

## **CHAPTER II**

### **LITERATURE REVIEW**

#### **A. Theoretical Framework**

##### **1. Stewardship Theory**

The theory that underlies this research is Stewardship Theory developed by (Donaldson and Davis, 1991). This theory explains the situation where management is not motivated by individual goals but is more focused on the main goal which is to accomplish the organizational interests. Stewardship theory illustrates that management works to build satisfaction to achieve the highest success for the organization (Supadmi, 2018). This theory describes the strong relationship between satisfaction and success in the organization. To achieve the success of an organization it can be done by maximizing the utility of principals and management groups. By maximizing the utility of this group, it will be able to maximize individual's interests in the group.

This theoretical concept is based on the principle of trust between the owners of capital (principles) and the party given authority where management in an organization is seen as a good steward to carry out tasks that have been given responsibly without prioritizing personal interests while focusing more on common

interests. In this theory, management as a steward is motivated to act according to the principal's wishes. In addition, steward's behavior tends to be loyal to the organization because the steward tries to reach the target of their organization (Gunawan, 2016). Stewardship theory assumes that there is a strong relationship between organizational success and principal satisfaction. Stewards will protect and maximize principal satisfaction through the performance achieved. If the steward manages to improve the performance, it will be able to satisfy the organization.

The implication of the stewardship theory of this research is that it can explain to the budget users to be motivated so that they can achieve the organization's main targets. Stewards (structural officials) are trusted to manage the budget so that they are motivated and act in accordance with what the goal or target of the organization is, by carrying out their duties and functions appropriately so that what becomes the goal, vision, mission of the organization can be achieved optimally.

## **2. Goal-Setting Theory**

Goal-Setting Theory is introduced by (Locke, 1969), which emphasizes that in order to achieve maximum performance of an institution, there is the need for the relationship between the goals set and output from performance. In this concept, it is believed that goals that are defined clearly and realized by individuals or groups of

individuals (organizations) will result in higher levels of achievement if accompanied by the acceptance of the stated goals (Basri, 2013; Locke, 1975). In relation to budget based performance analysis, (Kusuma and Budiarta, 2013) state that budget accuracy is affected by goal setting. The organization's vision and mission are the main objectives so that clear performance targets are needed. Therefore, each organization is required to set goals, which are then formulated into a budget plan. Thus, in budget planning, it is necessary to include not only the target to be achieved by the organization, but also to contain the amount of nominal and plans needed for each work program or activity that the organization will implement.

### **3. Budgeting**

The budget is a work plan that is stated quantitatively and measured in standard monetary units and other units covering a period of one year (Puspaningsih, 2002). The budget is a statement about the estimated performance achieved for a certain period of time expressed in financial measures, while budgeting is a process or method for preparing a budget.

All components of the organization range from top management to the staff who play an important role starting from the planning process, the implementation, to the budget evaluation. There are several functions that link the budget with managers (leaders) and staff associated with it. These functions include (Mardiasmo, 2002):

### 1) Budget as a planning tool

Planning is the process of determining the objectives that have been set. Through planning, a manager or leader identifies the desired work results and identifies actions to achieve them. In relation to the planning function, the budget is the goal / target set to be achieved within a certain period. In the context of achieving short-term plans (as part of long-term planning), management needs to develop a budget as a guideline for implementing activities (Puspaningsih, 2002).

### 2) Budget as a Control Tool.

Budget as a control instrument is used to avoid overspending, underspending and misappropriation in allocating budgets in other fields that are not a priority. The control process can be identified into 3 types, namely: preliminary control, concurrent control, and feedback control (Puspaningsih, 2002). In relation to the budget, the budget can be used as a control tool for activities in the company. At the preliminary stage, the budget control can be used as a basis for determining the resources and the people involved so that they are ready to start activities. At the concurrent stage, control is carried out by observing relevant people and reports to ensure that the targets are

correct and the policies and procedures have been carried out properly during the activity. In relation to the budget, this stage is compared to the realization of the budget is prepared reports about realization, budget and budget differences. From the difference that exists, the cause of the difference is sought. Next, several alternative corrective actions are developed and the best alternatives are chosen. Furthermore, the results of this stage are used in the feedback control stage to arrange the control of future activities (Puspaningsih, 2002).

