

## THE ROLE OF PSYCHOLOGICAL CAPITAL AND LEADER MEMBER-EXCHANGE ON PARTICIPATORY BUDGETING AND MANAGERIAL PERFORMANCE

**Bartolomeus Galih Visnhu Pradana**

Fakultas Bisnis dan Ekonomika, Universitas Atma Jaya Yogyakarta, Indonesia

*Email: bartolomeus.galih@uajy.ac.id*

Received: September 2020; Accepted: November 2020; Available online: January 2021

### Abstract

The competition is increasingly competitive in the world of education, particularly in this uncertain situation, it encourages every agency to plan, control, and determine the right policies. This study aims to explain the overall relationship between participatory budgeting and managerial performance by including Psychological Capital as an intervening variable and Leader Member Exchange as a moderating variable. The method used was a mixed method with a parallel convergent approach, it is conducted to produce more comprehensive facts. The method of data analysis and hypothesis testing used was Structural Equation Modeling. The survey results of 161 managerial positions in private high schools in DIY indicated that budget participation was directly related to managerial performance. Psychological capital was found to partially mediate the relationship between participatory budgeting and managerial performance. Then, the higher relationship between superiors and subordinates will increase the relationship between participatory budgeting and managerial performance. The survey results were also supported by the results of interviews with informants. This research contributes to the formation of employee of psychological capital and the implementation of leadership style as an important factor in influencing performance.

**Keywords:** participatory budgeting, managerial performance, psychological capital, leader member exchange.

### Abstrak

*Persaingan yang semakin kompetitif di dunia pendidikan khususnya pada situasi yang tidak menentu seperti ini, mendorong setiap instansi untuk melakukan perencanaan, pengendalian, dan menentukan kebijakan yang tepat. Penelitian ini bertujuan untuk menjelaskan hubungan yang menyeluruh antara penganggaran partisipatif dan kinerja manajerial dengan memasukan Psychological Capital sebagai variabel intervening dan Leader Member Exchange sebagai variabel moderasi. Metode yang digunakan adalah metode campuran dengan pendekatan paralel konvergen, hal ini dilakukan untuk menghasilkan fakta yang lebih komprehensif. Metode analisis data dan pengujian hipotesis yang digunakan adalah Structural Equation Modelling. Hasil survey kepada 161 jabatan manajerial di SMA Swasta di DIY menunjukkan bahwa penganggaran partisipatif berhubungan langsung dengan kinerja manajerial. Psychological capital ditemukan memediasi secara parsial hubungan penganggaran partisipatif dan kinerja manajerial. Kemudian, semakin tingginya hubungan antara atasan dan bawahan maka akan meningkatkan hubungan antara penganggaran partisipatif dengan kinerja manajerial. Hasil survey didukung pula oleh hasil wawancara dengan informan. Penelitian ini memberikan kontribusi terhadap pembentukan psychological capital karyawan serta pengimplementasian gaya kepemimpinan sebagai faktor penting dalam mempengaruhi kinerja.*

**Kata kunci:** *penganggaran partisipatif, kinerja manajerial, psychological capital, leader member exchange.*

**How to Cite:** Pradana, B. G. V. (2021). The Role of Psychological Capital and Leader Member-Exchange on Participatory Budgeting and Managerial Performance. *Media Ekonomi dan Manajemen*, 36(1), 11-25. doi: <http://dx.doi.org/10.24856/mem.v36i1.1811>.

## INTRODUCTION

The role of the budget is very essential in the running of business processes, starting from planning, controlling, and making decisions. Many organizations assume that the budget is an activity plan that will guide the implementation of a certain series of activities in the future, therefore, the budget must be designed effectively, where managers need a reasonable forecast of future conditions (Nouri et al., 1996). There are several approaches that can be undertaken in budgeting, one of which is a combined approach known as the participatory budgeting approach (Anthony and Govindarajan, 2009).

Research on the effects of participatory budgeting on performance has been extensively examined, however several research have not shown consistent results. These inconsistent research results may be due to the absence of a simple direct relationship between participatory budgeting and performance (Gul et al., 1995). The inconsistency of the results of this research is generally because previous researchers used different perspectives in developing theories to explain the relationship between participative budgeting and performance (Covaleski et al., 2003). According to Sardjito and Muthaher (2008), through a contingency approach we can overcome the differences in results from previous studies. This contingency approach is an approach that enables other variables to be an indirect influence factor between participatory budgeting and performance.

