

**THE EFFECT OF BUDGET PARTICIPATION ON ORGANIZATIONAL  
CULTURE, DECENTRALIZATION, AND CHARACTERISTICS OF  
EFFECTIVE MANAGEMENT ACCOUNTING INFORMATION  
SYSTEMS IN EAST JAVA REGIONAL DEVICE ORGANIZATIONS**

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**ABSTRACT:**

Budgets in the government sector are known as public sector budgets. The budget in the government sector is used to show the government's program in using public money. Public sector budgets are created to help determine the level of community needs. Government policies that regulate government revenue and spending that have a close relationship to taxes are physical policies. In this study the researchers considered the factors of organizational culture, decentralization, the characteristics of management accounting information systems, in participatory budgeting procedures on the performance of local government officials. This study indicates that budget participation affects organizational culture, decentralization, and management accounting information systems' characteristics.

**INTRODUCTION:**

Management accounting has a very important main role for a company manager, which helps plan to be effective. The planning in question is the programs of the company's business. For a business activity to take place effectively, every business program will require calculating an estimated fund so that every business program must have a budget estimate. The budget for these funds is generally made every annual period. Each company will have

its own estimated budget; it depends on company policy. Company management accounting also assists in the process of monitoring and controlling the possibility of irregularities. For example, non-conformity of operational standards, errors that occur in work procedures, business expenditure budgets that exceed the maximum limit, etc. It can result in a business being unable to run smoothly and result in material losses. Therefore, the process of supervision and control is needed in order to minimize these incidents. However, if there is already a deviation, a manager must be able to control the situation so that the company does not suffer losses.

Budgets in the government sector are known as public sector budgets. The budget in the government sector is used to show the government's program in using public money. The budget also has a meaning, namely the basis for policy formulation which includes determining the direction and goals, making strategies, implementing programs, and the focus of activities and the stages or implementation that need to be carried out. Optimization of state revenue and savings policies on investment financing can be implemented if a regional financial operation concept is drawn up that covers the estimates offered and the sources of income needed to spend for a specific time threshold.

Budget participation is formulated using a top-down and bottom-up approach. A top-down approach or top management authoritative budgeting is carried out by preparing a budget for the organization's totality, including lower-level operations. A bottom-up or participatory approach allows an agreement to occur among all managers to achieve the organization's mission. According to Pope (1984), there are three approaches to budget participation: normative behavioral, such as research conducted by Becker and Green, 1962; Hanson, 1966; and Hofstede; 1968. The second is Empirical Behavioral, such as Milani's research, 1975; Hofstede, Ch 9; and Brownel, 1982. The three Principal Agent Models, such as research conducted by Baiman and Evans 1981; Magee, 1980; and Christensom 1980 and 1981.

Bottom-up budgeting is implemented by government organizations in Indonesia, where the budgeting process involves middle and lower-level managers. The involvement of middle and lower-level managers in the delegation and granting of authority in the budgeting process is called decentralization. Decentralization is based on Law No. 23/2014, namely the handover of Government Affairs by the Central Government to autonomous regions based on the Principle of Autonomy. With the existence of decentralization, autonomy for a regional government emerged.

The management accounting system has an increasingly positive impact with decentralization on managerial performance. Alignment between the information and the requirements of the decision-maker will support the quality of the decisions that will be taken and so that, in the end, it can increase the company's performance. Gul, Tsui, Fong, and Kwok (1995) found that there is a significant positive correlation between participatory budgeting and managerial performance at large levels of decentralization. At small levels of decentralization the correlation turns negative. Solehan and Setiawati (2009) stated that there was a positive influence between decentralization and managerial performance in manufacturing companies in Semarang; Ingkriwang (2013) also found that there was a significant impact between decentralization variables and managerial performance.

Decision-making from managers requires communication with all parties in the organization (Nawawi and Martini, 2004). Proper communication with all elements in the company can be done by systematically working towards a similar goal, namely to increase the company's productivity (Suranto, 2005). If there is miscommunication in a company, especially in budgeting, then it will have a negative effect that can result in badly on the sustainability of the company's growth.