### 3) Budget as a Coordination and Communication Tool

Each government work unit is involved in the budgeting process. A well-prepared public budget will be able to detect inconsistencies in a work unit to achieve organizational goals. In addition, the public budget also functions as a communication tool between work units in the executive environment. The budget must be communicated to all parts of the organization to be implemented.

### 4) Budget as a Performance Assessment Tool.

In this case, the performance of the budget holder will be valued based on the achievement of budget targets and the efficiency of budget execution. The performance of

the public manager is judged based on how successful he is in relation to the budget set. The budget is an effective tool for controlling and evaluating performance (Mardiasmo, 2002).

#### 5) Budget as a Motivation Tool

The budget can be used as a tool to motivate managers and staff to work economically, effectively, and efficiently in achieving the goals and objectives of the organization that have been set. In order to motivate employees, the budget should be challenging but attainable or demanding but achievable. The point is that the budget target should not be too high that it cannot be met, but also can not be too low that it is too easy to achieve (Mardiasmo, 2002).

Budget emphasis is a variable that can lead to budgetary slack with arguments for increasing compensation. Budget emphasis is a condition when the budget is used as the most dominant factor in measuring the performance of subordinates in an organization. Performance measurement based on the budget that has been prepared to make subordinates will try to obtain a favorable variance by creating slack, among others by lowering income and raising costs at the time of budgeting. If the subordinate believes the reward given depends on

achieving the target in the budget, subordinates will try to build slack in their budget.

The emergence of budgetary slack depends on the extent to which individuals are more selfish or work for the benefit of their organization. This is the actualization of the level of commitment it has. Organizational commitment shows confidence and support for the values and objectives to be achieved by the organization. Strong organizational commitment causes individuals to strive to achieve organizational goals and prioritize organizational interests. With high commitment, budgetary slack will be avoided. Conversely, if an individual has a low commitment to his organization, it will enable the occurrence of budgetary slack.

Budgetary slack in the budgeting process can also be caused by the existence of information asymmetry between managers (subordinates) and their superiors. Information asymmetry is the difference in information owned by top-level managers with lower-level managers because of differences in sources and access to that information. Participation from subordinates in preparing budgets can provide an opportunity to enter local information. Thus, subordinates can communicate or reveal some personal information that might be included in the budget. In addition, subordinates can also hide some personal information so that it can affect budget slack.

#### **4. Performance-Based Budgeting**

In the guidelines for performance-based budgeting, (BPKP, 2005) states that programs in performance-based budgets are defined as policy instruments that contain one or more activities to be carried out by government agencies / institutions to achieve goals and objectives, and obtain budget allocations or community activities coordinated by government agencies. These activities are structured as a way to achieve annual performance. In other words, the integration of the annual work plan, which is the operational plan of the strategic plan and the annual budget, is a component of the performance-based budget.

In Indonesia, the implementation of Performance Measurement System is based on the President's decree Number 7, 1999 on the Accountability of Governmental Institution Performance and the Stipulation of the Head of the State Administration Institution (LAN) Number 586/IX/6/1999 on the Guidelines of the Arrangement of Governmental Institution Accountability Report, which has been revised by the stipulation LAN Number 239/IX/6/ 8/2003. Amid its development, the Regulation of the Ministry of Domestic Affairs (Permen-dagri) Number 73, 2009 on the procedures of evaluation for the local government administration, that contains The Evaluation of the Local Government Administration Performance (Wijaya *et al.*, 2013).



Performance-based budgeting is basically a system for the preparation and management of regional budgets that are oriented towards achieving results or performance. The performance must reflect the efficiency and effectiveness of public services, which means it must be oriented towards the public interest. In implementing Performance Based Budgets, there are principles that can be used as guidelines (BPKP, 2005), namely:

1) Budget transparency and accountability

The budget must be able to present clear information about the goals, objectives, results, and benefits obtained by the community from an activity or project that is budgeted. Community members have the same rights and access to know the budget process because it concerns the aspirations and interests of the community, especially the fulfillment of people's needs. The community also has the right to demand accountability for the plan or the implementation of the budget.

2) Budget Discipline

The planned income is a rationally measurable estimate that can be achieved for each source of income, whereas the expenditure budgeted for each post article is the highest expenditure. Budgeting must be supported by the certainty of the availability of sufficient amounts of revenue and not justified in carrying out activities projects that are not available in the budget.

In other words, the use of each budget post must be in accordance with the proposed activity / project.