One of the contingency variables that attracts the researcher is motivation. The first is internal motivation, namely Psychological Capital as an intervening variable that will explain the relationship between participatory budgeting and performance. Luthans et al., (2007) introduces Psychological Capital or commonly abbreviated as Psycap, as a description of individual's positive psychological capacities and abilities.

Psycap is defined as a state of positive psychological growth in which individuals are characterized by self-efficacy, optimism, hope, and resilience (Luthans et al., 2007).

The second is external motivation, namely the leadership approach (the role of leaders in an organization). The role of a leader in an organization is to provide motivation for all employees, minimize disruption in achieving goals, provide guidance and support needed by employees in achieving goals, and provide rewards for achieving goals that have been carried out by employees (Hughes et al., 1999). The empirical results regarding the interaction of leadership style with participatory budgeting are inconsistent, it is due to the previous studies about the leadership style approach only concerned on the perspective of the leader. Previous researchers assumed that leaders treated all their employees with the same attitude. Possibility, it is not uncommon in an organization, leader shows different attitudes to its employees. The difference in this attitude underlies the emergence of Leader Member Exchange Theory, hereinafter it is abbreviated as LMX. According to Kreitner and Kinicki (2005), the LMX model assumes that leaders establish unique relationships with one by one subordinate. The relationship between different leader and subordinate can create groups.

Based on this description, this research aims to explain a more comprehensive relationship between participatory budgeting and performance by including the Psychological Capital variable as an intervening or mediating variable, which with Psycap places our mindset to emphasize and focus on the positive capabilities, goodness and capacities that owned by individual, instead of focusing on a individual's weaknesses, negative things, or dysfunctional behavior. The researcher also has expectation in the organizational mindset, that organizations are expected to

focus more on something positive that will emerge with the involvement of employees in budgeting. This research also includes the Leader Member Exchange variable as a variable that moderates the relationship between participatory budgeting and managerial performance; This concept is more likely to concern on the formation of leadership patterns based on leader behavior, which shows the close relationship between the leader and members, namely in-group and out-group. The object of this research was a private high school in Yogyakarta, Yogyakarta which is also known as a student city which has quality developments in the education sector, this can be seen when in 2015, Yogyakarta received the highest integrity index in the implementation of the SMA National Examination (<https://kemdikbud.go.id>). Thus, to be able to continue to compete and develop, especially in this uncertain situations, schools must be able to plan, control, and make the right decisions. By implementing participatory budgeting, it will affect the performance of a manager in an organization, including education services, which is a very competitive industry and is influenced by various factors, thereby the manager's strategy, especially in participatory budgeting, is very important.

## **LITERATURE REVIEW**

### **Participatory Budgeting**

Participatory Budgeting is a process in which budget maker participates and has effect in determining the size of the budget (Anthony and Govindarajan, 2009). The main point in participatory budgeting is the cooperation between all levels of the organization is needed. Not only for top managers, but also manager who places under them, it is also expected to participate in designing of budgeting.

### **Psychological Capital**

Psychological Capital or commonly known as Psycap. This term is introduced by Luthans et al., (2007), which describes

a individual's positive psychological capacities and abilities. They define Psycap as a condition for a person's positive psychological growth that has the following characteristics: 1) self-efficacy, the individual has confidence in carrying out and taking the effort needed to complete the responsibilities that are being done, 2) optimism, the individual has a positive reaction to success what has been achieved and what will come, 3) hope, the individual keeps and is firm with the goals to be achieved and manages efforts to make these goals successful 4) resilience, if the individual experiences problems and failures, the individual will keep going and rebuild to achieve success , even it is stronger than before.

### **Leader Member Exchange**

Theories of leadership usually discuss the personal characteristics of leadership, situational effect or both, while LMX focuses on the relationship between superiors and subordinates (Gerstner and Day, 1997). According to Robbins (2003), subordinates can be divided into two, namely those close to the leader (in-group) and those who are less close to the leader (out-group). The relation between superiors and subordinates cannot be created without the existence of a relationship of mutual respect (respect), there is no trust both of them, and cannot see that the effect of obligations will grow into a work relation.

### **Managerial Performance**

Performance is a reflection of the level of achievement on the implementation of an activity or policy program to achieve targets, objectives, carry out missions, in order to achieve the organization's vision (Mulyadi, 2001). Performance can be defined as the performance that an organization can achieve within a certain period of time by carrying out activities that are based on policies in order to achieve targets, goals, visions, and through the organizational

mission contained in the organization's strategic plan.

