

CHAPTER 1

INTRODUCTION

1.1 Background

The image of bad governance marked by the conditions of corruption, collusion, and nepotism in Indonesia has resulted in distrust of the public towards government institutions, both central and regional government institutions. In which took place both during the previous administration and in the reform era. Also, the news about corruption in the mass media often broadens public distrust of government institutions. This condition is exacerbated by media fabrication, which seems to illustrate that the entire bureaucratic reform system in Indonesia has been bad and collapsed (Nurfita Kusuma Dewi, 2012). This condition puts the government's credibility at stake. In this case, the government credibility is directly related to the idea of political trust because as an institution, the government produces policies repeatedly, and the lack of credibility raises distrust and likely for a long time, therefore each policy made by the government is a potential action to build trust (La Porte, 1996). Amid many pessimistic tones and exhausting dirty political intrigues, a clean bureaucratic mentality must be maintained. Therefore, the government needs to restore public distrust. Hence, to prevent corruption from getting worse organizations to need a complete and thorough strategy in budgeting, both formal and informal plans are important. Apparatus as the ones who take control within government institutions must understand their capability resources well and must have a plan that shows how these resources are used to achieve the organization's goals and objectives (Dr. (Cand). Drs. Achmad Ridwan Tentowi., S.H., 2018). By improving the apparatus performance public may gain both confidence and trust of the government. The performance of the apparatus can be improved if the apparatus perceive that there is fairness in the budget preparation process within the government (Lind & Tyler,

1988). Therefore, the apparatus will perform effectively during the budgeting process.

Budgeting is a formal statement made by organization about plans made in the future in a certain period, which will be used as a guide in the implementation of activities during the period (Hanson, 1970). Along with the role of the budget, (University., Administration., Argyris, & Foundation., 1952) states that the key to effective performance is when the objectives of the budget are achieved and the participation of apparatus plays an important role in achieving these goals. Budget participation is one form of an effort to worker's performance, it is more of a situational nature, depends on the internal conditions (personality and emotions) and external factors that surround individual organizations in doing work. External factors are targets and competition demands high performance from the individual. While internal factors are in the form of the work environment, salary, promotion opportunities, supervision, and others that include in the dimensions of job satisfaction.

The success of an organization in achieving its goals depends very much on the apparatus performance. Apparatus performance is achieved if the organization as a whole or joint business unit apparatus can do their jobs well so that the organization can achieve the goals and objectives set (Fletcher, 2001). The description of the apparatus' role mentioned above, will require a number of important organizational skills - develop equal relationships between apparatus, carry out negotiations, motivate subordinates, resolve conflicts, build information networks and disseminate information, make decisions in conditions of extreme ambiguity, and allocate available resources (Mintzberg, 2009).

While the concept of performance according to (Johns, 1996) is the contribution made by members of the organization to the achievement of organizational goals. While other opinions from (Robertson, Ward, Ridgeway, Nimmo-Smith, & Anespie, 1994) is about the vision, mission, and activities of the organization by attending group or meetings and consultations with other departments. The efforts to improve the performance of the apparatus are situational factors. One of the situational factors that are the main consideration is

budgetary fairness. Budgetary fairness is the perception of fairness perceived by apparatus in a budget (Lind & Tyler, 1988). Fairness perceived in budgeting tends to be related to the attitudes and behavior of the apparatus because it provides conditions where the norms of rights or obligations are met. Therefore, fair treatment of apparatus drives the process of social exchange where the supervision and efforts of organizations to make fair decisions raise the obligation on returning the role of apparatus.

According to (Maiga, 2006) there are three forms of budget fairness, namely: procedural fairness, distributive fairness, and interactional fairness. Procedural fairness is related to the procedures used in allocating resources so that fairness becomes the basis in the decision making the process to determine the results to be achieved. Also, procedural fairness relates to the attitudes and behaviors of people involved in the process in it and the impact on decisions that are produced.

