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# The Factors Influencing Managerial Performance and their Effect on Financial Accountability

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**ABSTRACT**

This study aims to examine and analyze the factors that influence managerial performance and their effect for financial accountability. By using an explanatory research method, this type of research is descriptive verification. Using primary data through surveys by providing research instruments to regional work unit tools at North Sulawesi. The collected data tested using the structural equation model method with partial least square approach. Simultaneous results of participatory budgeting, clarity of budget targets and internal control have a positive effect on managerial performance. Likewise managerial performance has a positive effect on financial accountability.

**Keywords:** Participatory Budgeting, Budget Goal Clarity, Internal Control, Managerial Performance, Financial Accountability
**JEL Classifications:** M41, H70, G38

## 1. INTRODUCTION

The development of government reforms requires the existence of transparency and public accountability that have an impact on the development of government management in Indonesia. Transparency and public accountability are two inseparable sides of a coin as part of the principles of good governance. This causes transparency and public accountability to be a rife and interchangable study. Its application to the pattern of participatory planning, implementation and accountability of regional finance becomes very important. Issues around transparency and accountability cannot be separated from the still rampant abuse of authority and misuse of funds by individual employees and government officials. Transparency and accountability require the media so that it can be communicated to the community better and immediately (Bertot et al., 2010).

The new paradigm shift to be more responsive to good governance, both in the central government and regional government is based on the existence of a new paradigm in public administration pioneered by Osborne and Gaebler (1992). This inspires that public organizations must be able to operate like business organizations, be efficient, effective, and put the community as stakeholders to be served as well as possible. The same thing was conveyed by the minister of the Ministry of Administrative Reform and Bureaucratic Reform of the Republic of Indonesia Asman Abnur, who stated that the large amount of budgeting by ministries and institutions and local governments had not paid attention to the development priorities to be achieved. Determining the amount of the budget is still like "cake sharing" only (https://bisnis.tempo.co).

The development of financial accountability reflected in local government financial reports (LKPD) has not been as expected, this can be seen from the LKPD opinions provided by the Republic of Indonesia Supreme Audit Board (BPK). Indonesian Budget Center Researchers assessing, the budget preparation process is not optimal. This can be seen from the large number of budget brokers such as cases of alleged bribery in a number of cases in government departments, and alleged practices of budget brokers in the case of adjustments to regional infrastructure.

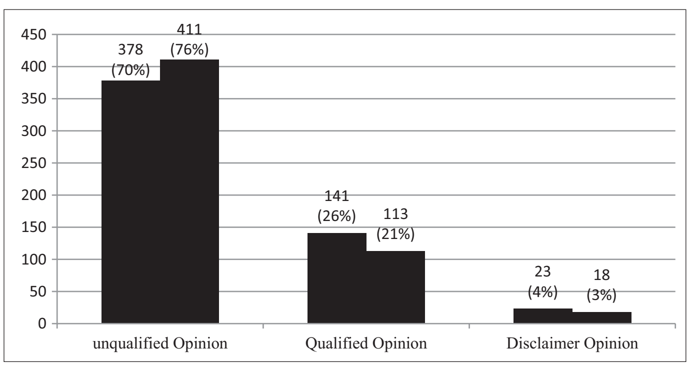
Index results of the examination Republic Indonesia financial audit body in the first semester of 2018 which contains the results of an examination of 542 local government financial reports (LKPD) for 2017 which must be submitted. For these 542 reports, the financial audit body gave 411 unqualified opinions (76%), 113 qualified opinions (21%), and 18 disclaimer opinions (3%), as presented in the Chart 1 and Chart 2.

The reason why the BPK still gives disclaimer opinions on the financial statements of local governments is partly due to inadequate implementation of local government internal control and the absence of an institutionalized internal control system.

Public sector budgeting has always been a warm conversation, because the public sector budget is used to serve three objectives, namely tools of accountability, tools of management, instrument of economic policy (Awio and Northcott, 2001). Previous research found that there was a positive relationship between participatory budgeting and managerial performance (Brownell and McInnes, 1986, Lukka,1988, Yusfaningrum and Ghozali, 2005).

