Effect of Performance-Based Budgeting to Effectiveness of Control- A Study Case at Indonesia’s State University

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This study aims to examine the effect of performance-based budgeting to the effectiveness of the controls which include financial control effectiveness and performance control effectiveness at Airlangga University. Study sample was Dean and Vice Dean of finance affair at the University of Airlangga. Methods of data collection were conducted by distributing questionnaires through the purposive sampling. Research variables consisted of performance-based budgeting, financial control effectiveness, and performance control effectiveness. Hypothesis testing was done using regression analysis. Test results show that performance-based budgeting was significantly positive influence on the effectiveness of financial control, while the performance-based budgeting had no significantly influence on performance control effectiveness. The most important implication from this study is Airlangga University management have to prepare for standard operating procedures to boost performance-based budgeting implementation.

Keywords: Performance-Based Budgeting, Financial Control Effectiveness and Performance Control Effectiveness.

Track: Business Education

1. Introduction

UNAIR before designated as State Owned Legal Entity (BHMN) is a unit under the Ministry of National Education of Indonesia. Unair As a government agency, the financial reporting subject to procedures stipulated by the Minister of Finance of Indonesia. All receipts are deposited into the State Treasury UNAIR and expenses UNAIR reported through the DIK (Event Checklist) and DIKS (Event Checklist Supplements). By this system, the financial statements prepared in a report revenues, expenses, and inventories. Basically reporting results showed how much the proposed budget and how big realization.

In the case of Airlangga, according to PP. 30 on UNAIR BHMN Article 40 Paragraph 2 of Financial Management explained that in paragraph (1) that the University's financial management in accordance with the requirements with respect to the principles of efficiency, effectiveness, integrity, productivity, autonomy, transparency and accountability. The university is required to create a financial management system that is more transparent and accountable. The system is expected to achieve an orderly financial management, obey the laws and regulations, efficient, economical, effective, transparent, and accountable with respect to justice, decency, and the benefits to society. This means that financial management is necessary to amend the budget paradigms. The orientation of

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budget have to change from field oriented budgeting and mission achievement benchmarks.

Along with the establishment of UNAIR BHMN then set using performance-based budgeting approach. Performance-based budgeting (PBB) is an approach to budgeting that is based on job performance or achievements to be achieved. Some authors use different terms for these performance-based budgeting. Hatry (1999) used the term outcome-based budgeting (results-based budgeting), while Osborne and Gaebler (1992) used the term budgeting for results (budgeting for results). Henceforth, the term used performance-based budgeting abbreviated PBB.

PBB give attention to directed the outcome and try to link the allocation of resources with explicit outcomes to be achieved (Hatry, 1999). Definition PBB expressed by Smith (1999) is that performance budgeting linking expenditures to results. PBB allocates resources based on achieving outcomes that can be measured specifically. Outcome is defined through a strategic planning process that considers the critical issues facing the agency, the capability of state, and input from stakeholders.

Budget performance is basically a system of budget preparation and management oriented on achieving results or performance. The performance should reflect the efficiency and effectiveness of public services, which means must be oriented to the public interest (Mariana, 2005). Therefore based on the above background, the author wishes to undertake research related to the analysis of the influence of the implementation of performance-based budgeting on the effectiveness of controls at Airlangga University

2. Literature Review

Performance-based budgeting is decentralized and devolved management, input-oriented, output, and outcome (value for money), complete and comprehensive long-term planning, based on the objectives and performance targets, cross-departmental, (cross department), Zero-Base Budgeting, Planning Programming Budgeting System, Systematic and rational, bottom-up budgeting.

Budgeting is a financial plan that systematically shows the allocation of human resources, materials, and other resources. Variations in government budgeting system was developed to serve a variety of purposes including to financial control, management plan, the priority of the use of funds and accountability to the public. Performance-based budgeting to answer them for use as a performance measurement and accountability in government.

Performance-based budgeting is a budgeting method for management to tie any funding as outlined in the activities with the expected outputs and outcomes, including efficiency in the achievement of outputs. Outputs and results are set forth in the performance targets in each work unit. As for how that goal is achieved, set forth in the program, followed by finance at each level of achievement.

