



# BUDGET POLITICS, MOTIVATION, IN BUDGET PARTICIPATION, AND LOCAL GOVERNMENT PERFORMANCE IN INDONESIA

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## ABSTRACT

This study investigates the impact of budget participation on the performance of local government agencies, exploring the mediating role of motivation and the moderating effect of budget politics. This study used an explanatory design and data collection through surveys from a population of 14,144 state civil servants involved in the budgeting process across 514 districts and cities in Indonesia, with a valid sample of 254. The results show that higher levels of participation and motivation in the budgeting process can enhance the performance of local government officials. Motivation mediates the relationship between budget participation and performance, suggesting that increased participation boosts performance through improved motivation. Furthermore, budget politics strengthens the effect of participation on motivation. The theoretical contributions of this study reinforce goal-setting theory and agency theory. Practical implications emphasize fostering greater budget participation by boosting employee motivation to improve performance. Local governments should aim to design more inclusive budgeting processes and consider political dynamics, as they can amplify the positive effects of participation. Additionally, implementing training and motivational programs can optimize the budgeting process and further improve the effectiveness of local governments.

Keywords: budget participation, performance, motivation, budget politics.

## INTRODUCTION

Since the 1970s, the performance of public sector organizations has been a critical issue (Lewis 2015). Performance results from an individual's efforts within an organization (Pasolong 2017). Mangkunegara (2017) states that the work results are achieved in fulfilling responsibilities, while Rivai et al. (2015) describe it as the actual behavior that produces work achievements in line with one's role. The efforts of individuals significantly influence the performance of local government agencies. Positive and practical contributions from individuals are crucial in improving overall performance, supporting the idea that an organization's performance reflects its members' efforts. However, an evaluation by the Ministry of Administrative and Bureaucratic Reform reveals that the average performance of local governments remains inadequate, with 83% of districts and cities receiving a C rating (Mahmudi 2019).

Local government agencies face ongoing challenges in managing the Regional Budget due to the lack of integration in planning, allocation, execution, and reporting, leading to unsatisfactory outcomes (Surbakti 2017). Leadership effectiveness is judged by the proper implementation of budgets (Hartanto, Busaini, and Animah 2018). Budget execution is influenced by political processes



that must balance compromises and stakeholders' interests, often causing conflicts. These conflicts arise from resource allocation, the budget's role in policymaking, its ability to amplify political disputes, and its use as an accountability tool (Gosling 2009). Local governments' budget performance refers to the outcomes of budget-funded activities or programs, assessed through quantitative and qualitative measures. Performance reports summarize these achievements, aligning with the implementation work plan of the State Budget or Regional Budget, mainly focusing on financial reporting and performance as specified in Government Regulation No. 8 of 2006, article 1, paragraphs 2 and 3.

In Indonesia, the budgeting process is strongly shaped by the legislative branch, which exerts pressure on the executive, often leading to distorted budget outcomes, especially in public services, thereby negatively impacting the community (Gudban et al. 2017). Despite the existence of well-established formal regulations, practical challenges often result in deviations from the original budget plans. Research examining the connection between performance and budget participation is crucial for aligning organizational performance objectives with individual employee performance (Santos, Lavarda, and Marcello 2014). Despite well-designed budgeting rules, practical implementation often deviates, leading to budget realization misalignment. Studying the relationship between performance and budget participation is crucial for aligning organizational goals with employee performance (Santos, Lavarda, and Marcello 2014).

Further performance reviews are essential for achieving goals, facilitating learning, and informing decision-making on rewards and sanctions (Mahmudi 2019). Public sector budgeting involves collaboration between the executive and legislative branches, with the approved budget serving as a performance agreement. Legislative participation is vital in setting budget policies (Onyango 2018; Chohan 2017; Gomes 2017). Public budgeting reflects power dynamics among stakeholders with different interests (Gosling 2009). This study suggests that participation affects performance indirectly through motivation (a mediating variable) and budget politics (a moderating variable). Goal-setting theory explains how motivation mediates the relationship, while agency theory explains the influence of budget politics.

Research examining the link between motivation and performance has yielded mixed results. Studies by Wong-On-Wing, Guo, and Lui (2010); Syahputra (2014) found a positive relationship, whereas Mia (1988); Karsam (2015) reported contradictory findings. This inconsistency is likely due to the influence of other variables. Such discrepancies and the underperformance of local government officials prompted this study. One contributing factor to this shortfall is the suboptimal implementation of performance-based budgeting in many regions of Indonesia. Key aspects of the Regional Budgeting system, including planning, allocation, implementation, and reporting, still require significant improvements, leading to outcomes that fail to meet desired goals.

This research seeks to examine the influence of budget participation on the performance of local government officials, with a specific emphasis on the indirect effect mediated by motivation and the moderating role of budget politics. It explores the impact of budget participation on performance, the mediating role of motivation, and how budget politics moderates the relationship between budget participation and motivation. The novelty of this study lies in its thorough



investigation of how budget politics—an area with limited prior attention—affects the interaction between budget participation, motivation, and performance. By addressing both the roles of motivation and budget politics, this study offers new perspectives on their combined impact on local government performance.

