

# *Is Inefficiency Still A Major Problem in Regional Spending and How To Overcome It? (Case Study of East Kalimantan Province)*

Salmah Pattisahusiwa  
Faculty of Economic and Business  
Mulawarman University  
Samarinda, East Kalimantan, Indonesia  
amahjais@gmail.com

Musviyanti  
Faculty of Economic and Business  
Mulawarman University  
Samarinda, East Kalimantan, Indonesia  
musviyanti@feb.unmul.ac.id

Ibnu Abni Lahaya  
Faculty of Economic and Business  
Mulawarman University  
Samarinda, East Kalimantan, Indonesia  
jazzy\_nerd@ymail.com

**Abstract**—Management of performance-based budgeting provides a more specifically related to the ability of an area to always explore the potential of the area in order to increase budget revenues, which will have an impact on governance and financing capabilities of regional development activities. Specifically, this study is limited to the Budget where there are decisions related to spending and investment. This of course is based on the fact that compared to decisions relating to the realization of income or profit, decisions related to spending or investment are more likely to potentially create a gaming budget and "impose" the use of the budget to condition the percentage of absorption. The results showed that the agency (for the context of local governance in Indonesia called SKPD) working under a set budget politically by the heads of regions and local representative institutions (parliament). Therefore, the budget preparation process that involves the participation of SKPD allows carrying out mark-ups for target spending or mark-down for revenue targets in the proposed budget submitted to the local government budget team. The application or implementation of carry over and carry back to the implementation of regional spending, especially on Implementation Unit (SKPD) enables increasing efficiency and maximizing the performance of SKPD concerned as it relates to the budget user behavior itself. The results of this study are not fully able to conclude that budgetary flexibility is the proper answer to the weakness of conventional budget.

**Keywords**—flexibility; budget; carry back; carry over

## I. INTRODUCTION

In general, the budget is an element of management control systems in terms of planning and controlling that activity of the organization can be implemented more effectively and efficiently. The budget process involves many parties, from upper management to lower levels of management that

directly impact on human behavior, especially for people who are directly involved in the preparation of the budget.

Similarly with the business sector, the public sector budget cycle is a continuous activity from planning, preparation, execution, reporting and inspection. This cycle does not run in the relay, but suffered a simultaneous process. Budget preparation submitted by each Regional Work Unit (SKPD) in the Work Plan and Budget (RKA-SKPD) format must be truly able to provide clear information about the objectives, targets and indicators.

Basically, budgets in public sector areas are often associated with organizational performance activities. Or in other words, the target and realization of the budget become a benchmark in performance appraisal. Therefore, this public sector budget is known as a performance-based budget that focuses on the efficiency of carrying out an activity. That is, the budget preparation process with a performance approach focuses more on "what you want to achieve". If you focus on "output", it means that thinking about the "purpose" of the activity must be included at every step when preparing the budget. This system focuses on aspects of management so that in addition to the efficient use of funds, the results of their work are examined. So, the benchmark for the success of this budget system is performance or achievement of the goals or results of the budget by using funds efficiently.

Some research on budgets for both the business sector and the public sector tends to focus on the negative consequences of budget control such as difficulties in planning, dysfunctional behavior, and decreasing organizational performance [1]. However, the negative consequences that are most often researched are acts of "playing the budget" or known as budget gaming [2]–[6]. Budget gaming refers to reporting distorted information as well as reporting over or under estimated conditions, creating budgetary slack, and

delaying or speeding up spending, investment and income at the expense of profitability [3]–[5], [7].

Gaming budgets are rigidly bound to a fixed budget cycle and are determined for a limited period of time [8]. Thus, the application affects the level of budget flexibility as an effort to reduce the impact of budget gaming [2], [6], [9]. In addition, things that are often a major concern in budget realization relating to the traditional budget time structure (time-structure of traditional budget) are carry-over and carry back<sup>1</sup>. Both carry-over and carry-back have the potential to minimize the practices of budget gaming while maintaining the efficiency and effectiveness of the budget itself [8].