Program on performance-based budgeting is defined as a policy instrument that contains one or more activities to be implemented by government agencies / institutions to achieve the goals and objectives, as well as obtaining a budget allocation or community activities are coordinated by government agencies. Activities are arranged as a way to achieve annual performance. In other words, the integration of an annual work plan which is the operational plan of the Strategic Plan and the annual budget is the component of performance-based budgeting. Elements that are important to consider in performance-based budgeting are:
1) the agreed objective and measure achievement.
2) The collection of systematic information on the realization of achieving reliable and consistent performance, so it can be compared between the cost of the performance.
3) Provision of information on an ongoing basis so that it can be used in the management of the planning, programming, budgeting and evaluation.

Conditions to be prepared as a triggering factor successful implementation of performance-based budget use, are:

1) Leadership and commitment of all components of the organization.
2) Focus on continuous improvement of the administration.
3) Adequate resources for the improvement of the business (money, time and people).
4) Awards (reward) and sanctions (punishment) which clearly
5) A strong desire to succeed.

In performance-based budgeting should be considered include the principles of budgeting, the main activity in the performance-based budgeting and the role of the senate.

The principles of performance-based budgeting are:

1) Transparency and accountability of the budget
   The budget should be able to present clear information about the purpose, objectives, outcomes and community benefits of an activity or project budget. Community members have the same rights and access to know the budget process because it involves the aspirations and interests of the people, especially the fulfillment of the needs of life. People are also entitled to demand accountability for the implementation of the plan or budget.
2) Budget discipline
   Revenues are planned rationally measurable estimates that can be achieved for each source of income. While the budgeted expenditure on each post / article is an upper limit expenditure. Budgeting expenses must be supported by the availability of revenue assurance in sufficient quantities and is not justified implement activities / projects that have not / are not available budget. In other words, that the use of each budget item must be in accordance with the activities / projects proposed
3) Justice budget
   Colleges shall allocate the fair use of their budgets that can be enjoyed by the entire group of academicians and employees without discrimination in the provision of services, since college income was essentially obtained through the participation of society as a whole.
4) The efficiency and effectiveness of budget
   Budgeting should be done based on the principles of efficiency, cost efficient, timely execution, and its use can be justified. Available funds should be utilized in the best possible order to produce the maximum increase and prosperity for the benefit of stakeholders.
5) Prepared by the performance approach
   The budget is prepared by the approach of prioritizing efforts to achieve the performance of the work (output / outcome) of the cost allocation plan or the input set. His work should be equivalent or greater than the cost or input set. In addition it must be able to foster professionalism in any work related to work organization.

In addition to general principles as outlined above, Law No. 17 of 2003 mandates the key changes on budgeting as follows:

1). Implementation approach to budgeting with a medium-term perspective
Approach with a medium term perspective provides a comprehensive framework, improving linkages between planning and budgeting processes, develop fiscal discipline, directing the allocation of resources to be more rational and strategic, and increase public confidence in the college with an optimal service delivery and more efficient.

By doing medium-term projections, the uncertainty can be reduced in the future in the provision of funds to finance the implementation of new policy initiatives, the annual budgeting. At the same time, it should also be calculated implications of the new policy in the context of fiscal sustainability in the medium term. This method also provides an opportunity to analyze whether universities need to make changes to existing policies, including halting programs that are not effective, so that new policies can be accommodated.

2). Implementation of integrated budgeting

With this approach, all of the activities organized in integrated colleges, including integrating routine budget and development budget. This is a necessary step as part of a long-term effort to bring the budget more transparent, and facilitate the development and implementation of performance-oriented budgeting. In regard to calculating the cost of inputs and assessing program performance, it is important to consider the overall costs, both investment and operational costs.

