadership Style variable (X_2). $X_{2.7}$ indicator has the highest value which is 0.862, which means that the indicator has the greatest influence on the variable Leadership Style (X_2).

$$PA = 0,837Y_1 + 0,881Y_2 + 0,872Y_3 + 0,888Y_4 + 0,857Y_5..... (3)$$

Equation (3) shows the outer loading of each indicator for the Rebudgeting variable (Y). Y_4 indicator has the highest value, which is 0.888, which means that the indicator has the greatest influence on Rebudgeting variable (Y).

2). *Discriminant Validity*

The function of discriminant validity is to ensure that each indicator is a good benchmark for its latent variables. The value of Discriminant validity is obtained by looking at AVE square root values that should be greater than 0.50.

Table 3. Testing *Discriminant Validity*

Construct	AVE	AVE
Budget participation	0,602	0,776
Leadership style	0,534	0,731
Rebudgeting	0,752	0,867

Source: Data Processed (2017).

Test results show that the value of all latent variables is greater than 0.50 so it can be concluded all latent variables meet the criteria of discriminat validity.

Reliability Test

In addition to the construct validity test, construct reliability test is measured by two criteria, namely composite reliability and Cronbach alpha from the indicator block measuring the construct. The construct is considered reliable if the composite reliability and Cronbach alpha are above 0.60 (Ghozali, 2015).

Table 4. Reliability Test and Cronbach Alpha

Construct	Composite Reliability	Cronbach Alpha
Budget participation	0,900	0,867
Leadership style	0,847	0,805
Rebudgeting	0,938	0,918

Source: data processed by SmartPLS. (2017).

The result of data processing with PLS shows that the value of composite reliability and Cronbach alpha of all constructs are above 0.60, so it can be concluded that all constructs have good reliablitas.

2). *Structural Model Testing (Inner Model)*

The structural model is evaluated using R-square (R^2) for the dependent construct, with the criteria that R^2 value of 0.67 shows a good model; R^2 value of 0.33 shows moderate models, and R^2 value of 0.19 identifies that the model is weak or bad. Results of data processing with SmartPLS show that the R^2 value in this research is 0.248. The value of Rebudgeting R-Square (PA) of 0.248 can be explained that the influence of Budget Participation Variable (X_1) and Leadership Style (X_2) against Rebudgeting (Y) is 0.248 or 24.8%. It means that the Rebudgeting variable can be explained by the variance of Budget Participation and Leadership Style of 24.8%, while the rest or by 75.2% is explained by other variables which are not included in this research. As for the influence of each variable can be seen from the following F-square (F^2) Table:

Table 5. Value of *F-Square* (F^2)

No	Influence between variables	F^2	Influence
1	Influence of budget participation (X_1) against Rebudgeting (Y_1)	0,237	Moderate
2	Influence of leadership style (X_2) against Rebudgeting (Y_1)	0,021	Weak

Source: data processed by SmartPLS (2017).

Furthermore, the analysis of path coefficient estimation was conducted. This analysis is related to the test of the research hypothesis. The research hypothesis is accepted if the absolute number of t values > 1.96 with the coefficient mark corresponding to the established research hypothesis. The results of the hypothetical model are listed in Table 6 below.

Table 6. Testing between Variables and Significance Tests

No	Influence between variables	Coefficient	t Count	Conclusion	
1	Influence of budget participation (X_1) against Rebudgeting (Y)	0,442	7,694	Hypothesis accepted	is
2	Influence of leadership style (X_2) against Rebudgeting (Y)	0,132	2,019	Hypothesis accepted	is

Source: data processed by SmartPLS (2017).

Influence of budget participation against Rebudgeting

Rebudgeting is required due to managerial or administrative difficulties in making accurate program planning activities as those activities are realized. This difficulty is usually caused by three factors. First, rebudgeting occurs to counter administrative or regulatory rules that narrow the ability of the head of department or administrator to adjust the budget to fluctuations in environmental services. Secondly, rebudgeting arises because of the need to modify inaccurate expenditure estimates thereby making cash flow uncertain (Forrester, 1992). Subordinate involvement in the budgeting process has become a major topic in public administration and public policy. Proposed requests are inputted into the budget allocation process of government agencies, projects and other recipients. The quality of the budgeting decision depends on the available data, as well as on the analytical tools used to process the information to be used, so the government needs to rethink what has been planned and how to run the plan so as to produce good performance (Redburn, 2008). Chong and Chong (2002) argued that the direct influence of participation is subject to the decisions reached. The results showed that the higher the participation of subordinates, the higher the rebudgeting will be. In the business literature, employee engagement is very important in determining the amount of compensation associated with the performance achieved. In this approach, employees are involved in determining the target of their performance and the magnitude of incentives that will be accepted if the target is achieved.

