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Antecedents of Budget Quality Empirical Evidence from Provincial Government In Indonesia

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Abstract: The objective of this research is to identify the prime factors affecting budget quality in Medan city. We find out to answer the following research questions what is the impact of budget reforms, public participation and budget user commitment on the budget quality in North Sumatera Province. Number of sample in this research is 200 respondents which analyzed to identify the critical factors that influenced the budget quality. The data is analyzed with qualitative and quantitative approach. By qualitative approach, the results indicate that budget reforms, public participation and budget user commitment contribute significantly to budget quality. According to the result in qualitative approach, there are some other factors which affected local government financing decisions and their impact on the budget quality, for example political factor, Economic Factor, Social Factor, Demographic Change, Legal factor and Intergovernmental Factor.

Keywords: Budget Quality, Budget Reform, Public Participation and Budget User Commitment.

1. INTRODUCTION

In order to improve the service and welfare of the community, local governments should improve the quality of local financial management especially improve the quality of regional planning and budgeting. Budgeting is the first step in implementing regional management (Erlina, 2017). Budget is a planning tool that has been contained in the form of financial programs and activities that will be conducted during a certain period of time as a reference of organization activities and show organizational goals (Burhan *et al.*, 2015). Budgets are needed to manage the resources well to achieve the clarity of budget goals that are expected by the community and to create accountability to the community. Local government budget in Indonesia is known as Regional Revenue and Expenditure Budget (APBD). APBD is an annual financial plan of local government which has been approved by the Regional House of Representatives (DPRD). APBD is the accumulation of each local government work unit APBD (SKPD). Local budgeting is needed

in determining the level of community needs. The reflection of community needs in local budgets is indicated through local expenditures issued (Muda and Dharsuky, 2015). The limited capacity of regional funding requires local governments to manage regional spending efficiently and effectively. A quality budget is a budget that has the structure and budget allocations which sided with needs of the community. In the budget preparation, the basic principles that must be accommodated are transparent (Yahya *et al.*, 2017), participatory, discipline, fairness, efficiency and effectiveness, and rational and measurable. In addition, the principles of local budget are authorization by legislative, comprehensive, budgetary integrity, nondiscretionary appropriation, periodic, accurate, clear, and publicly known. While Erlina (2017) mentioned that the budget principles include the criteria in program selection, the amount of expenditure, direction of budget expenditure, the implications of the program, the integration of allocation of spending funds, and the institutions involved. Many factors are suspected to affect the quality of local budgets. Several studies have concluded that in carrying out the planning, the implementation of planning theory will affect the quality of financial planning (Richardson, 2005 and Tang, 2008). However, there are still a few studies that comprehensively develop the planning theory in implementing regional planning. In addition, there are still gaps in research results from previous studies related to the factors affecting the quality of local budgets. In addition, there is still a gap between the theory and the research results on the quality of the budget. There are many researches on budgeting, while research on factors that affect the quality of the budget is still less. Ben's Research (2014) in Nigeria shows budgetary reforms negatively affecting the budget quality. Sopanah (2003) research shows that competence, motivation and level of knowledge by Human Resources influence the result of better budget quality. Petrie (2002) shows that budgetary participation affects the quality of the budget. Erlina (2017) shows that only employee behavior that affects the quality of budget preparation. Sunardi's (2005) research shows that public accountability has an effect on the quality of APBD but not significant, public participation has an effect on APBD quality and significant, public transparency has significant effect on APBD quality and significant, performance-based budget influences on APBD quality but not significant. Daniati's research (2012) shows that competence and motivation has significant effect to the quality of budget, the result of moderation between competence and regulation on budget quality has no effect, and moderation between motivation and regulation on budget quality has significant influence.

