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THE EFFORTS TO IMPROVE FINANCIAL PERFORMANCE AND MANAGERIAL PERFORMANCE THROUGH PARTICIPATIVE BUDGETING AND BUDGETARY CONTROL

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ABSTRACT

This study examines how participative budgeting and budget control can improve a company's financial and managerial performance. The research method used is quantitative confirmation with a variance-based approach. Questionnaires were distributed online to respondents involved in the budgeting process in order to collect data and facilitate their objective perception of the variables under study. There were 67 respondents who filled out the questionnaire completely and processed it validly. The data's validity and reliability are confirmed by meeting the necessary criteria for processing, including the loading factor, average variance extracted, composite reliability, and discriminant validity with a Heterotrait-Monotrait (HTMT) ratio. The study results have shown that adequate budget control and involvement of related parties in making budgets will increase discipline and a good understanding of budgets for managers so that they can significantly improve the company's managerial and financial performance.

Key Words: *Bottom-Up Approach, Budgetary Control, Behavioral Budgeting*

INTRODUCTION

Understanding and optimizing performance is critical to ensuring the success of a system, program, or process. Management and companies want satisfactory performance, but in reality, performance issues are often a problem that management and companies have to face and can even become an ongoing problem (Khandelwal et al., 2023).

By evaluating and measuring performance effectively, organizations can identify areas for improvement and increase overall efficiency (Jusufi, 2023). Quantitative performance metrics such as speed, accuracy, and productivity provide valuable insight into the operational efficiency of a system and process. In contrast, qualitative measures such as customer satisfaction and employee engagement offer a more holistic view of performance (Mitrea-Curpanaru, 2021). Additionally, performance evaluation should be an ongoing process, with regular assessments and feedback loops to track progress and make necessary adjustments (Dmitriev & Wu, 2016).

On the other hand, one of the important functions of management is the planning function, which directs "where we want to take" the organization later (O'Grady et al., 2017). Budgets are an important part of planning. A budget is a financial plan that converts business goals and strategies into the current period (Mowen et al., 2018). According to Kornacker et al., (2018), a budget is the result of planning, while budgeting is the process of making plans, collecting the necessary data and information, assigning planning tasks, making the plan itself, implementing the plan, and finally ensuring everything runs smoothly in accordance with the plan.

In relation to the budget, which is seen as an operational plan in monetary units, a reflection of the work program, performance in budgeting is if what is stated in the budget in monetary terms and the work program can be achieved. The general assumption is that participation in budgeting will influence behavior and increase management awareness and commitment so that the performance of managers involved or participating in budgeting will increase because their level of commitment and confidence increases (Célérier & Cuenca Botey, 2015). By increasing the commitment and sense of responsibility of managers in carrying out their operational duties, financial performance and company performance will increase (Bento & White, 2006).

The higher the involvement of responsibility center managers in formulating the budget, the higher the manager's sense of responsibility in achieving targets in accordance with those in the budget, even with little direct supervision from superiors, meaning there are behavioral factors in budgeting (Mattei et al., 2022), enthusiasm for achieving the desired performance will be higher, thereby improving management performance (Jayasinghe et al., 2020).

On the other hand, when supervision of activities is carried out, it will influence the results. Controlling of the implementation of the budget that has been determined will lead to high discipline, achieving a more certain direction so that managerial performance increases (Raudla & Douglas, 2022). Previously, it was also found that there was a positive relationship and significant influence of controlling over budget implementation on managerial performance and company performance (Kornacker et al., 2018).

This research considers it important to find out whether participatory budgeting and budgetary control can contribute to optimizing financial performance and company management performance. This research is important because the data collected for processing is based on responses from individuals who are directly involved in the company's budgeting process.

LITERATURE REVIEW

Matsoso et al., (2021) said that the budget plays an important role as a planning and performance criterion. Apart from being part of short-term planning, budgets are also useful as a control tool (Grodt et al., 2023). Other researchers who have previously stated that the budget is a crucial tool in accounting management that is useful for controlling and assessing performance (Covaleski et al., 2006) also support this claim.