Distributive fairness is the perception of fairness from the results received by apparatus (Colquitt, Conlon, Wesson, Porter, & Ng, 2001). In the budgeting literature, the concept of distributive fairness is related to the notion of the expected size of the distribution of resources that an apparatus must accept relatively to other parties. This reflects the distribution received by the apparatus in the previous budget period adjusted to the proportion of increase (decrease) in the total distribution of the organization (Maiga, 2006). Meanwhile, interactional fairness is related to the quality of care received from supervisors and the extent to which formal decision-making procedures are implemented correctly (Bies & Shapiro, 1988). Also, interactional fairness in the budget process is defined as the extent to which apparatus feel they have been treated fairly in terms of personal interactions with supervisors during the budgeting process (Maiga, 2006).

Fairness in the budget process is a way that every apparatus can think about in terms of efforts to improve the apparatus performance. Apparatus who can improve fairness in the budget preparation process will provide satisfaction to all stakeholders so that they will motivate each element in the stakeholders to improve their performance as well as the apparatus performance. Efforts to achieve fairness in the budgeting process can be achieved if all parties are

involved in the budget preparation process. According to (Argyris, 1952) the biggest contribution from the budgeting process will occur if subordinates are involved to contribute in the preparation of the budget.

The participation of apparatus in the budgeting process is a representation of the organization's internal resources, so the participation process is expected to be able to provide a fair sense to all stakeholders including the apparatus themselves. The active involvement of the apparatus in the budgeting process will make it easier to align the expectations with the wishes of supervisors so that fairness in the budget can be achieved. The achievement of budgetary fairness due to the active participation of the apparatus in the budgeting process will make it easier for supervisors to know the real needs based on the organization's resources so that the apparatus performance can be better.

Based on equity theory, a high sense of fairness arises respect within organization, so organization is more motivated to improve its performance. According to (ADAMS, 2008) equity theory is based on the idea that individuals are motivated by fairness. Equity theory also explains that perceptions of fairness grow from resources in interpersonal relationships. Perceptions of procedural fairness regarding budgets grow when there is a balance between established budget procedures. Appropriate perceptions about how much participation should occur with how much reality is happening about the budget will motivate apparatus to better balance their roles due to the growth of a sense of procedural fairness in their budgeting. The perception of fairness encourages individuals to work better for the organization. Budgeting procedures that discuss the provisions that apply in budgeting, as well as the desire of the apparatus to carry out these procedures consistently will increase the perception of procedural fairness in apparatus.

An increase in the perception of procedural fairness in the apparatus will encourage the apparatus to be more careful in managing the available budget through efforts to improve apparatus performance. The balance between the needs and expectations that exist for the amount of the budget that is set, motivates organization to play an active role in achieving organization goals by improving

its apparatus performance. The apparatus with high perceptions of distributive fairness will look positively concerning all the budgets received by their departments by increasing planning, evaluation, coordination and supervision activities to maintain a balance between needs and the availability of budget resources. Also, an increase in the perception of interactional fairness the apparatus will perceive fairness during their interactions. The apparatus feel they have been treated fairly. Therefore, they are willing to fully commit to the budgeting process.

The accuracy of the apparatus perceptions between divisions in preparing budgets makes the apparatus more responsible for collaborative agreements and commits to run the budget properly. Apparatus has a perception that cooperation between the sections that occur encourages apparatus to increase their commitment to achieving the budget determined based on the results of cooperation between departments. Besides, the appropriateness of apparatus' perceptions of coordination between divisions in determining the size of the components needed in each department will give rise to an agreement on the amount of budget allocated to each department, so that apparatus in each department have obligations to run the budget properly. This condition shows that agreement on the results of coordination between departments requires the commitment of the apparatus to run the budget properly. The commitment, which bound the budgeting process between all stakeholders, is defined as budget goal commitment.

(Locke & Latham, 1991) defines budget goal commitment as a determination to try to achieve the target budget target and continue to strive to achieve it at any time. (Wentzel, 2002) stated that budget goal commitment is the level of individual commitment to achieve certain goals. A commitment of purpose shows the achievement or determination to achieve the goal (Locke & Latham, 1991), which embodies the goal and the reluctance to eliminate or reduce the goal over time. A commitment than resulted in participation will increase subordinates' commitment to budget targets (Chong & Chong, 2002). Opportunities to get involve and influence in the budgeting process will increase subordinates' trust,

subordinate's sense of control, ego involvement with the organization, so that together they will cause less resistance to change and more accept and choose commitments to budget decisions.

