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Determinants of the Effectiveness of Implementation Performance Based-Budgeting and Budget Absorption in Local Governments

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Abstract: This study aims to try to examine the influence of Local Government Employee Understanding, Training, and External Pressure (Determinants) on the Effectiveness of Implementation Performance-Based Budgeting and Budget Absorption in Local Governments (Study on Jambi City Government). The population is all Dinas and SKPD in Jambi City Government. The sampling technique uses a purposive sampling approach. The criteria used are those involved in performance-based budgeting and budget execution practices. So, that the total sampel used was 60 people. Data were obtained by questionnaire distribution techniques to respondents throughout the Dinas and SKPD in Jambi City Government. Data analysis using SEM PLS. The results of data processing found that training, understanding, education and external pressure had a positive effect on the effectiveness of performance-based budget implementation and budget absorption.

Keywords: Performance Based Budgeting; Budget Absorption; Public Sector Budget

Introduction

Budget is a very important thing in an organization. Laws number 32 and 33 of 2004 provide changes in regional financial management, where regional finance must be carried out transparently and accountably in accordance with regulations governing regional finance. The regional government is demanded not only to carry out vertical accountability, namely reporting to government superiors, but also to carry out horizontal accountability, namely reporting to the DPRD and the wider community (Mardiasmo, 2002). This requires the DPRD to oversee the government's performance through the budget. Accountability through the budget includes budget planning up to budget reporting.

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Budget reform carried out by the government resulted in changes in the budget structure and changes in the process of drafting the APBD to create transparency and increase public accountability. The form of budget reform in an effort to improve the budgeting process is the application of performance-based budgets. Performance based budgeting is a budgeting system that is oriented towards organizational output and is closely related to the organization's vision, mission and strategic plan (Bastian, 2006). The implementation of performance-based budgets is regulated in the Minister of Home Affairs Regulation (Permendagri) Number 13 of 2006 and amended again by Permendagri Number 59 of 2007 concerning guidelines for regional financial management. In this regulation it is stated about the preparation of the Regional Work Level Work Plan and Budget (RKA-SKPD). The existence of this RKA-SKPD means that the need for performance-based budgets has been fulfilled and accountability. Where performance-based budgeting requires the existence of optimal output or expenditure allocated so that each expenditure must be oriented or economic, effective and efficient.

Performance-based budgeting aims to improve the efficiency of resource allocation and the effectiveness of its use in accordance with the plans set by the local government so that with the performance-based budget it is expected that the budget can be used optimally to improve community welfare and can support increased transparency and accountability in sector management public. Performance-based budgeting is the answer to be used as a tool for measuring government performance accountability.

Issues regarding performance-based budgets are still a major problem in the public sector, especially local governments because there are still many local government performances in Indonesia that still have a "C" (Enough) value (www.kompas.com, 2017). Actually the reform of the method of public sector budgeting, namely the performance-based budgeting approach has been applied to Indonesian government agencies which have been regulated in Law number 17 of 2003 concerning state finance and implemented in stages starting in the 2005 budget year (Ulum and Sofyani, 2016). However, the implementation of performance-based budgeting made by Local Government Organizations in Indonesia has not been effectively implemented.

Not the maximum implementation of performance-based budgets in government institutions in Indonesia is recognized by the Ministry of Finance of the Republic of Indonesia (2009). They argue that performance-based budgets that focus on the linkages between funding (input) and expected outcomes are still not reflected in the planning and budgeting documents that have existed so far. This argument is also in line with what Bawono (2015) explained that the practice of performance-based budgets in local governments in Indonesia is still applied partially and not comprehensively. This condition is caused by the strong influence of the line-item and incremental approaches in the existing budgeting system so that this perspective is still the "thinking style" of regional government apparatus related to budgeting. In addition, this condition is also caused by the many regulations regarding regional financial management that collide with each other, and the weak aspects of performance measurement in the budgeting reform process (Bawono, 2015).

The Jambi City Government won the B title for evaluating the Government Agency Performance Accountability System (SAKIP) in 2018. The Jambi City Government must of course improve the performance and accountability of its government. If the title is

related to the realization of the Jambi City government budget in all Dinas and SKPD, it does experience ups and downs.