The view is that in order to accommodate the needs of each responsibility center and in order to motivate subordinate management, subordinate management must make the budget; this is called budgetary participation. Usually, budgets are formed following the company's organizational structure. Thus, there are two ways of approaching budgeting, namely top-down and bottom-up, or participatory approaches (Walther & Skousen, 2009). In the top-down approach, this occurs when top-level managers form the parameters (can be in outline or in detail) by which the budget is formed. These parameters can be in the form of sales targets, cost levels, or compensation amounts, where subordinate leaders only provide little input in forming the budget. In relatively small organizations, budgeting like this can provide benefits in that it is quickly formed and implemented immediately. For large organizations, budgeting like this can face ethical challenges, where this budgeting is seen as authoritarian (Matsoso et al., 2021).

On the other hand, a budget is needed to oversee operations and operate them effectively and efficiently (Shim & Siegel, 2009). It is also said that a budget is a clearly outlined financial plan that describes the expected future financial situation and the actions taken to achieve the desired situation in connection with monitoring the use of existing resources (Walther & Skousen, 2009).

Participative Budgeting on Financial Performance

Participatory budgeting is a process in which individuals can directly contribute to allocating financial resources within an organization or community. Participatory budgeting has gained attention as a democratic and inclusive approach to financial decision-making. By involving individuals in allocating resources, organizations and society can benefit from diverse perspectives and a sense of ownership over the budgeting process (Omar et al., 2018). Such involvement can increase transparency, accountability, and, ultimately, stronger financial performance (Sukandani & Istikhoroh, 2016). When members of an organization or community feel that their voices are heard and that they have a stake in financial decisions, they are more likely to actively support and engage in activities that contribute to the financial health and success of the entity. This sense of engagement and empowerment can foster collaboration and trust, resulting in improved future financial outcomes (Godwin, 2018).

On the other hand, some critics argue that participatory budgeting can lead to inefficiency and a lack of expertise in financial decision making. The inclusion of multiple voices may result in conflicting interests and an inability to reach consensus on key financial issues. Additionally, participatory budgeting processes can delay decision making and implementation because they require extensive consultation and negotiation among stakeholders (Milosavljević et al., 2023).

Additionally, it is argued that participatory budgeting can lead to short-term thinking and prioritization of immediate needs over long-term financial sustainability. This focus on immediate issues can result in paying attention to substantial investments and strategic financial planning necessary for an organization's or society's long-term success. Critics also point out that participatory budgeting may only sometimes lead to improved financial performance and can create divisions and conflict within a society or organization.

Participative Budgeting on Managerial Performance

Actual comparisons with budgeted ones are often carried out to evaluate and measure managerial performance, linked to the rewards and punishment system. In the case of using budgets as a tool to measure performance, budgetary slack can occur, which causes achievements not to show the potential they should (Célérier & Cuenca Botey, 2015). It is believed that the budget provides many benefits for management in carrying out its function as an agent, so the company has a formal budget, which can be formed through negotiation (Mowen et al., 2018). For this reason, much research related to budgets and budgeting is related to behavior (psychology) in budgeting itself (Nkundabanyanga et al., 2023).

Participative budgeting in budget formation is greatly encouraged by the involvement of lower-level employees, following the provision of general budget guidelines by top-level management. This approach is known as self-imposed, thus considered a method that can enhance employee morale and lead to higher job satisfaction, promoting teamwork-based management and proving highly effective for modern organizations (Grodt et al., 2023). Performance measurement of management based on established targets becomes crucial when subordinates are involved in budgeting, as it enables the possibility of budgetary slack formation. However, the sense of responsibility among subordinates in this scenario will increase, thereby enhancing managerial performance (Yang et al., 2009).

Budgetary Control on Financial Performance

Effective control can improve performance (Pangaribuan et al., 2022) and is linked to the budget, so budget monitoring plays an important role in managing and optimizing financial performance in an organization. It helps set financial targets, track actual performance against those targets, and make adjustments as needed to ensure efficient resource allocation. Budgetary control provides a mechanism for setting financial targets and monitoring performance and serves as a tool for improving decision-making. By implementing budget control, organizations can gain insight into their financial performance, identify areas of inefficiency, and make informed decisions to allocate resources more effectively (AL Mahroqi, 2021).

