
FACTORS AFFECTING THE IMPLEMENTATION OF PERFORMANCE-BASED BUDGET

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ABSTRACT

Previous or relevant research is very important in a research or scientific article writing. Previous research or relevant research serves to strengthen the theory and phenomenon of the relationship or influence between variables. This article reviews the factors that influence performance-based budget implementation, namely: Organizational Commitment, Resources and Rewards and Sanctions, a literature study of State Financial Management. The purpose of writing this article is to build hypotheses of influence between variables to be used in further research. The results of this literature review article are: 1) Organizational Commitment affects the implementation of performance-based budgeting; 2) Resources affect performance-based budget implementation; and 3) Rewards and Punishment affect performance-based budget implementation.

KEYWORDS

Organizational Commitment, Resources, Rewards, Punishments



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INTRODUCTION

As a substitute for the conventional Line Item Budgeting system, performance-based budgeting systems are becoming increasingly popular in developed countries around the world. In contrast to traditional budgeting

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methods, performance-based budgeting focuses on measurable outcomes that are directly related to the organization's stated goals and long-term goals (Cipta, 2011). This system has the potential to increase government efficiency in the areas of resource management, policy making, and public/community accountability. Because traditional budgets have many shortcomings, mainly due to the lack of benchmarks used to measure performance in achieving public service goals and objectives, a performance-based budgeting approach has been developed (Ayu, 2017).

The emphasis of this method is on doing things as quickly and effectively as possible. To improve accountability, transparency, and effectiveness in the use of measurable budgets, performance-based budgeting is used to describe the direct relationship between budget allocations and the outputs or outcomes of activities or programs, as well as a direct relationship between performance achievement and organizational structure. Methods to systematically and rationally decide on these goals are also emphasized (Azisi & Qotrunnada, 2021).

Ministries and institutions are required to use a performance-based budgeting strategy as part of the implementation of PP no. 90/2010. According to Minister of Finance Regulation No. 94 of 2013, new methods of state budgeting and planning have been developed. implemented : performance-based budgeting. This method provides a transparent view of how state funds are distributed and how they are used (Bastian, 2001).

In its implementation, performance-based budgeting will not necessarily succeed and coexist with the results for the company itself. As a factor that triggers the successful implementation of performance-based budgeting, several preparations are needed to counteract the impacts that may hinder it (Aparatur & Datar, 2017):

1. Leadership and commitment from all components of the organization;
2. Focus on continuous improvement of administration;
3. Sufficient resources for the improvement effort (money, time and people);
4. Clear rewards and punishments;
5. A strong desire to succeed.

The automatic adjustment policy has been regulated in Law No. 6/2021 article 28 paragraph 2 concerning the State Budget for the 2022 Fiscal Year. In its implementation, Ministries/Institutions must be able to self-block budgets that are not prioritized by 5%. The budget can be reused by Ministries/Agencies if the COVID-19 pandemic conditions have improved and for urgent needs after June 2022 (Erawan & Arifin, 2018). With this policy, it is very possible that all Ministries/Agencies are required to set aside a budget for implementing the policy, where the amount of the budget has been determined from the Ministry of Finance which results in Satker in Ministries/Agencies with large budgets being the target of automatic adjustment targets, so that in fact national priority activities have become targets. target. Based on this, Government policies greatly

influence the implementation of performance-based budgets in terms of resources (budget), as capital in achieving the performance of Ministries/Agencies.

In the implementation of performance-based budgeting, there are 4 (four) factors that influence, one of which is Human Resources (HR). (Gani et al., 2022) states that HR as an element of budgeting has an important role in performance-based budgeting (Gagola et al., 2017).

The purpose of this study was to determine the positive and significant effect of organizational commitment on the implementation of performance-based budgeting, to determine the positive and significant influence of human resources on the implementation of performance-based budgeting, to determine the positive and significant effect of rewards and sanctions on the implementation of performance-based budgeting (Gani et al., 2022).