Specifically, this study is limited to the Expenditure Budget where there are decisions related to expenditure and investment. This of course is based on the fact that compared to decisions relating to the realization of income or profit, decisions related to spending or investment are more likely to have the potential to create a gaming budget and create profits [8]. For example, towards the end of the budget period an individual tends to focus more on how to maximize spending as the budget ceiling allocated because it is far more rational than maximizing realization for income is no longer possible [5], [10].

The problem that often occurs is the level of budget absorption, which in fact becomes one of the indicators of the size of the budget execution performance. There is an interesting phenomenon in recent regional financial management, namely the frequent occurrence of the remaining budget (SILPA) in the budget realization report (LRA). Whereas in the pre-determined budget (APBD) the Regional Government has determined that the prediction will occur in the deficit, namely that regional revenues cannot cover all regional expenditures. Why can an estimate occur in the budget reversing its realization?

Based on the background above, the researcher intends to carry out exploratory studies to mitigate inefficiencies in the regional budget with the object of Regional Work Unit (SKPD) in the Province of East Kalimantan by considering the role of carry-over and carry-back in the realization of the budget and how its impact in influencing organizational performance assessments.

## II. LITERATURE REVIEW

### A. Goal Setting Theory

Goal setting theory concerning the relationship between a person's goals and performance against a task. This theory underlies that there is an inseparable relationship between goal setting and performance. Setting goals has four mechanisms in motivating individuals to improve performance. First, setting goals can direct individual attention to focus more on achieving goals. Second, setting goals can help individuals to manage their business in achieving goals. Third, the existence of goals can increase individual perseverance in achieving these goals. Fourth, the purpose of helping individuals to establish strategies and take action as planned. Thus setting goals can improve individual performance. The goals affect

performance when employees receive and commit to these goals. Employees usually know more fully what to do (in achieving goals) than management.

### B. Budget Gaming

Budget gaming is often equated with dysfunctional behavior on the action that is counter-productive both by the manager or a subordinate as a result form the use of budget in order to demonstrate the performance of an individual or organization that is much better [10]. Scheme budget gaming is mainly due to a motivation that allows an individual who is responsible for implementing the budget will seek "maximum" possible percentage of budget absorption can be fulfilled even though it may only have a negative impact on overall organizational performance [3], [11]. Budget gaming usually occurs during the pre-period planning phase or during budget realization [3].

#### 1. Budget gaming in the pre-period planning stage

The pre-period planning stage consists of negotiations, formulations, and budget and budget targets. Dysfunctional behavior in this stage, for example, participation in the level of budget regulation and the use of the budget to control and evaluate the performance of subordinates [1].

#### 2. Budget gaming at the budget realization stage

Dysfunctional behavior during budget realization arises mainly from the fact that if the recipient of the budget is a manager or subordinate, it must be responsible for meeting the budget (determining performance refers to performance; performance is good if the bias meets the target and poor performance if not met) they will do their best to show that budget targets have been met even though it may have a negative impact on the organization [3].

### C. Time Problems in Budget Implementation

Related to inefficiency problems, traditional budget realization can use two basic models related to time problems in budget realization, namely (1) carry-over; and (2) carry-back. Both models allow budget implementers to move or use resources outside the current period. Carry-overs allow budget executors to save funds for a budget period and spend it for the next period, while carry-back allows using funds planned for future budgets.

Both carry-over and carry-back have a better level of stability than traditional budgets [8]. This is possible because in carrying out carry-over and carry-back, budget implementers still know the targets and objectives of the budget that has been set, but on the other hand, the implementers have a container or space to maneuver so that it is more likely to produce much better shopping decisions with high level of motivation and responsibility. In other words, both methods offer temporal flexibility conditions for the implementation of budget realization.

