

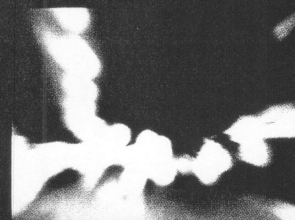
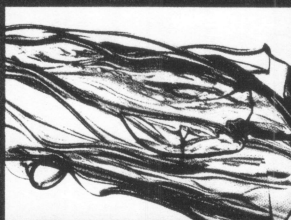


Printed in Japan

ISSN 1343-4500 (print)
ISSN 1344-8994 (electronic)

iNFORMATION

An International Interdisciplinary Journal



Volume 19 Number 7(A), July 2016

Published by International Information Institute
www.information-iii.org

Differences in Budgetary Participation in View of Assessment of Corporate Governance, Sector, and the Experience of Managers in Public SOE in Indonesia

Dian Indri Purnamasari*, Rahmawati**, and Mulyanto***

**Department of Accounting, Faculty of Economics, Pembangunan Nasional Veteran Yogyakarta University, Indonesia*

email: indri_mtc@yahoo.com

***Department of Accounting, Faculty of Economics and Business, Sebelas Maret University, Surakarta, Indonesia*

email: rahmaw2005@yahoo.com

****Department of Economics, Faculty of Economics and Business, Sebelas Maret University, Surakarta, Indonesia*

email: yanto.mul@gmail.com

Abstract

Corporate Governance (CG) will also be analyzed further in this study to determine whether different implementation of CG in State-Owned Enterprises (SOEs) will result in different process of budgetary participation. This study will examine empirically the following questions: Do differences exist in budgetary participation based on the assessment score of CG implementation in SOEs, division if industrial sector of SOE and the experience of managers in SOEs?

The present study on differences in budgetary participation among managers of Public State-Owned Enterprises in Indonesia concludes that (i) No differences exist in budgetary participation based on the assessment score of CG implementation quality in SOEs, (ii) No differences exist in budgetary participation based on the sector of the SOE, and (iii) Differences exist in budgetary participation based on managerial experience in SOEs.

Keywords: Corporate, Governance, Participation, Budgetary, SOE

1. Introduction

State-Owned Enterprise (SOE), by definition, is a business entity that is either wholly or largely owned by the government through direct investments from separated state assets [1]. SOEs tend to be less prepared or slower to respond to the dynamic environment. They felt that they are part of government asset, therefore competition is unnecessary and, consequently, they are fairly poor in efficiency and performance. Thus, compared to private enterprises, SOEs are still lagging far behind them in term of professionalism [2].

The government also seeks to improve the CG of SOEs through the issuance of Decree of Secretary of SOE Ministry No: SK-16 / S.MBU / 2012 on the Indicators / Parameters of Assessment and Evaluation of the Implementation of Good Corporate Governance (CG) in SOEs. The Indicator/Parameter comprises of 5 aspects of assessment: (i) commitment to the implementation of good corporate governance in a sustainable manner, (ii) the shareholders and the AGM/owners of capital, (iii) the board of directors/supervisory board, (iv) the

directors, (v) disclosure and transparency, and (vi) others. The evaluation is a self-assessment and it is compulsory for SOEs to conduct the evaluation once in 2 years since the issuance of the decree and reported simultaneously with the submission of financial statements to the Ministry of SOE [3].

The implementation of CG underlies the realization of budgetary participation in the enterprises. This was the case because the CG elements provide support for the budgetary participation. These elements are: (i) transparency, related to unveiling the budgetary issues in SOEs, (ii) accountability, all activities in budgeting can be calculated and taken into account, (iii) responsibility, all activities can be outlined and accounted for, including those processes of budgetary participation, (iv) independence, and (v) fairness. Budgetary participation is manifested in the Work Plan and Budget developed by the directors annually, that is detailed business budget for scheduled activities.

As the above description suggests, the study will examine empirically the following questions: Do differences exist in budgetary participation based on the assessment score of CG implementation in SOEs? Do differences exist in budgetary participation based on division if industrial sector of SOE? Do differences exist in budgetary participation based on the experience of managers in SOEs?

2. Hypothesis Development

The study analyzes whether the implementation of CG in Public SOEs affects the budgetary participation as it is expected that CG is conducive to the process of budgeting participation. CG implementation can be measured based on the Decree of the Ministry of SOE that support the implementation of CG in SOEs in the Decision of the Secretary of SOE Ministry No: SK-16/S.MBU/2012 concerning the Indicators/Parameters of Assessment and Evaluation of Good Corporate Governance (CG) in SOEs, consist of 43 indicators, 153 parameters, and 100 point of scoring. The measurement results, in compliance with the Decree concerning self-assessment of financial statement of SOEs and reports on evaluation of CG implementation for the period of 2 years, are as follows (i) >85 excellent, (ii) 75-85 very good, (iii) 60-75 good, (iv) 50-50 fair, and (v) <50 poor.

