

## BUDGET AS FORMAL MECHANISM TO MAINTAIN ORGANIZATION VISSION AND MISSION: AN INDONESIAN CASE

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**Abstract.** Budget plays an important role in Government Spending. There are many empirical research mentioned that government budget characterized by slacks, manipulation, and finally inefficient resources used. This study tries to discover factors may becomes the trigger. Using case study in one local working unit (OPD) that experienced less efficient and efective budget performance, we investigate the issue. Investigation was done using focus group discussion and deep interview with the main actors. The discussion generate 4 points as causes and the interview result in the similar conclusion. The research discover that political intention and technical error mention as the most possible reason for the budget being slack, manipulated as well as used ineffciently.

**Keywords:** political intention; strategic manipulation; ineffective budget performance

**Abstrak.** Anggaran memainkan peran penting dalam Belanja Pemerintah. Banyak penelitian empiris yang menyebutkan bahwa anggaran pemerintah bercirikan kelonggaran, manipulasi, dan akhirnya sumber daya yang tidak efisien digunakan. Studi ini mencoba menemukan faktor-faktor yang mungkin menjadi pemicunya. Dengan menggunakan studi kasus di satu unit kerja daerah (OPD) yang mengalami kinerja anggaran yang kurang efisien dan efektif, kami menyelidiki masalah tersebut. Investigasi dilakukan dengan diskusi kelompok terfokus dan wawancara mendalam dengan aktor utama. Diskusi menghasilkan 4 poin sebagai penyebab dan hasil wawancara menghasilkan kesimpulan yang serupa. Penelitian menemukan bahwa niat politik dan kesalahan teknis menyebutkan sebagai alasan yang paling mungkin mengapa anggaran dikendurkan, dimanipulasi, serta digunakan secara tidak efisien.

**Kata kunci:** niat politik; manipulasi strategis; kinerja anggaran yang tidak efektif

### INTRODUCTION

Value for money is a measure applied in budgeting in the public sector. The budget issued must produce valuable output, by prioritizing economic principles, efficiency and effectiveness. Unrealized budgets can be an indication of the inability of an organization to plan. In addition, the goal congruence theory suggests that each goal be derived from the organization's vision and mission. Therefore the achievement of the budget must also have an impact on the achievement of the organization's vision. Sri Mulyani, The Financial Minister of Indonesia said that the rampant budget lists revisions indicated poor planning of government revenue spending experienced in majority working units. She expect that public service units would be able to improve their budget quality in order to use governments revenue efficiently and effectively for the Indonesian prosperity. This means budget will have impact on achievement. In 2015-2017 year, the retribution from traditional market sector at Disperindag, contributes lower than estimated. From budget achievement point of view, when budget has not reached 100%, this place retribution from traditional market sector as an important object of research to be investigated. The drivers of the occurrence of budget phenomena that are not realized and synchronization of budgets and planning in related agencies.

There are several causes for not achieving the budget. First, improper process. In many cases, due to delay in preparation, submission and appropriation, the budget not sent to the legislature on time. Both developing and developed countries budgeting also experienced this budget delay. Thus the legislature do not have enough time for discussions and negotiations this will result in an approved budget failure in forecasting or estimating revenues and expenditures. Second, often known as statistical errors. The difference in assumptions when preparing a budget and realization and an incrementalism approach encourage the occurrence of variance caused by statistical errors. Third, political intervention. Independence and executive integrity are often disrupted by legislative interventions that cause budget changes. Studies in Indonesia show that there is an increase in the local budget deficit years (Setiawan and Rizkiah, 2017), particularly in investment expenditures (Veiga and Veiga (2007) and Chortareas et al. (2016). If the three things mentioned above occur, will the budget provide optimal value for the community? The budget must produce valuable output, by prioritizing economic principles, efficiently and effectively. Unrealized budgets can be an indication of the inability of an organization to plan. In addition, the goal congruence theory suggests that each goal be derived from the vision and mission of the organization. Therefore the achievement of the budget must also have an impact on the achievement of the organization's vision. Data for 2015-2017 shows that the market sector contributes lower than the budget. From the point of view of budget achievement, it has not reached 100%. Thus market service working unit is important as an object of research to investigate the drivers of the occurrence of budget phenomena that are not realized and the synchronization of budgets and planning in related agencies.

