

Participative Budgeting, Organizational Commitment, And Performance (Surveys of The Local Government Unit Agencies of West Java Province)

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Abstract. *There is a process of lobbying, negotiation, and even conflict between the executive and legislative branches with respect to the interests that must be accommodated during budget discussions. In the other side the commitment of local government personnel in achieving the aims of the budget is still low, this can be seen from the low uptake of the budget and evaluation Report Performance Accountability local government units West Java Provincial Government is not in a good condition. This study aims to examine: 1) the effect of participative budgeting on performance; 2) the effect of organization commitment on performance; and 3) the effect of organizational commitment on the relationship between participative budgeting and performance. The research method use descriptive and verificative analysis. Population target in this research is 55 Local Government Unit Agencies in West Java Province. The primary data are collected by questionnaires and the reports of the evaluation of performance accountability are use as secondary data. Validity and reliability of questionnaires are tested before testing the hypotheses. Stuctural Equation Modelling with Partial Least Square is used as the analysis technique in this research. The research findings: 1) participative budgeting has positively significant effect on performance; 2) organizational commitment does not significantly effect on performance; and 3) organizational commitment has positively significant effects on the relationship between participative budgeting and performance.*

Keywords. *Participative Budgeting; Organizational Commitment; Performance.*

I. INTRODUCTION

Budget are at the heart of government [1]. Budgeting in public sector organizations is a stage that is quite complicated and contains a high political overtone. In public sector organizations, budgeting is a political process. Public sector budget is an instrument of accountability for the management of public funds and the implementation of programs funded with public funds. [2]

Several phenomena that underlie this study:

There is a process of lobbying, negotiation, and even conflict between the executive and legislative branches with respect to the interests that must be accommodated during budget discussions. Consequently, the interests of the community through participatory processes have not been accommodated, delays in the preparation of the budget, and establishment of the budget by the regional governments and legislators.

There are differences characteristics of the planning and preparation of the public-sector budget, as well as their funding from central government to local governments tend to cause financial dependence that can cause dysfunctional behavior over budget [2]. In this case, dysfunctional behavior in the form of misuse of funds, therefore can not provide the maximum impact on growing of the society economy. [3]

The commitment of local government personnel in achieving the aims of the budget is still low, this can be seen from the low uptake of the budget. For example, according to the Report of Program Performance or activity Local Government Unit third quarter fiscal year 2010, the realization of budget absorption Education Department of West Java province until the end of September 2010 reached 13.51 %. [4]

Evaluation Report Performance Accountability local government units West Java Provincial Government in 2009 were 2 % Very Good; 26 % Good; 59 % fair; and 13 %

poor, while Evaluation Report Performance Accountability Local Government Units West Java Provincial Government in 2010 were 4 % excellent; 13 % Very Good; 27 % Good; 20% Fair; 10 % somewhat poor; and 2 % poor.

Based on the phenomenon, the research question in this article are:

1. Is participative budgeting significantly positive effect on performance?
2. Is organizational commitment significantly positive effect on performance?
3. Is organizational commitment has positively significant effects on the relationship between participative budgeting and performance.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

A. Participative Budgeting And Performance

Participation is a process of shared decision making by the parties or where such a decision would have an impact on the future for those who make it. When applied into the planning, participation refers to the involvement of middle and lower level managers in decision-making that led to the determination of the operational objectives and performance target setting. [5]

Participative budgeting is the level of involvement and influence of individuals in the preparation of the budget [6] [7], while [8] states as a process in which the subordinate/executors of the budget given the opportunity to engage more deeply and have influence in the budgeting process.

Participation in the context of the budget preparation is the process of the individuals whose performance is evaluated and rewarded based on budget emphasis, involved, and have influence in the preparation of the budget targets [7].