## LITERATURE REVIEW

### Goal Setting Theory

The connection between budget participation and the performance of government officials can be understood through goal-setting theory, which suggests that participatory budgeting boosts employee motivation, leading to enhanced performance (Locke and Latham 2002). Engaging in the budgeting process encourages individuals to participate in financial decisions actively and holds them accountable for achieving budgetary goals, thus impacting their performance (Brownell and McInnes 1986). Wong-On-Wing, Guo, and Lui (2010) found a positive relationship between budget participation and performance. Likewise, Noor and Othman (2012) observed that fostering organizational commitment through participation significantly improved managerial performance. Oladele and Longlong (2019) studied the effects of budget participation on academic staff performance. They found that involvement in the budgeting process positively impacted staff performance at the University of Ibadan, Nigeria. These results align with those of Otalor and Oti (2017), who also reported a positive influence of budget participation on performance.

Given the essential role of budgeting in organizations, involving employees in the budgeting process is crucial for fostering a sense of responsibility and commitment. Goal-setting theory provides a motivational framework that explains how budget participation impacts performance by enhancing motivation. According to this theory, a clear understanding of organizational goals influences work behavior, linking goal-setting to performance outcomes. Increased involvement in budgeting strengthens commitment to organizational goals and improves performance (Isvand and Malmir 2017). Motivation theory further supports this view, asserting that participatory decision-making facilitates increased communication between superiors and subordinates (Locke and Latham 2002). This communication can boost subordinate engagement and motivation, ultimately enhancing performance. Several studies, including those by Kenis (1979); Brownell and McInnes (1986); Chenhall and Brownell (1988); Dunk (1990); Nouri and Parker (1998); Chong, Eggleton, and Leong (2005); Syahputra (2014); Rahman, Nadirsyah, and Abdullah (2015); Saputra, Subroto, and Ghofar (2017), have empirically demonstrated a positive correlation between budget participation and managerial performance.

Baerdemaeker and Bruggeman (2015); Isvand and Malmir (2017); Siwi, Kustono, and Puspitasari (2018) have highlighted the effect of budget participation on motivation. Further research conducted by Brownell and McInnes (1986); Wong-On-Wing, Guo, and Lui (2010); Marganingsih and Martani (2010); Syahputra (2014) shows that motivation has a positive influence on managerial performance. The goal-setting theory states that individuals' understanding of organizational expectations influences their work behavior. It also states that a



person's thoughts and intentions drive behavior. Goals are performance targets that individuals want to achieve. When individuals are motivated to achieve those goals, their subsequent actions and performance outcomes are affected. Current studies predominantly concentrate on the direct impact of budget participation on motivation and the effect of motivation on performance. However, research is needed to investigate the indirect effects linking participation, motivation, and performance. Such studies are crucial for understanding the connections between budget participation and motivation, motivation and performance, and budget participation and performance.

### **Agency Theory**

Agency problems can arise in any organization, whether private companies or public institutions. Therefore, agency theory is very relevant in public sector accounting, especially related to relationships in local government, such as between the executive and the legislature, the legislature and the public, and the budgeting process (Halim and Abdullah 2006). A principal-agent relationship is one in which one party's actions affect another or in which one party is highly dependent on the actions of another (Parker et al. 2018). In the public sector, this relationship is evident between the public, the legislature, and the executive. Agency theory involves two parties: the principal, who delegates authority, and the agent, who receives it (Halim and Abdullah 2006). Agency relationships develop when principals (such as owners) hire agents to perform services on their behalf. The agent's actions constitute a delegation of decision-making authority from the principal, who must trust the agent to act in the principal's best interests.

Characterizes principal-agent relationships as interactions in which the actions of one party are heavily influenced by or dependent on the actions of another (Gilardi 2001). In the public sector, this relationship is evident between the public, the legislature, and the executive. Mardiasmo (2018) highlights the dual accountability role of the legislature, which functions both as a principal to the executive and as an agent to the public. This concept aligns with agency theory, where the legislature acts as the principal and the executive as the agent. Agency theory also points out potential conflicts between the legislature, as the principal, and the executive, as the agent. Bendickson et al. (2016) identify two major sources of conflict: multiple principal actors with differing goals and interests and the possibility of corruption, where principal actors might prioritize personal gains over the public good.

Panda and Leepsa (2017) outline three fundamental assumptions about human nature that underlie agency theory: (1) individuals are generally self-interested, (2) they have bounded rationality or limited foresight, and (3) they are risk averse. Conflicts of interest arise from these assumptions as each party, both principal and agent may prioritize self-interest, leading to potential disputes. Such conflicts arise from differences in characteristics and interests between principals and agents. Principals are individuals or entities that mandate agents to carry out tasks according to agreed terms. The principal holds the authority and responsibility outlined in their agreement with the agent. As people's representatives, legislative bodies (principals) oversee and control the executive.



They have the authority to exercise financial oversight and regulate executive actions (Fish, Michel, and Lindberg 2015).

### **Performance**

Employees are expected to work effectively to carry out the assigned tasks. Performance is the results employees achieve based on specific job-related criteria (Robbins 2015). Performance reflects the extent to which an individual has implemented the company's strategy, both in achieving specific goals related to his role and in providing the results of his work (Riniwati 2016). Performance is an employee's output level in fulfilling his responsibilities (Mangkunegara 2017). Performance is the extent to which employees meet the standards set in their work (Milkovich and Boudreau 1988). Performance demonstrates the ability to carry out tasks through real work or employee results.