Apparatus' commitment to achieving the budget targets is based on the results of the budgetary fairness perception. Apparatus, in this case, are the ones who are responsible for improving the perception of fairness. The perception of fairness that is fostered can provide satisfaction to all stakeholders. When stakeholders feeling satisfied within the organization, they are willing to cooperate through committing in the budgeting process. Thus, the apparatus used budget goal commitment as a determination to try to achieving budget goals and continuously strive to achieve them all the time (Locke & Latham, 1991). If the commitment of the budget goal can be applied effectively, the goals and achievements of a better performance will be easier to achieve. Therefore, an increase in the budget commitment will lead the apparatus to increase its performance. Hence, budget goal commitment in this study act as a mediating role in the relationship between budgetary fairness and apparatus performance.

1.2 Research Gap

There have been several findings discussing the relationship between budgetary fairness and job performance, but some has shown a different result. The difference in this study is, this study will analyze the relationship between budget fairness and apparatus performance by including budget commitment as a mediating variable with the object of research in Surabaya non-village regional government organizations (RGO) and research subjects are all apparatus involved in preparing the budget. According to (Dunford, Snell, & Wright, 2001) reflects the view of commitment as being an attitude about a goal (i.e. cognitive, affective, and behavioral) and the maintenance of that determination. Thus, budget goal commitment will alleviate the inconsistency of the previous research results. This study empirically examines the effect of budget goal commitment on budgetary fairness and the effect of budget goal commitment on apparatus performance. This research is expected to be useful and become information and consideration for

the organization's stakeholders. Hence, they will get a better understanding of improving apparatus performance within the organization.

1.3 Research Objectives

Based on the background of the study, the objectives of this research are as follows:

- a. Analyzing the influence of budgetary fairness on apparatus performance.
- b. Analyzing whether budget goal commitment mediates the influence of budgetary fairness on apparatus performance.

1.4 Summary of Research Results

Based on the background and objectives of this research, the following conclusions can be drawn:

1. Budgetary fairness influences the apparatus performance. It means that the higher they perceived fairness they tend to perform better. Perceived fairness will encourage apparatus to build a higher apparatus performance and will be beneficial to the organization.
2. Budget goal commitment is proven to mediate the influence of budgetary fairness on apparatus performance. It can be interpreted that the apparatus that perceived fairness within the organization will also have a high level of budget commitment. If the commitment of the budget goal can be applied effectively, the goals and achievements of a better performance will be easier to achieve. Therefore, an increase in the budget commitment will lead the apparatus to increase its performance.

1.5 Writing System

This systematic writing outlines the contents of each chapter to facilitate compiling and understanding parts of the entire series of the research. The following is the systematic writing in this research:

CHAPTER 1 INTRODUCTION

This chapter explains the background of the research, which contains a brief description of the phenomenon of bad governance image in Indonesia. Then, proceed with the elaboration of the research gap explaining the results of the previous study through the budgetary fairness in predicting the apparatus performance mediated by budget goal commitment. Next, we will provide the research objectives, summary of research results, and systematic writing.

CHAPTER 2 LITERATURE REVIEW

This chapter explains the grand theory used in this research, namely the Theory of Equity. Then, proceed with explaining variable definitions used in this study which are budgetary fairness, apparatus performance, and budget goal commitment. Next, hypothesis development will be provided continued with the conceptual framework.

CHAPTER 3 RESEARCH METHODOLOGY

This chapter explains the research approach used, namely the quantitative research approach. It also describes variable identification, operational variable and measurement, types and data source, sampling and data collection procedure, and proceeds with data analysis technique used, one of the tests namely Partial Least Square (PLS).

CHAPTER 4 RESULT AND DISCUSSION

This chapter will present the results of the study on the mediating role of budget goal commitment on apparatus performance through the perceived budgetary fairness. There will be also interpretations of the results from some testing explained in Chapter 3. Then it will proceed with discussion to answers the problems that have been formulated.