Budget not only as a means of planning and control of the responsibility centre of an organization but also a tool for top-level managers to motivate subordinates. The participation of the managers in the budgeting process is expected to improve performance. The higher manager involvement in the budgeting will further improve performance. [9]

The research results conclude that participative budgeting significant positive effect on performance. [6] [9] [10] [11] [12] [13] [14] [15]

H1: Participative budgeting significantly positive effect on performance

B. Organizational Commitment And Performance

Organizational commitment is an important behavioral dimension that can be used to assess the tendency of employees to remain a member of the organization [16]. Organizational commitment is the degree to which an employee in favor of a particular organization and its goals, and intend to maintain membership in the organization. High organizational commitment means alignments to the organization is also high. [17]

Organizational commitment as impetus from within the individual to do something in order to support the success of the organization, to comply with the objectives of the organization, and to prioritize the interests of the organization [18]. Organizational

commitment as the attitude of the employees to remain and involved in the organization and efforts to achieve the mission, values, and goals of the organization. [19]

Organizational commitment formulated in three dimensions, namely: affective, continuance, and normative. a) Affective commitment, the employee's emotional attachment to, identification with, and involvement in the organization; b) continuance commitment, refer to an awareness of the costs associated with leaving the organization; c) Normative commitment, refer to a feeling of obligation to continue employment in an organization. [20]

The research results concluded that organizational commitment significantly positive effect on performance. [21] [22] [23] [24]

H2: Organizational Commitment significantly positive effect on performance

C. Participative Budgeting, Organizational Commitment, And Performance

The research results concluded that organizational commitment significant positive effect on relations between the participatory budgeting with performance. [23] [25] [26]

H3: Organizational commitment has positively significant effects on the relationship between participative budgeting and performance.

III. RESEARCH METHOD

Descriptive research is basically a study to obtain a description of the characteristics of variables. Meanwhile verification research is a type of research that aims to determine the relationship between variables through a hypothesis testing. In connection with this type of research, the research method used was survey method. [27]

Operationalization of variables:

1. Participative budgeting (X) was measured using an instrument introduced by Milani [6]. These instruments have been widely used and validated. [7][8] [14] [15] [28] [29] [30] [31] [23] [32] [33] [34] [35]
2. Organizational commitment (M) was measured using an instrument consists of nine questions [36]. These instruments have been widely used and validated. [23] [37] [38] [39] [40]
3. Performance (Y). Performance measurement in the public-sector organization has its own characteristics in which every Local Government Unit Agencies implement System of Accountability Performance Government with self-assessment method. This self-assessment system require evaluation more independent in order to obtain feedback for improved accountability and performance of local government units. Therefore, the performance in this study was measured by scores obtained of the evaluation report of performance accountability for Fiscal Year 2010. [41]

Hypothesis testing use Structural Equation Modeling (SEM) with Variance Structure approach (Partial Least Square Path Modeling). The reason for using this technique is that the study involves latent variables with a relatively small sample size.

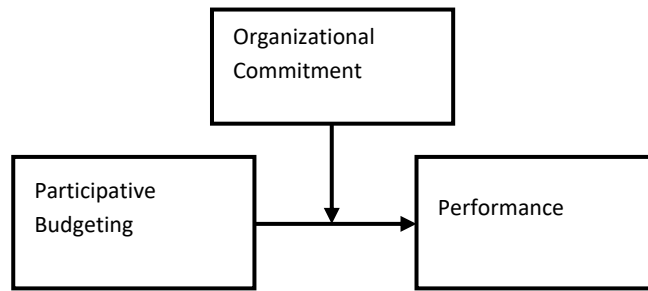


Fig 1. Research Paradigm

Data were obtained through two sources :

- a. Primary data obtained through interviews and questionnaires to the respondents (echelon II, III, and IV) in each local government unit agencies (55 agencies). There are 122 questionnaires were returned from 164 respondents.
- b. Secondary data were obtained from the Inspectorate of West Java province in the form of evaluation report of performance accountability fiscal year 2010.

IV. RESULTS AND DISCUSSION

Data obtained through questionnaires tested for its validity and reliability using SPSS version 22. Validity test results for participative budgeting and organizational commitment shows that the entire of questionnaire item has a correlation of more than 0.3 means that the entire item questions used in this study is valid and can be used to measure the variables studied.

Reliability test results showed that Cronbach Alpha of variables participative budgeting is 0.813 and organizational commitment variable is 0.810. Cronbach alpha of each variable is greater than 0.7 so that the measuring instrument is reliable.

Structural Equation Modeling (SEM) which used in this research is SEM with second order approach. Fig 2 shows the results of calculations full model with SmartPLS 2.0.

