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INFLUENCE OF BUDGETARY PARTICIPATION, PERFORMANCE-BASED BUDGETING AND INTERNAL CONTROL SYSTEMS ON ORGANIZATIONAL PERFORMANCE

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Abstract

Research objective - The aim of the research is to examine the effect of budgetary participation, performance-based budgeting and internal control systems on organizational performance in the Sijunjung District Government Regional Apparatus Organization. **Design/Methodology/Approach** - The population of this research is all structural officials consisting of echelon III and echelon IV in 35 regional apparatus organizations in Sijunjung Regency totaling 310 respondents. A sample of 175 respondents was taken through a purposive sampling technique. The method of data analysis uses quantitative data analysis of structural equation models, namely Structural Equation Modeling - PLS-based SEM. **Findings** - Budget participation has a positive and significant effect on organizational performance in the Regional Apparatus Organization of the Sijunjung Regency Government, performance-based budgeting has a positive and significant effect on organizational performance in the Sijunjung Regency Government Regional Government Organization, and the internal control system has a positive and significant effect on organizational performance in the Organization Sijunjung Regency Government Regional Apparatus. **Research limitations** - This research was conducted only at the Regional Ranking Organizations with the coverage of locations in Sijunjung Regency, so the results of this study cannot be generalized to the wider population. **Originality** - The research focus lies on the influence of budgetary participation, performance-based budgeting and internal control systems on organizational performance.

Keywords: Budgetary Participation, Performance-Based Budgeting, Internal Control Systems, Organizational Performance

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INTRODUCTION

Law No. 23/2014 concerning local government which was revised into Law no. 9/2015, and Law no. 33/2004 which was revised into Law no. 1/2022 concerning Financial Balance between the Central Government and Regional Governments is a package of laws stipulated by the DPR to realize good regional autonomy in the financial sector. Good regional financial management will make it easier for regions to map and allocate regional development priorities so that regional performance can increase significantly[1][11][12]. Performance is a very important part of being accountable for plans or budget execution, and this has the right to be known by the public[2][13][14]. local government performance shows the success of a region in achieving goals. The demand for transparency and accountability for financial management is a very important issue. Less than optimal budgeting and supervision can result in low performance. As a result, budget absorption is low and raises problems of poor financial management and supervision[3]. Good performance in organizational management and financial management is in fact not in line with public expectations as users of government services[4][15]. Many criticisms have sprung up against the local government. Data in the field shows that the performance of local governments is still not optimal. The results of the 2020 Transparency International Indonesia survey revealed that Indonesia is still experiencing major problems in the public sector because it is a country with a high level of corruption[5][16][17][18]. Indonesia is ranked 102 out of a total of 180 countries

assessed, and is perceived as a corrupt country [5][19][20]. The evaluation conducted by the Ministry of Administrative and Bureaucratic Reform also found problems with the implementation of government performance in Indonesia, including: 1) Inability of government agencies to set results-oriented strategic goals and objectives, 2) Inability to determine success measures that describe the degree of achievement of goals/targets, 3) The inability to determine programs/activities has an impact on achieving goals/targets; and 4) the inability to determine budget allocations that are aligned with the goals/targets[6][21]. The problem that arises in the performance of the regional government of Sijunjung Regency is the low level of public accountability. Sijunjung Regency in 2021 in the Government Agency Performance Accountability System (SAKIP) only received a B (Good) rating with a value of 62.70. Problems with low absorption of the budget also have an impact on organizational performance[7][8][23][24]. Therefore, high performance in an organization in an organization implies an increase in effectiveness and efficiency by members in carrying out or completing a series of tasks[9][22]. Budgets are used as work guidelines so that the drafting process must also require a good budget organization, the right approach, as well as models for calculating the ranks of management in an organization. In order for the budget to achieve organizational goals, the characteristics of the budget needed include periodic feedback on performance, monetary and non-monetary incentives, budget participation, realistic





standards, cost control, and various performance measures[10][26][27][28].

