

# Participatory Budgeting Role in Improving the Performance of Managerial Head of Department East Java

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Received: November 4, 2016

Accepted: November 9, 2016

Online Published: November 20, 2016

doi:10.5539/res.v8n4p148

URL: <http://dx.doi.org/10.5539/res.v8n4p148>

## Abstract

This study aims to analyze the role of participatory budgeting in improving the performance of managerial leadership of the Office of East Java province after being moderated by variable organizational commitment and the perception of innovation.

The results of the study serve as a development of the science of public sector budgeting and guidelines for the government's efforts in improving the credibility of local government agencies.

The study population is in charge of the budget, namely Echelon III Office of East Java province as many as 130 people and saturate the sample set. The research instrument was a questionnaire and analyzed using Moderated Multiple Regression. Of the 105 questionnaires were successfully analyzed, it was concluded that participatory budgeting can improve managerial performance.

The results of the analysis demonstrate that organizational commitment able to moderate the role, while the perception of innovation is not able to moderate the role of participatory budgeting in improving managerial performance.

**Keywords:** participatory budgeting, organizational commitment, innovation perception, managerial performance

## 1. Introduction

### 1.1 Background

Budget is an important component in an organization, whether profit or non-profit organizations, private and public organizations. Budgeting should be done precisely, using appropriate models, as well as the calculation of reasonable fees. There are fundamental differences between the budgets of private sector with the public sector budget/government. Budget private sector are generally confidential, because the source of funds used is own capital, while the public sector budget should be made public because of the source of funds used are owned by the community. Included in the budget of public sector resources, among other taxes, levies, SOE profits, loans and government bonds, etc.

Decentralization of the public sector have an impact on delegation of authority determining the work program of the center to the regions comprised of Working Unit (SKPD), Regional Finance Management Task Force (SKPKD), and the Regional Secretary. According to Law No. 17 of 2003 on State Finance of Article 19 paragraph (1) and (2) explained that each SKPD shall draw up a budget based on performance to be achieved or commonly called the Performance-Based Budgeting (ABK). SKPD responsible for providing human resources able to organize and manage the budget effectively and efficiently in accordance with the public interest. SKPD referred to in this research is SKPD Regional Government of East Java province in which stand 20 East Java Regional Office based By law No. 9 in 2008. Hill (1998) stated that decentralization is a broad distribution or a shift in decision-making authority to lower management levels While Brownell and McInnes (1998), in an organization with a low level of decentralization, the manager felt that he was regarded as less responsible, less involved in the preparation of the budget, and I felt pressure from higher up. They also said that the budget is something less useful and restrain their discretion.

The budget process can be done through several approaches, top down (authoritative) or bottom up (participatory). Sardjito (2005) stated that in the system budgeting top down, plan and budget amounts have been

set by the supervisor/subordinate power holders while the budget/budget execution just do what I have set. Typically, the application of this system makes the performance of subordinates are not effective because they are often superior performance demands were too high while the resource is too small (limited). Meanwhile, the bottom up budgeting system (participative budgeting) is a budgeting approach that focuses on efforts to improve the motivation of employees in the organization. Subordinate or be involved in implementing the budget budgetary concerns sub-section in order to reach an agreement between superiors or subordinates proxy budget/budget execution. Budgeting models thus serve as an assessment tool based on the achievement of performance targets and financial efficiency. The achievement of budget targets indicate a good performance, and vice versa.

Based on the theory of goal setting, participation will increase subordinate commitment to the objectives of the budget target (Chong V. & Chong K., 2002). The opportunity to engage and influence the budgeting process will increase the confidence of subordinates, subordinate control feelings and ego involvement with the organization. All together will lead to less resistance to change and more accepted and chose a commitment to budget decisions.

Implementation of the budget involves all the human resources that exist within the organization so that accountability is the responsibility of each user technical implementation of the budget of the organization. Accountability is dependent on the performance of the duties and authority of each employee, but the performance accountability of government employees by Mardiasmo (2002) can be measured starting from the establishment of the strategic planning, implementation, reporting s/d performance evaluation. Several factors predicted to influence employee performance accountability among others the role of leadership, employee understanding of the direction and goals of the organization, as well as the ability of employees in control of himself. Stoner et al. (1995) found locos of internal and external control measures how much a person is able to control events that affect them and therefore contributes to performance accountability.

### *1.2 Formulation of the Problem*

Based on the background of the problem is known that the budget process could have an impact on the performance managerial leader. Leaders who can control themselves and were able to direct the employee is believed to create accountability for performance.