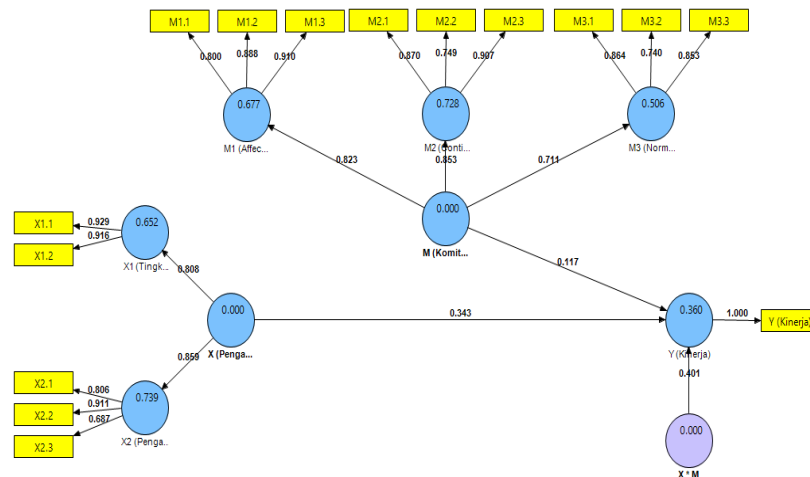


Fig 2. Full Model

Structural equation model of organizational commitment significantly positive effect on the relationship between participative budgeting and performance, is:

$$\eta = 0.343\xi + 0.117M + 0.401\xi.M + 0.640$$

Fit models with PLS-SEM rated with 2 stages of assessment by looking at the results of outer models and inner models. [42]

Outer Models assessed by internal consistency (composite reliability), indicators of reliability, convergent validity (average variance extracted) and discriminant validity. Inner models rated based on coefficients of determination (R^2), effect sizes (f^2), as well as size and significance of the path coefficients. [43]

Convergent validity of the measurement model assessed based on the correlation between the item score was estimated (Loading Factor). In this study, will be used limit of loading factor 0.60. [44]

Table 1. Measurement Model - Participative Budgeting

Manifest Variable	Loading Factor	Measurement Model	t value
Involvement in budget seting	0.808	$X_1 = 0.808X + 0.348$	13.210
Influence on the final budget	0.859	$X_2 = 0.859X + 0.261$	28.259

Source : PLS-SEM results

Table 2. Measurement Model - Indicators of Dimension Participative Budgeting

Manifest Variable	Loading Factor	Measurement Model	t value
Involvement in the preparation of the program of activities and budget	0.929	$X_{1,1} = 0.929X_1 + 0.138$	48.573

Contributions to the budget	0.916	$X_{1,2} = 0.916X_1 + 0.160$	29.384
Clarity revised budget	0,806	$X_{2,1} = 0.806X_2 + 0.350$	10.153
Affect the final budget	0,911	$X_{2,2} = 0.911X_2 + 0.170$	43.180
Superior sensitivity in budgeting	0,687	$X_{1,1} = 0.687X_1 + 0.529$	4.909

Source: PLS-SEM results

Calculation results of loading factor above the average of 0.6. That is, the correlation between the constructs with variable (loading factor) already meets the convergent validity.

T value obtained for each loading factor of variable manifest from latent variable of participative budgeting more than 1.96 so it can be said that the manifest variables used in measuring variables participative budgeting meaningful.

Table 3. Measurement Model - Organizational Commitment

Manifest Variable	Loading Factor	Measurement Model	t value
<i>Affective</i>	0.823	$Y_1 = 0.823Y + 0.323$	12.011
<i>Continuance</i>	0.853	$Y_2 = 0.853Y + 0.272$	17.311
<i>Normative</i>	0.711	$Y_3 = 0.711Y + 0.494$	7.300

Source : PLS-SEM results

Table 4. Measurement Model - Indicators of Dimension Organizational Commitment

Manifest Variable	Loading Factor	Measurement Model	t value
Willing to work hard	0.800	$Y_{1,1} = 0.800Y_1 + 0.360$	8.761
Boasts organizations	0.888	$Y_{1,2} = 0.888Y_1 + 0.211$	28.891
Willing to accept the task	0.910	$Y_{1,3} = 0.910Y_1 + 0.173$	42.833
Similiarity values	0.870	$Y_{2,1} = 0.870Y_2 + 0.243$	17.278
Losses left the organization	0.749	$Y_{2,2} = 0.749Y_2 + 0.438$	9.009
The best work places	0.907	$Y_{2,3} = 0.907Y_2 + 0.178$	22.889
Inspiration for performance achievement	0.864	$Y_{3,1} = 0.864Y_3 + 0.254$	10.012
Glad to be in the organization environment	0.740	$Y_{3,2} = 0.740Y_3 + 0.452$	7.046
Care about the organization	0.853	$Y_{3,3} = 0.853Y_3 + 0.273$	9.470

Source : PLS-SEM results

Calculation results of loading factor above the average of 0,6. That is, the correlation between the constructs with variable (loading factor) already meets the convergent validity.