## LITERATURE REVIEW

**Public Sector Budgeting Performance.** Government at all levels had been implemented performance measurement in budgeting. There are many studies demonstrated that their performance were not as expected in terms of, such as, resource allocation decisions, budget effectiveness and budget outcome (Bisma:2010). Resource allocation in every country is crucial since it is scarce or provided in limited resources. Budget evaluate regularly, semi annual or even annually. But the problems remains exist. Government reform tried to accomadate those issues, start from new public management, balanced scorecard until government governance (Harun, et. al., 2003). This raise question: is budget performance reform has substantial impact on budgeting practice?

**Goal Congruence in Public Sector.** Congruence between formal goals of policy officials and the operative goals of implementing agencies is important for goal achievement. In this complex situation, this not an easy tasks. In the absence of goal congruence budget problems will remains even worst end to budget mall practice. For example, Meyers (2001) study about delivering welfare reforms at the local level in three states. Across the three sites, he found varying levels of congruence between formal policy goals, agency priorities, and the operative goals of agency managers and front line staff. Goal congruence appears to be more problematic either when policy goals are complex or when organizational systems are complex; when both are complex, substantial uncoupling of formal and operational goals is observed (Meyers, 2001). Kelly and Wanna (2000) study concluded that NPM reforms were widely adopted and far reaching and changed the terrain of the budget system. NPM reforms change budget behavior and power balance for guardians. Budget relationships tend to be more fragmented, more uncertain and less routine by introducing working unit as contract services with public. NPM reforms designed to increase managerial flexibility focus on two main themes: transferring financial management, and introducing new modes of service delivery. The first increases the flexibility to manage certain resource bases even in traditional departmental structures. This aims to make public sector service provision more efficient by reducing 'inefficient' rules and regulations that limit managerial

capacity to improve resource management. The second series of reforms broadens the notion of 'managerial flexibility' by challenging the traditional notion of governance where departments are exclusive providers of public services. Increasing formalization and transparency does not completely eliminate relational politics but limits opportunities for bargaining.

**Why Public Budgeting Goes Wrong.** Budgeting is talk about future condition. Thus budget relies on forecasts skill. In Indonesian public sector cases, budget forecasts found wrong such as errors in the calculation of teacher allowances which reached 23.3 trillion (regional.kompas.com, 2016), budgeting errors in the central government which reached Rp 9.1 trillion, excess expenditure payments and Rp 10.9 trillion in problems with contracts, official travel deviations of Rp 43.6 billion, other problems related to spending Rp 400.2 billion, and shopping accountability (not including official travel and contracts) Rp 2,3 triliun (finance.detik.com. 2018) even wrong a lot (Aaron, 2000). Many studies believe that alterations in economic forecasts and technical assumptions exceed adjustments due to fiscal policies changes have major contributin to this wrong (Adi and Ekaristi, 2009) ([www.kemenkeu.go.id](http://www.kemenkeu.go.id). 2017). Other studies claim that statistical reasons is the cause. This may happen when analyst depend solely on equations whose parameters are estimated on the basis of historical data to develop programs and revenue estimation (Marzalita, Nadirsyah, dan Abdullah. 2014).

In real practice, the equations re-estimated when there is new information. Unfortunately, usually, add one new data will not change the estimates of the parameters very much. Thus, when there are important structural changes will not be recognized for many years, and forecasting errors in the interim are likely to all go in the same direction (Penner, 2001).

## METHOD

Based on preliminary observation, we investigate further the Industry and Trade Office Sidoarjo-Indonesia. In a preliminary study, we found that deep review of budgeting processes at the local level was absent due to the employee do not posses some skills such as ability to diagnose social and development priorities, and to translate these diagnoses into operational policy initiatives with clearly estimated impacts and budget costs, to prioritize these initiatives and to implement the most cost effective among them through budget procedures which ensure allocative flexibility (Dixon and H, 2009). They still view local budget is about accounting inputs, rigid budget control and implementation of policies remotely determined in the central office of the national ministries. This show that they do not have sufficient understanding about budgets roles in government organization. This is very common at the earlier stage of NPM implementation such as Rahmiyati (2009) study at East Java Province. She found that the province has made preparation for the performance-based budgeting but not perfect. There is still lack of understanding of all sides of the legislation in force and still weak make a commitment to implement a performance-based budget implementation has not gone well. Legislation that is newly implemented only fulfill the formal and legal aspects are still far from the essence of which is expected from the implementation of performance-based budgeting.