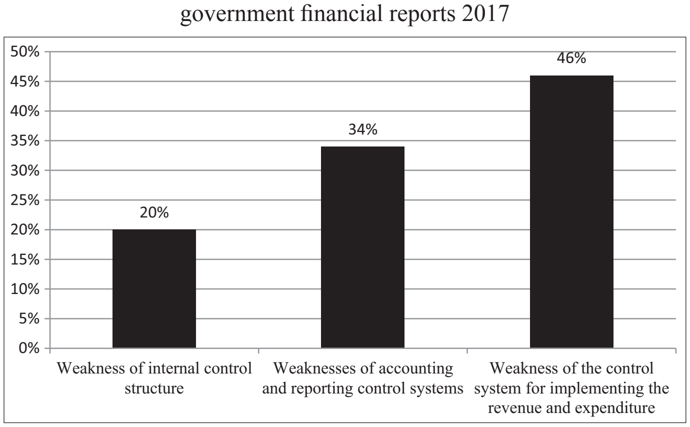
State of the art of this research need to explain and provide evidence of factors influencing managerial performance and financial accountability of regional governments, namely internal control, participatory budgeting and clarity of budget targets. The difference between this study and previous research that this research is carried out in the public sector, namely the regional government in North Sulawesi, especially the regional unit tools, while other studies are carried out on private parties or companies.

**Chart 1:** Opinion on local government financial reports 2016 and 2017




Source: IHPS I, Indonesian Supreme Audit, 2018

**Chart 2:** Composition ınternal control system weaknesses local government financial reports 2017




Source: IHPS I, Indonesian Supreme Audit, 2018

## 2. LITERATURE REVIEW

### 2.1. Participative Budgeting

Participation in the budget making process is acclaimed by many as a pariacea for meeting the esteem and self actualization needs of organizational members (Bastian, 2006). Participation in the budget preparation process is recognized by many people to fulfill the self-esteem and self-actualization needs of members of the organization. Participative budgeting is a budget system in which all budget holder are given the opportunity to participate in setting their own budgets (Chartered Institute of Management Accountants, 2006). Participatory budgeting also helps promote transparency, which has the potential to reduce government inefficiencies and corruption (Shah, 2007).

Participatory budgeting in government organizations is the extent to which the role of the apparatus is to be involved and have influence in the budget making process. Successful participation must involve the community, stakeholders and government officials (Miller, 2012). Involved in the budget preparation process the apparatus will feel valued and will feel responsible for their work, so they will strive and commit to achieving the established budget (Kong, 2005). The opportunity to participate in planning and setting budget goals results in an increase in feelings of ego involvement, a sense of control and trust, which in turn causes commitment to budget goals (Chong and Johnson, 2007). Budgeting to government agencies is related to the process of determining the amount of funds allocated for each program or activities to support the implementation of development (Bastian, 2006).

### 2.2. Budget Goal Clarity

Budget goal clarity in government organizations is the elaboration of goals, which is something that will be achieved or produced within an annual, semester, or quarterly period. Budget targets are attempted in quantitative form so that they can be measured. Budget targets must describe what you want to achieve through actions that will be taken to achieve the goals. The budget target provides a focus on preparing activities so that they are specific, detailed, measurable and achievable (Emilia and Abdullah, 2013). The goal is what the employee wants to achieve. So the clarity of budget targets will encourage managers to be more effective and do their best compared to unclear targets. This will encourage employees or staff to do the best for the ignition of the desired goals so that it has implications for improved performance (Locke and Latham, 1990).

Other research that has been carried out shows that with a clear and measurable definition, in determining performance achievement, through practices of measuring organizational performance can improve organizational performance and have implications for improving regional economic performance (Verbeeten, 2008). This research is in line with showing that there is an influence of budget characteristics/budget targets on performance, but the budget characteristics have no relationship with the size and type of company (Anjarwati, 2012).

### 2.3. Internal Control

Internal control is design and affected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance about the achievement of entity's objectivities in the following categories: (1) Realibility of finacial reporting, (2) effectiveness and efficiency of operations, and (3) compliance with applicable laws and regulations (Committee of sponsoring organizations of the treadway commission, 2013) defines internal control as "a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance."