T value obtained for each loading factor of variable manifest from latent variable of organizational commitment more than 1.96 so it can be said that the manifest variables used in measuring variables organizational commitment meaningful.

Criterion of validity can be seen from the discriminant validity based on the Average Variance Extracted (AVE). A good construct if it has AVE above 0.50.

Table 5. Average Variance Extracted (AVE) of Latent Variables

Latent Variables	AVE
X (Participatory Budgeting)	0.5058
X ₁ (Involvement in budget setting)	0.8512
X ₂ (Influence on the final budget)	0.6505
M (Organizational Commitment)	0.4540
M ₁ (Affective)	0.7523
M ₂ (Continuance)	0.7136
M ₃ (Normative)	0.6736
Y (Performance)	1.0000

Source: PLS-SEM results

Discriminant validity results based on the value of AVE indicate construct of participative budgeting variable has meet the minimum value for AVE (more than 0.5) its mean a good construct meanwhile for the organizational commitment obtained AVE less than 0.5.

Composite reliability (CR) is a measure of internal consistency. Demonstrated the reliability of latent variables (constructs) are formed and its manifest variable, so can form the appropriate structural model is 0.60. [42]

For all three constructs used as variable obtained CR values above 0.70 as recommended criteria. So, that all constructs meet the criteria of reliability.

Table 6. Value of Composite Reliability - Latent Variables

Latent Variable	Composite Reliability
X (Participative Budgeting)	0.8319
X ₁ (Involvement in budget setting)	0.9196
X ₂ (Influence on the final budget)	0.8464
M (Organizational Commitment)	0.8802
M ₁ (Affective)	0.9008
M ₂ (Continuance)	0.8813
M ₃ (Normative)	0.8604
Y (Performance)	1.0000

Source: PLS-SEM results

Latent variable of participative budgeting formed by two manifest variables have a value of CR 0.8319. This means that the latent variable of participative budgeting has high consistent level. Latent variables of organizational commitment formed by three manifest variables have a value of CR 0.8802. That is, the latent variable of organizational commitment has high consistent level. Latent variable of performance formed by one manifest variables have a value of CR 1.0000. That is, the latent variable of performance has high consistent level.

R² value for the model of the effect organizational commitment on the relationship between participative budgeting and performance obtained 0.360. PLS theory explaining the

value of R^2 has a weak effect (0.25), a medium effect (0.5), and a substantial effect (0.75). [44]

R^2 value shows the prediction accuracy of the model [43]. So, the accuracy of the research model of the effect organizational commitment on the relationship between participative budgeting and performance 0.360 (medium).

Effect size (f^2) shows the contribution of each construct on performance. f^2 value can be interpreted that the predictors of latent variables have small effect (0.020), medium effect (0.15), and large effect (0.35). [43]

f^2 value of participative budgeting obtained at 0.1942 in the medium category and organizational commitment obtained at 0.0202 in the small category. Thus, the contribution of participative budgeting on performance is quite strong whereas the contribution of organizational commitment on performance is low.

Table 7. Effect Size Assessment

Endogenous construct	$R^2_{included}$	$R^2_{excluded}$	$R^2_{included} - R^2_{excluded}$	$1 - R^2_{included}$	Effect size
Participative Budgeting (X)	0.360	0.196	0.164	0.247	0.1942
Organizational Commitment (M)	0.360	0.001	0.359	0.247	0.0202

Source: PLS-SEM results

The first hypothesis testing results show the effect of participative budgeting to performance indicated by the path coefficient 0.343 with a t value 2.492. t value scores are greater than t critical (1.960). This result proves the first hypothesis; participative budgeting has positively significant effect on performance.