Some factors that affect the quality of the budget is the competence of each employee, the high commitment of each employee to the organization itself, and environmental uncertainty that greatly affect the budget plan that has been prepared previously. The competencies of individual employees must be able to support the implementation of organizational strategy and be able to support any changes made by management. In other words, individual competencies can support team-based work systems (Rivai, 2006). Employee competence is an important and influential factor in the implementation and completion of work in an organization. Employee competence is defined as the correct way or working procedure performed by the employees. Thus, to realize the success of the programs that have been established by an organization, then every employee in it is required to have the required competency standards.

Organizational commitment is a variable that greatly affects employee performance for budget quality, because strong organizational commitment in individuals will cause individuals to strive to achieve organizational goals (Modway *et al.*, 1979). The budget must be accompanied by the organization's commitment to all employees to achieve what has been determined. Without serious efforts from any

individual to achieve it, then the budgeting will not do much for the organization. Therefore, in preparing a budget, the organization must carefully consider the resources of the organization to ensure that the budget is realistic. So, with a high commitment, the quality of the budget will be good. The individuals with low commitment will be selfish, and allow for poor quality of budget. Organizational commitment is strongly influenced by the commitment of budget users. If budget users do not have a high commitment, then the organization also does not have a high commitment.

The research will be conducted at the Regency/City Government of North Sumatra Province. The following is one of the descriptions of the development between the budget and the realization of APBD in one of the cities in North Sumatra, namely Medan City. If it is seen from the development between the budget and the realization of APBD, it has many variants. It shows the quality of Medan's budget has not been good. In addition, one of the indicators of the budget quality of is the budget in favor of the community. The Medan city budget is not in favor of the community, this can be seen from the percentage of direct spending and indirect spending and percentage of infrastructure spending, social culture and economy. The following is a comparison table of expenditures on total spending in Medan city and Comparison of infrastructure, socio-cultural and economic spending.

Table 1
Comparison of Spending Percentage to Total Spending of Medan City

<i>Explanation</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>
Indirect Spending				
Employee Spending	0.4914	0.4465	0.3770	0.4916
Interest Spending	0.0015	0.0004	0.0221	0.0125
Grant Spending	0.0093	0.0096	0.0005	-
Social Aid	0.0002	0.0001	0.0018	0.0023
Unexpected Spending	0.0002	0.0001	0.0012	0.0016
Financial Aid	0.0004	0.0003	0.0003	0.0004
Total of Indirect Spending	0.5030	0.4571	0.4000	0.5084
Direct Spending				
Total of Direct Spending	0.4970	0.5429	0.6000	0.4916
SPENDING TOTAL	1.0000	1.0000	1.0000	1.0000

Source: Bureau of Finance of North Sumatra Province, Processed (2017).

Central Bureau of Statistics (BPS) recorded the percentage of poor people in Indonesia reached 12.49 percent in March 2011. Then decreased to 11.96 percent in March 2012, and then decreased to 11.36 percent in 2013. Then, in March 2014, the percentage of the poor people reached 11.25 percent. A year later, it reached 11.22 percent, and then in March 2016 it reached 10.86 percent. The percentage of poor people in Indonesia per March 2017 reached 10.64 percent, relatively slow compared to previous periods. Quantitatively, the poor people as of March 2017 reached 27.77 million people compared to the condition in September 2016 which reached 27.76 million people.

Listiyanto said the increase in the number of poor people confirmed that government debt rose dramatically, reaching nearly 4,000 Trillion Rupiah, unable to create equal economic growth or overcome

Table 1.2
Comparative Development of Infrastructure, Socio-Cultural and Economic Budgets

Year	Infrastructure		Social-Culture		Economy		Total	
	Rp.	%	Rp.	%	Rp.	%	Rp.	%
2011	222,334,832,000	69.48	81,092,826,624	25.34	16,577,130,000	5.18	320,004,788,624	100.
2012	157,987,259,250	73.01	54,606,740,500	25.23	3,801,626,150	1.76	216,395,625,900	100
2013	1,036,570,689,941	45.49	1,121,320,965,059	49.21	120,909,974,000	5.31	2,278,801,629,000	100
2014	1,127,947,012,000	47.92	1,097,696,941,900	46.64	128,124,777,000	5.44	2,353,768,730,900	100
2015	1,349,632,375,550	48.15	1,295,257,319,865	46.21	158,139,755,490	5.64	2,803,029,450,905	100
2016	1,480,356,215,031	47.15	1,464,746,412,554	46.66	194,409,558,442	6.19	3.139.512.186.027	100