This also happen in Sidoarjo where they consider budget as cash outflow mechanism without linking to organization vision and mission. Thus they make budget as a formal and routine activities. By intervene and serving as workshop facilitator, we expect to get much from the respondents.

In the process of enriching insights, researchers observed the extent to which their perceptions in interpreting budget and performance-based budgets. Next, through the interactive interview process and FGD, researchers explored the causes of budget failure as a control and performance evaluation tool. And finally, in the mentoring process, observations were made on the ability to develop performance-based budgets and change perceptions of the budget as a control and performance evaluation tool.

The selection of informants is based on the roles that should be carried out in the formulation of a participatory budget and leadership that should encourage participation in budgeting. Thus there are several categories of informants, namely: head of department, head of section and head of sub-section. Observations were made throughout the implementation of the activities and interviews conducted with unstructured techniques to get a natural response from the informant. The results of observations and interviews are written in descriptive writing. Validity is tested by researchers by comparing the same questions to other informants to form conclusions.

In mentoring activities, researchers ask the participants to found and evaluate:

- 1) Suitability of the program in the budget document with the Service's vision, mission and strategy using their own budget
- 2) Clarifying performance measures that are used as a basis for assessing the success or failure of activities in accordance with the goals and objectives that have been set in order to realize the Service's vision and mission.
- 3) Optimizing clarity about the outcomes (outcomes) to be achieved, and relationships with outputs (outputs) and activities to achieve the results (outcomes).

## RESULTS AND DISCUSSION

**Results.** Based on the stages that have been planned, the following description of the results of observations and interviews in depth.

- a. Perception of government officials on the functions of public sector budgets and performance-based budgets

Analysis of budget performance shows that the budget for the last two years cannot be realized 100% or can be said to be ineffective. There are some reasons for this ineffectiveness. **First**, because the program cannot be executed until the end of the fiscal year. All informants have similar arguments, the inability of human resource to realize the work programs. They blame insufficient number of personnel as one cause. The office, usually starts their program in March. But, due to unclear reasons, the most other program is executed between June until September. Most programs crash during these months causes some programs to be denied. Finance section head also mentions that load activities at the same time also cause a shortage of personnel in executing activities. This condition often occurs when entering the last month of the fiscal year. In terms of procurement of goods, the late schedule, specs and price mismatches, and poor coordination lead to a late auction so the budget is not absorbed. The unit head added program incompatibility with the organization need as the **second** cause. Irrespective of the organization need will result in audit findings by either the inspectorate or government auditor. Thus, when they think that one activity is not linked to its performance indicator, it will be canceled or postponed in the running year. The **third** factor claimed is poor coordination among budget planner and executor. They provide examples of the implementation of human resource training and development that are not coordinated between planners and implementers, resulting in a development program that cannot be implemented simply because there is no budget item for meetings outside the office that require a lump-sum for meeting participants. Participants in any training as well as meetings outside the office usually get daily allowance. If not, the participants will not confirm to participate. The **fourth** factor is, there are additional activities that only appear in the middle of the year but supporting documents, such as TOR, are not available so they cannot be executed.

Starting from the leadership in charge of formulating the organization's strategic planning to the officers below who are in charge of carrying out daily organization activities, in general they have the same perception that the budget must be arranged realistically so that it can be absorbed by the end of the year. When not absorbed, the service performance is deemed ineffective. Therefore they always try so that in carrying out activities must see the budget line and the output produced. Up to this point it looks as if this view is not a problem. However, if we look more closely, this view can cause the apparatus to look for ways that activities can be carried out

according to the budget even though the output that may not be appropriate may be forced accordingly. The key word revealed from in-depth interviews is that the budget is absorbed not in order to achieve the goals of public services. This view misleads the meaning of the budget as a control and evaluation tool. Because when their performance seems fine even though service to the public is not necessarily fulfilled.