Budget control also promotes accountability and transparency within the organization. It holds individuals and departments accountable for their financial responsibilities, encouraging fiscal discipline and a culture of responsibility. Budget control improves the organization's overall financial performance and increases trust and confidence among stakeholders, including investors, lenders, and shareholders (Zhang, 2015). Additionally, budget control involves regular review and analysis of financial data, which can lead to valuable insights into market trends, cost structures, and revenue streams. A deep understanding of monitoring can even guide strategic planning, resource allocation, and business decisions, ultimately contributing to long-term success and performance (Mutya, 2018).

Budget controlling is a simple monitoring and adjustment tool; it is a strategic instrument that informs decision-making, drives accountability, and provides valuable insights to optimize management and organizational performance (Li, 2021).

Budgetary control has been widely appreciated for its ability to set financial targets and track performance. However, it has also been criticized for its potential negative impact on organizational flexibility and innovation. Some argue that strict adherence to budgetary oversight can stifle organizational creativity and risk-taking, hindering an entity's financial performance (Becker, 2014). Additionally, focusing on meeting budget targets can create a short-term mindset, where managers prioritize immediate financial results at the expense of long-term strategic thinking. This view can lead to missed opportunities for innovation, ultimately delaying performance (Vericourt et al., 2017).

Budgetary Control on Managerial Performance

Various opinions about the function of budgets (King & Mestry (2023) said that budgets for companies function as a tool for planning, coordinating, communicating plans, motivating, controlling, and evaluating. Mowen et al., (2018) said the budget has various functions, including controlling. Budget control is a process control tool, which means it is a tool to evaluate and assess work implementation by comparing plans with realizations. It is believed to encourage increased managerial performance.

Regarding budgets in manufacturing companies, Shim & Siegel, (2009), and also in educational institutions, King & Mestry (2023) said that it is essential to have a comprehensive master budget, which is a formal statement of expectations from management regarding income, costs, volume, and financial transactions for the coming period. Controlling is carried out for efficiency, effectiveness, and improving performance.

Even the general budget stages, which include the initial preparation stage, advanced preparation stage, budget determination stage, implementation stage, monitoring, and performance measurement, show the importance of the relationship between management effectiveness and budget monitoring and controlling (Mowen et al., 2018). Ozer & Yilmaz, (2011), who conducted research on public companies in Turkey with a questionnaire and a sample of 465 responsibility center managers, found that there was a relationship between budget control, the work environment, and performance achievement.

Relying solely on budgetary oversight to evaluate managerial performance may not provide a comprehensive view of a manager's overall effectiveness and contribution to the organization. Therefore, while budget control can be an essential tool for assessing managerial performance, it must be used with other measures and considerations to ensure a more holistic and accurate evaluation of managerial performance (Kaveski et al., 2021). It is important to note that budgetary oversight has limitations and may not accurately reflect managerial performance. Managers may face unexpected external factors, such as market changes, consumer behavior shifts, or economic conditions that can significantly influence long-term managerial performance outcomes (Nesterov & Kozlova, 2018).

From this description, four study hypotheses were made, which are:

H1: Participative budgeting significantly impacts financial performance.

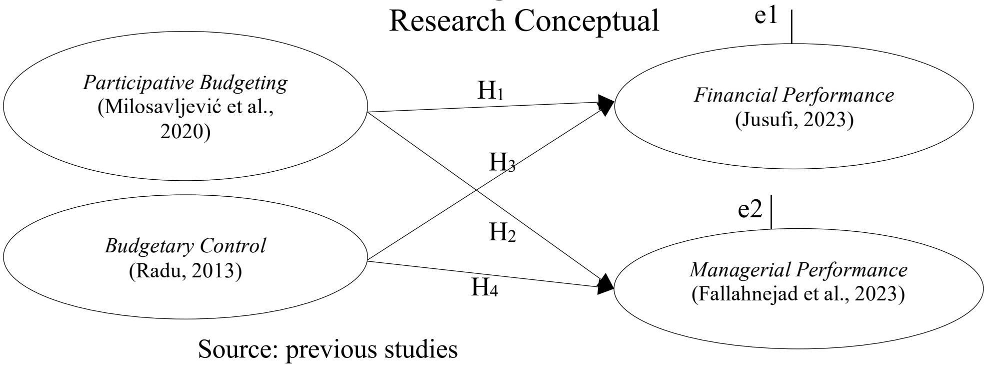
H2: Participative budgeting significantly impacts managerial performance.