3). Implementation of performance-based budgeting

This approach clarifies the objectives and performance indicators as part of the development of performance-based budgeting system. It will support the improvement of efficiency and effectiveness in the use of resources and strengthen the decision-making process within the framework of the medium-term policy. The work plan and budget (RKA), which is based on work performance are intended to benefit as much as possible by using limited resources. Therefore, the college's programs and activities should be directed to achieve the results and outcomes that have been established in accordance with the Annual Work Plan (RKT).

2. Major Activities in the Development of Performance-Based Budgeting

The main activity in the performance-based budgeting is to get quantitative data and make budgeting decisions. The process of obtain quantitative data aimed to obtain information and understanding about the various programs that produce the expected outputs and outcomes. Quantitative data can also provide information about how the benefits of each program to the strategic plan. The decision making process should involve every level of the college management. The selection and program priorities to be allocated will depend on the data concerning the expected performance targets can be achieved.

3. The role of the Senate in Budgeting

The budget allocation for each program in each work unit will eventually be covered in the university senate. Priorities and budget allocation choices at each work unit was the result of an agreement in the meeting of the university senate. In an effort to reach an agreement, it is often the link between performance and budget allocations to be flexible and loose but with the Standard Analysis Expenditure (ASB), a more rational allocation.

3.1. Budgeting Mechanism

The budget process begins with the aspiration of faculty. These results generated from the input of each unit inii then formulated by the finance directorate. The participation of the budget has been done in such a way, it means that a
communication is established between the leaders and faculty in the university. This condition presents an information function which lower-level management to collect, exchange and disseminate information relevant to the task, which aims to facilitate managerial decision-making process and communicate information held by the organization's decision-makers.

Kenis (1979) proposed budget is a statement of what is expected and planned for a certain period in the future. Mardiasmo (2004) stated the budget of the public sector are important especially for the university, as
1. A budget is a tool for to drive socio-economic development, ensure continuity, and improve the quality of life;
2. There is a need and desire the infinite and growing, while resources are limited;
3. To ensure that the university community has been responsible for.

In line with the development of management science developed rapidly after World War II, it stands to reason that the influence of scientific management was also felt in the budgeting system. The effect is clearly visible in the activities associated with efforts to improve the efficiency of both private sector and public sector. In came the systematic development budget performance is defined as a form of budget where sources connected with the results of the service. In other words, the performance budget reflects several things. First, the intent and the purpose for which the funds were requested. Second, the cost of the programs proposed for achieving this goal. And third, the quantitative data to measure achievement and the work carried out for each program.

Jones and Pendlebury (2000) explains that the budget provides a vital link between planning and control. The role of planning is expressed in the form of inputs needed to carry out the planned activities. The role of the control is done by preparing a budget in a way that clearly shows the input and the resources allocated to an individual or department to carry out its responsibility. Control can be done by comparing the results with the results obtained budgeted to ensure that the level of expenditure is not exceeded and the planned level of activity achieved. Along with the reform of public administration was marked by the emergence of the era of New Public Management (NPM), has led the effort to develop a more systematic approach in public sector budgeting. There are four types of approach to budgeting in the public sector with a different emphasis to each approach. The fourth approach is the line item budgeting budgeting, performance budgeting, program budgeting and zero-based budgeting (Kluvers, 1999).

As a means of planning activities, the budget is expressed as units of currency at the same time can be used as a means of control. In order for this function to work well, then the system records of its receipts and expenditures must be done carefully and systematically and adequate supervision. Rinusu and Mastuti (2003) (Natsir, 2008) proposed three principles in budget oversight, namely: (i) wet-matigheid, principles of supervision that emphasizes the importance of the match between the implementation of the budget with the applicable rules and regulations, (ii) rechmatigheid, terms legality of the execution of the budget, and (iii) doel-matigheid, the role of factor benchmarks in budget execution practices.
Gibson, Ivancevich, and Donnelly (2000) argued that control the effectiveness criteria:
1. Organization's ability to produce goods and services in accordance with the request;
2. The ability of an organization to use its resources efficiently;
3. Satisfaction level officials within the organization;
4. Organization's ability to adapt to environmental changes, and
5. Level of organizational development.