#### D. Budget Absorption

Budget absorption, especially goods and services spending, has a significant influence in driving economic growth. For this reason, every government agency must manage its expenditure to run smoothly and can support the success of achieving national development goals. However, the absorption of the budget is not required to reach 100%, but the absorption of the budget is expected to be able to meet at least more than 80% of the budget that has been set. The high and low budget absorption in a SKPD is the benchmark of the performance of the SKPD. However, SKPD has not been able to be consistent in terms of budget absorption in accordance with predetermined targets in terms of budget absorption and implementation time. Absorption of SKPD budgets tends to be low at the beginning of the fiscal year and will begin to increase significantly towards the end of the fiscal year.

### III. RESEARCH METHOD

This research is a descriptive exploratory approach. Furthermore, this research also includes comparative study research which is used to compare the conventional budget realization and when there are conditions of flexibility. To find out information from respondents, a questionnaire was used.

The object of research is all SKPD districts / cities in the province of East Kalimantan, among others:

1. East Kalimantan Province's Regional Work Unit (SKPD)
2. Samarinda Regional Work Unit (SKPD)
3. Bontang Regional Work Unit (SKPD)
4. Kutai Kartanegara Regional Work Unit (SKPD)
5. East Kutai Regional Work Unit (SKPD)
6. Penajam Paser Utara Regional Work Unit (SKPD)
7. Paser Regional Work Unit (SKPD)
8. Balikpapan Regional Work Unit (SKPD)
9. Berau Regional Work Unit (SKPD)

The number of respondents in this study was 188 respondents. As for data analysis, using two methods, Deductive and Inductive

### IV. RESULTS AND DISCUSSION

Based on the number of questionnaires distributed by 269, the number of questionnaires returned was 188 respondents (Table 1).

Funds available in the APBD must be utilized as well as possible in order to produce maximum service and welfare for the benefit of the community. In general, the performance of budget implementers can be measured through evaluation of budget execution. Determination of performance indicators at the time of budgeting is the initial stage of performance management, and is the most important stage, because performance indicators on the budget are contracts and commitments about the results to be achieved in the next year. In the implementation of the performance appraisal based on the implementation and realization of the budget it is still considered reasonable considering the implementation and

realization of the budget is a form of regional financial management that must be carried out in an orderly manner, obeying the legislation, efficient, effective, transparent, and accountable with due regard to the principles of fairness and propriety so that each planned cost allocation must be linked to the level of service or expected results that can be achieved.

TABLE 1 RESPONDENT'S DESCRIPTION

No.	Information		Total
1	Work Unit	East Kalimantan Province	17
		Samarinda	21
		Bontang	12
		Kutai Kartanegara	17
		East Kutai	23
		Penajam Paser Utara	25
		Paser	23
		Balikpapan	28
		Berau	22
2	Age	21-30 years old	23
		31-40 yo	87
		41-51 yo	69
		51-60 yo	9
3	Educational level	Senior High School	3
		Diploma 1	1
		Diploma 3	1
		Bachelor	113
		Postgraduate	70

Basically, performance appraisal based on the implementation and realization of expenditure is a form of implementation of the planning that has been carried out and accountability for the use of the budget related to services. In other words, the funds available in the APBD must be utilized as well as possible in order to produce maximum service and welfare for the benefit of the community.

Based on the results of interviews and questionnaires, performance evaluation of budget execution has specific characteristics, namely:

1. Performance evaluation emphasizes the assessment of the impact of a policy, program, activity, and procedures to assess the goals and objectives of policies and programs.
2. Performance evaluation emphasizes the relationship between achieving goals and objectives with facts. This means that the measurement of the performance of a policy, program and activity not only takes into account the perceptions of a person, community group or the whole community about the benefits of the policies, programs and activities, but needs to be supported by concrete evidence that the impact arises as a consequence of a series of actions conducted in the implementation of policies, programs and activities.
3. Performance evaluation is oriented towards current performance compared to past performance. In other words, performance evaluation is retrospective on the current performance of the implementation of activities (ex post). The results of the performance evaluation are recommendations that are prospective to improve policies

in the future and before future actions are carried out (ex-ante).