In the Committee of Sponsoring Organizations of the Treadway Commission (2013), internal control consists of five interrelated component indicators, namely (1). Control environment. (2). Risk assessment (3). Control activities. (4). Information and communication. (5). Monitoring. From some research results, the internal control system used by the organization significantly influences the improvement of organizational managerial performance (Fisher, 1998, Mia and Chenhall, 1994). Internal control system has a positive effect on managerial performance in government organizations (Miah and Mia, 1996).

### 2.4. Managerial Performance

Performance is the work that can be achieved by a person or group of people in an organization, in accordance with the authority and responsibility of each (Otley, 1999). Performance description oflevel of achievement of the implementation of an activity/program/policy in realizing the goals, objectives, mission and organizational vision contained in an organization's planning strategy (Mahsun, 2006. p. 3). Managerial performance is a measure of how effectively and efficiently managers have worked to achieve organizational goals (Bastian, 2006. p. 1). Managerial performance is defined as the level competence of managers in carrying out management activities. Managerial performance is the extent to which public institutions manage the organization effectively and efficiently as a form of public institution accountability (Mahmudi, 2010).

### 2.5. Financial Accountability

A system of accountability is required by any government. So that it acts in ways which are broadly approved by the community. Accountability is fundamental to any society with pretensions to being democratic (Owen, 1994). Basically, financial accountability is the provision of information and disclosure of financial activities and performance to interested parties (Schiavo and Tomasi, 1999).

Governmental Accounting Standards Board/GASB in the concept statement No.1 concerning objectives of financial reporting stated."accountability requires governments to answer to the citizenry to justify the raising of public resources and the purposes for which they are used." Governmental accountability is based on the belief that the citizenry has a "right to know, right to receive openly declared fact that may lead to public debate by the citizen and their elected representatives." Financial reporting plays a major role in fulfilling government's duty to be publicly accountable in a democratic society.

**Table 1: Test of result**

| The Effect of Variable | Path coefficient | $T_{count}$ | $T_{table}$ | Ho |
|---|---|---|---|---|
| Participatory budgeting on managerial performance | 0,336 | 2,390 | 1,65 | Rejected |
| Budget target clarity on managerial performance | 0,243 | 2,243 | 1,65 | Rejected |
| Internal control on managerial performance | 0,347 | 2,664 | 1,65 | Rejected |
| Managerial performance against financial accountability | 0,668 | 7,120 | 1,65 | Rejected |

Definition of financial accountability is the provision of information and disclosure of activities and financial performance to all stakeholders so that the rights of the public are right to be informed and the right to be heard and to be listened can be fulfilled (Mardiasmo, 2004). Financial accountability emphasizes the size of funds and becomes very important because the management of public finance will be the main concern of the community (Mahmudi, 2010). Managerial performance is closely related to financial accountability. Managerial skills such as in budget planning, achieving budget targets, organizing, assigning staff, examining work results, monitoring and controlling budget and resource use, will increase financial accountability or financial accountability. Good managerial performance will increase financial accountability, achievement of programs and activities, timely reporting and minimize differences in budget realization (Shah, 2007).

Measurement of leadership performance can increase financial accountability, namely in the financial statements or annual reports. Disclosure of financial reports to external parties stakeholders will move towards better public accountability (Coy et al., 2002). In developing countries, budget management in local governments is usually assessed on government performance. In the context of governance, the process of public participation and the participation of apparatus to create transparency in budget management that is efficient, effective, and professional can encourage performance improvement and financial accountability (Shah and Shen, 2007).

Based on the existing theoretical basis, the results of previous research and thinking framework, the research hypothesis is:

1. Participatory budgeting, clarity of budget objectives and internal control partially influencing managerial performance Managerial performance affecting financial
2. accountability.

## 3. METHODOLOGY

Research method is a method used by researchers during an investigation to solve problems (Kothari, 2004). Judging from the type of study, this type of research is verificative and explanatory research or causal study, because this study aims to find out what and how far the predicted factors affect a variable with the aim of testing the hypothesis. Population is the entire group of people, events, or things of interest that researchers wish to investigate (Sekaran and Bougie, 2013). The population is agency all unit tool (SKPD) located in regencies and cities in North Sulawesi.