3) Budget Justice

Universities are required to allocate their budget use fairly so that it can be enjoyed by all groups of academics and employees without discrimination in service delivery, because higher education income is essentially obtained through the participation of the community as a whole.

4) Budget efficiency and effectiveness

The preparation of the budget should be carried out based on the principles of efficiency, effectiveness, timely implementation, and its use that can be accounted for. The available funds must be utilized as good as possible to be able to produce maximum improvements and welfare for the benefit of stakeholders.

5) Compiled with a performance approach

The budget prepared with a performance approach prioritizes efforts to achieve work outcomes (output / outcome) from planned cost allocations or predetermined inputs. The results of their work must be commensurate or greater than the costs or inputs that have been set. In addition, it must be able to foster work professionalism in all relevant work organizations.

Performance-based budgeting allocating resources is based on achieving specific measurable outcomes. Outcome is defined through a strategic planning process that considers the critical issues facing the institution, the capability of the institution, and input from the stakeholders. There are several characteristics of budgeting that are based on performance. Several key characteristics in PBK including:

1. Budget expenditure is based on the outcome to be achieved, where the outcome is the impact of a program or activity on the community. For example, for organizations such as Diponegoro University, the outcome to be achieved is the increasing role of Undip in community development especially in the field of science. So, on the basis of these outcomes, budget expenditures are carried out.
2. There is a relationship between input with the output and desired outcome. Input is a resource used for implementing a policy, program, and activity. Output or output is the result or added value achieved by policies, programs and activities. Meanwhile, the outcome is an impact arising from a particular activity. The concept of value for money in a performance-based budget framework can be achieved if the organization has used the smallest input costs to achieve optimum output and obtain quality outcomes (Mardiasmo, 2002).

3. The role of efficiency indicators in the budgeting process.  
Understanding efficiency is closely related to the concept of productivity. Efficiency measurement is done by using a comparison between the output produced and the input used (cost of output). The process of operational activities is said to be efficient if a certain product or work result can be achieved with the use of resources and funds as low (spending well). In the concept of performance-based budgeting, the government must act on a cost-minded basis and must be efficient (Mardiasmo, 2002).
4. The preparation of performance targets in the budget. The purpose of establishing performance targets in the budget is to facilitate the use of the budget for output achieved. The use of a public budget is carried out to fulfill three purposes. First, the use of a public member is intended to help improve government performance, where performance measures are intended to help the government focus on the goals and objectives of the work unit program. This will ultimately improve the efficiency and effectiveness of public sector organizations in the delivery of public services. Second, performance measures are used to allocate resources and make decisions. Third, measures of performance are intended to realize public accountability and improve institutional communication. (Mardiasmo, 2002)

Determination of performance indicators must meet the following criteria (BPKP, 2005):

1. Specific

Unique means describing a particular object or subject, meaningless or interpreted differently. Indicators for each organizational unit vary depending on the type of service produced. In order to truly describe the program to be implemented, determining performance indicators needs to consider the following components:

- 1) Cost of service

which is usually measured in the form of unit costs.

- 2) Utilization

the indicator for this component basically considers the number of services offered by public demand.

- 3) Quality and standard of service are the most difficult component to measure, because they involve subjective judgments.

- 4) Coverage of services needs to be considered if there is a policy or regulation that requires to provide services with a minimum level of service that has been set.

- 5) Satisfaction is usually measured through the poll method directly. Making these performance indicators requires cooperation between work units.

## 2. Measurement

Measurement of financial performance reports is measured based on the budget that has been made. The assessment is carried out by analyzing the variance (difference) between actual and budgeted performance. Information can add confidence to the quality of the management control process. (Kloot, 1999) indicates that performance measure meter is designed to measure the level of the achieved objectives, community satisfaction, service performance, and the comparison between institutions. The technique of using comprehensive budgeting which is widely developed by various organizations today is the balanced scorecard. Measurement with the balanced scorecard method involves four aspects, namely financial perspective, customer satisfaction perspective, internal process perspective, and learning and growth perspective. The Performance Measurement System is a key to promoting effective, efficient, and accountable public sector (Spekle and Verbeeten, 2009). It gives incentives to harmonizing individual goal with that of organization, to providing valuable feedback information, and to forming a foundation for internal and external accountability (Kravchuk and Schack, 1996).