4. Performance evaluation is seen as a goal and at the same time a way to achieve the overall development goals and objectives. Performance evaluation of a policy or program is often very crucial and determines the implementation of other policies or programs.

However, the problem that is feared to occur is that there is an error in determining the performance indicators at the time of budgeting so that it impacts the occurrence of errors during measurement and evaluation. In addition, when the budget value has been set, the usage mechanism must be in accordance with what has been set. Because the budget preparation for each year has been prepared in July each year, it is not impossible if the Regional Budget (APBD) needs changes or adjustments. In addition, based on the answers of several respondents to the problems that may occur in general low budget absorption, among others, the lack of implementation according to the instructions in the Budget Implementation Questionnaire (DIPA), non-compliance with the applicable regulations, Human Resources (Civil Servants) are weak, especially against IT, Supporting facilities and infrastructure are not in accordance with financial standards, lack of reviews, discrepancies in report submission, lack of attention to schedule / cycle of financial report submission, lack of attention and support to operators and treasurers, lack of knowledge and control from the leadership regarding financial regulations and Property State (BMN), lack of coordination and information between leaders and staff, as well as lack of commitment to the submission of financial statements.

In the implementation of both carry-over and carry-back, researchers in this case try to classify respondents in 5 categories of groups [8], which include:

1. Groups that want carry over but don't want carryback or savers
2. Groups that want carry back but don't want carryover or borrower
3. Groups that want an absolute budget are flexible or flexible
4. Groups that choose conventional or non-flexible budgets
5. The group that chose did not answer

The grouping of respondents' answers basically shows that in general respondents assume that a flexible budget allows executors of a budget to spend and store funds allocated at their own discretion without any fear of losing unused funds or the value of debt that will occur. This behavior is more likely to be applied by respondents if the budget target is low (not multi-year activities). This finding is in accordance with previous studies [8], [12], although there is flexibility that budget gaming behavior is more likely to be seen if the budget target is low, where budget implementers show more effort with minimal risk in decision making. But specifically, basically respondents who choose flexible budgets only carry over because they have the full option of being able to use unused funds so that the amount of wasteful and unnecessary expenditure towards the end of the fiscal year

is expected to decline. But the option to carry back is less to be implemented because the application is more likely to borrow so that it can affect the implementation of the next budget.

84% of respondents stated that a flexible budget has an influence on improving agency performance, especially when looking at the level of budget absorption that occurs in the current period. Possible conditions occur if in the implementation and implementation of flexible budgets, the budget items spent in accordance with the implementation progress both see the indicators of input, output, and outcome so that when the carry over and carry back are applied, the absorption rate of the budget in the period has reached 100% so that the budget absorption can be more than 100% with the level of activity carried out effectively without sacrificing other activities' budget. Based on the respondent's answers, both the questionnaire and those confirmed directly through interviews conducted on the budget implementers showed that carry-over and carry-back flexibility is far more facilitating the efficiency and effectiveness of the financing carried out. This is because the context of carry-over and carry-back does not differentiate between short-term and short-term financing, but rather looks towards the urgency of financing to maximize performance on previously stated goals.

Overall, related to the magnitude of the percentage which states that a flexible budget can increase efficiency and performance refers to a benchmark of pure success based on performance or achievement of goals where successful budget execution does not only refer to the level of efficiency but also considers the effectiveness factor. Different conditions when using conventional budget procedures that seem rigid and bureaucratic. The increasing level of efficiency is due to the implementation of the budget is no longer oriented on how to maximize expenditure based on the conventional budget ceiling but to maximize the possible expenditure carried out flexibly. Furthermore, in an effort to improve efficiency and organizational performance, budgeting must be accompanied by clear and defined objectives and involve subordinates through a higher level of participation in budget related issues. This condition remembers that potentially empowering subordinates in budgeting is more appropriately applied to large, diverse and decentralized organizations because it requires decomposition of tasks and delegation of responsibilities [8]. The empowerment of subordinates in budgeting can improve the performance and role of subordinates because their scope of work is facilitated by keeping several regulations that are directing and motivating to achieve budget targets [10].

