

CHAPTER I

INTRODUCTION

A. Background

The budget has an important role for an organization or agency because the budget is a management tool that can be used to control the operations of the organization so that the strategies that have been set can be used to achieve the goals of the organization or agency. Public financial management has several elements, and one of which is the budget. A budget is a management tool in allocating natural resources and funding resources that the organization has to achieve goals (Nurziati & Anita, 2014).

Budgeting system in Indonesia before public sector reform using the traditional approach characterized by line-item and inclusionism with the model budgeting is top-down. Nurziati and Anita (2014) explain that budgeting area is done with a top-down system, where plans and budget amounts were set by superiors/ budget holders so that subordinates/ implementers only do what have been prepared. The implementation of this system results in the managerial performance of subordinates/ implementers of the budget being ineffective because the targets are very demanding, but the resources provided are insufficient. The superior projection/ budget authority holders do not know the potential and obstacles that are possessed by the subordinates so that it provides a very demanding target compared to the ability of the subordinates/ implementers of the budget.

Budgets are very important in public sector organizations. The budget can be said as a statement about the estimated managerial performance to be achieved over a certain period of time in financial measures (Antara & Rini, 2017). Budget is an important instrument that is used to avoid spending that is too large, too low or too improper in the usage. In public sector organizations, the budget is the most important thing to determine the strategy and goals of the organization in the future. An organization is said to have a good managerial performance if it can compile and implement a budget that has been made appropriately.

Performance is “the attainment of actions’ outcomes with aid of the skills of the employees who accomplish problems in some given situations” (Bizhan, et al., 2013). Managerial performance is one of the factors that can be used to improve organizational effectiveness (Handoko, 1996). Managerial performance is based on management functions that exist in classical management theory, namely how far the manager is able to carry out management functions which include: planning, investigation, coordination, evaluation, supervision, staff selection, negotiation and representation. Managerial performance shows the ability of a manager in running an organization to realize the goals that lead to the achievement of public services. Managerial performance is needed to assess how far the organization can implement its vision and mission so that public services can be realized.

Aulia Apriani, et al.,(2016) argue that implementing the budget with managerial performance is not necessarily expected in achieving goals. Therefore, there is a positive attitude from local government work units that can improve managerial performance so that employees are more loyal to his job and will give the best in

carrying out the work. So, the budgeting process can go as planned. The relations to the optimal managerial performance of budget implementers and attitude from local government work units are some of the supporting factors of managerial performance improvement. The positive attitude of each apparatus make the executor of the budget is increasingly loyal to the organization so that he will provide the best performance in public service. Motivated in work, working with calm felling, and more importantly, highly satisfaction with the job increases the possibility of achieving high productivity, too. People who do not feel satisfied with their work tend to do or avoid the situation in work both physically and psychologically.

The above is following the words of God in QS. Al Hasyr: 18,

يَا أَيُّهَا الَّذِينَ آمَنُوا اتَّقُوا اللَّهَ وَلْتَنْظُرْ نَفْسٌ مَّا قَدَّمَتْ لِغَدٍ ط
وَاتَّقُوا اللَّهَ ۚ إِنَّ اللَّهَ خَبِيرٌ بِمَا تَعْمَلُونَ

Every believer who fears Allah is the one who obeys His command and avoid His prohibitions. Everyone contemplates what he must do, and God knows everything that humans do.

The above paragraph explains the importance of making a plan to do something in the future and to estimate the results that have to be achieved. It is related to the fact that OPD (Organisasi Perangkat Daerah/ Regional Apparatus Organizations) must make effective, efficient and economical planning in the preparation of the budget and goals to be achieved.

According to the Regent of Kulon Progo, dr. Hasto Wardoyo, Sp. OG (K) (2014) in Tribunjogja.com states that Kulonprogo district is low in terms of planning and performance achievement. In 2012, Kulonprogo still got C grade for

government performance at OPD. Therefore, he invited all OPD work units in Kulon Progo to work harder in the coming years so that the performance grade obtained could be better. Reported from the media center, he lead the performance evaluation meeting of the OPD in the first quarter of 2019 in the Sermo room, in Kulon Progo Regency Government complex on Friday 26 april 2019. There were also the Regional Secretary (Sekda) Ir. R.M. Astungkoro M.Hum, regional assistants (Asda I, Asda II, Asda III) and the board of the Regional Representative Council of Kulon Progo Regency attending and discussing performance evaluation. The OPD performance evaluation was conducted to assess the achievements of the OPD until the first quarter of 2019. The OPD performance assessed includes physical achievements, financial achievements, and reporting. Head of Bappeda Kulon Progo, Ir. Agus Langgeng Basuki (2019) explains about the achievement of regional revenue performance, including the performance of regional own-source revenue (*Pendapatan Asli Daerah/ PAD*), and the performance of transfer funds (Balance Funds and Other Legitimate Income). He says that :

" The realization of regional income reached 26.67% of the revenue target of 24.60%. Meanwhile, in the performance of procurement of goods and services using the auction method, for the first quarter of 2019, 78 packages should have been completed, but by March there were 12 new contracts, 66 unrealized packages consisting of 39 packages determining the objection period, 24 packages in the process and 3 packages of tender documents have not yet been entered into BLKP, including mercury test equipment, laboratory metrology, rehabilitation and relocation of *Pustu (Puskemas Pembantu/* sub health center)".

