

The Role of Participation in Budget Preparation as Mediation

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THE ROLE OF PARTICIPATION IN BUDGET PREPARATION AS MEDIATION IN RELATIONSHIP BETWEEN INFORMATION TECHNOLOGY, KNOWLEDGE OF THE BUDGET AND POLITICAL PROCESSES TO QUALITY OF REPORT

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1 **Abstract:** This study generally aims to empirically examine the role of budgetary participation process and its impact on the quality of report of the budget and in particular to analyze the influence of knowledge about the budget, information technology, and the political process towards budgetary participation and quality of report improvement budget. Using survey research methods. Respondents from the executive, legislative and internal auditors. The hypothesis is tested and analyzed using the Generalized Structured Component Analysis (GSCA). The results of this study indicate that participation Budgeting becomes a variable mediating the effect of Information Technology, Knowledge of the Budget, and the Political Process to quality of report.

Keywords: Knowledge of Budget, Budgetary Participation Role, Quality of Report, Sobel Test Generalized Structured Component Analysis

I. INTRODUCTION

Government Budgeting in Indonesia is a fairly complicated process, known as budgeting which adopts a participatory approach. Participatory approaches require each constituent level of the budget to actively participate in the process of budgeting and is an instrument to improve quality of information and accountability of the government. Thus, local governments are expected to play an active role in preparing the budget that will improve quality of information, so as to prevent budgetary slack, i.e. making the revenues lower and spending higher. But in reality, the phenomenon that occurs is not consistent with this expectation. It means that the phenomenon in the field (reality) is differentiated with the expected outcome (theory).

The phenomenon in the field shows that of 510 Indonesian local governments, there are 450 local governments or 88% of them which allocated the 2010 to 2013 local budget (APBD) in budget deficits. This means that their spending is greater

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than their revenue. To indicate during budget preparation, budgeting can be achieved by raising or lowering the revenue that should be achieved. Such a situation known as creating budgetary slack (Merchant, 1981). The phenomenon is consistent with findings of the research by The Asia Foundation and the National Secretariat Fitra that show that the 2009 Local Budget Management was low due to the lack of active participation in budget preparation.

This phenomenon raises a question: why are participation in budget preparation and budgetary quality of information low? Though reforms have been carried out by improving the quality of Human Resources (HR) and legislation. These reforms small costed a considerable amount of money, ranging from the cost of making and introducing the legislation (UU) to the procurement of human resources and supporting infrastructure.

It is not easy to answer the above question. Various studies have been done to improve quality of information through participation in budget preparation. It is evident from the attention of the public sector accounting researchers to research on budget preparation and quality of information. Brownell (1982b) mentions two reasons for doing research on participation in budget preparation, namely: (1) participation is considered as a managerial approach; which can improve quality of information, and (2) various studies which investigate the findings of the research found contradictory results.

Research that supports the existence of a positive and significant relationship between the influence of participation in budget preparation on the quality of information among other is done by Brownell (1982b) and Indrianto (1993). Participation in budget preparation has an insignificant influence on the quality of information, as found by Milani (1975). While the researcher who found the presence of a negative influence of participation in budget preparation on the quality of information is Gul *et al.*, (1994), who states that the negative effect of participation in budget preparation on quality of information occurs in a less decentralized setting.

Based on the above description, it can be concluded that the effect of participation in budget preparation and quality of information still indicate contradictory empirical results. These conflicting research findings prompt researchers to examine variables that may affect participation in budget preparation and quality of information. These variables are knowledge, technology, and politics.

Based on the above explanation, the central theme can be formulated that is the effects of knowledge, technology, and politics on participation in budget preparation and their implications on quality of information are not yet clear. However, there is an early tendency (based on the concept and the empirical studies above) that the support of qualified knowledge as well as reliable technology and politics will have an influence on the participation in budget preparation and their implications on the quality of information.