RESEARCH METHODS

Population and sample

The population of this study were all structural officials consisting of echelon III and echelon IV in 35 regional apparatus organizations in Sijunjung Regency totaling 310 respondents. A sample of 175 respondents was taken through a purposive sampling technique.

Data Types and Sources

This research data includes the type of primary data obtained from respondents directly. The data source used comes from primary data that comes from the first party as a resource that has data.

Method of collecting data

The initial step in the data collection process was compiling a research instrument in the form of a questionnaire containing statements related to budget participation variables, performance-based budget variables, internal control system variables, and organizational performance variables. The next step, the researcher's research instruments were distributed to respondents, namely structural officials consisting of echelon III and echelon IV at OPD in Sijunjung Regency who were analyzed using SEM with SmartPLS 3.

RESULTS AND DISCUSSION

Outer model testing was carried out in 2 (two) rounds using the SmartPLS version 3 software. The outer loading values met the criteria, namely convergent validity , discriminant validity and

reliability (reliability). The following is the outer loading value in the two tests presented in Table 1.

Indicator	Outer Loading		Information
	1	2	
Organizational Performance			
KO1	0.589	0.589	Valid
KO2	0.766	0.766	Valid
KO3	0.785	0.785	Valid
KO4	0.835	0.835	Valid
KO5	0.830	0.830	Valid
KO6	0.819	0.819	Valid
KO7	0.754	0.754	Valid
Budget Participation			
PA1	0.824	0.824	Valid
PA2	0.828	0.828	Valid
PA3	0.791	0.791	Valid
PA4	0.867	0.867	Valid
PA5	0.767	0.767	Valid
Performance-based budgeting			
ABK1	0.729	0.728	Valid
crew 2	0.721	0.716	Valid
ABK3	0.728	0.742	Valid
ABK4	0.751	0.768	Valid
ABK5	0,722	0,726	Valid
ABK6	0,590	0,589	Valid
ABK7	0,267	-	Drop
Sistem Pengendalian Intern			
SPI1	0,740	0,740	Valid
SPI2	0,583	0,583	Valid
SPI3	0,769	0,769	Valid
SPI4	0,769	0,769	Valid
SPI5	0,517	0,517	Valid

Table 1. Outer Loading

The indicator is declared valid if the value is *loading factor* > 0.60 (Ghozali & Latan (2015)). Table 1 shows the factor loading values are in the range of values between 0.517 to 0.867 meaning that there are no indicators having a loading factor smaller than 0.60. The results of the study show that there are indicators that do not meet the validity criteria, namely ABK7 . Thus the indicators that do not meet these validity criteria must be removed from the model. After removing these indicators, the measurement model is obtained as shown in Figure 1.



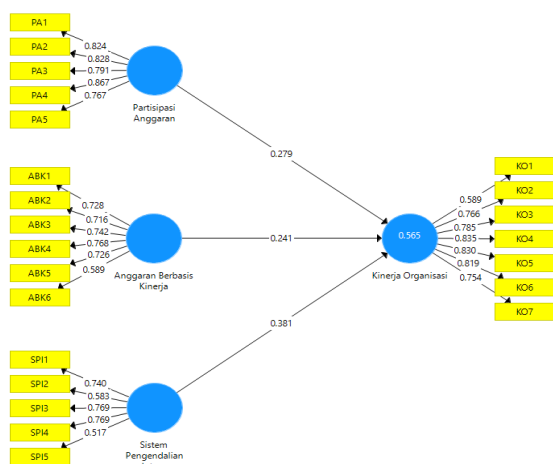
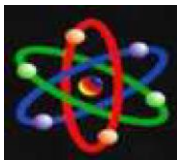


Figure 2. Model Testing Results

	AVE	Cronbach's Alpha	Composite Reliability	R-Square
Budget participation	0.666	0.875	0.909	
Performance-based budgeting	0.509	0.812	0.871	
Internal Control System	0.568	0.805	0.861	0.565
Organizational Performance	0.597	0.885	0.911	