Source: Bureau of Finance of North Sumatera Province, Processed (2017).

poverty. Although the debt is to build the infrastructure, but the impact cannot be felt quickly by the community, though it is about purchasing power. The purchasing power cannot be long term. It means that the debt used is not effective. Based on the phenomenon of previous research results and the phenomenon that exist in Medan City, and Indonesia as a whole, the researcher tries to conduct the research factors that influence the budget quality. In this research, the researchers guess these factors are budgetary reform, commitment of budget users and community participation. In addition, this research also tries to prove the basis used by local governments in allocating regional spending.

The implementation of budgetary reforms that prioritize public accountability, community participation, public transparency, and the preparation of performance-based APBD are expected to improve the quality of APBD. The research conducted by Sopanah (2003) shows that knowledge of budget has significant effect to APBD supervision. In addition, public participation and public policy transparency enhance the oversight function undertaken by the council. The higher the supervision conducted by the council, then the process of preparing the APBD will be more qualified.

The existence of budgeting reforms will lead to an increase in the quality of APBD. If this can be proven, then democratic local governance in accordance with principles of good governance that is clean and free from corruption is most likely achieved if each region put forward the principles of public accountability, public participation, and public transparency when drafting the APBD.

According to Greenberg and Barondalam Anthony and Govindrajana (2005) the employees who have high organizational commitment are more stable and more productive employees so that in the end they are also more profitable for the organization. Organizational commitment is related to the high desire to share and sacrifice for the organization. On the other hand, high organizational commitment has a negative relationship with absence and turnover rate and also with the level of slowness in work (Greenberg & Baron, 1993). The three attitudes of employees are: (1) Identification, namely understanding or appreciation towards organizational goals. (2) Involvement, namely feeling involved in a job or feeling that the job is fun. (3) Loyalty, namely the feeling that the organization is where he works and lives. Organizational commitment is proposed by Muda *et al.*, 2016 and Nurzaimah *et al.*, (2016) that there are three organizational components: affective commitment, continuance commitment, and normative commitment. The common aspect of these three components of commitment is the commitment seen as a psychological condition that describes an individual's relationship with the organization and has implications in the decision to continue or not his/her membership in the organization (Muda *et al.*, 2017). The definitions and explanations of each component of organizational commitment are as follows: (Lubis *et al.*, 2016) (1) Affective commitment leads to the employee's emotional attachment to, identification with, and involvement the organization. This means that the commitment is relevant to the employee's emotional attachment, employee identification and employee engagement to the organization (Dalimunthe *et al.*, 2016). Thus, the employees with strong affective commitment will keep working within the organization because they want to do so. (2) Continuous commitment relates to the unawareness of the costs associated with leaving the existing resources. In an administrative perspective, the manager is the person who responsible for the organization or unit he leads. The task of the manager can be described in relation to the various roles or set of organized behaviors that identified by a position (Niskanen, 1975). Mintzberg explains that managers can play three roles through authority and status in performing the duties entrusted, among others: (1) the interpersonal role. In this case a manager must be able to play the role of forehead, leader, and liaison. (2)

Informational roles. In this case, a manager must be able to play his role as a monitor, an informer and as a spokesperson. (3) The role of decision maker. In this role, managers are described as entrepreneurs, disturbance handles, resource allocators and negotiators. The description of managers' role that described above will require a number of important managerial skills, develop equal working relationships, negotiate, motivate his/her employee, resolve conflicts, develop information networks and pay for information, make decisions under extreme ambiguity conditions, and allocate the existing resources.