II. PREVIOUS STUDIES

Subrmaniam *et al.*, in Yahya (2008) find that the management with a high level of knowledge and that is supported by a good level of participation in budget preparation is able to contribute to the improved quality of information. Williams *et al.*, in Yahya (2008) state that knowledge is important for budget preparation and if it is supported by an active level of participation, it will improve the quality and raise the reputation of a department as well as improve its quality of information. The limited budget of the public sector requires local government officials to have sufficient knowledge to make innovations and to improve services. If people are be satisfied with the services they provide, this will definitely increase the locally-generated revenue (Indonesian: *Pendapatan Asli Daerah* or PAD) either directly or indirectly. Rewards will be received by these local government officials. Therefore, in budget preparation that includes planning, the actions taken by the government, how much they cost, and the outcomes of this government spending should actually be carefully formulated because later the obtained results are expected to provide feedback for the local government officials.

Andersen (1995) reveals that the use of information technology in communication will enhance the effectiveness of managers' participation and improve quality of information. Other literature suggests that it is important for these managers to use information technology to strengthen the decision-making in their respective organizations and to create a competitive advantage by increasing the capacity to process information. Further, Shields and Shields (1998) support the previous literature that the use of technology supported by participation will improve quality of information.

Research conducted by Papadakis V.M., S. Lioukas, and D. Chambers (1998) conclude that politics and quality of information have a positive correlation with governmental organizations. This happens because of the complexity in the internal and external interests, where many parties intervene and attempt to change the outcomes of the decision-making process to suit their own interests.

Research on participation in local government budgeting carried out in Indonesia, among others, was conducted by Indriantoro (1993) who investigate the effects of participation on job quality of information and job satisfaction of local government officials in Yogyakarta Province. The findings suggest that there is a significant relationship between participation in budget preparation and job quality of information. These are consistent with Ulupui (2003) that conducted a study which examines the effects of participation in budget preparation, distributive justice, procedural justice, and commitment to the goal towards quality of information in Badung Regency. The results indicate that participation in budget preparation provides significant effects on the quality of information of regional offices (*dinas*) in Badung.

The hypotheses to be tested in this study include:

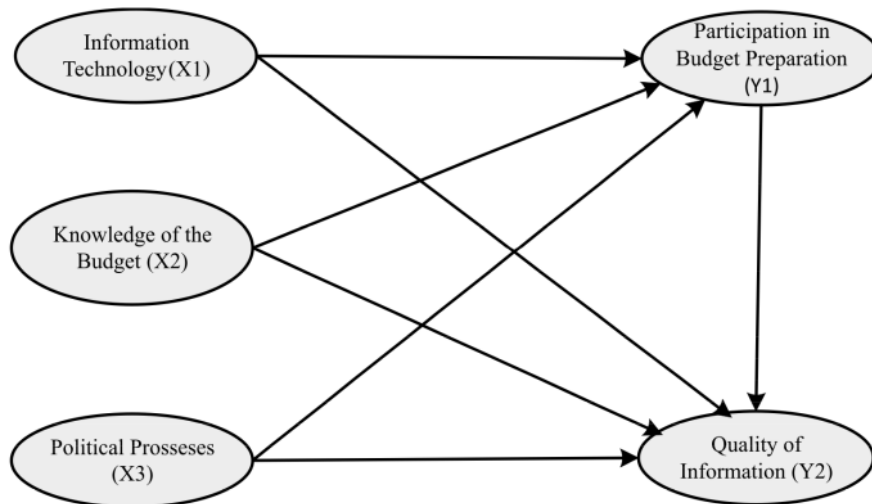
1. Information Technology provides a significant effect on quality of information through Participation in Budget Preparation.
2. Knowledge of the Budget provides a significant effect on quality of information through Participation in Budget Preparation.
3. Political Processes provide a isignificant effect on quality of information through Participation in Budget Preparation.

III. RESEARCH METHODS

In the current research, the analysis used to examine the hypotheses was the Generalized Structured Component Analysis (GSCA) with the Sobel test approach to test mediation among variables. This study investigates the effects of Information Technology, Knowledge of Budget, and Political Processes on quality of information through Participation in Budget Preparation as a mediating variable. The analytical tool used was the Generalized Structured Component Analysis (GSCA).

This research seen from its purpose belongs to explanatory research. Consideration regarding the research type is important for the analysis of the causality relationship among the factors that affect the quality of information of the local governments' budget. The goal is to find the relationship between the indications of the phenomenon in which the quality of information of the provincial government of West Sulawesi has not been optimal.