### **The Development of Hypothesis The Effect of Participatory Budgeting on Psychological Capital**

Participatory budgeting supports an individual in interacting with superiors and his experience in completing tasks, which is necessary on the success (Bandura, 1997). Individuals who are actively involved in budgeting tend to do their best to make the potential of individuals develop to achieve predetermined goals (Bangun, 2017). In accordance with the positive psychological concept, the organization allows its employees to participate in the budgeting process in order to increase the probability of a positive outcome when experiencing some risk and uncertainty. The research of Venkatesh and Blaskovich's (2012), used psychological capital as a mediating variable in explaining the relationship between participatory budgeting and performance, it showed that participatory budgeting had a positive effect on psychological capital. It is assumed that the individual wants to have a greater Psycap level when participating in the budget setting process, this is due to the involvement of these individuals will increase self-efficacy, hope, resilience, and optimism. Based on this explanation, the hypothesis is proposed as follows:

H1: Participatory budgeting has a positive effect on psychological capital.

### **The Effect of Psychological Capital on Managerial Performance**

Psychological capital is defined as a individual's positive behavior, which is shown by strong behavior, namely: having self-efficacy, hope, resilience, and optimism. Several previous studies suggest that Psycap is the main construct that has a positive and significant impact on employee performance (Luthans et al., 2008). Thus, the positive mental strength of employees leads to the increase of

employee performance (Venkatesh and Blaskovich, 2012), employees believe that they can do the work they are given to achieve predetermined targets. Employees will be optimistic, have hope and persistence in solving problems that may occur in their work, so that the impact is that managerial performance will increase. Based on this explanation, the proposed hypothesis is:

H2: Psychological capital has a positive effect on managerial performance.

### **The Effect of Participatory Budgeting on Managerial Performance**

Hansen and Mowen (2009) revealed that participatory budgeting will greatly affect on the performance of a manager due to the lower-level managers who are involved in budgeting will see that the goals of their organizational budget are also personal goals, in this regard, it will increase the alignment of goals. Increased responsibility and the inherent obstacles to these activities will lead to increased performance.

Eker (2008) carried out research on the manufacturing industry in Turkey. It indicated that there is a positive and significant relationship between participatory budgeting on managerial performance. Participation in budgeting can increase of individual's motivation which will have an impact on increasing performance (Hasniasari and Sholihin, 2014). Based on this explanation, the proposed hypothesis is as follows:

H3: Participatory budgeting has a positive effect on managerial performance.

### **Psychological Capital Mediates the Relationship between Participatory Budgeting and Managerial Performance**

Participatory budget is defined as the extent to which employees participate in arranging the budget so that it has an effect on the predetermined budget goals. Employees will feel valued, when they are included in participating in the budgeting process (Brownell and McInnes, 1986).

The satisfaction of employee will increase and it has an impact on improving performance, when employees better understand the goals of the company budget (Lau and Tan, 2003). Managers who are involved in budgeting, they are expected to improve the Psycap, and the increasing Psycap is expected to improve employee performance. Psychological capital constituents of hope, optimism and resilience will be able to increase individual self-confidence, so that it correlates with individual performance (Venkatesh and Blaskovich, 2012). Lina (2015) also suggested that psychological capital mediation can link participation with managerial performance. Based on this explanation, the proposed hypothesis is as follows:

H4: Psychological capital mediates the relationship between participatory budgeting and managerial performance.

Participatory Budgeting, Managerial Performance and LMX

The concept of the LMX leadership style focuses more on the close

relationship between the leader and its subordinates. Truckenbrodt (2000) explained that the essence of the relationship between superiors and subordinates is to increase the success of an organization through the relationship both of them. Subordinates who have close relation to the leader (in-group) will receive and offer a set of favorable outcomes, including the attention and support of the leader, more time devoted to work activities, willingness and awareness to provide ideas, and the lack of work problems (Rosse and Kraut , 1988).

The research of Wayne et al., (1997) revealed that the higher the LMX level (in-group), the increased performance has a higher chance than the lower LMX level (out-group). It is in line with Wang's (2016) research, it stated that leader member exchanges have a positive effect on performance. Based on this explanation, the proposed hypothesis is as follows:

H5: Leader Member Exchange as a moderating variable strengthens the relationship between participatory budgeting and managerial performance.