Literature Review

Institutional Theory

To see the basic concepts of an organization, there have been many previous studies using institutional theory in his research. Dacin et al. (2002) state that institutional theory is a popular and powerful explanation of the actions of individuals and organizations. Institutional theory gives the view that external pressures originating from the external environment of organizations such as politics, norms, institutional practices in the form of functional and social pressure, will affect the survival of an organization (Ashworth et al. 2007).

Chun and Rainey (2005) explain that public sector organizations are more easily influenced by institutional pressure caused by the existence of ambiguity from the goals of the organization, as well as the results of the emergence of motivation from operations that are more aimed at achieving legitimacy than improvement in the internal performance of the organization (Prayudi and Basuki 2014). Public sector organizations can resemble other organizations (homogeneous) which are caused by the implementation of managerial practice as an act of legitimacy. Wijaya and Akbar (2013) explain that in facing the same rules of the organizational environment, isomorphism encourages units from the population to resemble other units.

Goal Setting Theory

Motivation is a form of goal setting theory. This theory is the main theory put forward by Locke (1968) which emphasizes the need for a relationship between the objectives set against the output of performance. The goal setting theory states that thoughts and intentions are the drivers of the behavior of each individual. Behavior of individual or organizational performance is influenced by his understanding of the objectives of the organization. The level of performance or goals to be achieved can be seen from the individual target. To realize optimal performance requires strong motivation, which is based on positive intentions. In assessing performance, each individual in the organization must have goals and skills.

Kusuma (2013) states that budget accuracy is influenced by goal setting. The organization's vision and mission are the main objectives so that clear performance targets are needed (luhat: Locke, 1968). Therefore each organization is required to set a goal, which is then formulated in the budget plan. Thus, in budget planning it is necessary to include the goals or targets to be achieved by the organization, not only containing the nominal amount and planning needed for each work program or activity that the organization will implement.

Public Sector Budget

Public sector budget is a work plan that is made and used by the government, both the central government and regional governments which are expressed in the form of financial measures, which contain information about income, expenditure, activity and financing in the monetary level (Puranto, 2010). Public sector budgets contain planned activities that are presented in the form of income and expenditure acquisition plans. In its simplest form, a

public budget is a document that describes the financial condition of an organization which includes information about income, expenditure and activities (Mardiasmo, 2002).

The public sector budget system in its development has become a multifunctional policy instrument used as a tool to achieve organizational goals. This is mainly reflected in the composition and size of the budget that directly reflects the direction and objectives of the expected service. The budget as a public activity planning tool expressed in monetary level can also be used as a control tool. The public budget planning system develops according to the dynamics of the development of public sector management and the demands that arise in society.

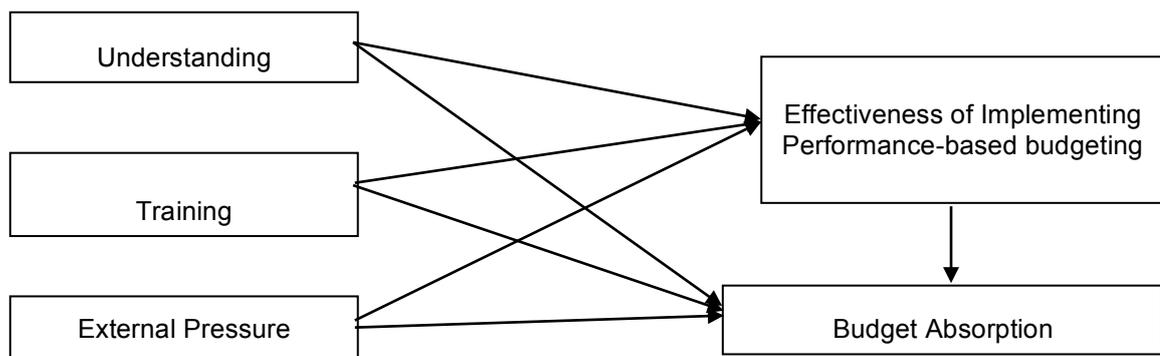
Performance Based Budgeting

Performance-based budgets are “a continuum that involves the availability and use of performance information at each of the various stages of the budget process – budget preparation, budget approval, budget execution, and audit evaluation” (Joyce and Sieg, 2000). Performance-based budgeting (ABK) is a budgeting method for linking each cost as outlined in activities with benefits generated. These benefits are described in a set of goals and objectives as outlined in the performance targets for each work unit (Anggrainim 2010).