Employee performance, which results from individual effort in an organization, is closely related to the organization's overall performance. The achievement of organizational goals is inherently linked to the resources available, which are used effectively by employees who actively contribute to those goals (Pasolong 2017). Organizational performance reflects the performance of each of its members (Mahmudi 2019). Managerial performance is the effectiveness of individual managers in their roles, which is assessed through indicators such as planning, investigation, coordination, evaluation, supervision, staffing, and negotiation (Mahoney, Jerdee, and Nash 1960).

### **Budget Participation**

Budget participation engages individuals in the process of setting budget targets, giving them influence over these targets. Their performance is subsequently evaluated, and they are likely to receive rewards based on whether these targets are met (Brownell 1980). Participation is a collaborative decision-making process involving two or more parties, where decisions will impact those involved in the future (Lubis 2019). Employees or lower-level managers play an active role in this process. Budget participation is defined as the degree to which managers are involved in the budgeting process and the extent to which they influence the budget objectives for which they are responsible (Kenis 1979). Kenis also identified several dimensions of budget objectives, such as participation, clarity of objectives, feedback, evaluation, and the difficulty of budget goals.

Budget participation is the involvement of employees in preparing their budgets, which is expected to motivate them to work toward achieving organizational goals (Macinati, Bozzi, and Rizzo 2016). In the context of local governments, officials' involvement in budgeting, through decision-making and budget negotiations, is crucial. This involvement fosters a sense of responsibility for achieving budget goals and enhances motivation, improving performance. Achieving effective performance is contingent on meeting budget objectives, with the participation of subordinates or staff playing a key role. Participatory budgeting is believed to enhance managerial performance. When employees are involved in setting goals or standards, they are more committed and accountable for achieving them due to their direct involvement in the goal-setting process.



## **Motivation**

Motivation refers to the personal interests that drive a person to engage in activities for pleasure and fulfilment (Wong-On-Wing, Guo, and Lui 2010). Motivation is the extent to which an individual desires and strives to excel at a task or job, expending significant effort towards organizational goals based on the ability of that effort to meet personal needs. Paul and Robinson (2007) describe motivation as the tendency of individuals to act in certain ways for specific reasons. Motivation is the drive of behavior aimed at meeting desired needs (Fahmi 2016). The purpose of motivation is to inspire and encourage employees to carry out their duties with enthusiasm and dedication. Leadership must consistently motivate employees to remain engaged and enthusiastic about their responsibilities. For local government officials, this includes tasks such as budgeting. The success of the budgeting process improves when employees are highly motivated, whereas it declines when motivation is low. In essence, motivation serves as the internal drive that encourages individuals (employees) to perform their tasks efficiently in alignment with organizational objectives. Motivated individuals can energize and inspire their colleagues, enhancing performance and better outcomes.

## **Budget Politics**

Politics significantly impacts public budget planning, which inherently involves influence and decision-making. Political manoeuvring in budget planning often reflects the goals of political elites seeking to achieve their objectives. Budget politics involves negotiations and competition between the legislature and executive during budgeting. In this context, budget politics refers to the participation of various parties with different and often conflicting interests in the budgeting process (Rubin 1997). Budget politics centres on the legislative process of formulating a country or region's budget, often based on executive branch proposals. Hanan (2014) describes four critical issues in budget politics and executive-legislative dynamics: budgetary control, the budget-setting process, legislative budget design capabilities, and the influence of prevailing political incentives on interagency cooperation or competition. Consequently, understanding budget politics requires an examination of the roles of various actors and the capacity of the state to serve its citizens effectively.

## **Hypothesis Development**

Goal-setting theory explains the link between budget participation and the performance of government employees. According to this theory, when employees are involved in the budgeting process—called participatory budgeting—their motivation increases, enhancing their performance (Locke and Latham 2002). Involvement in budgeting is crucial as it instils a sense of responsibility among employees for the collective decisions made. Such collaborative decision-making fosters a more substantial commitment among managers to meet organizational goals, thereby improving performance. Based on the goal-setting theory and previous empirical studies, the preliminary and secondary hypotheses are proposed as follows:

H<sub>1</sub>: Budget participation has a positive effect on the performance of local government apparatus.



H<sub>2</sub>: Budget participation has a positive effect on motivation.

Goal-setting theory, a subset of motivation theory, explains the relationship between budget participation and performance from a motivational perspective. The theory posits that when individuals understand the goals established by an organization, it influences their work behavior, thereby linking goal-setting to work achievement and overall performance. Motivation theory further suggests that participatory decision-making fosters communication between superiors and subordinates (Locke and Latham 2002). This enhanced communication increases subordinates' engagement with their tasks, boosting motivation and improving performance in their roles. Several studies have demonstrated that participation in budgeting positively influences managerial performance, including those by Kenis (1979); Brownell and McInnes (1986); Chenhall and Brownell (1988); Dunk (1990); Nouri and Parker (1998); Chong, Eggleton, and Leong (2005); Syahputra (2014); Rahman, Nadirsyah, and Abdullah (2015); Saputra, Subroto, and Ghofar (2017). Additionally, research by Baerdemaeker and Bruggeman (2015); Isvand and Malmir (2017); Siwi, Kustono, and Puspitasari (2018) found that budgeting participation has a significant effect on motivation. Further studies by Brownell and McInnes (1986); Wong-On-Wing, Guo, and Lui (2010); Marganingsih and Martani (2010); Syahputra (2014); Ernis, Sularso, and Wardayati (2017) show that motivation plays a positive role in enhancing managerial performance.