Based on the background of the previous problem, the relevance of the article is needed in strengthening the observed theory, in order to observe the relationship or influence of the factors used as variables and the use of variables in building a hypothesis. This literature review article in the field of State Financial Management discusses the effect of Organizational Commitment, Resources, and Rewards and Sanctions on the implementation of performance-based budgeting. For this reason, the formulation of the problem that underlies the following research can be proposed, namely: "Does organizational commitment, resources, rewards and sanctions affect the implementation of performance-based budgeting?".

RESEARCH METHOD

This research article uses qualitative techniques and a comprehensive literature review (Library Research). Using a combination of offline (from libraries) and online (from Mendeley, Google Scholar, and other online media) resources to evaluate theory and the relationship or influence between variables. In carrying out qualitative research, it is very important to review the relevance of the literature using a method that is in line with the chosen methodology. Therefore, an inductive approach is needed so as not to affect the questions asked during the study. The exploratory nature of qualitative research is one of the main reasons for conducting this research (Azisi & Qotrunnada, 2021).

RESULTS AND DISCUSSION

According to Law Number 17 of 2003 concerning State Finances, the government's annual financial plan embodied in the State Revenue and Expenditure Budget (APBN) is a tool for accountability, management, and state economic policy in the form of fiscal policy which has an important function in achieving state goals. So in order to meet the demands of realizing good corporate governance and New Public Management (NPM) it is necessary to change from the traditional budget system to performance-based budgeting (Ismid et al., 2020). According to Ningtias et al., (2019) performance-based budgeting emphasizes the

efficiency of implementing activities, namely the comparison between outputs and inputs. An activity is said to be efficient if it can produce greater output with the same input or can produce the same output with fewer inputs (Kuntadi et al., 2022).

Based on the foregoing, performance-based budgets are prepared based on organizational goals or objectives achieved in the budget allocated according to community expectations. Organizational output is the main focus of performance-based budgeting, which is why it is so closely linked to the organization's long-term goals and strategic plans.

Performance-based budgeting is a method that connects the performance plan with the annual budget of an entity so that a link between the availability of funds and the expected output is obtained (Ningtias et al., 2019). To show how the allocation of program funds contributes to the achievement of program outcomes, a performance budget is developed annually as part of an integrated performance plan (Bastian, 2001). Performance-based budgeting uses resources not only for the needs of organizational units, but also for program planning, which is then measured as an indicator of organizational performance.

A performance-based budget system is a proposed budget based on performance that can be measured from an activity or program. The benefit of the performance-based budgeting method is that a set of tools to achieve goals and targets is channeled in the form of performance targets in each work unit or organization. In order to find out and obtain information on the achievement of an organization's performance based on the budget used to support the implementation of predetermined programs, activities and functions, it is necessary to conduct a Performance Audit. The performance audit function in the budget-based system is very important because it will provide the results of the reviewer's review of the achievement of organizational performance targets that have been set or expected (Kuntadi et al., 2022).

The implementation of performance-based budgeting has been observed by several previous researchers including (Maulina & Abdullah, 2019).

Organizational Commitment

Being part of an organization in the long term requires one to be committed to its values and goals (Mowday et al., 1979). By having organizational commitment, a person will not only make himself a member, but will foster a high willingness to strive for the organization, for the benefit of the organization (Putri & Tanjung, 2019).

its strong commitment to one's organization motivates individuals to work towards organizational goals with an optimistic outlook and give their best effort. An organization with a high level of commitment has members who believe they play a key role in its success and who work hard to make it happen. When employees are not concerned with the success of the organization as a whole, it is in their own self-interest rather than the good of the whole. A person's commitment to his organization will be disrupted if they do not try their best for it. When there is not enough top-down support, performance-based budgeting cannot work.

A person's commitment to themselves and others is reflected in the way they act. A group of people who work together formally under the same hierarchy

to achieve a common goal is called an organization (Mustika, 2018). Both the physical location where work is done and the dynamic process of collaboration among employees are important aspects that any organization should consider. A person's level of organizational commitment can be measured by how much loyalty they show to their superiors over other choices.