Another view expressed by the authorities is that they often only implement it but do not understand how the budget should be prepared so that it can meet the objectives of public services. For them it is the most important activity. Thus it can be interpreted that they are not concerned with the budget but the implementation. The budget as a mechanism to spend money to carry out activities without seeing whether an activity provides added value to stakeholders or not.

What is even more surprising is when the apparatus perceives that the conventional approach is more desirable and useful because of this the apparatus is more free to use the budget. Conventional line-item budgeting does make it easier for implementers to implement the budget. With line-items, the apparatus can carry out activities easily because the required resources are available but keep in mind that the purpose of implementing the activity is to carry out the service function. The function of this service should be the focus of the budget, namely output.

At this stage, researchers also explain performance-based budgets and try to explore how the authorities respond to performance-based budgets. To their surprise, it was argued that any technique taught in the practice of regional leadership intervention and the interests of certain groups was more important. Thus, the discourse that the budget is expected to be a control tool is limited to theory. In practice, the budget often arises that is not discussed in the budgeting meeting and they feel that the budget does not benefit them. Implicitly they stated that the budget was intended to fulfill certain interests such as regional leaders, department heads, and council members.

**Budget conformity evaluation with vision and mission.** In the mentoring stage, the activity was conducted to identify budget weaknesses that they had prepared in terms of performance perspectives by self doing. The results provide the following description:

1. All participant confirm that not all their program in the budget are in conformity with its service's vision, mission and strategy. They conduct self evaluation activities to asses whether all programs as well as activites are link to vision and mission and present within forums to get feedback. None of the participant found that all are perfectly matched with vision and mission.
2. Further activities try to clarify whether performance indicator used are can be used to measure the goal achievement. And the answer, again is not. Some ruler cannot used precisely. They just measure the input and output in terms of quantitative aspect such as number of document produced, number of people trained, or number of SME participate in exhibition. This measure nothing.
3. The last activity is relate to the first and second question. Since the answer of both question not satisfied, then it is impossible to achieve the outcomes. Finally they come to the conclusion from the self doing activities.

After mentoring stage, the participants ask to self correct their programs. Some of improvements are:

1. The participants felt that it was necessary to review the logical relationship between outcomes and output. For example, when the expected outcome is IKM standardization, it is not logical if the agency only focuses on training employees on standardization without considering the involvement of the IKM. Thus it was impressed by activities that were not planned and directed.
2. Participants also considered that the absence of tangible benefits was due to arbitrary programming. For example, a program to increase export value through increasing the

capacity of informal traders requires further research. It needs carefulness of informal traders as to what has export prospects. Otherwise it will require a very long path.

3. Comprehensive budgeting can cause waste because overlapping and duplication will occur. For example, budgeting to meet certain standards is only budgeted for a number of indicators. If each indicator is mutually influential, it can hinder the achievement of the expected target according to the standard.

## CONCLUSION

Based on observations and interviews conducted in flow in each mentoring activity and FGD it was found that:

- a. There is still an unclear link between funding and performance achievements that will be achieved (directly linkages between performance and budget). This is important because the budget should be prepared to achieve the vision and mission through achievement of performance every year.
- b. Still not able to improve efficiency and transparency in implementation (operational efficiency). The compiled work program must be able to create efficiency because it is a manifestation of apparatus accountability towards the state.
- c. Still not able to increase unit flexibility and accountability in carrying out tasks and budget management (more flexibility and accountability). As point (b), the accountability of the apparatus in carrying out their duties cannot yet be realized if budgeting does not have adequate relevance to the duties and functions of the apparatus according to their fields.

The results above suggest that OPD budgeting requires leadership commitment to seriously address existing problems in performance-based budgeting. If not, the budget only becomes a formal process for spending. In the end the purpose of the existence of OPD to provide public services was not in accordance with the VFM principle.

With adequate assistance, the apparatus can easily understand and establish a logical relationship between each program, between the program and the vision and mission, and between budget and performance assessment. But when this understanding is not followed up with implementation it will not have any impact.

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