Effective performance-based budgets will identify the relationship between the value of money and results, can explain how these linkages can occur which are the key to effective program management. If there is a difference between the plan and its evaluation, evaluation of input sources and how they are related to output / outcomes can be done to determine the effectiveness and efficiency of program implementation.

- H1a** : Understanding has a positive effect on the effectiveness of the implementation of performance-based budgets
- H1b** : Understanding has a positive effect on budget absorption
- H2a** : Training has a positive effect on the effectiveness of implementing performance-based budgets
- H2b** : Training has a positive effect on budget absorption
- H3a** : External pressure has a positive effect on the effectiveness of performance-based budgeting
- H3b** : External pressure has a positive effect on budget absorption
- H4** : Implementation of performance-based budgets has a positive effect on budget absorption.

Figure 2.1. **Research Model**



Methods

Research Variable

The research variables consisted of dependent variables and independent variables. Independent variables are understanding, training and external pressure while the dependent variable is the effectiveness of budget-based performance implementation and budget absorption.

Data Types and Sources

The type of data in this study is primary data in the form of respondents' perceptions of the variables used. Primary data is data obtained directly from the original source or object of research (Sanusi, 2014). Primary data sources are obtained from the answers to the questionnaires distributed to respondents

Method of Data Collection

The method of data collection in this study is a survey. Data collection is done by direct distribution, which is to go directly to the respondents to submit or collect questionnaires.

Population and Sampling

Population is a generalization area consisting of objects or subjects that have certain qualities and characteristics applied by researchers to be studied and then conclusions drawn (Sanusi, 2014). The population in this study were all Dinas and SKPD in Jambi City Government. The sample is part of the number of characteristics possessed by the population (Sanusi, 2014). The sampling method in this study used purposive sampling where the respondents selected were those related to the budget in the Jambi City Government.

Operational Variable

a. Understanding

Understanding as a psychological factor in the learning process. The main purpose in the learning process is to be able to understand a certain thing and be able to grasp the meaning of it. In achieving an understanding, someone must go through several processes, then deepen the meaning so that the individual can improve the quality of his knowledge (Diani, 2014). The instrument of understanding in this study was measured by 8 question items developed by Madjid and Ashari (2013), with a Likert scale of 1 to 5

b. Training

Training such as workshops for employees in a SKPD is needed as an additional process in learning, in order to increase knowledge, expertise, improvement of attitudes and experience so as to improve the quality and performance of these employees. The training instrument in this study was measured by 2 question items developed by Sofyani and Akbar (2013; 2015), with a Likert scale of 1 to 5.

c. External Pressure

Power aspects can be external pressure, professional pressure and cultural pressure. DiMaggio and Powell (1983) explain that the environment in the organizational area always has a relationship with coercive isomorphism. Formal and informal pressures between organizations are the result of coercive isomorphism. Coercive power in an organization

can influence the organization to comply with the regulations set by the boss. The external pressure instrument in this study was measured by 5 question items developed by Shalikhah (2014) with a Likert scale of 1 to 5.

d. Performance-Based Budgeting

Performance-based budgets are “*a continuum that involves the availability and use of performance information at each of the various stages of the budget process – budget preparation, budget approval, budget execution, and audit evaluation*” (Joyce and Sieg, 2000). Performance-based budgeting (ABK) is a budgeting method for linking each cost as outlined in activities with benefits generated. Performance-based budget instruments in this study were measured by 10 question items developed by Achyani and Cahya (2011), with a Likert scale of 1 to 5

e. Budget Absorption

One of the obstacles in economic growth in the region is the absorption of the government budget, so that the objectives of regional autonomy are also hampered. Blocher et al (2010) explained that through the budget allocation and utilization for the period of one fiscal year, it will be more detailed. The instrument for budget absorption (external pressure) in this study was measured by 6 question items developed by Juliani and Sholihin (2014), with a Likert scale of 1 to 5.