3. Data/Methodology/Propositions

The research was carried out to exploit and develop relationships and influence on the effectiveness of Performance Based Budgeting control at Airlangga University an Indonesia's state university (UNAIR). Effectiveness of the controls are the objectives of the budget as a tool of control functions of UNAIR.

The data in this study were obtained from primary data through a survey method. Sampling was done by purposive sampling method, the sample selection non probability that meet certain considerations (Cooper and Schindler, 2001). These considerations are the survey respondents are directly involved in budgeting and financial accountability. They are the dean and vice dean of finance affairs at the University of Airlangga. Data collection using questionnaires. The questionnaire was distributed by the researcher to the respondents. Delivery and collection questionnaire conducted directly by the researchers aim to obtain a high rate of return questionnaires.

Primary data collection instruments by using a questionnaire / questionnaires. The use of the questionnaire as the main instrument in this study, because the respondents were relatively busy, and not too intrusive respondents work. Other support is interviews with respondents to clarify the discussion.

The list of questions in the questionnaire have consulted both the Sub Director of Accounting and Finance Director of Unair. The results of the evaluation of both the competent authorities in the financial sector, the perceived enough to make a list of questions in the questionnaire distributed directly to the Vice Dean and Dean of finance affair. Delivery questionnaires conducted at the meeting of the two fields of a regular meeting of the finance. This meeting regularly carried out under the direction of the vice dean of finance affairs and finance directorate of Unair. Questionnaires have been sent all Dean and Vice dean of Finance affairs for 26 questionnaires. The result of questionnaires returned completed are 15 (58%).

Propositions

Jones and Pendlebury (2000) describes the control of the budget related to the efforts made so that actual spending is in line with the budgeted amount and the purpose and activity levels were included in the budget is reached. Syakhroza (2002) said that the achievement of budget targets play an important role because the budget illustrates the effectiveness and efficiency standards. Budget illustrate the effectiveness of the standard because it includes a set of desired output and efficiency standards for budget detailing the inputs needed to produce the desired output. Thus, the effectiveness of financial control in budgeting expenditure realization is achieved in accordance with the plan.
Based on the above, the following hypothesis can be stated:
H1: Performance-based budgeting is a significant positive influence on the effectiveness of the financial control

Mardiasmo (2004) suggests performance budgeting system is basically a system that includes programming activities and benchmarks (indicators) performance as an instrument to achieve the goals and objectives of the program. Robinson (2002) proposed budget performance is not only related to financial control but also provides a key instrument to maximize efficiency and effectiveness in the delivery of government services to the public. Achievement of desired outcomes outlined in the performance indicators used as a reference for preparing the budget. Clarity of objectives specified in the budget targets and performance indicators will help the organization managers or managing a budget to control the performance in order to achieve the expected performance.

Based on the above, the following hypothesis can be stated:
H2: Performance-based budgeting is a significant positive effect on the performance of control effectiveness

4. Finding / Analysis

Analysis of Hypothesis 1. Influence of the effectiveness of performance-based budgeting financial control

Statistical tests of the correlation and regression analysis between performance-based budgeting (PBB) and financial control (FC) shows the correlation coefficient (r) between PBB variables with the variable effectiveness of financial controls (PK) is 0.534 with a significance of p value of 0.020 or p < 0.05. These results suggest that PBB variables are positively correlated with the effectiveness of the financial control variables.

Results The coefficient of determination (r²) of the two variables is 0.285. Thus 28.5% of the variance in the effectiveness of the financial control variables are described by a linear relationship with PBB variables or vice versa. The results of regression testing by t test with a value of PK variable coefficient 0.534 with a significance level p value 0.040 or p value <0.05. The results of a simple regression analysis above shows that the t test is significant. This means that there is a causal relationship between PBB variables with the variable effectiveness of financial controls.

Based on the above, it can be concluded that the variable PBK has a positive influence significantly the effectiveness of the financial control variables. This means that the statistical results support the hypothesis 1, which states that the performance-based budgeting is a significant positive influence on the effectiveness of financial control is supported by the data.