The involvement of managers and their employees has also explained agency theory. Jensen and Meckling (1976) describe agency theory, namely an agreement between one person or more between principals and an agent, in which the agent has the authority to be obliged to carry out various kinds of duties. According to Eisenhardt (1985), three assumptions underlie agency theory: assumptions related to human nature, organization, and information.

Organizational characteristics create the attitude of organizational members to get what is intended so that it will create a strong organizational culture in the organization and give pressure to all members to take action or behave according to what is desired for the organization. Frucot and Shearon (1991) found the impact of the cultural dimension on the effectiveness of participation in budgeting for additional managerial performance, and Kanan (2015) found that culture influences the budgeting process in manufacturing companies in Libya and America.

This research takes the object of the District Regional Apparatus Organization (OPD) in East Java Province; this is due to a phenomenon during the last five years of regional financial report audit results, there are still areas that have received the title of WDP or Fair with Exceptions. The WDP predicate obtained by the municipality or district is the published audit opinion if half of the information in the financial statements is free from material misstatement, or special items that become a specialization. Thus, the budget has an important role in the government sector, because the low absorption capacity of the budget indicates that the work programs that have been made and determined are not well realized.

Formulation of the problem

1. Does Budget Participation affect Organizational Culture
2. Does Budget Participation affect Decentralization
3. Does Budget Participation affect the Characteristics of the Accounting Information System

Budget Participation is used for the budget preparation process, which is carried out on a Bottom-Up basis to aim that the budget preparation process involves all layers of the organizational structure. For this reason, tiered communication is needed in organizations that promote a decentralized system. Also, organizational culture and characteristics of accounting information systems also play a role in the budget formulation process. For this reason, the purpose of this study, and can be described as follows:

1. Analyzing Budget Participation in Organizational Culture in East Java Regional Apparatus Organizations
2. Analyzing Budget Participation in Decentralization in East Java Regional Apparatus Organizations
3. Analyzing Budget Participation on the Characteristics of the Accounting Information System

#### **LITERATURE REVIEW:**

According to Robbins (2008), Participation is a concept in which subordinates are involved in decision-making to some degree with their superiors. Budget participation is a process that involves individuals directly in it and influences the preparation of budget goals whose performance will be assessed and likely to be rewarded based on achieving their budget goals (Brownell, 1982 in Nurcahyani, 2010). While Chong (2002) in Nurkemala (2011) states, it is a process where subordinates/budget implementers can be involved and influence the budget preparation process. Schiff and Lewin (1970) in Nurkemala (2011)

suggest that the budget that has been prepared has a role as planning and as a performance criterion; namely, the budget is used as a control system to measure managerial performance.

Culture has been an important concept in understanding societies and human groups for a long time. Culture in the sense of anthropology and history is the core of different groups and societies regarding how their members interact with outsiders and how they accomplish what they do (Rivai, 2003). By definition, culture is elusive, intangible, implicit, and assumed to be proper or standard. Culture as a pattern of shared basic assumptions that groups acquire when solving problems of external adjustment and internal integration has worked well enough to be considered legitimate and is therefore expected to be taught to new members as the proper way to accept, think and feel related to these problems (Rivai, 2003). Organizational culture is a system of spreading beliefs and values that develops within an organization and directs the behavior of its members. Organizational culture can be the main competitive advantage instrument, that is, if the organizational culture supports the organizational strategy. Robbins (2002) defines organizational culture as a system of shared meanings shared by members that differentiate the organization from other organizations. Schein (1985) defines organizational culture as a pattern of basic assumptions that a group of people finds or develops as they learn to solve problems, adapt to the external environment, and integrate with the internal environment. Whereas Brown (1998), as cited by Kenneth et al., (2007) defines organizational culture as a pattern of beliefs, values, and ways that are learned dealing with experiences that have been developed throughout organizational history that manifest in material settings and organizational behavior. Based on some of the definitions of organizational culture above, it can be concluded that organizational culture is the norms, values, assumptions, beliefs, habits made in an organization and approved by all members of the organization as a guideline or reference in the organization in carrying out its activities, both for employees. As well as for the benefit of others.