f. Data Analysis

To test the hypothesis, it is done using Partial Least Square (PLS) testing. PLS is a model of Structural Equation Modeling (SEM) based on components or variants with SmartPLS tools (Hartono and Abdilah, 2014). Before testing the relationship between variables, researchers first tested the quality of the instrument, namely validity (discriminant and convergent) and reliability. Convergent validity construct is seen in the outer loading feature, while discriminant validity is seen in discriminant validity features. The construct reliability is measured from the results of Cronbach's Alpha calculations. The hypothesis in this study is accepted if the coefficient or direction of the variable relationship indicated by the original sample value is in line with the hypothesized one and the statistical t value is more than 1.96 (one-tailed) and the probability value (p-value) is less than 0.05 or 5 %

Findings

Statistics Descriptive Research Variable

In this study the sample used was 27 Jambi City DPOs represented by several respondents per OPD (2-3 people) employees of the local government work unit in Jambi City, who possessed direct roles and authority over performance-based budgeting and budget absorption, including agency heads, treasurer expenditure, agency secretaries, and agency program planning sub-sections. This research was conducted by directly distributing questionnaires in a total of 60 copies.

Of the 60 questionnaires distributed there were no questionnaires that did not return and there were no questionnaires that were not filled in completely, so the questionnaire that could be processed by researchers was 60 questionnaires. Descriptive statistical test results are presented in the following table:

Table 4.1. Descriptive Statistic Test Results

Variabel	N	Theoretical Range	Empirical Range	Empirical Mean	Deviation Standard
Education	60	5-25	15-25	19,88	2,32
Understanding	60	8-40	23-40	33,17	3,56
Training	60	2-10	4-10	5,86	1,17
External Pressure	60	5-25	15-25	20,58	2,01
Implementation	of60	10-50	21-45	35,95	4,06
Performance based budgeting	113	6-30	20-30	25,38	2,43
Budget Absorption					

Convergent Validity

Convergent validity tests relate to the principles that the manifest variables of a construct must be highly correlated. From the results of the PLS output, it was found that the overall loading factor from ABK1 to TE5 can be said to be valid because the loading factor value is above 0.7, which means that construct validity has been fulfilled. This makes it clear that the statement on the questionnaire instrument has been able and accurate in measuring the research variables.

Discriminant Validity

One of the discriminant validity can be seen by comparing the value of AVE (Average Variance extracted) with a correlation between other constructs in the model. The measurement model with AVE is a model that compares the roots of AVE with correlations between constructs. If the AVE root value is > 0.50, then it means that discriminant validity is reached. Based on PLS output AVE value on latent variable Performance Based Budget (0.0627), Budget Absorption (0.565), Training (0.772), Understanding (0.667), Education (0.732), and External Pressure (0.590) worth > 0, 5 so that it can be said that the measurement model has been valid in discriminant validity.

Fornell-Larcker Criteria

Discriminant validity was also carried out based on Fornell-Larcker measurement criteria with constructs. If the construct correlation on each indicator is greater than other constructs, it means that the latent construct can predict indicators better than other constructs. Based on Table 4, it appears that each question indicator has the highest loading factor value in each latent construct tested than the other latent constructs, meaning that each question indicator is able to be predicted well by each latent construct in other words the discriminant validity is valid. Results of discriminant Validity Fornell Larcker column Criteria are presented in table 4 below

Tabel 4.2: Discriminant Validity Results

Variabel	ABK	PA	PEL	PEM	PEN	TE
ABK	0.792					
PA	0.612	0.751				
PEL	0.301	0.110	0.879			
PEM	0.509	0.650	0.176	0.817		
PEN	0.317	0.226	0.125	0.211	0.856	
TE	0.527	0.466	0.214	0.548	0.208	0.768

Note:

- ABK : Anggaran Berbasis Kinerja (Performance Based-Budgeting)
- PA : Penyerapan Anggaran (Budget Absorption)
- PEL : Pelatihan (Training)
- PEM : Pemahaman (Understanding)
- PEN : Pendidikan (Education)
- TE : Tekanan Eksternal (External Pressure)

Composit Reliability and Cronbach Alpha

From the instrument test also found that the ABK construct (0.943), PA (0.886), PEL (0.871), PEM (0.941), PEN (0.931), TE (0.878) greater than 0.7, composite reliability has been fulfilled, which it means there is no reliability / un-dimensional problem in the model, so in other words the construct can be said to be reliable, this is also strengthened from the value of Cronbach's Alpha construct ABK (0,932), PA (0,848), PEL (0,711) PEM (0,928), PEN (0.907), and TE (0.826) greater than 0.6. The valid Cronbach's Alpha value reinforces and supports the value of composite reliability, which means that there is no reliability problem in the model. So that in other words the construct has been declared reliable (Ratmono and Sholihin, 2013).