Figure 1: The Research Model



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The approach employed to analyze was the quantitative approach. Selection of the approach and the method is because the present study is intended to confirm (testing) the theory and the reality by firstly formulating hypotheses and then examining these hypotheses using a statistical analysis technique.

Selection of the research sample was done using the method of purposive sampling in order to obtain a representative sample that is consistent with the specified criteria. The criteria used for selecting the sample were SKPD which prepares the budget as a whole and is completely involved in the preparation process of quality of information-Based Budgeting (ABK) from the selecting stage to the budget approval stage at the Regional House of Representatives (DPRD). In accordance with the above criteria, the minimum sample required for 39 observations/ indicators is $5 \times 30 = 150$ SKPDs/ respondents. This number of samples meets the minimum sample requirement, i.e. a minimum of 5 samples for each group (cell) (Hair et al., 2006: 112). It is also in line with the estimated parameter used, which is the method of Maximum likelihood (ML). The ML method requires appropriate sample size of about 100-500 samples. The sample size that is either too small or too large will cause type-II problems where the research findings that should be rejected will instead be accepted.

IV. RESULTS OF HYPOTHESIS TESTING

The following are the details of the testing results for the mediation of Participation in Budget Preparation on the effects of Information Technology over quality of information:

Based on the table and the graph, the testing of the indirect effect of Information Technology (X1) on quality of information (Y2) through Participation in Budget Preparation generate a Sobel Test coefficient of 0.226 with a p-value of $0.002 < 0.05$, it can be concluded that there is a significant indirect effect between Information Technology and quality of information through Participation in Budget Preparation. The positive coefficient indicates a positive relationship. It means that the higher the Information Technology, the higher the quality of information, if Participation in Budget Preparation is also high.

The testing results indicate that the variable Participation in Budget Preparation mediates the effects of Information Technology on quality of information. The higher the Information Technology, with the mediation of higher Participation in Budget Preparation, will increase the quality of information.

The testing of the indirect effect of Knowledge of the Budget (X2) on quality of information (Y2) through Participation in Budget Preparation generate a Sobel Test coefficient of 0.086 with a p-value of $0.072 < 0.10$ (alpha 10%), with the alpha by 10%, it can be concluded that there is a significant indirect effect between Knowledge of the Budget and quality of information through Participation in

Budget Preparation. The positive coefficient indicates a positive relationship. It means that the higher the Knowledge of the Budget, the higher the quality of information, if Participation in Budget Preparation is also high.

The testing results indicate that the variable Participation in Budget Preparation mediates the effects of Knowledge of the Budget on quality of information. The higher the Knowledge of the Budget, with the mediation of higher Participation in Budget Preparation, will increase the quality of information.

The testing of the indirect effect of Political Processes (X3) on quality of information (Y2) through Participation in Budget Preparation generate an indirect coefficient by 0.085 with a p-value of $0.067 < 0.10$ (alpha 10%), with the alpha by 10%, it can be concluded that there is a significant indirect effect between Political Processes and quality of information through Participation in Budget Preparation. The positive coefficient indicates a positive relationship. It means that the higher the Political Processes, the higher the quality of information, if Participation in Budget Preparation is also high.

The testing results indicate that the variable Participation in Budget Preparation mediates the effects of Political Processes on quality of information. The higher the Political Processes, with the mediation of higher Participation in Budget Preparation, will increase the quality of information. These research findings are consistent with the findings of the research by Haryanto, Kartini, and Haliah (2013) as well as Haryanto, Kartini, and Haliah (2014) which suggest that there is a correlation between political processes and quality of information.

V. CONCLUSIONS

Based on the analysis in the previous section, the following can be summarized:

1. Information Technology (X1) provides an indirect effect on quality of information (Y2) through Participation in Budget Preparation (Y1).
2. Knowledge of the Budget (X2) provides an indirect effect on quality of information (Y2) through Participation in Budget Preparation (Y1).
3. Political Processes (X3) provide an indirect effect on quality of information (Y2) through Participation in Budget Preparation (Y1).

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