Decentralization (decentralization) is the practice of delegating decision-making authority to lower levels (Hansen and Mowen, 1997 in Erna and Dwi, 2006). Decentralization can mean the delegation of a portion of authority from officials to officials under them to make decisions and be responsible for allocating resources and services to the community (Miah and Mia, 1996 in Karyanti 2010). According to Mardiasmo (2002), decentralization does mean the transfer of authority from the central government to a wider government and the transfer of some government authority to the private sector in the form of privatization. According to Law no. 32 of 2004, decentralization is the transfer of governmental authority by the government to autonomous regions to regulate and manage their affairs in the system of the Unitary State of the Republic of Indonesia. It can be concluded that decentralization is the extent to which management at higher levels allows management at lower levels to make decisions independently.

The management accounting system is an organizational supervisory mechanism that can facilitate supervision by making reports and creating concrete actions against performance assessments and each component in the organization (Chia, 1995). The management accounting information system provides the information needed to facilitate monitoring and action on the organization's assessment. The management accounting information system (consists of four characteristics of information, namely: broad scope, aggregation, integration, timeliness (Chenhall & Morris, 1986). Management accounting information systems process input in the form of economic events to produce outputs (e.g., budget, cost of products) to achieve management objectives. The management accounting system's objectives are: (1) to provide information on the cost of products, services, and other interests required by management. (2) provide information for planning, control, and evaluation. (3) provide information for decision-making (Hansen & Mowen, 1997). The management accounting system engineering in research that uses a contingency perspective

always considers the relationship with contextual variables such as: environment, (Chenhall & Moriss, 1986); strategy, (Govindarajan and Fisher, 1990); and others. In this paper, The management accounting system can be conceptualized as a formal system designed to provide information to managers.

#### **METHOD:**

The research design used is explanatory research (Eksplanatory Research). Explanatory research is a type of research that explains the causal relationship between variables that influence the hypothesis. The population in this study is the Regency Regional Apparatus Organization in the province of East Java. Sampling in this study was to use the purposive sampling method, namely the sampling method using predetermined criteria.

The population used in this study is the Regional Apparatus Organizations which fall into the category of Agencies and Services Type A, B and C in the East Java region. The sample of this research uses purposive sampling; namely, the sampling process is carried out using criteria and accidental sampling (convenience sampling), which is a procedure that selects the easiest sample of people or units to be found and accessed. Sampling research using purposive sampling method using criteria, namely as follows:

1. Regional Apparatus Organization (OPD) covering Agencies and Services Type A, B, and C at the Regency level in East Java Province
2. Regional Apparatus Organization (OPD) mapped by the Provincial Representative Audit Agency in East Java, based on the Regional Financial Report Audit Result Report (LHP LKPD). Division of Subauditory I - IV East Java Province
3. Regional Apparatus Organization (OPD) of Sub-Auditory IV Region in East Java Province
4. Regency Regional Apparatus Organization (OPD), which received three times the Reasonable Exception (WDP) assessment in the last five years, namely from 2014-2018

The data collection method in this research uses questionnaire collection techniques. The questions that the researcher has arranged are given to respondents who have the involvement so that they are filled out. The questionnaire is divided into two (2) main parts: data on the demographics of respondents and the second on Budgeting Participation, Decentralization, Organizational Culture and Characteristics of Accounting Information Systems. Stages of data collection, the authors carry out various stages. First, the author communicates by telephone or directly to the agency or service office, which is the research object. In this telephone communication the writer asks whether the author is allowed to research the agency or service and if allowed to ask questions regarding the procedure for submitting research permits.