This problem was formulated: Becker (1978) suggest that participation is the decision-making process shared by two or more parties that would apply in the future for decision-making.

- a. Is participatory budgeting influence managerial performance?
- b. Is able to moderate the influence of organizational commitment participatory budgeting on managerial performance?
- c. Does the perception of innovation able to moderate the influence of participative budgeting on managerial performance?

## **2. Literature**

### *2.1 State of the Art*

This research is applied research in the field of International Public Sector Accounting which analyzes the role of participatory budgeting in improving performance accountability of government employees. To increase the significance of the research, some previous studies that discuss similar issues can be used as a reference in determining the direction of research.

- a. Kunwaviyah (2010) examined the role of organizational commitment and innovation variables in the analysis of the effect of budget participation on managerial performance of public sector organizations. Data collected through questionnaires to 160 structural officials SKPD Magelang regency. The study concluded that there is a direct influence of budget participation on managerial performance. Participation budget also affect the organizational commitment and innovation, but organizational commitment and innovation does not affect the performance.
- b. Agusti (2012) examines the effect of budget participation on the performance of local government officials Bengkalis with decentralization and organizational culture as moderating variable. With the object of research of the Echelon III and IV, this study proves that the higher the participation of officials in budgeting will increasingly higher the managerial performance. Decentralization has significant relationships in the influence of budget participation on the performance, while the culture of the organization has no significant effect.

c. Sharon (2013) examines the Effectiveness and Efficiency Analysis Executing Budget Planning Agency (Bappeda) South Minahasa. With descriptive methods, the study concluded that during the 2008-2012 level and effectiveness criteria Minahasa BAPPEDA budget implementation varies greatly. The further difference between actual budget with budget targets, it can be concluded that the effectiveness of a low budget execution. Therefore, public sector organizations are required to run value for money that is efficient in procurement and allocation of resources as well as effective in achieving goals and objectives. From several previous studies concluded that the role of budgeting participation in improving managerial performance showed results that are inconsistent and even contradictory. This is what makes the basis of this study.

## 2.2 Theoretical Basis

### 2.2.1 Participatory Budgeting

Budget is a statement regarding the estimation of the performance to be achieved organization over a specific time period stated in the financial measures (Mardiasmo, 2002). While Mowen and Hansen (2004) stated that the budget is a financial plan the future in identifying organizational goals and actions needed to achieve them. Benefits of the budget, among other things: 1) a tool for managers to plan, 2) provide information that can be used to improve decision making, 3) provide performance evaluation standards, and 4) improving communication and coordination.

The budget process is an important activity because the budget has a possible impact of functional and dysfunctional attitudes and behavior of members of the organization. The impact is shown by the presence or absence of a budget as a means of controlling the function of good to motivate members of the organization to improve its performance. Sardjito (2005) stated that the budget can be done through:

#### a. Top down or budgeting authoritative

In the top down budgeting, top management determines the overall budget period, while preparing the entire operating budget (including the lower level operations). Budgets are not communicating but authoritative command. However, this budgetary control can provide better decision than participatory budgeting.

#### b. Bottom up or participatory budgeting

Participatory budgeting is a good communication tool because it allows top management to understand the problems facing employees. This method can increase the motivation of employees to achieve organizational goals. But if not controlled properly, participatory budgeting can lead to budget targets which are easily reached or not in accordance with the target company.

### 2.2.2 Organizational Commitment

Organizational commitment is defined as the degree to which an employee is favoring an organization as well as the desire to maintain membership in the organization (Robins, 2003). Organizational commitment is a positive dimension of the attitude of the employees related to the performance as an indicator measuring the level of feelings and confidence in the organization in which they work (Setyanto, 2011). Inside there is a commitment earnest efforts and individual attachment to reach a target, put the interests of the organization, as well as trying to make organizations more productive and profitable. Organizational commitment awakened if each individual to develop three attitudes: 1) Identification, an understanding or appreciation of the objectives of the organization, 2) Involment, a feeling of being involved in a job or a feeling that his job is fun, 3) Loyalty, a feeling that the organization is the place to work and a place to stay comfortable. Organizational commitment has a three-dimensional, namely 1) Affective (affective commitment) if an employee wants to be part of the organization because of their emotional attachment or sense of belonging, 2) Sustainable (continuance commitment) if the employee stay in an organization because he needed the salary and other benefits, and 3) normative (normative commitment), when the last employee in the organization for reasons of moral or ethical. Someone said to have good organizational commitment if all three dimensions of commitment are developed together.