Inner Model

The next analysis technique after measuring the model (outer model) has met the criteria of validity and reliability, then testing the structural model (inner model) to see the relationship between latent constructs and the R-Square Test. This test aims to find out how much the ability of the independent variable model to explain the dependent variable. From the PLS output the results obtained from the Adjusted R Square value of 0.384 or 38.4%. This means that the variable effectiveness of performance-based budgeting can be explained by 38.4% by variables of education, understanding, training, and external pressure. While the rest is influenced by other factors not examined. From the test also obtained results from the value of Adjusted R Square of 0.516 or 51.6%. This means that the budget absorption variable can be explained by 51.6% by the variables of education, understanding, training, external pressure, and the effectiveness of the implementation of performance-based budgets. While the rest is influenced by other factors not examined.

Hypothesis Test Results

Testing hypotheses to see the significance of a variable relationship through the coefficient or direction of variable relations indicated by the original sample value is in line with the hypothesized, the t value of statistics and probability value (p-value) on the path coefficient. The results of the path coefficient test are presented in Table 4.3

Tabel 4.3: **Hypothesis Test Results**

Variable	Original Sample (O)	Mean Sample (M)	Standard Deviation (STDEV)	T Statistic (O/STDEV)	P Values	Conclusion
ABK -> PA	0.391	0.385	0.097	4.027	0.000	Accepted
PEL -> ABK	0.166	0.173	0.082	2.033	0.043	Accepted
PEL -> PA	-0.095	-0.083	0.069	1.384	0.167	Rejected
PEM -> ABK	0.277	0.276	0.087	3.191	0.002	Accepted
PEM -> PA	0.447	0.444	0.094	4.748	0.000	Accepted
TE -> ABK	0.304	0.310	0.092	3.310	0.001	Accepted
TE -> PA	0.033	0.041	0.096	0.344	0.731	Rejected

Understanding has a positive effect on the effectiveness of performance-based budgeting and has a positive effect on budget absorption

The results of hypothesis 1a test show that understanding has a positive effect on the effectiveness of the implementation of performance-based budgets. These results support previous studies conducted by Madjid and Ashari (2013), Sumantri (2013), Shalikhah (2014), and Handayati (2016). Understanding of the system and good budget management of government employees, the performance of performance-based budgeting will be more effective. The purpose of the existence of financial management systems and procedures is to be able to realize a unified understanding of financial implementation in terms of performance-based budgeting. Understanding of financial management systems and procedures is a basic thing that needs to be owned by government officials in Jambi, who directly influence or can predict good performance. This indicates that Jambi City Government employees have a good understanding in an effort to improve the effectiveness of the SKPD Budget.

Another thing that can influence is the existence of a system understanding and good financial management by Jambi City government officials in preparing budgets based on priority scale and based on performance indicators. As explained, one of the main activities in performance-based budgets is the availability of data for performance indicators and making decisions regarding budgeting according to the set performance targets. Because this will aim to obtain information and understanding of various programs that produce the expected outputs and outcomes.

The results of hypothesis 1b test show that understanding has a positive effect on the absorption of the Budget. These results support previous studies conducted by Madjid and Ashari (2013). An understanding of the system and good budget management of government employees, makes employees understand the budget work plan that has been prepared based on priority scales and performance indicators so that it has an impact on the absorption of terminology-based budgets and the absorption of budgets can be absorbed according to the set budget targets and budget absorption can be controlled properly.

Training has a positive effect on the effectiveness of performance-based budgeting and has a positive effect on budget absorption

The results of hypothesis 2a test show that training has a positive effect on the effectiveness of the implementation of performance-based budgets. The results of this study support previous studies conducted by Riyanto et al. (2006), Windayani (2008), and Madjid and Ashari (2013). Training such as bimtek, workshops and so on that can improve the skills and quality of Jambi City government employees that are given regularly, which is held by Jambi City agencies or organizations is needed. The training aims to improve productivity, quality, accuracy in planning, provide the latest information from government regulations, and bridging the gap between the ability of government employees with the objectives of SKPD or local government. The training that was attended by Jambi City government officials in terms of performance-based budgeting, proved to be able to improve the quality of individuals, and Jambi City government employees can prepare budget plans and analysis of effective expenditure standards according to established procedures, and the budget is prepared based priority scale and based on performance

indicators, so as to minimize the remainder of more budget financing, and the implementation of performance-based budgets runs effectively.