Budgetary participation is expressed in the Workplan and Budget prepared by the Directors annually, i.e., company budget detailing each budget for work program or scheduled activities. Implementation of very good quality CG generates higher participation in budgeting compared to the CG implementation of lower category. Budgetary participation will gain more support in an environment that implement CG most excellently.

Budgetary participation between managers in the US and China in order to determine whether cultural factors [4]. Their study indicates that cultural factors affect positively the participation in budgeting system conducted by the US managers. The study suggested further research on other characteristics to determine whether differences exist in budgeting participation, such as the sector that represents the core competence of companies. The culture in Indonesia is relatively similar because working mechanism of SOEs is specially regulated by the Ministry of SOE, however, different sector of SOE is more likely to have certain working characteristics that differ only slightly.

SOEs are divided into several sectors, most prominent of which are manufacturing, banking, and financing. The production processes in manufacturing sector tend to be more mechanical and technical. Unlike manufacturing sector, banking and financing sector focuses more on public trust, thereby necessitate higher participation in budgeting in order to deliver services that inspire public trust. The remaining service sectors are almost similar to that of banking and financing, that is, focusing on creating products and delivering services to their respective customers.

Managers' experience in different budgeting processes will determine their participation in budgeting. Managers joining the budgeting division for the first time will be more cautious because they need to familiarize themselves with prioritized activities in their division. This is not the case for experienced managers or those in a position to perform budgeting or those who have already familiar with the prioritized activities in their division.

Based on the above description, we formulate the following hypotheses:

- H₁: Differences exist in budgetary participation in terms of evaluation scores of CG implementation quality in SOEs.
- H₂: Differences exist in budgetary participation of SOEs in industrial sector.
- H₃: Differences exist in budgetary participation in terms of SOE managers' experience.

3. Research Methodology

3.1. Population, Sample, and Operational Definition

The object of the current study is SOE as defined by Act No. 19 of 2003 concerning SOE as a business entity that is either wholly or largely owned by the government through direct investments from separated state assets [1]. The assessment uses data of companies' financial statement disclosure published. Based on BEI data, there are 19 Public SOEs in 2013 in various sectors. Meanwhile, the comparative factors in budgetary participation are as follows:

- a. Budgetary Participation is defined as the involvement of subordinates in budgeting processes and this variable is measured using 6 instruments [5].
- b. Quality assessment of CG disclosure in Public SOEs uses indicators stipulated in the Decree of the Ministry of Finance No. SK-16/S.MBU/2012, and using data from financial statement published by the Public SOEs.
- c. The sector of SOE is divided into three: (i) manufacturing, (ii) banking and financing, and (iii) other services. The sector division is conducted on consideration that the sectors constitute the majority of Public SOEs.
- d. The experience of SOE managers is divided into less than 5 years, 5-9 years, and more than 10 years.

4. Results and Discussion

4.1. Scoring for SOEs

The study uses 2013 Public SOEs as the object of study in effort to analyze CG score based on the Assessment Notice of the Ministry of State-Owned

Enterprise No. SK-16/S.MBU/2012 that comes into force since the financial reporting for the period ended on December 31 2012. The analysis of CG score is as follows:

Table 1. CG Scores for Public SOEs

No	Code	Sector	Score	Result
(1)	(2)	(3)	(4)	(5)
1	ADHI	Service	72,07	Good
2	ANTM	Manufacturing	68,58	Good
3	BMRI	Banking	68,35	Good
4	BBNI	Banking	68,42	Good
5	BBRI	Banking	61,48	Good
6	BBTN	Banking	67,97	Good
7	GIAA	Service	65,16	Good
8	INAF	Manufacturing	84,01	Very Good
9	JSMR	Service	66,83	Good
10	KAEF	Manufacturing	48,13	Poor
11	KRAS	Manufacturing	30,05	Poor
12	PGAS	Manufacturing	60,96	Good
13	PTPP	Service	56,15	Fair
14	SMGR	Manufacturing	53,36	Fair
15	TLKM	Service	42,27	Poor
16	TINS	Manufacturing	49,77	Poor
17	WIKA	Service	42,08	Poor
18	PTBA	Manufacturing	56,29	Fair
19	WSKT	Service	56,78	Fair

Source: Data processed

The study conducted scoring for financial report submitted by the enterprises, without observation or direct confirmation. This is in compliance with the above mentioned assessment notice that the score is analyzed from the financial reporting that constitutes reliable data and represents the obligation of the enterprises listed on BEI to prepare and, subsequently, publish their financial report upon stakeholders' interest.

Hypothesis Testing of Differences in Budgetary Participation

The following results are from the analysis if differences in budgetary participation based on the assessment scoring of CG implementation quality, sector, and manager experience in SOEs:

Table 2. Test Results of Differences in Budgetary Participation

No.	Scoring for	Anova	Conclusion
1.	GC Implementation	0,858	No differences
2.	Sector	0,492	No differences
3.	Experience	0,021 **	Differences exist

Note: ** significant at $\alpha=5\%$

Source : Data processed

Hypothesis testing of differences in budgetary participation using ANOVA rejected H_1 stating that statistically no differences were found in budgetary participation ($\text{sig.} > 0.05$) or, to put it differently, the means of budgetary participation in all Public SOEs are equal to assessment scores of CG implementation quality in SOEs in any classification. In subsequent analysis using figure, it can be seen that despite the mean of respondents' responses on budgetary participation in the scoring of CG implementation quality indicate no differences, it is indicated that the highest budgetary participation lies in the scoring of CG implementation quality classified as very good.