Within an organization in local government, managers in SKPD are often referred to as budget users. The commitment of budget users is very important in carrying out managerial functions in Local Government, namely functions in local financial management. High commitment of budget user will improve the quality of the organization's work. In improving the quality of budgets in each SKPD, budget users should be committed to perform their roles as interpersonal roles, informational roles and the role as decision maker.

2. LITERATURE REVIEW

2.1. Theoretical Basis

2.1.1. Allocation

Great spending on infrastructure development must be balanced with social spending so as not to create gap and poverty issues. If a local government has allocated substantial spending on infrastructure spending, then local governments must balance the allocation of spending on social culture so that poverty and gap problems are not widening. In fact, the current absorption of spending result on infrastructure expansion does not always occur in the same year (Muda *et al.*, 2017). The impact of new infrastructure development will occur after successfully building. Thus, poverty and equity have not been directly reflected down in the period in which the government spends infrastructure projects. The President of the Republic of Indonesia, Joko Widodo, has outlined that government spending on the poor through health, education and societies is expected to offset government spending focus on infrastructure spending.

2.1.2. Community participation

Community participation is a technical process to provide broad opportunities and powers to the community to jointly solve problems. Community participation in the implementation process of local financial management is seen in the budget preparation process. In the budget preparation process, local governments always hold deliberations of development planning. Erlina (2017) stated that community participation has a very important role in community life in an effort to improve the learning process of the community; directing people to be the responsible societies; eliminate the feeling of alienation of some communities and generate support and acceptance from the government.

Petrie (2002) in his research in Africa stated that in addition to representation, the successful implementation of community participation depends on the effectiveness of communication, the facilitator role to the suitability of the project to the needs of the community. Mauritz (2008) states that the most optimal community participation occurs when the development control is in the community or active participation and there is no interference from the government. Active and effective community participation can be realized if it starts with a high level of participation from the community interpreted by the level of

attendance (Gusnardi *et al.*, 2016). Furthermore, the level of participation will be influenced by the level of education, social status, economic status of community so that each individual will provide different forms of participation. Participation activities are based on the activities of contributing ideas, opinions, initiatives, decision-making, and problem solving which will all be effective if the community can be actively present in these activities.

The level of participation of a region is categorized as low, and then the objectives and benefits of such participation activities will not be achieved optimally. Some of the objectives and benefits of community participation such as improving the community learning process and directing the community towards responsible communities are abstract so that it is not easy to identify the success of the achievement.