### 3. Relevance

Performance indicators as a measurement tool must be related to what are measured and describe the condition of the subject being measured and useful for decision making. Performance indicators must be utilized by internal and external parties. Internal parties can use it in order to increase the quantity and quality of services and cost efficiency. In other words, performance indicators play a role to indicate, and to focus attention on the relevant fields of corrective action. External parties can use performance indicators as controls and at the same time as information in order to measure the level of public accountability. Performance indicators will help public to manager and monitor program achievements and to identify important problems.

### 4. Do not show bias

The determined performance indicators must be able to help clarify the organization's goals and to show performance standards and effectiveness in achieving organizational programs.

## **5. Information**

The main part of organizing is carried out by stakeholders to control the organization in achieving the goal of information. Information that is a data source is processed into something useful

and more useful for those who receive it. According to (Kadir, 2003), information is a source of data or material is processed in order to support one's knowledge using data. The data referred to here is a description of real events, whereas events are things that occur at a certain time. Information such as performance measurement can be obtained through media, regulations, manuals, internet, training, workshops, and seminars (Sihalolo & Halim, 2005). This information can improve the technical capabilities of implementing programs or activities. If a lot of information is obtained about using the right budget, the organization can optimize its technical capabilities to be able to take a system using the budget.

According to (Julnes and Holzer, 2001), relating to information on developing and making it for budget use, employees whether they are employees or non-employees must have technical expertise such as ways to be able to implement performance measures. This can be obtained from training, seminars, workshops or access to adequate information related to budget use. The higher the access of program personnel or agencies to information sources, the better performance measures will be more likely to be developed (adopted) and performance information will be implemented.

The use of performance information is divided into two stages, namely the adoption stage and the implementation stage of the result of the budget use (Julnes and Holzer, 2001). The adoption stage of



performance measures is the stage of developing performance measures by considering the capacity and resources available in the organization, performing for strategic planning, planning the budget, planning the performance, monitoring, evaluating and reporting. Distribution of information utilization processes performance is divided into two stages due to different users and interests in both stages. The more information on the right performance information obtained the better technical ability the organization will have to adopt the performance measurement system (Sihaloho and Halim, 2005)

## **6. Organizational commitment**

(Meyer *et al.*,1990) distinguish between two types of organizational commitment, which are affective and continuance commitment. Affective commitment is characterized by: (1) a strong belief in and acceptance of the organization's goals and values; and (2) a willingness to exert considerable effort on behalf of the organization (Porter *et al.*, 1974; Angle and Perry, 1981). Because of its potential for improving work outcomes, organizational commitment has been the focus of numerous studies, including those that have attempted to identify its antecedents. For example, several researchers have proposed that employee participation in decision making increases employee commitment to the organization.

Organizational Commitment is a situation to the extent to which employees can side with or prioritize the organization and desire to

maintain membership in the organization (Sulistyani, 2010). Organizational commitment is also a support and strong belief in the goals and values achieved by the organization. (Putri, 2010) states that organizational commitment is an impulse that comes from within an individual to do something that can support the organization's efficacy to fit the initial goals and prioritize the interests of the organization compared to the interests of the individual itself.

(Rahayu, 2008) states that organizational commitment can grow in individual if the individual has an emotional bond with the organization by giving moral support and the determination in the individual to serve and accept the values of the organization. Employee loyalty to the organization can be used as a benchmark to see the existence of organizational commitment and this is a continuous process within the members which can ultimately reflect concern for the organization to continue the success of the organization.

(Budiharjo, 2008) states that the characteristics of managers who have high organizational commitment include:

a) Commitment to work

It is a feeling of liking work, having a high concentration when working and thinking about their work even though they are not working.

b) Commitment to the group

It is a concern for groups such as helping coworkers, building communication and interaction with coworkers, building openness with coworkers, and assuming coworkers like family.

c) Commitment to the organization

It is a behavior which is carried out to succeed the activities of the organization by placing its priorities on the organization and having confidence that the organization will develop.

(Mowday *et al.*, 1984) states that organizational commitment has three components, namely:

a. Effective commitment

That is the degree of emotional attraction and participation in the organization, this commitment is related to encouragement of comfort, security and the presence or absence of benefits obtained by individuals that are not obtained in other organizations.

b. Continuous commitment

It is a commitment that arises on the basis of considering the costs sacrificed (economic, social and status) if leaving the organization. This commitment arises when individuals have high organizational commitment and consider staying in an organization is a fulfillment of needs.