Rebudgeting is conducted to make the budget more responsive to the environment and the needs of budget participants. Rebudgeting is a process for coordinating activities, disciplining officials, and mobilizing support from interested groups (Wildavsky, 1988, in Forrester, 1992). The process of rebudgeting is influenced by the political element because decision-making involves the legislature or the parliament (derived from a combination of political party delegates) and the executive or regional head (elected by general election of regional head/regional election). According to Draper and Pitsvada (1981), changes are intended for renegotiation as an effort to include the preferences of interested groups, adjustments to technical matters and policies derived from the superior government (Rubin, 1990; Abdullah & Rona, 2014). Im, *et al.*, (2014) state that public participation in budgeting influences the budget and its amendment due to early proposal and supervision at the time of implementation by the community. Involving communities in local government budgeting will assist in collecting, interpreting, and accommodating community inputs regarding resource allocation (Marlowe & Portillo, 2006). Since budgeting is the process of distributing resources from many sides to some groups of people, public involvement is not only in the preparation of the budget, but also in terms of supervision during implementation and performance evaluation after being accounted for.

Influence of Leadership Style on Rebudgeting

Research on leadership style (Fleishman, 1953; Korman, 1966) defines leadership style as a set of behaviors that are oriented towards the achievement of tasks and goals. Hakim, *et al.* (2004) said leaders made special efforts to maintain standards of work to be done. Achievement of goals is the main and explicit characteristic of the definition of leadership. The scale used to assess the effectiveness of leaders refers directly to the main principles of goal setting theory. Effective leaders set challenging and specific goals, encourage subordinates to participate in goal setting, demonstrate commitment to personal and

organizational goals, and provide feedback on achieving goals (Bass, 1985; Bono & Judge, 2003). There are two groups of leaders in the public sector; the first is career leaders and political officers, who contribute to administrative apparatus with different characteristics (Gilmour & Lewis, 2006). Career chasing leaders engage in bureaucracy, while political officials are perceived as politicians (Meier, 2000). In general, political officials tend to devote themselves to the same political party without cross-party work, making it more loyal to the leader of the political party and responsive to the policy direction. In contrast, career chasing leaders tend to have focused views to serve different political parties throughout their careers. Career leaders are identified with institutional competencies and expertise, while political officials are responsive leaders (Lewis, 2007).

According to Rhee (2009) the different characteristics of these two groups of leaders led to different patterns of connecting performance information used for programming and resource allocation. Bureaucrats often prioritize their own interests, which may not be in accordance with the intentions or interests of elected officials (Horn, 1997). With regard to the size of staff, bureaucrats essentially tend to increase the number of staffs not to meet the needs of public services (Parkinson, 1957). The increase in staff numbers is not due to an increase in workload, but because of a desire for power and prestige that is often evaluated through the number of staffs owned by bureaucrats. Bureaucrats can be regarded as an obstacle to administrative reform. Empirical evidence of the importance of the leader role in budget participation is found by Chong & Loy (2015). A reputable leader will experience a low budgetary slack from his subordinates. Participatory budgeting as a process that motivates subordinates should be a tool for leaders to maximize their budget performance, so that it does not experience a large bias (Chow, Cooper, & Waller, 1988). The results of this study support the research found by Chow, Cooper, & Waller, 1988; Chong & Loy (2015); A reputable leader will experience a low budgetary slack from his subordinates. Participatory budgeting as a process that motivates subordinates should be a tool for leaders to maximize their budget performance, so that it does not experience a large bias. In addition, this study supports Locke's research, 1968; Erez et al., 1985; Erez and Arad, 1986). where the direct effect of participation is subject to decisions reached and there is a positive relationship between participation and commitment to the budget objectives.

Conclusion and suggestion

This research examines the influence of Budget Participation and Leadership Style on Rebudgeting. The result of data analysis shows that Budget Participation has positive influence on Rebudgeting and Leadership style has positive influence on Rebudgeting. Rebudgeting in local government relates to the opportunistic behavior of bureaucrats who are both proponents and executives, with the burden of responsibility being on the budget users and the budget authorities. This research has several limitations that can be complemented by subsequent research. The limitations are:

The sample used in this research is only the executive officers involved in the preparation of the budget. Local government budgeting itself involves the legislature in resource allocation decision making and determining local revenue targets. Therefore, respondents can be developed to include legislative bodies, like parliament members.

Participation in this research is the involvement of the head of the division and the head of the department in the budget proposal to the regional head, while the other participative meaning is public involvement through the mechanism of regional development planning consultation (Musrenbang). Subsequent research can include stakeholders as respondents to see how the relevance of rebudgeting in local government to their needs or preferences.

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