H3: Budgetary control significantly impacts financial performance.

H4: Budgetary control significantly impacts managerial performance.

Based on theoretical views, previous research, and the formation of hypotheses presented above, the research conceptual figure is explained in Figure 1. With the involvement of subordinates or lower-level managers in the budgeting process, the level of awareness of the importance of the budget, understanding of the budget, and budget responsibility will increase, thereby having a positive impact on financial performance and managerial performance. Furthermore, monitoring and controlling the implementation of the budget will show the direction of better implementation so that financial performance and managerial performance will also improve.

Figure 1.
Research Conceptual



Source: previous studies

RESEARCH METHOD

This study is confirmatory quantitative research, testing the hypotheses formed and looking for answers to the phenomena of the hypotheses related to participatory budgeting, budget control on financial performance, and company managerial performance.

Measurement and Scale

Data was obtained from the results of a questionnaire distributed online to respondents. This research took place around Jakarta; the research population was in groups or communities of company employees involved in the budgeting process. Using probability random sampling and considering the limited scope and time, this research used a sample and found 67 respondents who filled out the questionnaire. All the results of the questionnaire answers were found to be complete, so they were suitable for processing.

The questionnaire was built based on existing theory by making minor adjustments so that respondents could easily understand each statement. The participatory budgeting variable has four statements, taken and adapted from (Milosavljević et al., 2020). An instrument with seven statements is used for the budget control variable, as in Radu (2013). However, one of these statements was excluded from the instrument because it did not meet the loading factor requirements. The financial performance variable has five instrument statements (Jusufi, 2023), but one was also excluded from the instrument because it did not meet the loading factor requirements. Furthermore, the managerial performance variable comprises five instrument statements (Fallahnejad et al., 2023).

Some of the research questionnaire instruments were made in negative statements to alert respondents when filling out the questionnaire or to avoid filling in the existing questionnaire carelessly. All elements of the research questionnaire instrument that met the requirements and were ultimately used can be found in Table 1. Construct Indicators and Measurement Model.

This research is Partial Least Squares-Path Modeling (PLS-PM), data processing for existing structured equation modeling is carried out using a partial least squares approach and to analyze the data using the help of the Smart-PLS program with a reflective model.

Data Eligibility

Testing the measurement model in Table 1 shows that the loading factor value is greater than 0.50, the average variance extracted (AVE) is greater than 0.50, and the composite reliability or rho A is greater than 0.70. This criterion, in accordance with the prerequisites stated by Henseler et al., (2017), is a necessary condition for the measurement model. Furthermore, variables with loading factors below 0.5 are removed from the measurement model. However, variables with factor loadings above 0.5 can be retained in the model to maintain content validity as long as they have an AVE value greater than 0.5 (Hair et al., 2019).

Table 1.
Construct Indicators and Measurement Model

Items/ Indicators	Code	Factor Loading	Cronbach Alpha	AVE	rho_A
Participative Budgeting			0.763	0.592	0.779
Involvement in budget preparation	PB1	0.727			
Budget revision	PB2	0.858			
An important contribution to budgeting	PB3	0.839			
Ask for opinions when budgeting	PB4	0.631			
Budgetary Control			0.817	0.523	0.830
Preliminary control of the budget to prevent problems from arising	BC2	0.706			
Controlling budget implementation to correct budget dysfunction	BC3	0.686			
Controlling budget implementation helps provide real-time achievement information.	BC4	0.824			
Budget feedback control to evaluate performance results	BC5	0.756			
Budgetary feedback controls mask resource limitations	BC6	0.777			
Budget feedback control to find the causes of possible deviations	BC7	0.559			
Financial Performance			0.757	0.572	0.885
Financial targets are an important performance measure	FP1	0.781			
Achievement of set financial targets	FP2	0.520			
Increase in Net Profit	FP3	0.758			
Increase in ROA	FP5	0.912			
Managerial Performance			0.828	0.571	0.873
Involvement in corporate planning	MP1	0.680			
Responsibility in coordination	MP2	0.817			
Responsibility in evaluating subordinates	MP3	0.857			
Responsibility in supervision	MP4	0.657			
Responsibility in *staffing*	MP5	0.747			