The results of hypothesis 2b test show that training does not affect the absorption of the budget. This result is not in line with the results of research conducted by Madjid and Ashari (2013). This is because in the data obtained by the researcher that the Jambi City government work unit focuses more on training on performance-based budgeting and Jambi City government employees rarely hold or are included in financial management training related to budget absorption. Other things that can happen even though they have been held and are included in training related to budget absorption but there are limited funds available in each agency. This can result in the process of absorption of the budget for work programs will be hampered.

External pressure has a positive effect on the effectiveness of performance-based budgeting and has a positive effect on budget absorption.

The results of hypothesis 3a test show that external pressure has a positive effect on the effectiveness of the implementation of performance-based budgets. The results of this study support previous studies examined by Shalikhah (2014). The existence of external pressure in the form of coercive power, where there are regulations set by the Jambi City Government as set out in the Ministry of Home Affairs Regulation Number 24 of 2011, makes Jambi City government employees obedient to these regulations, so performance-based budgeting can be arranged based on priority and based on performance indicators. This is also due to the demands of the mayor of Jambi to maintain the value and predicate of the City of Jambi in the value of the development of the accountability of performance of the provincial government in Indonesia.

The results of hypothesis 3b test show that external pressure does not affect the absorption of the budget. This result is in line with the research conducted by Saputro et al. (2016). External pressure in the form of demands and regulations made with the aim of clearly regulating policies and implementation turns out to be difficult to implement because the conditions that are difficult to fulfill before implementing the budget, so that the regulation is one of the inhibiting factors in realizing the budget plan that has been made. It can be said that the rules are not a pressure for the Jambi City government agencies in absorbing the budget, because the rules are an obligation that must be done in making policies and implementing budgets. Even though there are changes in policy and budget implementation, an agency still has a high commitment in the implementation of budget management and the absorption of the budget that should be (shalikhah, 2014).

External pressure may not affect budget performance in the Jambi city administration, this is due to the high organizational commitment to implementing the budget and making a policy. Another thing that can happen is the availability of funds in the field.

Implementation of performance-based budgets has a positive effect on budget absorption

The results of hypothesis 4 test show that the effectiveness of the implementation of performance-based budgets has a positive effect on budget absorption. This result supports the research conducted by Riyanto et al. (2006) and Madjid and Ashari (2013). The implementation of performance-based budgeting in an SKPD, which pays attention to output and output from a program, the budget must be based on priority scales and include

performance indicators, so budgeting can be effective, efficient and economical as well as the existence of priority budget and performance indicators. The term for a work program that runs will be controlled by the regional general treasurer. The evaluation of performance-based budgets is an assessment of the achievement of work targets, consistency of planning and implementation, level of efficiency, and realization of budget absorption (Madjid and Ashari, 2013)

Conclusion

The results of the study can be summarized as follows:

- a. Understanding has a positive effect on the effectiveness of the implementation of performance-based budgets
- b. Understanding has a positive effect on the absorption of the Budget
- c. Training has a positive effect on the effectiveness of the implementation of performance-based budgets.
- d. Training does not affect the absorption of the budget.
- e. External pressure has a positive effect on the effectiveness of the implementation of performance-based budgets.
- f. External pressure does not affect the absorption of the budget.
- g. The effectiveness of implementing performance-based budgets has a positive effect on budget absorption.

Recommendation from this study are:

- a. There is a need for education regarding financial management systems and procedures that are incentive and relevant for government employees so that there is no gap between the effectiveness of the implementation of budget-based performance and budget absorption, so that government goals can be achieved and can maintain the value and predicate development of accountability values that have been achieved.
- b. More training is needed such as technical guidance, workshops and others for government employees related to the absorption of the budget, so that the process of absorbing the budget runs efficiently and efficiently. Not only focusing on training related to performance-based budgeting.

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