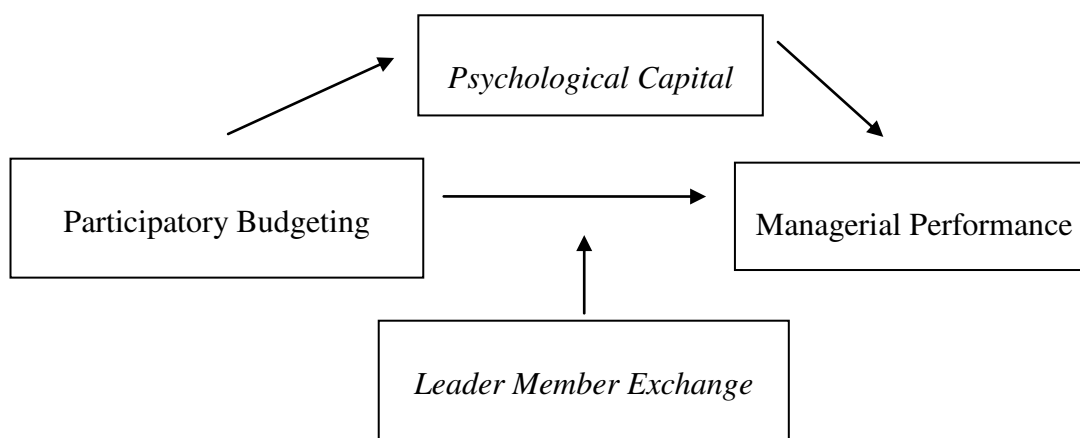


Figure 1. Conceptual Framework

## RESEARCH METHODS

### Research data

This research used a mixed method. Mixed methods are divided into 2 (two) approaches, namely parallel convergent and sequential (Creswell 2016). A convergent parallel approach is further used in this research. In a convergent parallel approach, the researcher collected quantitative and qualitative data jointly, then the data was analyzed. The results of the analysis of the two data were further confirmed and then concluded. The population used in this research was a private high school in the Special Region of Yogyakarta. According to the Yogyakarta Special Region Education, Youth and Sports Agency (DIKPORA D.I.Yogyakarta), private senior high schools in 2017 were 95. Sampling in this research used purposive sampling. Respondents in this research were people who held managerial positions at private high schools in DIY such as the head of school, head of curriculum, head of facilities and infrastructure, head of student affairs, head of administration.

To obtain quantitative data, 300 questionnaires were distributed to respondents directly, each school 3-5 questionnaires. It was given 2 weeks to fill out the questionnaire. Meanwhile, to obtain qualitative data, it was carried out through semi-structured interviews. The results of the analysis of the two data obtained were further confirmed and conclusions were drawn. The following were 4 variables used in this research:

*First*, Managerial Performance was the dependent variable. This variable was measured using a questionnaire sourced from Mahoney et al., (1965) with the dimensions of management functions according to management theory, it consisted of 8 questions.

*Second*, Participatory Budgeting was an independent variable. This variable was measured using a questionnaire sourced from Milani (1975) with the dimensions of

the characteristics and function of the budget, it consisted of 6 questions.

*Third*, Psychological Capital was an intervening or mediating variable. This variable was measured using a questionnaire developed by Luthans et al., (2007) with the dimensions of psychological capital, consisting of 24 questions.

*Fourth*, Leader Member Exchange was a moderating variable. This variable was measured by a questionnaire adopted from Graen et al., (1982) with the dimension of understanding leader member exchange, it consisted of 7 questions.

### Validity test

The aim of this questionnaire validity test is to test the use of a measuring instrument for an event. The results to test the validity of this research were seen from the loading factor or AVE (average variance extracted) which represents convergent validity, and the cross factor and AVE root values represent discriminant validity. According to Hair et al., (2013) rule of thumbs of the loading factor value is above 0.7; AVE must be more than 0.5; AVE root is greater than the latent variable correlation and the cross loading is more than 0.7.

### Reliability Test

Reliability test in this research was reflected in the value of cronbach alpha and composite reliability. Cronbach alpha provides a reliability estimate based on the intercorrelation of the observed variable indicators. A construct can be said to be reliable when the value of cronbach alpha and composite reliability are more than 0.7 (Hair et al., 2013).