### 2.2.3 Perception Innovation

The term perception of innovation is often discussed in several studies on the relationship between budgetary participation and performance in different terms. Some call managers value orientation towards innovation, the perception of innovation, as well as work related value of innovation. Although there are differences in terminology, the meaning and the items used to measure the perception of innovation related to the relationship between budgetary participation and performance is the same. Perception innovation illustrates the extent to which managers feel that they are innovative (Kunwaviyah & Safrudin, 2010). They will be motivated to work

when he learned that his ideas accepted by the organization. Thus managers who have a good perception of innovation that will have a good performance.

### 2.2.4 Managerial Performance

Miftah (2003) says that leadership is a way to put a person to influence others. Meanwhile, according to Maxwell (2000) defines leadership is an influence, i.e., the ability of a person to influence others to follow suit. In general, a quality leader must have some characteristics as follows: 1) have a responsibility balanced, 2) build a role model positive, 3) have excellent communication skills, 4) have a positive influence, 5) have the ability to convince others. To be able to perform its functions properly, a leader must possess honest, innovative, and authoritative. Managerial performance of a leader is defined as the performance of individuals in managerial activities that include planning, investigation, coordination, supervision, staffing, negotiation, and representation (Ramadhani & Nasution, 2009).

International studies link participatory budgets to individual performance (Nouri & Parker, 1998), to the exchange of information (Parker & Kyj, 2006), role ambiguity (Parker & Kyj, 2006; Chong et al., 2006), organizational commitment (Parker & Kyj, 2006; Chong et al., 2006; Nouri & Parker, 1998), to the uncertainty of tasks (Jermias & Setiawan, 2008; Lau & Tan, 1998), job satisfaction (Chong et al., 2006; Yuen, 2006), job tension (Lau & Tan, 2006), and so on. Regardless of how the connections between participatory budgeting and all these factors are made (directly or indirectly), what matters is that they exist.

## 3. Research Methods

### 3.1 Research Design

The study design is presented in Figure 1 below.

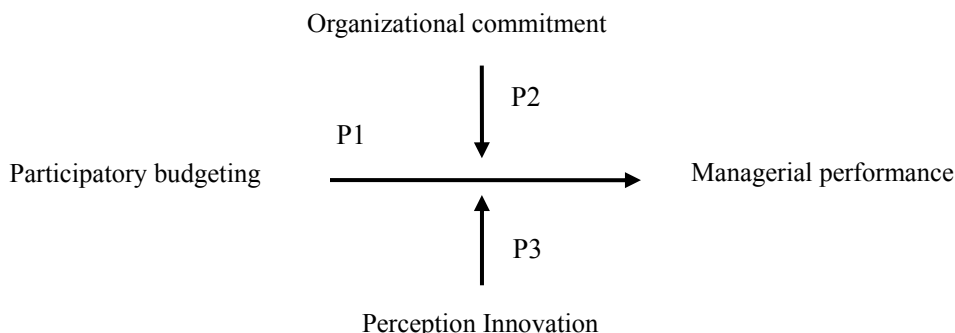


Figure 1. Design research

### 3.2 Population and Sample

The population was 130 people in charge of the budget (Head/Echelon III) of 20 Office of East Java province, as presented in Table 1. Sample set saturated.

Table 1. Data employment regional office of East Java province

No.	Name of the Regional Department	Field Name
1	public health Office	1. Secretariat
		2. Health Care
		3. Control of Diseases and Health Problems
		4. Development of the Health Resources
		5. Development and Empowerment of Public Health
		6. The Office of Technical Implementation Unit
2	Social services	1. Secretariat
		2. Social and Rehabilitation Services
		3. Social Empowerment