Commitment to the organization's vision, mission, values and goals can be defined as a demonstrated willingness to go beyond and support the four principles. Trust, closeness, and shared ideals among members, as well as the organization itself, ultimately shape this devotion. Therefore, the continuation of membership is highly valued by every member (Ningtias et al., 2019). Organizations with high Organizational Commitment Dimensions or Indicators have members who strongly believe in and accept the goals of the organization, who are motivated to work for the betterment of the organization, and who want to retain other members of the organization. We can trust that these indicators are of high quality.

Research on Organizational Commitment has been observed by many previous researchers including (Ismid et al., 2020), (Gani et al., 2022), and (Putri & Tanjung, 2019).

Resource

Humans as planners, implementers, controllers, and evaluators have a significant impact on the success of performance-based budgeting. because of the crucial role it plays , therefore the competence of human resources is very important. Resources are the most important capital and wealth owned by the organization, and effective management of these resources is the key to the success of organizations that are critical and decisive. Competence refers to the demonstrated skills and proficiency of employees in performing the essential functions of their position.

Apart from Human Resources, other resources in the organization are also important factors in performance-based budgeting. According to BPKP (2005) in Ismid et al., (2020) there are several factors that trigger the successful implementation of performance-based budgeting, namely leadership and commitment, improvement of the administrative system, rewards and sanctions, strong desire, and sufficient resources. The resources in question are funds, time, and people.

Resources, especially funding, are inputs that can be used to produce the output of an organization or government agency that is closely related to performance appraisal from an efficient and economical aspect. To assess government institutions or agencies in achieving performance, it is considered effective if the output produced can meet the targets or targets that have been set (Kuntadi et al., 2022), so that adequate funding is an input to improve the efficiency and effectiveness of performance-based budgeting.

Research on Resources has been observed by many previous researchers including (Kuntadi et al., 2022), (Ismid et al., 2020), (Putri & Tanjung, 2019), and (Ayu, 2017)

Rewards and Sanctions

Awards (Rewards)

One of the best ways to encourage someone to do what's right and do better at their job is to reward them for doing it. Rewards can be in the form of goods or as an expression of gratitude and appreciation from outside parties (<http://ahmadcirebon.blogspot.com>).

To encourage employees to work hard towards organizational goals, businesses and other institutions often provide material and immaterial rewards for their efforts. Rewards, whether monetary or symbolic, given to employees by company management are intended to encourage them to put forth greater effort in pursuing company goals. Thus it can be said that reward is a way used to show gratitude to those who have done well and excel, in the hope that it can be a positive incentive for them to continue to do so.

Sanctions (Punishment)

According to (Erawan & Arifin, 2018) the word " *punishment* " comes from the English word " *punish* ," which means "punishment" or "punishment" . In ensuring that only rules are followed, punishment is used to serve as a deterrent to those who choose to act otherwise. When someone gives or inflicts pain on another person in anticipation of a transgression, crime, or wrongdoing, they punish them. Punishment is defined as “an unpleasant or unwanted consequence given by a superior” (Erawan & Arifin, 2018). If used, punishment has the potential to deter undesirable behavior in an organization; however, to be effective, penalties must be imposed after careful and objective consideration of all the factors involved. Managers and subordinates alike can provide punishment in the form of constructive criticism, demotion, or even dismissal.

When implementing a performance-based budget, it is important to set expectations for individual departments or teams. The provision of sanctions (punishment) is an important factor to trigger the success of performance-based implementation, as is the provision of *rewards* . The success or failure of a company in implementing performance-based budgeting depends on the severity of the penalties given to those who ignore or ignore warnings about the implementation. In general, both positive reinforcement and negative consequences are needed to effectively motivate individuals, including employees, to increase their level of performance. Both are responses from superiors who aim to help their employees do their jobs better .

Research on awards and sanctions has been observed by many previous researchers , including (Ismid et al., 2020) , (Erawan & Arifin, 2018), and (Mustika, 2018) .