Goal-setting theory asserts that individuals' understanding of organizational goals influences their work behavior. It also highlights that a person's thoughts and intentions shape behavior. Goals represent the level of performance an individual wants to achieve, and the motivation to achieve these goals influences actions and performance outcomes. Existing research mainly explores the direct relationship between budget participation and motivation and between motivation and performance. Further research examining the indirect effects between budget participation, motivation, and performance is needed to confirm the relationships between budget participation and motivation, motivation and performance, and budget participation and performance. Based on goal-setting theory and previous research, the third and fourth hypotheses are proposed as follows:

H<sub>3</sub>: Budget participation positively affects performance through motivation.

H<sub>4</sub>: Motivation affects the performance of local government apparatus.

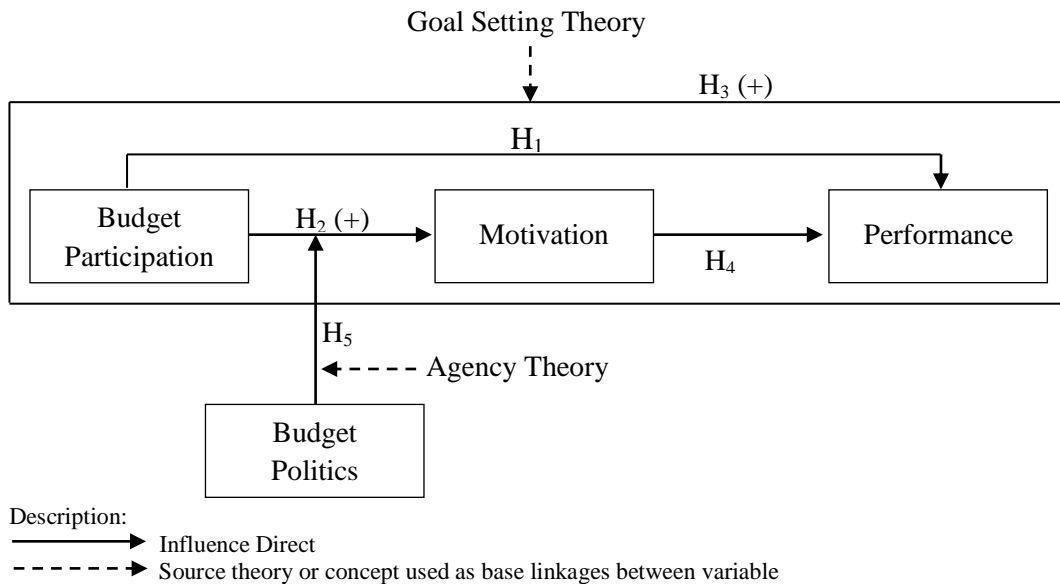
Agency theory explains the relationship between budget participation and motivation, with budget politics as a moderating influence. It addresses potential conflicts between principals and agents, which can manifest between the executive and legislative branches, the legislature and the public, and the various interests that shape budgeting (Halim and Abdullah 2006). Previous research has shown that participation has a positive impact on motivation Brownell and McInnes (1986); Mia (1989); Syahputra (2014); Ernis, Sularso, and Wardayati (2017); Baerdemaeker and Bruggeman (2015); Siwi, Kustono, and Puspitasari (2018). However, research by Mia (1988); Karsam (2015) did not find the impact of budget participation on motivation. These inconsistent findings may be attributed to contingency factors, such as the political dynamics of budgeting. The negotiation inherent in the budgeting process demonstrates the influence of budget politics, which will likely increase the influence of budget participation on



motivation. Consequently, budget politics may strengthen the relationship between budget participation and motivation. Based on agency theory and previous research, the fifth hypothesis of this study is as follows:

H<sub>5</sub>: Budget politics strengthens the effect of budget participation on motivation.

Based on the hypothesis development, this research's conceptual framework is shown in Figure 1.



**Figure 1 Research Framework**

## METHOD

This study uses an explanatory research design to explain the causal relationship between variables through hypothesis testing. Data was collected using a questionnaire survey. Classified as perceptual research, the unit of analysis in this study is individuals, specifically members of the State Civil Apparatus (department heads or leaders) involved in the budgeting process. This study used primary data. Data collection was conducted through surveys, which involved written questions submitted to respondents without direct supervision from researchers. The survey method was chosen because it can reach respondents in various geographical locations and gives respondents more freedom in answering questions.

The population of this study is the State Civil Apparatus, which holds positions as department leaders (leaders/managers) in regional apparatus organisations involved in the budget preparation process in all districts/cities in Indonesia. With a population of 515 districts/cities in Indonesia and 14,144 people, the sample size was calculated using the Slovin formula with a significance level of 0.05% (Sujarweni 2015). As a result, the sample size for this study was 389. After distributing the questionnaires in person and through other channels (post, email, and Google Forms), 254 valid responses were collected, representing a response rate of 65.29%.