### Hypothesis Testing

Hypothesis testing in PLS SEM is carried out on structural models. The structural model is evaluated using R<sup>2</sup> for the dependent variable, and each path is tested for significance between constructs using the path coefficient value or t-values

(Hartono, 2011). The level of variation in the change in the independent variable on the dependent variable is seen from the R<sup>2</sup> value.

### **Validity and Reliability Test in Qualitative Research Triangulation**

Different sources of information data by examining the evidence that comes from these sources and using it to build a coherent justification for themes (Creswell 2016). Triangulation used in this research was source triangulation. The first source that the researcher used was information obtained from interviews. The researcher proposed several same questions to each respondent in order to increase the validity of the information obtained.

### **Member Checking**

Member checking used to find out the accuracy of research results, by providing the results of interview reports to informants. Member Checking is undertaken in order to discover the accuracy of research results (Creswell 2016). After the interview process was carried out with the informants, the researcher made a transcript of the interview. The completed interview transcripts were given to each informant via WhatsApp social media for checking. After checking by the respondent, then the respondent conducted confirmation to the researcher.

## **RESULT AND DISCUSSION**

Quantitative data were obtained by distributing questionnaires to 300 managerial office holders in the school environment. The total of questionnaires that can be processed was 161 (54%). The characteristics of respondents from the data reported in table 1.

### **The Method of Instrument Testing Validity, Reliability and Model Fit**

Convergent validity is evaluated by considering indicators in the form of

loading factor and average variance extracted (AVE). The criteria for the fulfillment of construct validity are the factor loading value above 0.7 and the AVE value above 0.5 (Hair et al., 2013). Table 2 and table 3 show the construct validity with the WarpPLS 6.0 statistical tool.

Table 2 indicates that the factor loading value of each construct forming indicator. The result of WarpPLS 6.0 calculation in the table above shows that the convergent validity requirements have been fulfilled, it is due to the loading factor for each indicator is more than 0.7 and significant.

Table 3 shows that the discriminant validity has been fulfilled, because the value of the AVE root in the diagonal column is higher than the correlation between latent variables in columns other than the diagonal column.

To evaluate the reliability of the questionnaire, it can be seen based on the indicators of composite reliability and cronbach's alpha. The criteria for fulfilling the reliability of the questionnaire instrument by looking at the composite reliability and Cronbach's alpha value are more than 0.7 (Hair et al., 2013).

Table 4 shows that the average variance extracted (AVE) value has met the requirements above 0.5, thus the questionnaire is valid. Meanwhile, the composite reliability value and Cronbach's alpha were used as the basis for testing of reliability. The result of the WarpPLS 6.0 calculation shows that the questionnaire instrument of this research has met the requirements of the reliability test, by showing the value of the composite reliability and Cronbach's alpha are more than 0.7. Meanwhile, the value of Full collinearity VIFs in this research is lower than 3.3, which indicates that this research model is free from problems of vertical collinearity, lateral and common method bias (Sholihin and Ratmono, 2013).

Table 5 indicates that the model in Figure 1 is fit because the P-values, APC,

and ARS are significant, namely it is less than 0.05 and the AFIV (variance inflation factor) value is less than 5 (Sholihin and Ratmono, 2013).

**Table 1.** Profile of Respondents

No	Characteristics	Total Respondents	of %
1	Gender	Male	73 45 %
		Female	88 55 %
2	Position	Headmaster	24 15 %
		Head of Curriculum Division	21 13 %
		Head of Facilities and Infrastructure	22 14 %
		Head of Student Affairs	21 13 %
		Head of administration	23 14 %
		Teacher	18 11 %
		Treasurer	15 9 %
		Others	17 11 %
		3	Length of work
5 - 10 Years	24 15 %		
> 10 Years	100 62 %		
4	Education	Senior High School /Equivalent	11 7 %
		D3	11 7 %
		S1	120 75 %
		S2	15 9 %
		Others	4 2 %

Source: Processed data

**Table 2.** Combined loadings and cross-loadings Testing

Information	Budget	Psycap	LMX	Perfomance	P-Value
AP1	0.835	-0.114	0.041	-0.009	<0.001
AP2	0.784	0.023	0.090	0.036	<0.001
AP3	0.774	0.321	-0.249	0.023	<0.001
AP4	0.903	-0.009	0.076	-0.032	<0.001
AP5	0.870	-0.088	-0.017	0.004	<0.001
AP6	0.872	-0.098	0.039	-0.016	<0.001
PCSE1	0.451	0.797	0.085	-0.024	<0.001
PCSE2	0.294	0.794	-0.072	-0.077	<0.001
PCSE3	0.353	0.807	-0.071	-0.025	<0.001
PCSE4	0.269	0.818	-0.153	-0.192	<0.001
PCSE5	0.274	0.797	-0.202	-0.012	<0.001
PCSE6	0.151	0.812	-0.092	-0.059	<0.001
PCO1	0.108	0.768	-0.293	-0.029	<0.001