Table. 1 Relevant previous research

No	Author (year)	Previous Research Results	Similarities to this article	Difference with this article
1.	(Ayu, 2017)	HR Quality, Organizational Culture and Organizational Commitment have an effect	Quality of Human Resources and Organizational Commitment Have a Positive	Organizational Culture Positively Affects the Implementation of Performance-Based

		positive on the Implementation of Performance-Based Budgeting	Effect on the Implementation of Performance-Based Budgeting	Budgeting
2.	(Saraswati, 2017)	Budgeting Policies, Ethical Behavior, Community Participation, Rewards, and Sanctions Affect Performance-Based Budgeting	Rewards and Sanctions Affect Performance-Based Budgeting	Budgeting Policy, Ethical Behavior, Community Participation, Affects Performance-Based Budgeting
3.	Hasan (2018)	Organizational Commitment, Improvement of Administrative System, Resources (Human Resources and Time to Achieve Goals) Positive and Significant Influence on Performance-Based Budgeting	Organizational Commitment and Human Resources have a positive and significant impact on the Implementation of Performance-Based Budgeting	Improving the Administration System and Time to Achieving Goals has a positive and significant impact on Performance-Based Budgeting
4.	(Mustika, 2018)	Improvements to the Administrative System and Sanctions influencing factors Implementation of Performance-Based Budgeting	Sanctions are factors that affect the Implementation of Performance-Based Budgeting	Improvement of the Administrative System Factors Affecting the Implementation of Performance-Based Budgeting
5.	Princess (2019)	Commitment, Regional Financial Information System, and Financial Resources have a significant effect on Performance-Based Budgeting	Commitment and Financial Resources have a significant effect on Performance-Based Budgeting	Information Systems have a significant effect on Performance-Based Budgeting
6.	(Maulina & Abdullah, 2019)	Leadership Style, Human Resources, Monitoring and Evaluation, and Regulation Together have an effect on the Implementation of Performance-Based	Human Resources Affect the Implementation of Performance-Based Budgeting	Leadership Style, Monitoring and Evaluation, and Regulation affect the Implementation of Performance-Based Budgeting

Budgeting				
7.	(Ismid et al., 2020)	Resources, Rewards and Sanctions Affect Performance-Based Budgeting	Resources, Rewards and Sanctions Affect Performance-Based Budgeting	-
8.	Jumariati (2021)	Competence, Motivation, Organizational Commitment and Environment have a positive influence on Performance-Based Budgeting	Organizational Commitment has a positive influence on Performance-Based Budgeting	Competence, Motivation, and Environment have a positive influence on Performance-Based Budgeting
9.	Formulas (2021)	Understanding of Apparatus and Availability of Supporting Facilities Affect the Implementation of Performance-Based Budgeting	-	Understanding of Apparatus and Availability of Supporting Facilities Affect the Implementation of Performance-Based Budgeting
10.	(Gani et al., 2022)	There is a positive influence of organizational commitment, quality of human resources and supervision on the implementation of performance-based budgeting	There is a positive influence of organizational commitment and the quality of human resources on the implementation of performance-based budgeting	There is a positive influence of supervision on the implementation of performance-based budgeting
11.	(Kuntadi et al., 2022)	External Pressure, Organizational Commitment, Understanding of Financial Management Systems and Procedures Affect Budgeting Performance On the government area	Organizational Commitment Affects Budgeting Performance On the government area	External Pressure, Understanding of Financial Management Systems and Procedures Affect Budgeting Performance On the government area

Based on theoretical studies as well as the relevance of previous research, the following is the elaboration of the following literature review articles on the concentration of State Financial Management: The Effect of Organizational Commitment on the implementation of performance-based budgeting. Commitment from every element in the organization is important in increasing performance-based budgeting. Commitment can foster a feeling of responsibility and make a person make a heart, be determined to work hard, and be willing to sacrifice for the organization (Putri & Tanjung, 2019). In growing organizational commitment, one way that needs to be done is to develop a leadership style that is suitable for the agency (Gani et al., 2022). Organizational commitment is a key factor in the successful implementation of performance-based budgeting, and it requires leadership and commitment from all levels (Maulina & Abdullah, 2019).