Table 8. Significance Tests of The Effect Participative Budgeting on Performance

Path coefficient	t-value	t-critical	Conclusion
0.343	2.492	1.96	Significant

Source: PLS-SEM results

Participative budgeting in this study relates to the involvement of various levels echelon (II, III, and IV) in Local Government Unit Agencies is seen from the level of participation of apparatus in budgeting and influence perceived by apparatus at the time of budget preparation.

Based on the research results, the participation level shown by their involvement in the preparation of programs, activities, and budgets as well as the contribution of apparatus on more budget reflected by officials were involved in the drafting process on programs, activities and budgets. While the perceived influence shown by the clarity of the budget revision, the influence on the final budget, and superior sensitivity at the time of budget formulation more reflected by the inputs delivered by the apparatus which is reflected in the final budget.

The results also show that the dimensions of the level of participation in the category satisfactory and dimensions of the perceived influence in the very high category, but the dimensions of the perceived influence more reflect the participative budgeting.

This means echelon officials in Local Government Unit Agencies have very high involvement in the preparation of programs, activities, budget, provide repair, inputs, received directives to fit with the priority program.

The second hypothesis testing results show the effect of organizational commitment on performance indicated by the path coefficient 0.117 with a t value 0.889. t value scores is lower than t critical (1.960). This result proves the second hypothesis; organizational commitment does not significant effect on performance.

Table 9. Significance Tests of The Effect Organizational Commitment on Performance

Path coefficient	t-value	t-critical	Conclusion
0.117	0.889	1.96	Not significant

Source: PLS-SEM results

Apparatus with high affective commitment will remain with the organization because they want it. These Apparatus know the organization and bound to remain a member of the organization in order to achieve organizational goals. Continuance commitment reflects the strength of the tendency of Apparatus to continue to work because there is no other alternative.

It can be seen from the answers to the questionnaire, the apparatus persist in Local Government Unit Agencies because their common vision and mission, preferring Local Government Unit Agencies where they worked at the time as compared Local Government Unit Agencies other, apparatus also feel the presence of a bond of high emotion to Local Government Unit Agencies, so too detrimental to resign from the Local Government Unit Agencies, unless it is a state that can not be avoided/rejected like to undergo mutations.

Thus, the apparatus that has a high continuance commitment remain in the organization because the apparatus needed it. The apparatus will remain in the organization because they will get the money pension, facilities, and seniority not because of the pleasant affective relationship with the organization.

The third hypothesis testing results show that the effect of organizational commitment on the relationship between participative budgeting and performance indicated by path coefficient 0.401 with a t value 2.277. t value scores is greater than t critical (1.960). These results show that Organizational commitment has positively significant effects on the relationship between participative budgeting and performance.

Table 10. Significance Tests of The Effect Organizational Commitment on Relationship Between Participative Budgeting and Performance

Path coefficient	t-value	t-critical	Conclusion
0.401	2.277	1.96	Significant

Source: PLS-SEM results

V. CONCLUSIONS

The results of the three hypotheses tested in this research infer that:

1. Participation in budgeting with the level of participation in the category satisfactory and dimensions of the perceived influence in the very high category can increase the performance of Local Government Unit Agencies.
2. Organizational commitment the apparatus of Local Government Unit Agencies with affective commitment, continuance commitment, and normative commitment is very high, as not proofed by their high organizational commitment can improve the performance of Unit Government Local Agencies
3. Organizational commitment the apparatus of Local Government Unit Agencies with affective commitment, continuance commitment, and normative commitment is very high, influence the relationship between participative budgeting and performance.

Managerial implications: In order to achieve the organization commitment of apparatus in accordance with the expected condition (affective commitment), the leaders advised not only give the assignment in accordance with the primary task but it can also give an assignment outside of the main tasks in the environment of local government unit agencies concerned so as to further improve the fabric emotional between officials with the organization.

The level of participation in budget formulation can be further enhanced. The Leaders can be more involve subordinates in terms of the preparation of programs, activities, and budget so that subordinates assess that they have made a great contribution in the preparation of the budget.

The Ability of apparatus of local government unit agencies in the preparation of evaluation report of performance accountability can be further enhanced through training. It can be gain a better understanding of the things that must be reported in evaluation report of performance accountability, such as: documents (vision , mission, strategic plan, and the annual work plan) should be available, compatibility between programs with activities, establishing performance targets, establishing key performance Indicators, as well as the utilization of performance information for feedback, refinement and learning for local government unit agencies.

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