Sample technique uses simple random sampling. Data processing has fulfilled the requirements because the sample size is taken using power analysis. With a significance level of 5%, the number of direction of the most arrows pointing towards the construct is 3 and $R^2$ is 0.25.

Data analysis in this study was carried out with structural equation model with partial least square (PLS) approach. Data analysis was carried out using structural equation method based on covariance model, namely PLS, because in the variable it has indicators that are formative and reflective (Hair et al., 2014).

## 4. RESULTS AND DISCUSSION

Based on the results of the first order of confirmatory factor analysis can be seen the value of the factor weight for each indicator is >0.50. This means that all indicators are valid as a measuring tool for their respective dimensions. Then the composite reliability value of each dimension >0.70 indicates that the indicators have consistency in measuring their dimensions. Then the results of hypothesis testing show that all hypotheses are accepted because the t count is greater than t-table as in the Table 1 below.

The results showed that the coefficient of determination (R-square) found that participatory budgeting, clarity of budget targets and implementation of internal control together had an effect of 66.4% on managerial performance. Then managerial performance has an effect of 44.6% on financial accountability. Further hypothesis testing is conducted to prove whether there is a positive influence on each variable of participatory budgeting, clarity of budget targets and implementation of internal control on managerial performance and its impact on financial accountability.

Judging from the direct influence, the variable implementation of internal control provides the greatest direct influence on managerial performance, namely 12%. The participatory budgeting variable is 11.3% and the budget clarity variable is 5.9%. Then from the total influence, the variables of participatory budgeting and the implementation of internal control gave the same total effect on the managerial performance of government agencies in district-city areas in North Sulawesi, namely 25.1%.

## 5. CONCLUSION

Based on the formulation of the problem, the formulation of the hypothesis and the results of the study, the conclusions of this study are as follows:

1. Participatory budgeting has a positive effect on the managerial performance of district-city regional government agencies in North Sulawesi, the higher participation in budgeting makes the performance of government agencies better. In other words, it can be interpreted that managerial performance can be improved if government agencies or SKPD improve participatory budgeting by increasing the involvement of apparatus in the budgeting process. The results of the study support the participatory budgeting theory of Kong where involvement in the budgeting process in which the apparatus will feel valued and will feel responsible for their work, so that they will try to achieve the established budget.
2. Clarity of budget targets have a positive effect on managerial performance in the scope of district-city SKPD in North Sulawesi province where the clearer or better the budget targets will improve managerial performance. It can be interpreted that with the stipulation of the SKPD work plan clearly, the objectives of the program and activities are clear, the budget objectives that are more specific and understandable and the budget targets are communicated to the apparatus will improve the performance of the SKPD. The results of the study support the research of Burney and Widener (2007) which shows that there is an influence of the characteristics of budget/budget targets on managerial performance. The results of this study are also relevant to Locke and Latham's (1990) research that specific and measurable goals can encourage employees to improve performance. Likewise Verbeeten (2008), concluded that that a clear and measurable budget, through organizational measurement practices can improve organizational performance.
3. The implementation of good internal control has a positive effect on the managerial performance of SKPD in North Sulawesi. Overall, the implementation of internal control in SKPD in the regency-city is good, but there are some things that still need to be improved, among others in HR policies and practices, namely leadership example, and promotion that has not been based on performance appraisal. Likewise for physical control of assets in which asset management or management is still not good. The results of this study also support the research of Fogelberg and Griffith who found that the application of a control system will improve organizational performance and encourage decision making by managers better. It also supports Fisher's, Mia and Chenhall that the internal control system used by the organization significantly influences the improvement of organizational managerial performance
4. Managerial performance has a positive effect on financial accountability. The better the managerial performance, the higher the financial accountability or the more accountable. This can be interpreted that managerial performance or managerial abilities such as in budget planning, achievement of budget targets, organizing, assignment to staff, examination of work results, supervision in the use of budget and resources will increase financial accountability.

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