3. RESEARCH METHOD

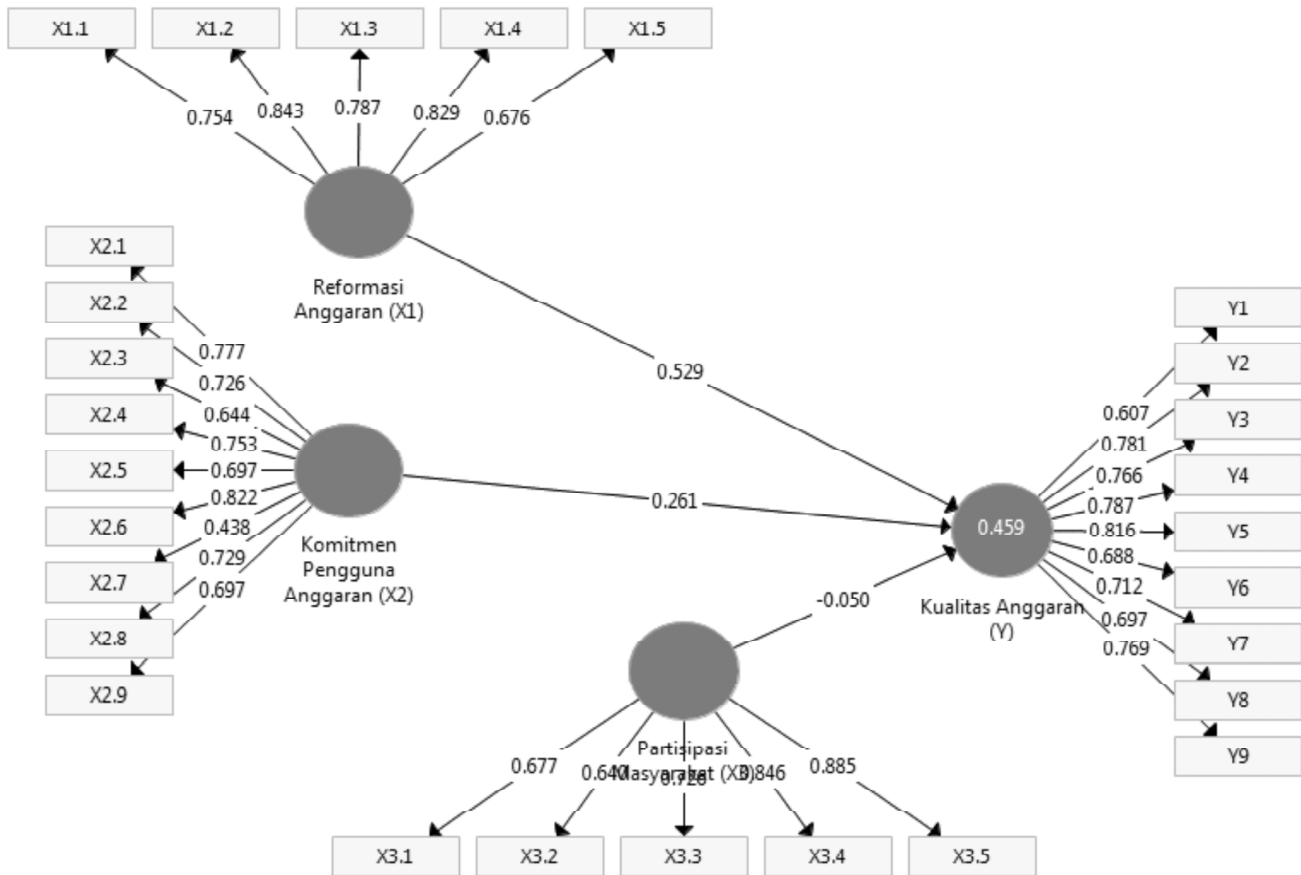
This was a causal research. Causal research is a research design that aims to prove the causal relationship of the variables studied. The purpose of which the causal research is to know which factors are the cause and the consequence, and to know the nature of the relationship between these factors and can be used to examine respondents who have never experienced the phenomenon (Gusnari *et al.*, 2016 and Lutfie *et al.*, 2016). The analysis units of this research are budget users, the secretary of division, and program unit in Medan. Data collection methods were conducted using questionnaires. The dependent variable is quality of budget, and independent variables are: (1) Budget Reform, (2) Public Participation (3) Commitment of budget user. The data analysis model used in the research was the multiple linear regression by using the SMART PLS.

4. RESULTS AND DISCUSSION

4.1. Results

The result of this research showed that the budget reform, public participation and commitment of budget user affect the quality of the budget partially. This research is in line with Erlina's (2017) research. The research result can be seen in the following Figure.

The influence of budget users commitment of budget users and public participation to the quality of budget is relatively small only 44.44%. The research results that there are still many other variables that affect the quality of the budget in local government in North Sumatera. The results showed that the budget reform affects the quality of the budget. This research has a different finding from Ben's research (2014). But the supported study conducted by Tang (2008), Erlina (2017). Commitment of budget user's has a significant effect on the quality of the budget. This study supports the research conducted by Norton (2008), Brody (2008), Tang (2008), Erlina (2017). Public participation affect negatively on the quality of the budget. This result have a different result from Tang (2008), Brody (2008), Sunardi (2005) and Erlina (2017). The results of this study indicate that the greater the participation of the community in the process of budgeting, the lower the quality of the budget in the regencies/cities in North Sumatra. Based on the research results, only 44,44 % the quality of budgets affected by the budget reform, commitment of budget user and public participation, and there are 55.56% the other variables that affect the quality of the budget. To find other factors that affect the quality of the budget, we conducted deep interviews with budget users and local government stakeholders. Based on the interviews with the leader of local work units, there are several major that could cause of achieving the budget/low budget absorption.