The application or implementation of carry over and carry back to the implementation of regional expenditures, especially in the Regional Executing Work Unit (SKPD) allows increasing efficiency and maximizing the performance of the relevant SKPD because it relates to the behavior of the budget users themselves. The results of this study cannot fully conclude that a flexible budget is the right answer to the weakness of conventional budget. This condition is caused by the realm of the public sector, where bureaucracy is the main

factor that becomes contradiction or obstacle to the implementation of a flexible budget. Conceptually, conventional budgets with a limited period are basically not suitable for organizations facing dynamic uncertainty and environmental conditions as well as in the government sector, especially in urgent expenses [8].

Regarding the implementation of carry-over and carry-back in the budget, basically further and in-depth study is needed on the level of flexibility given the implementation of the budget related to accountability and transparency so that it requires a procedural and comprehensive accountability process for its implementation and use. In addition, the implementation of carry-over and carry-back may not be necessary if the government program in 2016 which changes the system becomes more effective and efficient as well as in the planning and budgeting of regional development program known as the money follows planning program. This model is a reference so that regional tools can formulate priority programs. This, then by the regional apparatus facilitated by Bappeda, reduced or translated it into more detailed activity programs so that several regional units could coordinate with each other from the beginning of the planning. And this planning model has been applied in 2017 to be implemented in the 2018's Local Government Work Plan (RKPD).

Departing from these results, this study is also at the conclusion that does not recommend in its entirety that the adoption of a flexible budget is better than a conventional budget. But apart from the phenomenon of changes in planning models and considering that there are still many problems in the use (realization) of the budget in the province of East Kalimantan, it is still possible to provide a policy framework with a degree of flexibility that allows increased levels of budget absorption and optimization of budget targets effectively and efficiently.

## V. CONCLUSION

This study concluded that implementation of carry-over and carry-back to regional expenditures, especially in the Regional Work Unit (SKPD) allows increasing efficiency and maximizing the performance of the relevant SKPD because it relates to the behavior of the budget users themselves. The results of this study cannot fully conclude that a flexible budget is the right answer to the weakness of conventional budget. This condition is caused by the realm of the public sector, where bureaucracy is the main factor that becomes contradiction or obstacle to the implementation of a flexible budget. Conceptually, the results of this study support Rausch (2015) that conventional budgets with a limited period are basically not suitable for organizations facing dynamic uncertainty and environmental conditions as well as in the government sector, especially in urgent expenses.

The limitations of this study are 1) Research is limited by the size and composition of the survey sample so that the information is less in-depth about the background of each respondent organization so that the results of the study cannot be generalized in general; 2) Respondents' opinions are still objective and less open, especially in matters of internal use of

the budget; and 3) this study has not considered factors such as personality, individual needs, and rewards that allow influence on some decisions in purchasing.

Based on the results and limitations of the research presented, the suggestions in this study include:

1. Practically, the results of this study recommend for public sector budget systems that are more flexible but do not eliminate the value of the bureaucracy in its implementation and reporting. This is feasible to see whether the flexibility that occurs increases the performance of the budget implementer in real (real) while still using the efficiency and effectiveness of spending indicators carried out through long-term field studies or through experimental research;
2. Further research can be done using a different approach by developing and testing statistically several variables that influence behavior in using the budget so that the results of the study can be generalized.
3. The application of carry over and carry back to the implementation of regional expenditures, especially in the Regional Executing Work Unit (SKPD) allows to increase efficiency and maximize the performance of the relevant SKPD because it relates to the behavior of the budget users themselves.

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