Furthermore, Langgeng (2019) says that the exposure to physical performance in both regular performance and assignment has reached an average of 5.65%. So, financial realization was of Rp 240,004,000 or 0.16%. Compared to the previous

year, the gap was getting smaller. The financial performance was still not in accordance with the plan. A performance evaluation meeting chaired by Hasto Wardoyo on Monday, 22 July 2019 in the Sermo Meeting Room discussed about the six agencies in the Kulon Progo district government that received bad grades for their performances during the second quarter of 2019.

Variations in the preparation of the budget, top-level managers as reflected in the budgetary goal characteristics have a significant effect on the managerial performance of lower-level managers (Kenis, 1979). It is in accordance with the Kulon Progo Regency Government in carrying out its operational activities using the budget to measure its managerial performance. In this study managerial performance is measured only limited to non-financial managerial performance related to the quality of work owned by managers when participating in budget planning. There have been a lot of researches related to the effects of budget evaluation, budget feedback, and difficulty in budget goals. The discrepancy among the results of the previous studies can be overcome by using the contingency approach of Govindarajan (1986) which in this study uses a moderating variable that is the transformation leadership style. Achieving success in managing an organization is inseparable from the factors of leadership and attitudes of subordinates in carrying out tasks to achieve the goals of the organization. Leadership style is a way that is done in the process leadership implemented through leadership behavior someone to influence others to act in accordance with what he wants. Leadership style is one important factor that can affect the performance of subordinates. People who work for certain leadership styles, are motivated to work and try harder because they like

and respect the leader, they have higher satisfaction. According to Yukl (2009) states that the leaders of the transformation made the followers become more aware of interests

and the value of work and persuading followers not to put first self-interest for the sake of the organization.

Based on the problems that exist in the OPD in Kulon Progo Regency as described by the researchers mentioned previously, the researcher is interested in examining it with the title: **"THE INFLUENCE OF BUDGET EVALUATION, BUDGET FEEDBACK, AND THE DIFFICULTY OF BUDGET GOALS ON THE MANAGERIAL PERFORMANCE OF REGIONAL WORK UNIT STRENGTHENED BY TRANSFORMATION LEADERSHIP STYLE"** with the object of OPD in the Kulon Progo Regency local government.

B. Research Scope

This study focuses on three indicators including budget feedback, budget evaluation and the difficulty of budget goals that influence on managerial performance which is strengthened by transformation leadership style.

C. Research Questions

Based on the description of the background stated above, the main problems in this study can be formulated as follows:

1. Does the budget evaluation have a positive effect on managerial performance?

2. Does the budget feedback have a positive effect on managerial performance?
3. Does the difficulty of budget goals have a positive effect on managerial performance?
4. Does the transformation leadership style strengthen the effect of budget evaluation on managerial performance?
5. Does the transformation leadership style strengthen the effect of budget feedback on the managerial performance?
6. Does the transformation leadership style strengthen the effect of difficulty of budget goals on the managerial performance?

D. Research Objectives

1. To analyze the relationship of the budget evaluation to managerial performance.
2. To analyze the relationship the budget feedback to managerial performance.
3. To analyze the difficulty of the budget goals to managerial performance.
4. To analyze the transformation leadership style in strengthening the effect of budget evaluation to managerial performance.
5. To analyze the transformation leadership style in strengthening the effect of budget feedback to the managerial performance.
6. To analyze the transformation leadership style in strengthening the effect of difficulty of budget goals to the managerial performance.

E. Research Benefits

The results of this study are expected to provide benefits and to be able to used by many parties. They include :

1. Theoretical benefits

- a. For academicians, this research is expected to be useful as an addition and a reference to further research insights related to research on budget evaluation, budget feedback and the difficulty of budget goals for the managerial performance of local government work units.
- b. This research provides evidence in the field of public sector accounting that budgeting needs to pay attention to budget evaluation, budget feedback, and difficulty in budget goals.

2. Practical Benefits

Input material in evaluating the planning, strategizing, and budgeting can be used as an alternative to find out whether or not budget evaluation, budget feedback, and budget goals difficulty effect on managerial performance so as to encourage governments to be more efficient, effective and economical in using the budget.