Consistent with findings from studies by (Ayu, 2017).

1. The influence of resources on the implementation of performance-based budgeting. The quality of resources consisting of human resources, budgetary resources, supporting information and other supporting facilities is an important and relevant factor for measuring performance-based budget implementation (Ismid et al., 2020). The results of research conducted by Ismid et al., (2020) show that resources are quite influential on performance-based budgets.

Human resources as an element that carries out the performance-based budgeting process has an important role so that it needs to be improved to improve the efficiency and effectiveness of performance-based budgeting. According to Gani et al., (2022) the improvement of human resources can be done by providing training and debriefing. However, other resources are also needed to support implementation. If there are resources in the form of staff and funds as supporters, it will have a positive impact on performance-based budgeting (Ismid et al., 2020).

2. Resources have an influence on the implementation of performance-based budgeting, this is in line with the research carried out: (Ayu, 2017), and (Maulina & Abdullah, 2019).

Effect of Rewards and Sanctions on the implementation of performance-based budgeting.

Rewards have a positive and significant impact on the implementation of performance-based budgeting (Ismid et al., 2020). According to Ismid et al., (2020), awards are a way of giving appreciation to individuals or organizations who excel so that by giving these awards they can give a positive spirit to repeat the good work. The award can be material or non-material.

Meanwhile, there is a positive influence between sanctions as a trigger factor for the success of performance-based budgeting (Mustika, 2018). (Mustika, 2018) states that controlling tools in the form of rules and laws are needed to

make an organization run well. Rewards and sanctions have an influence on the implementation of performance-based budgeting, this is in line with research by (Saraswati, 2017). Based on the formulation of the problem, theoretical studies, the relevance of previous research and discussion of the influence between variables, the following article framework is obtained, namely.

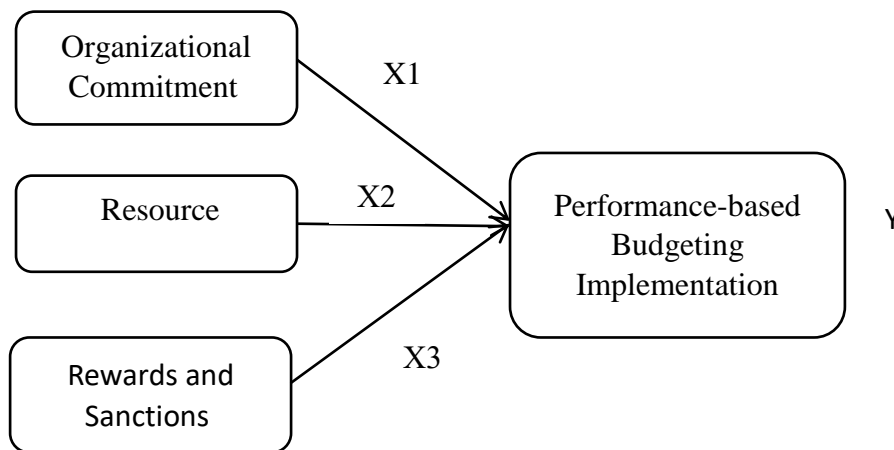


Figure 1: Conceptual Framework

According to the conceptual framework above, the following factors influence the successful implementation of performance-based budgeting: organizational commitment, available resources, and rewards (incentives) and sanctions. The following three exogenous factors are not the only ones that have a role in the implementation of performance-based budgeting, other variables that have an influence are: Leadership Style: (Maulina & Abdullah, 2019). Administrative System Completion, (Hasan, 2018), and (Mustika, 2018). Organizational Culture: (Ayu, 2017).

CONCLUSION

Based on the theory, the relevance of the article and the discussion, a hypothesis can be formulated in the following observations: Organizational commitment has an influence on the implementation of performance-based budgeting. Resources have an influence on the implementation of performance-based budgeting. Rewards and Sanctions have an influence on the implementation of performance-based budgeting.

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