This has been as expected that budgetary participation constitutes part of CG implementation processes. However, the analysis found that the lowest budgetary participation exists in SOEs with the score of CG implementation quality classified as good. On the other hand, budgetary participation was found higher in CG implementation quality classified as poor, and this could be caused by different unit of analysis. While the difference in unit of analysis is for budgetary participation that uses the perception of individual manager, CG implementation quality uses analysis of Business Corporation on the whole.

Hypothesis testing of differences in budgetary participation using ANOVA rejected H_2 stating that statistically no differences were found in budgetary participation ($\text{sig.} > 0.05$) or, to put it differently, the means of budgetary participation in all Public SOEs are equal, either for manufacturing, banking, financing, or other services sectors. In subsequent analysis using figure, it can be seen that despite the mean of respondents' responses on budgetary participation in the scoring of CG implementation quality indicate no differences, it is indicated that the highest budgetary participation lies in other service sectors.

This could be so because companies in manufacturing sector implement all their activities using technology, with systematically planned production, thereby minimizes budgetary participation. In other words, many things in the production process can be detected and scheduled using the technology. On the other hand, companies in other service sector (non-financing) require budgetary participation upon consideration that this service sector can not predict everything in the process using technology and, thus, an adjustment is required between companies' needs and those of customers. This has triggered many dialogues and discussions that require higher budgetary participation compared to that of companies in manufacturing, banking, and other service sectors.

Hypothesis testing of differences in budgetary participation using ANOVA support H_3 that statistically differences existed in budgetary participation ($\text{sig.} < 0.05$). In other words, the means of budgetary participation in terms of managerial experience are different. Subsequent analysis using the figure indicates that differences in budgetary participation were found in managerial experience of 10 years or more. This could be so because the more experienced a manager in budgeting processes, the more familiar they are with such processes or even with activities that have become the main focus of his or her company.

5. Conclusion, Implication, and Suggestion

The present study on differences in budgetary participation among managers of Public State-Owned Enterprises in Indonesia concludes that: (i) no differences exist in budgetary participation based on the assessment score of CG implementation quality in SOEs, (ii) no differences exist in budgetary participation based on the sector of the SOE, and (iii) differences exist in budgetary participation based on managerial experience in SOEs.

5.1. Implication

The implications of this study are expected to serve the interests of different parties: (i) to provide assessment of GCG implementation quality in SOEs in compliance with the Decree of the Ministry of SOE No. SK-16/S.MBU/2012, based on Annual Financial Report for 2013, (ii) to endorse the policy of CG implementation and disclosure that is relevant to the Decree of the Ministry of SOE No. SK-16/S.MBU/2012, based on the Annual Financial Report for 2013, and (iii) to increase awareness of enterprises over the years to implement and evaluate CG with an increasingly better assessment scores in compliance with the Decree of the Ministry of SOE no. SK-16/S.MBU/2012, based on the Annual Financial Report for 2013.

5.2. Suggestion

The study recommended several points to be followed up by the researcher and other decision makers: (i) to conduct similar study on still other sectors, such as regional-owned enterprises (BUMD) that are required to measure the implementation of GC in their respective agencies based on the applicable regulations and (ii) to conduct further research to measure the CGC implementation quality in SOEs, either Public Company or Limited Liability Company, so as to make a comparative study for the coming years.

References

- [1] Act. Undang-Undang Republik Indonesia Nomor 19 Tahun 2003 Tentang Badan Usaha Milik Negara.
- [2] Iskan, Dahlan. 2012. Dahlan Akui Rancangan Anggaran BUMN Copy Paste, 29 Maret, Detik.com
- [3] Decree of Secretary of SOE Ministry Number: SK-16/S.MBU/ 2012 Tentang Indikator/Parameter Penilaian dan Evaluasi atas Penerapan Tata Kelola Perusahaan yang Baik (*Good Corporate Governance*) pada Badan Usaha Milik Negara.
- [4] Doughlas, P. C. dan Wier, B. 2005. Cultural and Ethical Effects in Budgeting Systems: A Comparison of U.S and Chinese Managers, *Journal of Business Ethics*. Volume 60, p. 159-174.
- [5] Wing, B.W., Guo, L. dan Lui, G. 2010. Intrinsic and Extrinsic Motivation and Participation in Budgeting: Antecedents and Consequences, *Behavioral*

*corresponding aauthor: Dr. Dian Indri Purnamasari
Department of Accounting, Faculty of Economics
Pembangunan Nasional Veteran Yogyakarta University
SWK Lingkar Utara Street, Number 104 Condongcatur
Yogyakarta Indonesia
e-mail: indri_mtc@yahoo.com