- c. Normative commitment is a psychological attachment to the organization with a moral obligation in maintaining relationships with the organization on the task entrusted. Work ethics and individual culture have roles in individuals to decide to stay in the organization.

## **7. Transformational Leadership**

Leadership and organization are two concepts that cannot be separated from one another. In a leadership, organization needed to provide guidance on the efforts of all workers in achieving organizational goals. Therefore, leadership is very necessary if an organization wants success. The main components of transformational leadership are (1) individualized consideration (2) intellectual stimulation, (3) inspirational motivation, and (4) the idea of influence. Furthermore Robbins states that "Transformational leaders are leaders who inspire followers to transcend their own self-interests and who are capable of having a profound and extraordinary effect on followers".

A leader can be said to be a transformational leader as measured in relation to the influence of leaders on subordinates. The efforts of transformational leaders in influencing subordinates can be through three ways, namely (1) encouraging subordinates to be more aware of the importance of the results of a work, (2) encouraging subordinates to prioritize the organization rather than individual interests, (3)

activating subordinate needs at a more high (Bass in Purwanto and Adisubroto 2001).

Transformational leadership basically has four characteristics, namely idealized influence, inspirational motivation, intellectual stimulation, and individual attention (Yukl, 2005).

1. Idealized influence

Transformational leaders provide positive examples in attitudes and behavior for their subordinates. Leaders pay attention to their subordinates, give vision, and instill pride in their subordinates. Through influences like this, the subordinates will put respect and trust in their leaders. Thus, they want to do the same as the leader does.

2. Inspirational motivation

Inspirational motivation is the ability to communicate expectations and express goals in simple ways. Transformational leaders can stimulate the enthusiasm of their subordinates to work in groups and develop subordinates' beliefs to achieve common goals and inspirational enthusiasm, which is to encourage employees to improve performance beyond their own expectations.

3. Intellectual stimulation

Transformational leaders seek to create a conducive climate to develop ideas. For that, subordinates really involve in the

process of formulating problems and finding solutions. Disagreements are seen as common things. This will make subordinates' self-efficacy stronger, so that subordinates will be able to work and succeed in carrying out various challenging tasks.

#### 4. Individualized considerations

Transformational leaders pay attention to their subordinates personally, respect the differences of each individual, and give advice and appreciation. Personal attention is the initial identification of the potential of subordinates, while monitoring and directing are forms of personal attention that is applied through consultation actions, advice and guidance given by transformational leaders.

Effective leaders are able to build staffs' motivation, determine direction, handle change correctly, and become a catalyst that can color the attitudes and behavior of staff. People's motivation depends on the strength of their motives. Most people have a large number of motives with various strengths in achievement motivation programs. Achievement motivation can be an encouragement in a person to do or work on an activity or task as well as possible in order to achieve work performance with a commendable predicate. Leaders in

carrying out their leadership become one of the keys in increasing employees' achievement motivation.

## **8. Human Resource Competence**

The competence of human resources includes its capacity, namely the ability of a person or individual, an organization (institution), or a system to carry out its functions or authority to achieve its objectives effectively and efficiently. Capacity must be seen as the ability to achieve performance, to produce outputs and outcomes.

According to (Tjiptoherijanto, 2001) to assess the capacity and competence of human resources in carrying out a function, including accounting, can be seen from the level of responsibility and competence of these resources. Responsibility can be seen from or contained in the job descriptions. Job descriptions are the basis for carrying out tasks well. Without clear job descriptions, these resources cannot carry out their duties properly. Meanwhile, competencies can be seen from educational backgrounds, from the trainings that have been followed, and from the skills stated in the implementation of tasks.

The competence of human resources consists of various kinds of things such as the level of education, soft skills possessed, as well as the qualified understanding in the field of work. Human resource competence itself is not only about intellectuals but also the ability to adapt (Nalarreason *et al.*, 2014). Budgeting is not only done by

machines, but behind that all human beings hold important control in its preparation. Humans are in charge of designing goals, objectives, and of course, the role of humans is a determining factor for the success of implementing this performance-based budget.