**Table 2.** Continue

<b>Information</b>	<b>Budget</b>	<b>Psycap</b>	<b>LMX</b>	<b>Perfomance</b>	<b>P-Value</b>
PCO2	-0.091	0.838	0.056	0.002	<0.001
PCO3	-0.083	0.761	-0.128	-0.019	<0.001
PCO4	0.162	0.752	-0.105	0.042	<0.001
PCO5	0.002	0.820	-0.192	0.123	<0.001
PCO6	0.015	0.725	-0.067	0.070	<0.001
PCR1	-0.081	0.836	-0.002	0.044	<0.001
PCR2	-0.029	0.777	-0.275	0.099	<0.001
PCR3	-0.077	0.813	-0.123	-0.052	<0.001
PCR4	0.048	0.828	-0.163	0.040	<0.001
PCR5	-0.014	0.789	-0.093	0.144	<0.001
PCR6	0.077	0.760	0.027	0.091	<0.001
PCH1	-0.309	0.769	0.176	-0.098	<0.001
PCH2	-0.226	0.789	0.284	-0.064	<0.001
PCH3	-0.323	0.762	0.390	-0.026	<0.001
PCH4	-0.304	0.766	0.315	0.022	<0.001
PCH5	-0.368	0.731	0.363	-0.019	<0.001
PCH6	-0.403	0.714	0.432	0.030	<0.001
LMX1	-0.187	0.265	0.719	0.095	<0.001
LMX2	-0.144	-0.007	0.755	-0.153	<0.001
LMX3	0.180	0.057	0.783	0.020	<0.001
LMX4	0.071	-0.281	0.812	0.071	<0.001
LMX5	0.215	-0.286	0.771	0.011	<0.001
LMX6	-0.041	0.020	0.739	-0.072	<0.001
LMX7	-0.114	0.254	0.804	0.025	<0.001
KM1	0.056	-0.023	-0.039	0.890	<0.001
KM2	0.017	0.027	-0.007	0.787	<0.001
KM3	-0.098	0.094	-0.045	0.824	<0.001
KM4	0.045	-0.140	0.147	0.820	<0.001
KM5	-0.024	0.054	-0.102	0.819	<0.001
KM6	-0.084	-0.000	-0.013	0.786	<0.001
KM7	0.101	-0.037	0.094	0.811	<0.001
KM8	-0.018	0.027	-0.030	0.835	<0.001

Source: Processed data

**Table 3.** Comparison of the roots of AVE with the correlation between variables

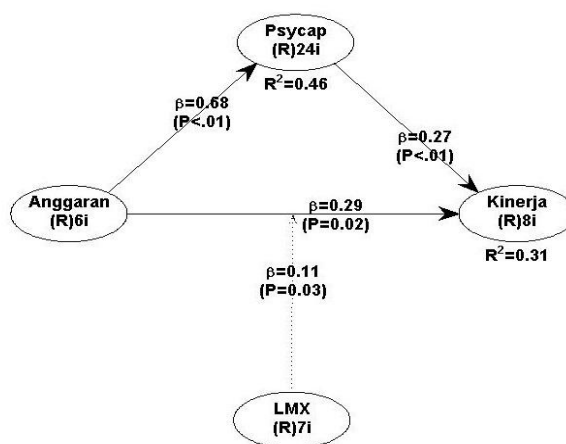
<b>Information</b>	<b>Budget</b>	<b>Psycap</b>	<b>LMX</b>	<b>Perfomance</b>
Budget	0.841	0.644	0.491	0.357
Psycap	0.644	0.785	0.734	0.396
LMX	0.491	0.734	0.770	0.282
Performance	0.357	0.396	0.282	0.822