Table 2. AVE Test, Cronbach's Alpha , Composite Reliability , and R-Square

Based on the output of SmartPLS in Table 2, it shows that the AVE value of all latent variables ranges from 0.509 to 0.666 meaning that all indicators have a loading factor > 0.5, which means that it can be stated that these values meet the *discriminant validity* requirements . Furthermore, the value of *Cronbach's alpha* and *composite reliability* of all variables has a value above 0.60. Thus it can be concluded that all variables are reliable. The *R - Square* value of organizational performance variables is 0.565, which means that organizational performance variables can be explained by budget participation, performance-based

budgeting and internal control systems of 56.5%.

Hypothesis test

In testing this hypothesis contains a discussion of the results that have been done before. The discussion will discuss hypothesis testing.

	Original sample (O)	T statistics (O/STDEV)	P values	Ket .
Budget Participation -> Organizational Performance	0.279	5,455	0.000	supported
Performance Based Budgeting -> Organizational Performance	0.241	4,084	0.000	supported
Internal Control System -> Organizational Performance	0.381	6,347	0.000	supported

Table 3. Hypothesis Testing (Total Effect)

The first hypothesis states that budgetary participation has a positive and significant effect on organizational performance. By looking at the table, the *t-statistic value* for the first hypothesis is 5.455 and is greater than 1.64 (*t-table*). So the first hypothesis is **supported**. The second hypothesis states that Performance-based budgeting has a positive and significant effect on organizational performance. By looking at the table, the *t-statistic value* for the first hypothesis is 4.084 and is greater than 1.64 (*t-table*). So the second hypothesis is **supported**. The third hypothesis states that the internal control system has a positive and significant effect on organizational performance. By looking at the table, the *t-statistic value* for the first hypothesis is 6.347 and is greater than 1.64 (*t-table*). So the third hypothesis is **supported**

The results of testing the first hypothesis show that budgetary participation has a positive and significant





effect on organizational performance in the Regional Apparatus Organization of the Sijunjung Regency Government. The results of testing this hypothesis can be interpreted that the higher the level of individual involvement in a government organization, in this case, namely the Sijunjung Regency Government OPD in the budget preparation process, the organizational performance will increase. The effect of budget participation on the resulting performance is due to the contribution of structural officials in preparing work plans and budgets, participating in every budget preparation discussion, and having influence in preparing the budget. The results of this study support *the goal setting theory* which in this theory explains that performance appraisal can be carried out based on a predetermined plan. When the plan has been set, it will make the individuals who participate in budget planning feel responsible for achieving the plan. However, from the results of the descriptive analysis of the respondents' answers to the budget participation variable, they only obtained an average value of 3.954 and are included in sufficient budget participation so that it needs attention and improvement.

The results of testing the second hypothesis indicate that performance-based budgeting has a positive and significant effect on organizational performance in the Regional Apparatus Organization of the Sijunjung Regency Government. This means that if performance-based budgeting is implemented properly, organizational performance will increase. On the other hand, if performance-based budgeting is

implemented poorly, organizational performance will decrease.

The Government of Sijunjung Regency, in seeking to improve the quality of implementation of performance-based budget management, evaluates the Government Agencies Performance Accountability Report (LAKIP). Reporting on the results of the evaluation is expected to provide follow-up information, so that each agency can obtain data and find out about the improvements to be made by the OPD. Evaluation of performance accountability is part of the management cycle which is inseparable from the new paradigm shift in government management.

CONCLUSION

This study contributes to a deeper understanding of the effect of participatory budgeting, performance-based budgeting and internal control systems on organizational performance. This study shows that budgetary participation has a positive and significant effect on organizational performance in the Sijunjung District Government Regional Government Organization.

The limitations of this study include: this research was conducted only on Regional Ranking Organizations with a coverage of locations in Sijunjung Regency, so the results of this study cannot be generalized to a wider population. The number of respondents is also limited to only 175 people, still not able to describe the actual conditions.

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