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		4. Assistance and Social Protection 5. Advocacy and Social Protection 6. Institutional Development UKS and Development 7. The Office of Technical Implementation Unit
3	education authorities	1. Secretariat 2. Kindergarten / Elementary and Special Education 3. Education SMP and SMA 4. Non-Formal Education, Informal and Cultural Values 5. Teachers and Education Personnel 6. The Office of Technical Implementation Unit
4	Department of Transportation and Road Transport Traffic	1. Secretariat 2. Transportation Development 3. Road Traffic 4. Road Transport 5. Traffic Operational Control transport. Street 6. Railways and Transport Traffic River, Lake, and Ferry (LLASDP) 7. Sea Transportation 8. Air Transport 9. The Office of Technical Implementation Unit
5	Office of Communications and Information Technology	1. Secretariat 2. Development of Information Technology 3. Dissemination and Information 4. Communication Networks 5. Empowerment of Information & Communication Technology 6. Post and Telecommunications 7. ICT Infrastructure Management 8. The Office of Technical Implementation Unit
6	Dept. of Manpower and Transmigration Population	1. Secretariat 2. Training and Productivity 3. Employment 4. Industrial Relations and Working Conditions 5. The labor inspectors 6. Population 7. Population Mobility 8. The Office of Technical Implementation Unit
7	Department of culture and tourism	1. The Secretary 2. Culture, Art and Film 3. History, Museum and Antiquities 4. Development of Tourism Products 5. Marketing 6. Development of Tourism Resources 7. The Office of Technical Implementation Unit
8	Department of Cooperative, Micro, Small and Medium Enterprises	1. The Secretary 2. Institutional Cooperative 3. Cooperative Effort 4. Micro, Small and Medium Enterprises (SMEs) 5. Facility, Financing, and Business Savings and Loans 6. The Office of Technical Implementation Unit
9	Department of Youth and Sports	1. The Secretary 2. Development of Youth Organizations 3. Development of Youth Activities 4. Development of Sports Performance 5. The Office of Technical Implementation Unit

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10	Department of Public Works Highways	<ol style="list-style-type: none"> <li>1. The Secretary</li> <li>2. Setup and Control</li> <li>3. Coaching techniques</li> <li>4. Development and Improvement</li> <li>5. Maintenance</li> <li>6. The Office of Technical Implementation Unit</li> </ol>
11	Department of Public Works Irrigation	<ol style="list-style-type: none"> <li>1. The Secretary</li> <li>2. Utilization of Water Resources</li> <li>3. Construction and Development</li> <li>4. Operation and Maintenance</li> <li>5. Development Benefits</li> <li>6. The Office of Technical Implementation Unit</li> </ol>
12	Department of Public Works and Human Settlement Spatial	<ol style="list-style-type: none"> <li>1. Secretariat</li> <li>2. Spatial Subdivision</li> <li>3. Spatial</li> <li>4. Building Management</li> <li>5. Housing</li> <li>6. Clean Water Environmental Sanitation</li> <li>7. The Office of Technical Implementation Unit</li> </ol>
13	Department of Agriculture	<ol style="list-style-type: none"> <li>1. Secretariat</li> <li>2. Food Crop Production</li> <li>3. Horticulture</li> <li>4. Facilities and infrastructure</li> <li>5. Processing and Marketing</li> <li>Office Technical Implementation Unit</li> </ol>
14	Department of Agriculture	<ol style="list-style-type: none"> <li>1. The Secretary</li> <li>2. Infrastructures</li> <li>3. Production</li> <li>4. Protection of Plantation</li> <li>5. Farm</li> <li>6. The Office of Technical Implementation Unit</li> </ol>
15	animal husbandry Department	<ol style="list-style-type: none"> <li>1. The Secretary</li> <li>2. Animal Health</li> <li>3. Veterinary Public Health</li> <li>4. Cultivation and Development of Livestock Animals</li> <li>5. Agribusiness</li> <li>6. The Office of Technical Implementation Unit</li> </ol>
16	Department of Fisheries and Marine Resources	<ol style="list-style-type: none"> <li>1. The Secretary</li> <li>2. Aquaculture</li> <li>3. Fishing</li> <li>4. Marine, Coastal and Monitoring</li> <li>5. Processing and Marketing of Fishery</li> <li>6. The Office of Technical Implementation Unit...</li> </ol>
17	forestry Service	<ol style="list-style-type: none"> <li>1. Secretariat</li> <li>2. Forestry Planning</li> <li>3. Consolidation of Forest and Nature Conservation Areas</li> <li>4. Forestry Production Development</li> <li>5. Land Rehabilitation and Social Forestry</li> <li>6. The Office of Technical Implementation Unit</li> </ol>
18	Department of Industry and Commerce	<ol style="list-style-type: none"> <li>1. Secretariat</li> <li>2. Standardization and Industrial Product Design</li> <li>3. Agriculture and Chemical Industries</li> <li>4. Metal, Machinery, Textile and Miscellaneous</li> </ol>

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		5. Transport, Electronics, and Telemanika
		6. Domestic Trade
		7. International Trade
		8. Metrology
		9. The Office of Technical Implementation Unit
19	Office of Energy and Mineral Resources	1. The Secretary
		2. General Mining and Oil and Gas
		3. Energy and Electricity
		4. Groundwater
		5. Geology
		6. The Office of Technical Implementation Unit
20	Department of Revenue	1. The Secretary
		2. Development of Information Systems and Data Processing revenues
		3. Local Tax
		4. Other Income
		5. Control and Evaluation
		6. The Office of Technical Implementation Unit
	amount	130 Bureau / Division

Source: Civil Service Bureau of the Province of East Java, the data is processed.