Participation is a collaborative decision-making process involving two or more parties, where the decisions made will have future implications for those





involved. In other words, it allows lower-level workers or managers to have a voice in management (Lubis 2019). Budget participation is assessed using indicators derived from Milani (1975); Kenis (1979). The following is a table of indicators of the variables studied in this study.

**Table 1 Performance Indicators**

<b>Code</b>	<b>Indicator</b>
PR1	Planning Role in determining objectives and policy plans for activities
PR2	Investigation Collecting information in the form of records and reports
PR3	Coordination Adjustment of work programs
PR4	Evaluation Assessment of work plant
PR5	Supervision Providing guidance for subordinate development
PR6	Staff Arrangement Placement of employee
PR7	Negotiation Role in determining cooperation contracts with external parties

*Source: (Mahoney, Jerdee, and Nash 1960)*

**Table 2 Budget Participation Indicators**

<b>Code</b>	<b>Indicators</b>
BP1	Involvement Involvement in budget preparation
BP2	Budget Revision Relating to the reasons department heads revise proposed budgets
BP3	Frequency of Giving Suggestion Frequency of providing input or opinions
BP4	Budget Finalization Influence of department heads in budget finalization
BP5	Contribution The importance of contributions provided
BP6	Epression of Opinion Frequency of expressing opinions

*Source: (Milani 1975; Kenis 1979)*

**Table 3 Motivation Indicators**

<b>Code</b>	<b>Indicators</b>
MO1	Internal Motivation Internal factors originating within the individual
MO2	External Motivation Factors such as rules or norms, social factors, and obligations toward tasks

*Source: (Wong-On-Wing, Guo, and Lui 2010)*



**Table 4 Budget Politics Indicators**

Code	Indicators
PO1	Interests in Budget Preparation
PO2	Bargaining Between Executive and Legislative Bodies

Source: (Iskandar, Bukit, and Yahya 2013; Hanan 2014)

The questionnaire employed Likert-type scales to measure the indicators, where participants were asked to rate their agreement with various statements related to each indicator. All items used a 5-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree), ensuring a reliable and consistent measurement of respondents' perceptions regarding the key aspects of budget politics. Data analysis in this study used Partial Least Squares (PLS), chosen for its ability to analyze constructs with reflective and formative indicators, a technique often referred to as soft modeling.

## RESULTS AND DISCUSSIONS

The respondents' demographics, including gender, age, education level, and length of service or position, are described to provide a comprehensive overview of the respondents who serve as the subjects of this study. The demographic details are presented in Table 5, which categorizes respondents by gender, age, education level, and length of service.

**Table 5 Respondent Demographics**

Characteristic	Category	Count	Percentage
Gender	Male	161	63.4
	Female	93	36.6
Age	21-30 years	9	3.5
	31-40 years	106	41.7
	41-50 years	102	40.2
	51-60 years	37	14.6
Education	High School	9	3.5
	Diploma	4	1.6
	Bachelors	146	57.5
	Masters	90	35.4
	Doctors	5	2.0
Length of Service	< 1 years	54	21.3
	1-5 years	122	48.0
	6-10 years	53	20.9
	11-15 years	19	7.5
	16-20 years	4	1.6
	21-25 years	2	0.8

Source: primary data (processed)

Tests were conducted using Partial Least Squares (PLS) to evaluate the relationship between variables of budget participation (BP), budget politics (PO), motivation (MO), and local government apparatus performance (PR).



**Table 6 Outer Model Test Results**

Variables	Indicators	Loading Factor	Composite Reliability	Cronbach Alpha
Budget Participation	BP1	0.927	0.966	0.957
	BP2	0.916		
	BP3	0.917		
	BP4	0.891		
	BP5	0.934		
	BP6	0.862		
Motivation	MO1	0.959	0.960	0.917
	MO2	0.962		
Budget Politics	PO1	0.863	0.898	0.782
	PO2	0.941		
Performance	PR1	0.886	0.954	0.944
	PR2	0.871		
	PR3	0.892		
	PR4	0.908		
	PR5	0.904		
	PR6	0.792		
	PR7	0.802		

Source: primary data (processed)

Convergent validity was evaluated through the loading factor, with values greater than 0.5, thus fulfilling the convergent validity criteria (Hair et al. 2019). Table 7 shows that the loading factor values of all indicators from all variables are > 0.7, thus meeting the convergent validity criteria. Furthermore, construct reliability was assessed using composite reliability and Cronbach's alpha, with values exceeding 0.6, thus meeting the construct reliability standard. Table 7 also shows that the composite reliability and Cronbach's alpha values of all variables are > 0.6, thus meeting the construct reliability standards.

**Table 7 Inner Model Test Results**

Endogenous Variables	R-Square
Motivation	0.568
Performance	0.468
$Q^2 = 1 - (1 - R_1^2)(1 - R_2^2)$	
$Q^2 = 1 - (1 - 0.568)(1 - 0.468)$	
$Q^2 = 1 - (0.432)(0.532)$	
$Q^2 = 1 - 0.266$	
$Q^2 = 0.734$	

Source: primary data (processed)

Table 7 shows that the coefficient of determination for the impact of budget participation (BP) and the moderating effect of budget politics (PO) on motivation (MO) is 0.568. This implies that budget participation (BP) and moderation by budget politics (PO) explain 56.8% of the variance in motivation (MO), with the remaining 43.2% attributable to other factors. The coefficient of



determination for the effect of budget participation (BP) and motivation (MO) on performance (PR) is 0.468. This means that budget participation (BP) and motivation (MO) together explain 46.8% of the variance in performance (PR), while the remaining 53.2% is attributed to other variables. The predictive relevance Q-square (Q<sup>2</sup>) of 0.734 indicates that the model accounts for 73.4% of the variance in performance (PR), considering all effects (direct, indirect, and moderated). This suggests that budget participation (BP) and budget politics (PO) contribute 73.4% to the overall variance in performance (PR), with the remaining 26.6% attributed to factors not covered in this study.