Source: SMART PLS Result (2017).

In determining the allocation of spending, there are still many political factors to be considered. The desire of the ruling party dominates the spending allocation. The economic factors such as inflation rate and so on are only used to determine the additional amount of budget from year to year (Sirojuzilam *et al.*, 2016). The legal factors are highly considered in the spending allocation and in the realization of spending. The fear of the findings impact of the investigator led to many jobs that failed to be implemented. Socio-cultural factors that should be considered in determining the budget in the local government received less attention.

The factors of demographic change should also be considered in determining the allocation of spending. The relationship factor between local government should be an important factor to be considered in determining the allocation of spending. The tendency of the central government to focus more on infrastructure spending leads to the abandonment of social spending so that the poverty rate cannot decrease, it tends to increase (Tarmizi *et al.*, 2017). As the impact of infrastructure development cannot yet be seen now, the possible impact of infrastructure development will be seen in the next few years. The reason why the local government cannot realize the budget because the government cannot achieve the target revenue that was sourced from the local revenue. Subowo (2016) argued in seminar about The Problem in Absorption of budget which explained the cause of not achieving the budgets of local revenue are:

1. Data of tax payers and retribution is not valid
2. The value of tax to be paid to the government by agreement
3. The government has not made are mayor regulation about local

As explained earlier, government spending locations are more focused on infrastructure development. In order not to raise the gap and poverty problems, the government must balance infrastructure spending with social spending. If a local government has allocated substantial spending on infrastructure spending, then the local government must balance the allocation of spending for social culture so that poverty (Tarmizi *et al.*, 2016) and inequalities problems are not widening. In fact, the current spending for infrastructure does not show any significant impact in the year of the spending, It is caused by the infrastructure development has not finished. If the completion rate of development has reached 100%, but the development impact has not been able to reduce the level of poverty, has not been able to promote the good economic growth and also has not been able to narrow the level of inequality in the community.

The influence of new infrastructure development will occur after the infrastructure is successfully built. Thus, poverty and equity have not been directly reflected decrease in the times in which the government spends infrastructure projects. Based on data from the Central Bureau of Statistics, it is recorded that the percentage of poor people in Indonesia reached 12.49 percent in March 2011. Then decreased to 11.96 percent in March 2012, and then dropped to 11.36 percent in 2013. In March 2014, the percentage of the poor people reached 11.25 percent. A year later the percentage is 11.22 percent, then in March 2016 it reached 10.86 percent. The percentage of poor people in Indonesia as of March 2017 reached 10.64 percent, relatively slow compared to previous periods. Quantitatively, the poor as of March 2017 reached 27.77 million people compared with the condition of September 2016 which reached 27.76 million people.

Listiyanto, an economist, said that the growing number of poor people confirmed that the government's debt rose drastically, reaching nearly 4,000 trillion Rupiah, was unable to create equal economic growth or cope with poverty. Although the government owes to build the infrastructure, but the impact cannot be felt quickly by the community. Although this is about purchasing power. The purchasing power cannot be long term. That means, the debt used is not effective.

6. CONCLUSIONS AND SUGGESTIONS

6.1. Conclusions

The budget reform, the budget user commitment and the public participation significantly affect partially on the quality of the budget. The results of this research found a conclusion that is contrary to the theory and other research results. The research results conclude that the higher the participation of the community in the preparation of the budget, the lower the budget quality of the local government.

6.2. Suggestions

This requires an in-deep research, why the conclusions that contradict to the theory rise. In allocate the spending; social factors have not been a consideration of local government. Local government focuses more on political factors, legal factors.

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