### 3.3 Research Variable

Operational definitions and indicators for each of the variables are presented in Table 2 below.

Table 2. Operational definitions and indicators variable

Variable	Operational definition	Indicator Variables
Participation Budget (PA)	And the extent of involvement of managers in the budgeting process	1. Activities in the preparation of the budget 2. Clarity reason to revise the proposed budget subordinate 3. Frequency of advice/opinions 4. The importance of the contribution made 5. The frequency of submission of the opinion
Organizational Commitment (KO)	Encouragement of the individual to do something in order to support the success of the organization	1. The ability to work above the average 2. pride to become part of the organization 3. Willingness to do all the work 4. Compliance individual values dg organizational values 5. Satisfaction choose the organization as a place to work 6. Concern for the future of the organization
Perception Innovation (PI)	How big a manager feels that he is an innovative	1. Always have interesting new ideas 2. Capable of reading opportunities (new) on the market 3. Having experience in their area of responsibility now 4. Be careful in performing their duties 5. Oriented forward
Managerial Performance (KM)	Individual performance in managerial activities to realize the objectives of the organization	1. Planning: setting goals, objectives, and policies 2. Investigation: collecting and preparing the information in the form of reports, records, and accounts 3. Coordination: exchange information with others in the organization 4. Evaluation: assessing the feasibility of proposals, reports, and organizational performance 5. Supervision: direct, lead, and develop subordinates 6. Settings staff: maintain and sustain subordinates in his unit

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7. Negotiations: the performance in the purchase, sale, and contracts in the goods/services
8. Representation: informing the vision, mission and activities of the organization by disseminating to outsiders
- 

### 3.4 Data Analysis and Discussion

#### 3.4.1 Data Analysis

Effect of Budget Participation on Managerial Performance.

Table 4. Results of testing influence PA against KM

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	30.864	2.817	10.956	.000	
	Participation	.212	.074	.274	2.289	.025

Source: SPSS output, processed.

Table 4 shows that the variable coefficient beta of Participatory Budgeting in influencing Managerial Performance is 0.212 with a t-value of 2.889 and a significance level of 0.005. These values prove that participative budgeting influence managerial performance.

#### 3.4.2 Testing Results Moderate Organizational Commitment

Tests on the ability of the Organization's commitment to moderate the influence of budget participation on managerial performance are presented in Table 5.

Table 5. Moderation organizational commitment

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	-40.920	29.486	-1.388	.168	
	Participation	2.073	.829	2.673	2.500	.014
	commitment	2.674	1.060	2.686	2.521	.013
	ModKOMIT	-.069	.030	-4.236	-2.340	.021

Source: SPSS output, processed.

Table 5 shows that the variable Organizational Commitment able to increase the value of t in the influence of budget participation on managerial performance of 0,211 points from t-value of 2,289 into 2,500. Increasing the value of t followed by strengthening the significance level of 0,025 into 0,014. It can be concluded that organizational commitment able to moderate the effect of budget participation on managerial performance.

#### 3.5 Moderation Perception Test Results Innovation

Tests on the ability of Perception Innovation in moderating influence between budget participation on managerial performance are presented in Table 6 as follows.



Table 6. Perception moderation innovation

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-76.533	55.002		-1.391	.167
I Participation	2.932	1.418	3.781	2.068	.041
Innovaton	3.779	1.934	3.093	1.954	.053
ModINOV	-.096	.050	-4.518	-1.919	.058

Source: SPSS output, processed.

Table 6 shows that the perception of innovation lowers the t-value in the influence of budget participation on managerial performance of 0.221 points from t-value of 2,289 into 2,068. The decline in the value of t followed by weakening the significance level of 0.025 into 0.041. It can be concluded that the perception of innovation is not able to moderate the effect of budget participation on managerial performance.

#### 4. Conclusions and Recommendations

##### 4.1 Conclusion

Principles of conclusion of the study are:

- Budget participation on the performance of managerial leadership of the Office of East Java province.
- Organizational commitment able to moderate the effect of budget participation on managerial performance.
- Perception innovation is not able to moderate the effect of budget participation on managerial performance.

##### 4.2 Suggestion

- To improve the performance of managerial leadership accountability Office of East Java province, should be of financial reporting standards that reflect the involvement of Echelon III in the budgeting process.
- There needs to be an effort to maintain the organization's commitment and increasing innovation those responsible for the budget.

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