## **9. Good Governance**

According to the IGI , governance is a process in order to formulate and implement development rules, provisions and priorities through interactions between executives and legislators and through bureaucracy with participation from civil society and the economic community. Governance, according to the IGI, covers four arenas where each arena has its own function and performance which, if put together, will together determine the quality of governance in each province. The four arenas include Government, Bureaucracy, Civil Society and Economic Society.

Government is an institution that makes policies consisting of executive institutions and also legislative institutions, both at central and regional governments. Bureaucracy is an institution that implements policies that have been made by the government and at the same time also becomes a bridge between the government and the community. Civil Society includes parties outside the government, including non-profit organizations, social organizations, foundations, trade unions, professional organizations, educational and research institutions. The Economic Society includes business entities and other



organizations that aim to seek profits or protect their business interests by making economic and production changes, as well as providing advocacy in improving the business climate.

In principle, the concept of governance may be applied to any form of collective action. Governance is about the more strategic aspects of steering: the larger decisions about direction and roles. That is, governance is not only about where to go, but also about who should be involved in deciding, and in what capacity. The concept of governance relationships may be helpful for framing why citizen participation matters and may provide an avenue for understanding how to better design participatory budget practices (Carol *et al.*, 2016). There are four areas or zones where the concept is particularly relevant.

- a. Governance in ‘global space’, or global governance, deals with issues outside the purview of individual governments.
- b. Governance in ‘national space’, i.e. within a country: this is sometimes understood as the exclusive preserve of government, of which there may be several levels: national, provincial or state, indigenous, urban or local. However, governance is concerned with how other actors, such as civil society organizations, may play a role in taking decisions on matters of public concern.

- c. Organizational governance (governance in ‘organization space’): this comprises the activities of organizations that are usually accountable to a board of directors. Some will be privately owned and operated, e.g. business corporations. Others may be publicly owned, e.g. hospitals, schools, government corporations, etc.
- d. Community governance (governance in ‘community space’): this includes activities at a local level where the organizing body may not.

In each of these arenas, IGI will assess the six principles of good governance, as follows:

1. Participation, namely the involvement of stakeholders in the decision-making process in each arena.
2. Fairness, which is a condition where policies and programs are applied fairly to everyone without regard to status, ethnicity, religion or gender.
3. Accountability, which is a condition where employees, institutions and government organizations are charged with responsibility for each action in each arena.
4. Transparency, which is a condition in which decisions taken by employees both in government institutions, civil institutions and private organizations, in each arena, are open to the general

public to be examined and evaluated as well as a condition where public information is available and easily obtained.

5. Efficiency, which is a condition where the policies and programs carried out have used existing resources, such as human resources, finance and time, optimally.
6. Effectiveness, which is a condition where the policies and programs carried out have obtained results as planned using existing resources, such as human resources, finance and time, optimally.

In August 2013, The Partnership has published the Indonesia Governance Index 2012 (IGI, 2012) are in the form of a ranking list of the quality of implementation of good public governance in provincial governments throughout Indonesia (Gismar *et al.*, 2013) explains that the emergence of the need for corporate governance is due to the separation of company ownership from operational management of the company. When management is separated from ownership and especially if company ownership is spread over many shareholders, it can be possible for managers to run the company in accordance with their own interests. This kind of possibility causes a mechanism to ensure that company activities, agents and company assets are fully devoted to achieve company goals.

## **B. Hypothesis Development**

### **1. The Effect of Information on Effectiveness of Performance Based Budget**

Knowledge about information or technicalities to realize budget reform is very important for the successful implementation of performance-based budgets. Information and knowledge can be obtained through training or access to adequate information regarding budget-based performance (Julnes and Holzer, 2001). Performance management literature explains that training is a key factor in improving employee capabilities and empowering employees must be involved to achieve organizational performance improvements.

Goal setting theory emphasizes the need for a relationship between the objectives set and the output of performance. The existence of information about the budget related to budget management systems and procedures, government employees can understand the effective performance budgeting process and know the budget realization planning strategy, so that the application process in the field is easy to achieve the predetermined budget targets.

Research conducted by (Achyani and Cahya, 2011), (Nawastri, 2015) and (Albab, 2015) show that information has positive effect on the effectiveness of budget implementation performance based.