**Table 8 Hypothesis Test Results**

Hypothesis	Path Coefficient	T-Statistics	P-Value
H <sub>1</sub> : BP → PR	0.475	7.278	0.000
H <sub>2</sub> : BP → MO	0.382	1.866	0.031
H <sub>3</sub> : BP → MO → PR	0.096	1.733	0.042
H <sub>4</sub> : MO → PR	0.252	3.442	0.000
H <sub>5</sub> : BP * PO → MO	0.365	1.876	0.030

Source: primary data (processed)

Table 8 shows that the results of testing the hypothesis of the effect of budget participation (BP) on performance (PR) resulted in a path coefficient of 0.475, with a t-statistics of 7.278 > 1.645 and a p-value of 0.000 < 0.05. This shows that budget participation has a significant and positive effect on the performance of local government apparatus, which means that an increase in budget participation will improve performance. Therefore, this hypothesis (H<sub>1</sub>) is supported. The hypothesis regarding the effect of budget participation (BP) on motivation (MO) resulted in a path coefficient of 0.382, a t-statistics of 1.866 > 1.645, and a p-value of 0.031 < 0.05. These results confirm that budget participation has a significant positive impact on motivation, which means that greater budget participation leads to higher motivation. Therefore, this hypothesis (H<sub>2</sub>) is supported. The hypothesis testing whether budget participation (BP) affects performance (PR) through motivation (MO) shows a path coefficient of 0.096, a t-statistics of 1.733 > 1.645, and a p-value of 0.042 < 0.05. This finding indicates that budget participation significantly influences local government apparatus performance through motivation. Thus, the higher the budget participation, the higher the performance through motivation. Therefore, this hypothesis (H<sub>3</sub>) is supported.

The hypothesis regarding the effect of motivation (MO) on performance (PR) shows a path coefficient of 0.252, a t-statistics of 3.442 > 1.645, and a p-value of 0.000 < 0.05. This shows that motivation has a significant positive effect on the performance of local government apparatus, which means that the higher the motivation, the better the performance. Therefore, this hypothesis (H<sub>4</sub>) is supported. The hypothesis stating that budget politics (PO) moderates the effect of budget participation (BP) on motivation (MO) produces a path coefficient of 0.365, a t-statistics of 1.876 > 1.645, and a p-value of 0.030 < 0.05. This shows that budget politics significantly strengthens the effect of budget participation on motivation. Therefore, a more substantial moderating effect of budget politics



increases the effect of budget participation on motivation. Therefore, this hypothesis (H<sub>5</sub>) is supported.

### **The Effect Budget Participation on Performance**

This study's findings reveal that budget participation positively impacts the performance of local government apparatus. This suggests that more significant involvement in budget participation correlates with improved managerial performance. This result is consistent with previous studies by Wong-On-Wing, Guo, and Lui (2010); Otor and Oti (2017); Oladele and Longlong (2019). Wong-On-Wing, Guo, and Lui (2010) proposed that participation in budgeting is positively related to performance. They view participation as a means of exchanging information and communicating with superiors, improving their understanding of the work and the decision-making process, leading to decisions aligned with stakeholders' needs. Otor and Oti (2017) noted that participation in budgeting allows managers and subordinates to influence decisions related to their superiors' expectations. As a result, the impact of participation in budgeting on organizational goals can be positive or negative, depending on the level of employee commitment. Research by Oladele and Longlong (2019) involving a random sample of 183 academic staff from universities in Nigeria revealed that academic staff participation in the budgeting process positively impacted their performance. However, these staff also noted that their performance was somewhat dependent on the budget.

Participation in budgeting can positively impact employees by making them feel involved in the decision-making process and fostering a sense of responsibility for collective decisions. Such collaborative decisions increase commitment between superiors and subordinates, facilitate the achievement of organizational goals, and ultimately lead to improved performance. Sari et al. (2014) examined the impact of budgeting participation on managerial performance by developing and testing a model with a sample of 66 managers from seven companies in Dumai, Indonesia. The study found a significant positive relationship between budgeting participation and managerial performance, mediated by accountability. In addition, there is a significant positive relationship between budgeting participation and managerial performance, mediated by organizational commitment. Some of this study's findings align with research conducted by Noor and Othman (2012); Sukandani and Istikhoroh (2016), who examined the relationship between budget participation and performance in the public sector. Noor and Othman (2012) stated that budget participation can influence employee attitudes in ways that affect performance outcomes. Their research in public organizations shows that budget participation significantly impacts managerial performance by increasing organizational commitment.