Note: BC1 and FP4 were excluded from the model because their loading factors were <0.5

Source: processed data with Smart-PLS

This test also shows the results of the discriminant or divergent validity of the latent variables in the ratio using the Fornell-Lacker and heterotrait-monotrait ratio (HTMT) approach criteria. The square root of the average variance extracted (AVE) along the diagonal line was greater than the correlation between the model constructs; this means that all variables in this study model meet the discriminant validity provisions described in Table 2. The discriminant validity findings from the HTMT analysis show that all variables in the model meet the validity criteria, as indicated by the HTMT score, which is below 0.90, which is in line with recommended guidelines (Henseler et al., 2017).

Table 2.
Discriminant Validity and Correlations Results

	Mean	S.D.	(BC)	(FP)	(MP)	(PB)
Budgetary Control (BC)	0.399	0.150	**0.723**	0.614	0.479	0.665
Financial Performance (FP)	0.291	0.133	0.566	**0.756**	0.316	0.692
Managerial Performance (MP)	0.331	0.138	0.412	0.248	**0.756**	0.514
Participatory Budgeting (PB)	0.292	0.138	0.558	0.547	0.419	**0.769**

Note: below *diagonal value (**bold**)* is the correlation between *construct values*

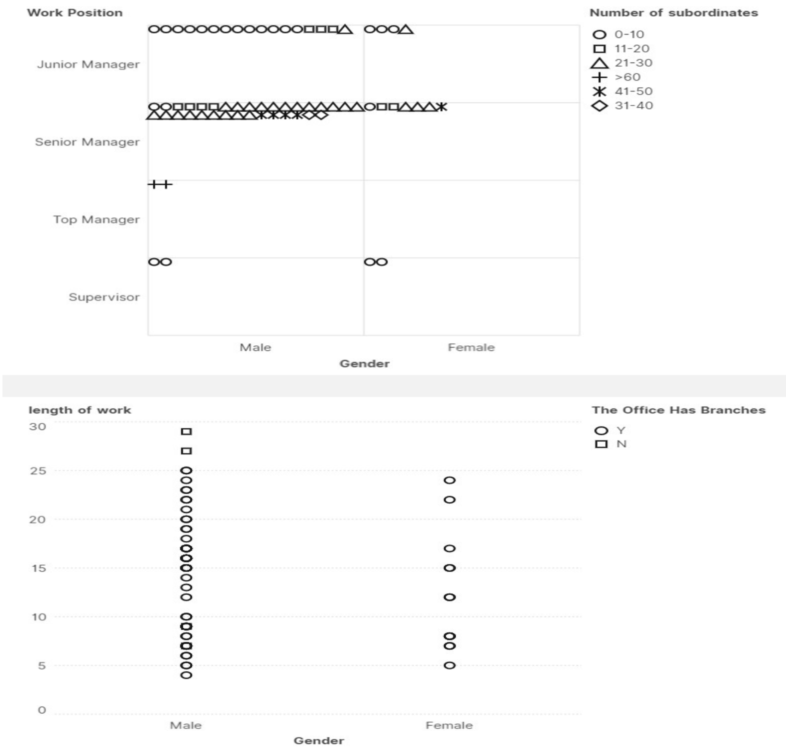
Source: processed data with Smart-PLS

RESULTS AND DISCUSSION

Description of Research Data

It was found that 67 respondents filled out the questionnaire, which was distributed online (in the form of a Google form), and all of them filled it out completely, so the data was suitable for processing. The descriptive picture of the respondents' demographic data is combined with Figure 2. Demographic Description of Research Data. Of the total respondents, 54 were men, and 13 were women, of whom 40 had work positions as senior managers, 21 as junior managers, 4 as supervisors, and 2 as top managers in the company where they work.