These results are consistent with previous studies such as Asmoko, 2006, Ghozali, 2006, which suggests that PBB can effectively control the finances. Given the early preparation of PBB, all activities proposed by the evaluation unit of work has been done. The evaluation was conducted at the faculty level and at the university level. Components that are required to run the activity has been in the study of compliance with targets, so the current implementation, the budget can be used as a sound basis for carrying out activities as planned earlier.
This condition is also consistent with the explanation Syakhroza (2002) who said that the budget illustrates the effectiveness of the standard because it includes a set of desired output and efficiency standards because of budgetary detail the input required to produce a desired output. Thus, the effectiveness of financial control in budgeting expenditure realization is achieved in accordance with the plan. It seems to have been thoroughly understood by every faculty leaders.

Analysis of Hypothesis 2. Influence of the effectiveness of performance-based budgeting control effectiveness performance

SPSS processing results showed a correlation coefficient (r) between PBB variables with the variable performance control effectiveness (DK) is 0.448 with a significance of p value of 0.047 or p <0.05. These results suggest that PBB variables are positively correlated with the effectiveness of the financial control variables.

As per the results of coefficient of determination (r2) of the two variables is 0.201. Thus 20.1% of the variance in the variable performance control effectiveness is explained by a linear relationship with PBB variables or vice versa. The results of regression testing by t test with a value of 0.448 DK variable coefficient with a significance level of p value 0.094 or p value> 0.05. The results of a simple regression analysis above shows that the results of the t test was not significant. This means there is no causal relationship between PBB variables with the variable performance control effectiveness.

Based on the above, it can be concluded that the variable PBK has a positive influence, but not significant to the variable performance control effectiveness. This means that the statistics suggests that hypothesis 2 which states that performance-based budgeting is a significant positive influence on the effectiveness of the control performance is not supported by the data.

These results are not consistent with previous studies such as Asmoko, 2006, and Ghozali, 2006 which indicated that PBB can effectively control the performance. This condition implies that the application of the performance targets were not uniformly performed in faculty work units may be cause not affected from PBB to control performance. As the results of the evaluation in the previous descriptive statistics indicate that not all faculty work unit performance to enforce the contract unit underneath.

Other conditions that allow this relationship insignificant as statements Osborne and Gaebler, 1992 which stated that many public sector organizations are still trapped in the budget line item. Although the paradigm of performance-based budgeting has been introduced but the old paradigm that if there is a budget, it can be spent as planned. This means that if this condition occurs more meaningful PBK preparation at the beginning of the preparation, but a bit saggy at the time of implementation.

One of the conditions is the absence of the implementation of PBB performance monitoring. Performance monitoring is an important element in the implementation of PBB. If this element is not implemented then PBK more pronounced at the beginning of the preparation of the budget, but can not feel the difference with the traditional budgeting during implementation.

In order to succeed the implementation of PBB one way is to create a mechanism of reward and punishment (Mardiasmo, 2004). If the implementation of
performance monitoring has been done then the next thing is to reward those who achieve good performance and provide penalties for units that do not achieve performance targets. This can lead to the implementation of PBB can be done as where it should be. It seems that this condition has not been done in the Airlangga University. So logically if the PBB had no significant effect on the effectiveness of control performance, because the units are not motivated or no direction to achieve a certain performance.

5. Conclusion and Limitation

The results of this study indicate that

1. Hypothesis 1 regarding performance-based budgeting (PBB) significant positive effect on the effectiveness of financial controls proved in support with the data. These results are consistent with previous studies. This condition is understandable considering not too much difference between the cost elements in budgeting between traditional budgeting and PBB. A striking difference is in the initial process of budgeting.

2. Statistical tests on Hypothesis 2 regarding performance-based budgeting (PBB) did not significantly affect the effectiveness of the control performance. These results contrast with previous studies. This condition occurs because there is no supporting devices such as standard operating procedures for successful implementation of PBB. Some things are not 1. Mechanisme performance contract is a systematic, 2. Control the performance generated by the unit, as well as reward and punishment 3. Mechanisme performance achieved by the faculty.
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