Suppose the agency or service has allowed applying for a research permit. In that case, the author will proceed to the second stage, namely submitting a proposal and a research permit from the faculty to the government agency or service and then waiting for permission from the head of the agency or service. The third stage will be carried out only if the head of the agency or agency has authorized the research to be carried out. The fourth stage is the distribution of questionnaires to respondent objects in related agencies or agencies. There are two ways of giving questionnaires, first, namely entrusting the questionnaire to one of the employees who has been given the task to help so that further retrieval is carried out after a period of several days, the second is by conducting direct interviews, and we assist in the process of filling out the research questionnaire.

**RESULT:**

The object of this research is the organization of district apparatuses in East Java, which is regulated in Government Regulation No. 18 of 2016, regarding Regional Apparatus or Regional Work Units (SKPD) turning into Regional Apparatus Organizations (OPD). The Regional Apparatus Organization (OPD) used in this study is the regency level in East Java Province, whose territorial division is based on the provisions of the BPK, which consists of an IV Subauditory.

The Regency Regional Apparatus Organization consists of Agencies and Services type A, B, and C. And is regulated in the regional regulations of each district. Based on the sampling criteria using the purposive sampling method, the research object is the Sub Auditory IV district, namely Pasuruan, Situbondo, Jember, Bondowoso, and Banyuwangi districts.

The next criterion is from the report on the results of the audit of regional financial statements shown in the table below:

**TABLE 1. THE RESULTS OF THE EXAMINATION OF REGIONAL FINANCIAL REPORTS**

SUBAUDITORAT EAST JAVA IV						
Number	Region	2014	2015	2016	2017	2018
1	Region Bondowoso	Unqualified Opinion (UO)	UO	UO	UO	UO
2	Region Pasuruan	Modified UO	UO	UO	UO	UO
3	Region Probolinggo	Modified UO	UO	UO	UO	UO
4	Region Lumajang	Modified UO	UO	UO	QO	UO
5	Region Situbondo	Modified UO	UO	UO	UO	UO
6	Region Jember	Qualified Opinion (QO)	UO	QO	UO	QO
7	Region Banyuwangi	Modified UO	UO	UO	UO	UO

Source: <http://surabaya.bpk.go.id>

From this table, it can be seen that the regency that has received the qualification of Fair with the Exception for the last five years is the Regency of Jember. For this reason, the object of this research is the Jember Regency Regional Apparatus Organization.

**The Relationship of Budget Participation to Organizational Culture**

The hypothesis states that Budget Participation has a significant influence on Organizational Culture; in the path diagram, the model testing results show the t-value is 7.73 (95% confidence level). It shows that budget participation has a significant influence on Organizational Culture, received with a t-value of (7.73) greater than the recommended value (1.96) of the t-table (sig 0.05). In other words, budget participation can have an influence on

organizational culture in government agencies. Budget participation in the formulation process involves all layers in the organizational structure, from low management, middle management, and top management in government agencies. This involvement encourages all managers to have responsibility for each of their duties and authorities. Organizational culture's behavior is influenced by organizational culture, because the value system in organizational culture can be used as an example of human behavior in organizations that are oriented towards achieving goals. The results of this study indicate that budgetary participation affects organizational culture; this is following research conducted by Frucot and Shearon (1991) and Nerdinger (2008), which found the influence of cultural dimensions on the effectiveness of budgeting on improving managerial performance. It is following the indicators of budget participation which consist of contributions, suggestions in budgeting, and involvement of completion and satisfaction of top management in preparing budgets, with indicators of organizational culture consisting of the behavior of each member of the organization, authority, and motivation so that they can participate. Participate and contribute to budget participation.

#### Relationship between Budget Participation and Decentralization

The hypothesis states that Budget Participation significantly affects decentralization; the path diagram model test results show the t-value is 3.61 (95% confidence level). This shows that budget participation has a significant effect on decentralization, accepted with a value. The t-value of (3.61) is greater than the recommended value (1.96) of the t-table (sig 0.05). In other words, budget participation can affect decentralization or the delegation of authority and responsibility to all lower-ranking managers.