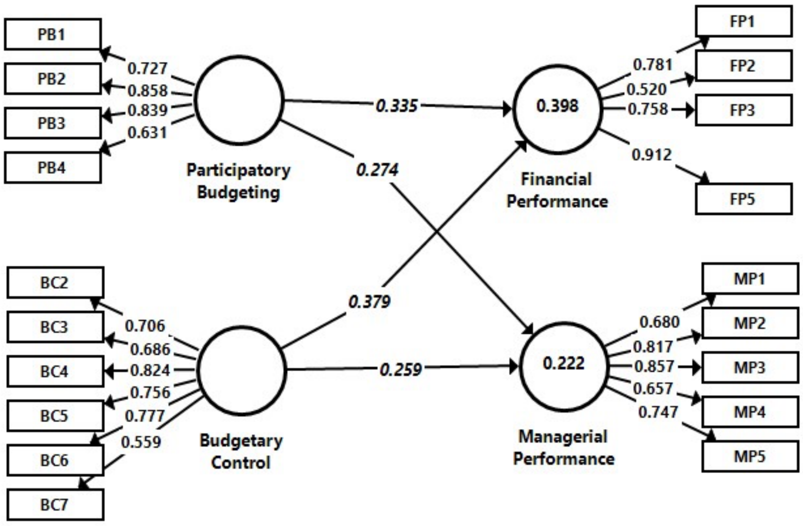
Figure 2.
Demographic Description of Research Data



Source: results of data processing from questionnaires

Overall, the research respondents had a long work experience with an average of more than 14 years of work experience, with the lowest experience being 4 years (position as supervisor) and the longest experience being 29 years (position as top manager). Demographic data also shows that 26 respondents have between 21 and 30 subordinates, 23 have between 0 and 10 subordinates, 9 have between 11 and 20 subordinates, 5 have between 41 and 50 subordinates, 2 have between 31 and 40 subordinates, and 2 these respondents have >60 subordinates. Of the companies where the respondents work, there are only 4 companies that do not have branches or subsidiaries; most (63 companies) have branches or subsidiaries, regardless of how big the branch or subsidiary is.

Figure 3.
Algorithm results



Source: processed data with Smart-PLS

Data Quality

After the initial stage of verifying the reliability and validity of indicators for all variables has been carried out (see Figure 3 and Table 1), the next stage is evaluating the results of the structural model and hypotheses testing. As is known, the Partial Least Squares-Path Modeling (PLS-PM) algorithm uses an iteration approach and follows multiple regression series, so in PLS-PM, the interpretation of path coefficients is equivalent to the standardization of regression coefficients. Apart from that, this research also uses adjusted r-square, variance inflation factor (VIF), effect size (f2), and predictive relevance (Q2).

Before delving into a detailed analysis of the results in the second step, we initially tested the structural model for collinearity. This research's collenarity research uses a measure similar to multiple regression with the recommended VIF value, namely <3.3 or even <5, which can still be used for all predictor variables in the model (Hair et al., 2019). The results (see Table 3) show that there are no collinearity problems that could interfere with the results of this study's results. Next, the study evaluates the structural model by looking at the coefficient of determination (R^2 or adjusted R^2), f^2, and Q^2, because the coefficient of determination measures the predictive power of the model, and the coefficient represents the amount of variance in the endogenous variable that can be explained by all exogenous variables. A coefficient of determination above 0.20 can be considered quite high in some disciplines, but values between 0.25 and 0.50 are generally considered good (Hair et al., 2019). Table 3 describes the results of the analysis. It was found that the adjusted R^2 value was 0.379 for financial performance and 0.198 for managerial performance, which means that this value shows quite high and moderate explanatory power. Table 3 displays the results of our structural model assessment analysis.

In addition to the coefficient of determination, this study also considers f2, which represents the individual variance contribution of each predictor variable. The f2 value for budgetary control was 0.164 and for participatory budgeting was 0.129, classified as medium (Hair et al., 2019). This study also evaluates Q2 to predict the accuracy of R2; a Q2 value greater than 0 indicates good predictive power for the model. The results of this analysis show that Q2 > 0, which means that the research model formed has good predictive relevance. For the goodness of fit index produced by the model via standardized root mean squared residual (SRMR), values were obtained at 0.140 and 0.141 < 1.0, which indicates there is no difference between the implied model and the observed correlation. Thus, it can be concluded that the model formed is in accordance with empirical data (Hair et al., 2019).