**H<sub>1</sub>: There is positive effect of information on effectiveness of performance based budget**

## **2. The Effect of Organizational Commitment on Effectiveness of Performance Based Budget**

Organizational commitment shows the confidence and support and loyalty of a person towards the values and objectives of the organization (Mowday *et al.*, 1979). Strong organizational commitment will cause individuals to try to achieve organizational goals, think positively and try to do the best for their organization. This happens because individuals in the organization will feel that they have their own organization.

In contrast, a low organizational commitment will cause the individual to be only concerned with himself or his group so that ultimately the individual's performance will be low on the organization. The low performance of individuals in their organizations due to the influence of low commitment will indirectly lead to the difficulty in achieving success in the implementation of performance-based budgets.

Theory of stewardship explains the behavior of stewards who tend to be loyal to their organization because stewards try to reach the target of their organization (Gunawan, 2016). Individual loyalty or employees can be seen from the level of commitment to the organization. Having a strong organizational commitment can make individuals always try to achieve organizational goals by putting aside

individual goals, always thinking positively and always doing the best for their organization so that organizational goals can be achieved.

This is consistent with the research of (Fitri *et al.*, 2013) which states that commitment does not affect performance-based budgets, whereas the research conducted by (Achyani and Cahya, 2011), and (Nawastri, 2015) show that information has positive effect on the effectiveness of budget implementation performance based.

**H<sub>2</sub>: There is a positive effect of organizational commitment on effectiveness of performance based budget**

### **3. The Effect of Transformational Leadership on The Effectiveness of Performance Based Budget**

Changing the orientation of budgeting from traditional budgeting to performance-based budgeting requires systematic overall changes of organizational components, especially the role of leaders in managing these changes so that the implementation of workplace-based budgeting can run in accordance with applicable regulations and ultimately can be economical, efficient, and effective in effectiveness application of performance-based budgets. Theoretically, leadership style is very important in managerial, because with the right leadership style, the management process will run well and employees will be passionate in doing their jobs (Hasibuan, 1996). Effective leadership must give direction to its subordinates regarding efforts to achieve

organizational goals, and leadership style has a positive impact on encouraging budgetary participation.

The explanation is supported by the stewardship theory that explains the situation where management is not motivated by individual goals but rather focused on the main goal, namely for the interests of the organization. In order to achieve optimal organizational goals, a strong motivation is needed. Based on good intentions from someone, one of them is a leader through his leadership style.

This is in accordance with the study from (Hotdianty, 2016) which states that transformational leadership influence performance-based budgets.

**H<sub>3</sub>: There is a positive effect of transformational leadership on effectiveness of performance based budget**

#### **4. The Effect of Quality of Human Resources on The Effectiveness of Performance Based Budget**

The successful implementation of performance-based budgets is greatly influenced by organizational's ability to provide adequate resources, employees with analytical skills in program work, allocation of funds to raise funds, or funds to develop implementation of performance-based budgets, and sufficient time to assess reliability of performance data important for successful implementation (Julnes and Holzer, 2001). (Wang, 2000) argues that budget use requires capacity building in accounting standards, information systems, personnel, and

funds. Public organizations that have experience with budget use pay great attention to staff needs for performance, and data collection (Julnes and Holzer, 2001).

Stewardship theory has two groups, namely principal and stewards who work together to improve quality according to what they are they want. The Principal accepts his employees seen from their potential in managing resources in their organization in order to maximize benefit stakeholders. The role of the quality of human resources in implementing performance-based budgets can be managed, regulated and utilized so that they can function productively and achieve organizational goals.

This is in accordance with the study of (Izzaty, 2011) and (Nalarreason *et al.*, 2014) which state that the quality of human resources affects the performance-based budget.

**H<sub>4</sub>: There is a positive effect of quality of human resource on effectiveness performance based budget**

## **5. The Effect of Good Governance on The Effectiveness of Performance Based Budget**

Good governance is a good governance in terms of the use of authority, administration, economy, politics to manage state problems at all levels based on aspects of transparency, accountability, public participation, efficiency and effectiveness, and responsiveness to the needs / problems of the community within clear legal framework.



Without involving the principles in good governance, it will be difficult to obtain output and outcomes that are in accordance with the needs of the community.

This is in accordance with the studies of (Nalarreason *et al.*, 2014) and (Yanuar, 2017) which state that good governance has a positive effect on performance-based budgeting.

**H<sub>5</sub>: There is a positive effect of good governance on effectiveness performance based budget**

### C. Research Model

**Picture 2.1**  
**Research Model**