Decentralization is the delegation of authority and accountability between leaders and subordinates, where subordinates are also given authority in decision making. Decisions in the budgeting process are carried out in a decentralized manner, or involve subordinates and superiors. The results of this study indicate that budget participation influences decentralization; the results of this study are the same as the research conducted by Bruns and Waterhouse (1975), which shows that managers or subordinates in decentralized organizations are aware that they are becoming increasingly influential, participating more in budget drafting, and consciously satisfied with activities that have a relationship with the budget. Whereas in centralized organizations, managers are aware that they perceive themselves as less responsible, are less involved in budget drafting, and experience pressure from their superiors, they are aware that budgets are useless and impose limits on their freedom (Brownel 1982a). Merchant (1978) examined the relationship between decentralization and budget system design, received strong support regarding the budget system design that would be effective in decentralized companies, and the involvement of subordinates in budgeting. This is following the indicators of budget participation which consist of contributions, suggestions in budget arrangement, and involvement of completion and satisfaction of top management in preparing budgets, while decentralization indicators consist of authority and responsibility in decision making. So that in the budget participation process that involves all levels in the organizational structure, it affects decentralization in which there are various powers and responsibilities of each section.

#### Relationship of Budget Participation to Characteristics of Effective Management Accounting Information Systems (MASE)

The hypothesis states that Budget Participation has a significant influence on the Characteristics of an Effective Management Accounting Information System (MASE, in the

path diagram the results of the model testing show the t-value is 4.58 (95% confidence level) with the numbers in black. It shows that Budget participation significantly affects the Characteristics of the Effective Management Accounting Information System (MASE), accepted. With a t-value of (4.58) greater than the recommended value (1.96) of the t-table (sig 0.05). In other words, Budget Participation can affect the Characteristics of an Effective Management Accounting Information System (MASE).

Effect of Budget Participation on Effective Management Accounting Information Systems (MASE) Accounting information is required and used at all management stages, including planning, controlling, and decision making (Hansen and Mowen 2006). Management accounting information systems are systems that create outputs (outputs) using inputs and process them for specific management purposes, while the outputs include reports on specific production costs, customer costs, budgets, and performance reports (Hansen and Mowen 2003). The budget preparation process requires accounting information from various parties in the organization; therefore, an effective management accounting information system is needed. The results of this study indicate that Budget Participation influences the Characteristics of an Effective Management Accounting Information System (MASE); this is following the results of research conducted by Kren (1992), which shows that information systems influence budget participation. Indicators of budget participation consist of contributions, suggestions in budgeting arrangements, and involvement of completion and satisfaction of top management in preparing budgets, while indicators of effective management accounting information systems consist of planning, controlling and monitoring activities. Each layer carries out the participatory budgeting process in the organizational structure in the form of planning the allocation of activity funds, up to the realization stage, so an effective management accounting information system (MASE) is needed.

## **CONCLUSION:**

1. Budget participation is one of the bottom-up approaches in the budget formulation process, for that it is necessary to pay attention to the organizational structure, especially in granting authority and responsibility in stages or in a decentralized manner; this is due to the psychological contracts of local government officials at every level of the organization. Has the authority and responsibility in making decisions, especially the budget, so that whether the budget is realized or not following the work program determined by the agency depends on the psychological contract of the government apparatus. This study indicates that budget participation has a significant effect on organizational culture. Budget participation will create a good organizational culture due to tiered communication between parts of the organization.
2. Budget participation has a significant effect on decentralization, this shows that with budget participation, the decentralization system in the government sector can run well; this is because the budget participation process uses a tiered communication process between parts of the organization. Communication factors that exist in the government sector influence the budgeting process; therefore, there must be good commitment and cooperation between divisions and units in the regional apparatus organization to realize the organization's goals.
3. Fast and accurate information is needed in the budgeting process; or in other words, effective information is needed in the budgeting process. In the government sector, management accounting information systems have been made and standardized nationally. This study suggests that the system implemented by district regional apparatus organizations is good and adequate. It can be seen from the significant influence of budget participation on the characteristics of the effective management accounting information

system (MASE); this shows that with budget participation, the information obtained will be more effective, especially information relating to budget submissions and realization.

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