Tabel 3.
Structural Model Outcomes

	R^2	R^2, Adj.	f^2	Q^2	VIF	SRMR
Budgetary Control	-	-	0.164	-	1.453	-
Financial Performance	0.398	0.379	-	0.339	-	0.140
Managerial Performance	0.222	0.198	-	0.339	-	0.141
Participatory Budgeting	-	-	0.129	-	1.453	-

Source: processed data with Smart-PLS

Results of Hypotheses Test Analysis

Table 4 describes the results of the hypotheses test that was previously developed. Regarding budgeting participation, this research finds that the involvement of various parties in making the company budget has a significant influence on the company's financial performance (at a significance level of 0.05), meaning that the bottom-up/participatory budgeting approach in budgeting will build a sense of responsibility and commitment from various parties. Parties involved in budgeting, thereby significantly improving the company's financial performance. This finding aligns with research (Godwin, 2018) and (Omar et al., 2018).

Table 4.
Influence Between Variables

	Coef (β)	S.D.	T Statistics (|O/STDEV|)	P Values	Conclusions
Participatory Budgeting -> Financial Performance	0.331	0.138	2.439	0.015*	significant at the 0.05 level
Participatory Budgeting -> Managerial Performance	0.292	0.138	1.996	0.047*	significant at the 0.05 level
Budgetary Control -> Financial Performance	0.399	0.150	2.521	0.012*	significant at the 0.05 level
Budgetary Control -> Managerial Performance	0.291	0.133	1.951	0.052**	significant at the 0.10 level

Note: * = statistically significant at the 0.05 level
** = statistically significant at the 0.10 level

Source: processed data with Smart-PLS

The results of this study have also shown that the involvement of various parties in making budgets, often called bottom-up approach budgeting, has a significant influence on managerial performance (at a significance level of 0.05). By involving various parties in formulating the budget, awareness, and commitment to implementing the budget will increase so that it can significantly improve managerial performance in the future. This finding aligns with the research results of Yang et al., (2009) and Grodt et al., (2023) which said that when employees are involved in budgeting, their sense of responsibility increases, and managerial performance improves.

Regarding budget supervision, it was found that monitoring budget implementation has a significant effect on the company's financial performance (at a significance level of 0.05), meaning that supervision of budget implementation carried out by the budget supervisory body will have a positive impact on optimizing the company's financial performance, this result is in line with the findings carried out by Li, (2021) and Mutya, (2018), but is in conflict with (Vericourt et al., 2017).

Regarding budget control and managerial performance, it was found that, at a significance level of 0.10, budget control significantly influenced managerial performance. The control of budget implementation carried out by the budget monitoring function will also have a positive influence on helping to optimize the company's managerial performance. These results are in line with findings made by Shim & Siegel, (2009); and Mowen et al., (2018), but contradict the findings (Nesterov & Kozlova, 2018).

CONCLUSIONS AND RECOMMENDATION

The results of this study have proven that the involvement of various parties in formulating a budget can build awareness of financial targets and increase the commitment of various parties, especially those involved in creating the budget itself, so that it can raise or improve the company's financial performance and even managerial performance. The results of this confirmatory study show how important it is to involve parties in making a budget, although this bottom-up budgeting approach will generally incur higher costs and time but will have a significant positive impact on the company's overall performance. This research has also proven the importance of budget control in improving financial performance and managerial performance, especially in improving the company's financial performance. Effective supervision will increase implementation discipline and more focused budget implementation goals, so it has been found that budget supervision has a significant influence on improving the company's financial performance and even managerial performance.

This study also provides very applicable implications, indicating that it is very important for company-level employees and/or managers to be given a good understanding of the budgeting process and budget supervision so that, in carrying out good management functions, budget planning and supervision will be very helpful in improving management performance and company financial performance. On the basis of these findings, this research suggests that company management involves parties in formulating budgets and carrying out effective control in budget implementation in order to encourage optimizing financial performance and managerial performance.

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