Similar results were reported by Sukandani and Istikhoroh (2016), who examined the impact of budget participation on managerial performance in the East Java Provincial Office, focusing on budget managers. Their research found that budget participation improves managerial performance. Budget participation allows local government officials to engage in the budget preparation process, enabling them to contribute relevant insights based on their operational experience, gain a deeper understanding of organizational goals, and feel valued in decision-making processes. This, in turn, enhances their work motivation.



Through direct involvement, officials develop a clearer understanding of their responsibilities and budget priorities, fostering increased accountability and productivity in performing their duties. These findings are consistent with previous research and supported by goal-setting theory.

### **The Effect Budget Participation on Motivation**

This study's findings indicate that budget participation positively affects motivation. Budget participation significantly influences employee motivation, and many studies support this relationship. When employees are involved in the budgeting process, they feel they have contributed to the decisions, increasing their sense of responsibility and commitment to organizational goals. Participation in budgeting can increase job satisfaction and motivation, as employees feel valued in the decision-making process (Irawanto 2015). Budget participation also creates better communication channels between management and employees. With open communication, employees feel more involved and recognized, which in turn can increase their motivation to contribute more actively. High participation in the budget positively correlates with increased motivation and individual performance (Brownell and McInnes 1986). Employees involved in the process feel they have greater control over their work, encouraging them to give their best.

Budget participation also creates better communication channels between management and employees. With open communication, employees feel more involved and recognized, which in turn can increase their motivation to contribute more actively. High participation in the budget positively correlates with increased motivation and individual performance (Brownell and McInnes 1986). Employees involved in the process feel they have greater control over their work, encouraging them to give their best. Participation in budgeting is associated with increased job satisfaction, which in turn has a positive impact on motivation. When employees feel that they have control over decisions that affect their work, they feel more satisfied and motivated to perform better. Involvement in budgeting provides an opportunity for employees to develop new skills and deepen their understanding of the company's operations. This increases their confidence and makes them more motivated to achieve better results. Thus, budget participation contributes to individual satisfaction and motivation and to achieving overall organizational goals.

Budget participation increases individual motivation and team synergy (Baerdemaeker and Bruggeman 2015). When team members collaborate to develop the budget, they build better collaboration and mutual understanding. This creates a positive work environment where employees feel mutually supportive, which, in turn, increases productivity. Participation in the budgeting process gives employees a greater sense of involvement and ownership of organizational decisions. According to research by Naranjo-Gil and Hartmann (2006), participation in budgeting can increase employee motivation, as they feel valued and their contributions to the decision-making process are recognized. Participation in the budget process also allows employees to learn from experience. By engaging in budget-related discussions and analyses, employees can understand broader aspects of the business. This adds to their skills and broadens their view of how each part of the organization contributes to achieving



common goals. Involvement in the budget process is positively related to developing employee skills and knowledge and improving motivation and performance (Subramaniam, McManus, and Mia 2002).

Lack of budget participation can lead to dissatisfaction and apathy among employees. When they feel ignored in decision-making, their motivation may decrease, negatively impacting organizational performance. Therefore, management needs to create an inclusive environment where all employees feel they have a role in budgeting. Budget participation allows individuals to be directly involved in the budgeting process, fostering a sense of ownership toward organizational goals. This involvement enhances work motivation through three key mechanisms: providing opportunities for contribution, improving goal comprehension, and building self-confidence. Budget participation enhances motivation by increasing individuals' engagement and commitment to organizational goals. This aligns with goal setting theory, which posits that involvement in the goal-setting process (in this case, budgeting) establishes a foundation for heightened motivation and improved performance. In goal-setting theory, budget participation serves as a mechanism to ensure individuals accept organizational goals through direct involvement in the budgeting process. This approach cultivates a sense of ownership, goal clarity, and self-efficacy, contributing to significantly enhanced work motivation.

### **The Effect Budget Participation on Performance Through Motivation**

This study's findings indicate that budget participation positively affects performance through motivation. The path coefficient values from testing direct versus indirect effects indicate that motivation partially mediates the relationship between budget participation and managerial performance. This result supports the proposed hypothesis, which suggests that higher levels of budget participation lead to improved managerial performance through better motivation. The results of testing the direct effect of budget participation on managerial performance show a positive and significant relationship. This finding is in line with the research of Wong-On-Wing, Guo, and Lui (2010); Noor and Othman (2012); Sukandani and Istikhroh (2016); Otalor and Oti (2017); Oladele and Longlong (2019). In addition, the significance of motivation on managerial performance is reinforced by research conducted by Wong-On-Wing, Guo, and Lui (2010); Karsam (2015).

Participation in budgeting can increase employee motivation to perform their duties by facilitating two-way communication between managers and employees. This interaction allows employees to feel involved in critical organizational decisions, which increases their motivation and subsequently improves their performance. This finding aligns with goal-setting theory, a component of motivation theory proposed by Locke (1968), which explains how participation in budgeting affects performance through motivation. The core idea of this theory is that understanding organizational goals influences work behavior. When employees are involved in processes such as participation in budgeting, they feel valued and consider their contributions significant, which increases their motivation to work.



### **The Effect Motivation on Performance**

This study's findings indicate that motivation has a positive effect on performance. Motivation is a crucial factor influencing individual performance in organizations, including the public sector. Some research results show that motivation contributes significantly to employee performance. Motivation has a vital role in improving the performance of local government apparatus. Motivated employees tend to perform better (Putri and Hartono 2023). High motivation can increase employee productivity. When apparatus feel motivated, they tend to work harder, more efficiently, and creatively to complete their tasks. This leads to improved performance. High performance often results from individuals with strong motivation, encouraging them to innovate and provide better services (Ryan and Deci 2000). Similarly, Judge and Bono (2001) stated that high motivation positively affects employee performance. More motivated employees tend to perform better in productivity and quality of work. Employees who feel motivated are likelier to achieve or even exceed the set performance targets. Budget participation involving government employees in setting budget goals can increase their motivation. According to goal setting theory, higher motivation contributes to better performance because individuals are more focused and strive harder to achieve precise and challenging goals.

Motivated officials are usually more public service-orientated. They are more likely to provide quality services, be responsive to community needs, and strive to meet public expectations. Good service quality increases public satisfaction. Research conducted by Judge and Piccolo (2004) shows a positive relationship between work motivation and individual performance. Their study, based on meta-analyses from various sectors, concluded that more motivated individuals tend to show better work results. A positive work environment and supportive organizational culture contribute to increased motivation, directly affecting employee performance (Ahmad et al. 2024). Motivation is closely related to employee morale and job satisfaction. When employees feel valued and adequately supported, they tend to feel more satisfied with their work, positively impacting performance.

Motivated employees are more open to innovation and self-development. They are more likely to seek new ways of solving problems and contribute to improving work processes. Employee engagement is also an important factor related to motivation and performance. Employees actively involved in their work show higher levels of motivation, leading to better performance (Saks 2006). Engagement includes emotional, cognitive, and physical aspects that contribute to motivation. Saks (2006) shows that a supportive work environment can increase employee motivation, positively impacting performance. This study shows that supervisor support and a positive organizational culture can also increase employee motivation and performance. Saks's research (2006) is supported by the results of research conducted by Prakoso, Astuti, and Ruhana (2014). A positive work environment and a supportive organizational culture contribute to increased motivation, directly affecting employee performance.





## **The Role of Budget Politics Moderate the Effect of Budget Participation on Motivation**

This study's findings indicate that budget politics strengthens the effect of budget participation on motivation. This suggests that budget politics strengthens the relationship between budget participation and managerial performance. Since politics in public budgeting is closely related to influence and decision-making, involving competent parties in budget preparation is very important. This finding supports agency theory, which posits a relationship between two parties: the principal (legislature), who delegates authority, and the agent (executive), who receives it. Budgeting is a political process susceptible to interference from interested parties, such as the legislative and executive branches, and results from a prolonged negotiation process (Chohan 2022). Budget politics involves many parties with varied and often conflicting motivations participating in the budgeting process (Rubin 1997). In the public sector, budgeting is a bargaining process between the legislature and the executive (Hagen, Sørensen, and Norli 1996). Mugambi and Theuri (2014) observed that budget politics involves negotiations between legislative and executive individuals and is integral to budgeting. These individuals usually have different interests, which drives them to negotiate in their favor. The self-interest exhibited by the legislature and the executive can be explained through agency theory.

## **CONCLUSIONS**

This study tests and provides empirical evidence that budget participation positively impacts the performance of local government apparatus through motivation, with budget politics acting as a moderating variable across local apparatus organizations in districts and cities across Indonesia. The research findings show that budget participation improves the performance of local government apparatus, which suggests that increased employee involvement in budgeting leads to improved performance. Furthermore, motivation partially mediates the relationship between budget participation and local government apparatus performance, while budget politics strengthens this relationship. The primary target respondents for this study were local government officials, particularly department heads, who were expected to provide direct answers to the research questionnaires. However, in practice, most responses were provided by individuals at the head of department level. While the overall response rate was satisfactory, some areas showed a very low response rate of below 30 percent.

Leaders of regional apparatus organizations should pay attention to the task load assigned to their subordinates, ensuring that tasks are manageable and aligned with their capabilities and available resources. In this study, the response rate to the questionnaire varied across different regions (districts/cities) in Indonesia. Future researchers should focus on improving the response rate in all regions to achieve more representative data. While the primary target respondents were department heads, a more significant proportion of respondents were from the same level as the head of the field. Future research should ensure that the intended target group answers questionnaires for more accurate insights. Moreover, further studies can expand this research by incorporating additional variables, such as organizational culture and commitment, to enrich the model and



provide a more comprehensive understanding of factors influencing local government performance.

Theoretical implications from this study strengthen goal-setting and agency theories. The application of goal-setting theory in the relationship between budget participation and local government performance, mediated by motivation, reinforces the idea that increased participation boosts performance through higher motivation. Agency theory is also supported, particularly in understanding the influence of budget politics in moderating the relationship between participation and motivation. This conflict of interest between agents (executive) and principals (legislative) motivates political actors to engage more deeply in the budgeting process, ultimately impacting the performance of local government officials. Practical implications suggest that local governments should encourage greater participation of their officials in the budgeting process, as this can lead to improved performance through enhanced motivation. Additionally, policymakers should consider the influence of budget politics when designing budgetary participation mechanisms, as political factors can amplify the positive effects of participation. Training and capacity-building programs focused on motivating employees in the budgeting process may also be beneficial for improving overall government performance.

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