Source: Processed data

**Table 4.** Latent variable coefficients

Information	Budget	Psycap	LMX	Perfomance
R-squared coefficients				
Adjusted R-squared coefficients				
Composite reliability coefficients	0.935	0.975	0.910	0.943
Cronbach's alpha coefficients	0.916	0.973	0.885	0.931
Average variances extracted	0.707	0.616	0.592	0.676
Full collinearity VIFs	1.748	2.926	2.172	1.212

Source: Processed data



**Figure 2.** The Result of Research Model Testing

**Table 5.** The Testing Results of the Model Fit Research Model

Information	Calculation	P-values
Average path coefficient (APC)	0.336	<0.001
Average R-squared (ARS)	0.384	<0.001
Average block VIF (AVIF)	1.594	

Source: Processed data

**Table 6.** Summary of Research Results

Information	Coefficient	P-values	Result
H1 Participatory Budgeting → Psycap	0,68	<0,01***	Supported
H2 Psycap → Managerial Perfomance	0,27	<0,01***	Supported
H3 Participatory Budgeting → Managerial Perfomance (Direct Relationship)	0,50	<0,01***	Supported
H4 Participatory Budgeting → Managerial Perfomance (Indirect Relationship)	0,29	0,02**	Supported
H5 LMX * Participatory Budgeting	0,11	0,03**	Supported

Source: Processed data \*P<0,10; \*\*P<0,05; \*\*\*P<0,01

## Hypothesis Testing

This research examined the direct and indirect effects of participatory budgeting, managerial performance, and psychological capital. This research also examined the moderating effect of LMX. There are five hypotheses proposed. If the P value  $<0.01$  then the significant is at the 1% level, P  $<0.05$  then it is significant at the 5% level, P  $<0.1$  then it is significant at the 10% level. The results of the calculations from WrapPLS 6.0 reported in table 6.

## Discussion of Hypothesis

The first accepted hypothesis proves that a participatory budgeting model is conducive to improve and develop the psychological capital of employee. It is in line with Bangun's (2017) research, these results explain that participatory budgeting is an important source of success, it is due to it is conducive for each individual to interact with the leader to obtain feedback on their social beliefs, as well as experience in completing tasks.

The second accepted hypothesis proves that Psycap, which focuses on improving and developing the mental strength of employee, it leads to the performance of employee is increasing, because employees will believe that they can complete all the work assigned to them by achieving predetermined targets. It is accordance with Venkatesh and Blaskovich's (2012) research, employees will have higher expectations and be optimistic in solving problems in their work, thereby it can improve its managerial performance.

The third accepted hypothesis proves that participatory budgeting is considered to effect the managers in making decisions and carry out its function to better support managerial performance. It is accordance with research by Adler and Reid (2008), it is stated that managers who participate directly in budgeting, it will have a better understanding of the targets of the budget. This encourages the manager compiles the

budget seriously, because the achievement of the targets set in the budget will be used to assess the manager, therefore, the manager will improve its performance.

The fourth accepted hypothesis proves that psychological capital, which functions as an intervening or mediating variable, it has an effect on the relationship between participatory budgeting and managerial performance or it can be asserted that psychological capital is able to increase the effect between participatory budgeting and managerial performance. These results explain that implementing the participatory budgeting will improve managerial performance if it is accompanied by psychological capital.

The fifth accepted hypothesis proves that the leader member exchange can strengthen the relationship between participatory budgeting and managerial performance. Subordinates who are close to the leader (in-group) will receive and offer a set of favorable outcomes, including the attention and support of the leader, more time provided to work activities, willingness and awareness to provide ideas, and the fewer of work problems.

## The Result of Qualitative Research

To obtain qualitative data, this was carried out through interviews which were conducted within a span of 2 weeks, and the following is an analysis of the results of interviews with 9 informants, consisting of 2 headmasters, 5 field heads and 2 treasurers in different private high schools in Special Region of Yogyakarta.

Based on the results of the interview, it was found that the budgeting process carried out in private high schools in DIY was mandatory. All employees were required to participate in the budgeting process. The process of compiling budgeting was evaluated once a year, to be precise before the new year's teaching was held. Each division head invited its subordinates to propose a division budget which was then proposed at a meeting with

the foundation. This was conducted because only the division who understood the conditions and programs that would be needed or carried out, so that the amount budgeted must be in accordance with the needs of each division. The budget proposal process was carried out using two-way communication, so that when the amount of the budget has been determined, it becomes a collective agreement. The budget has been agreed, it will serve as a guideline for the upcoming new year teaching and will be evaluated before the school year changes.

This kind of budgeting process was felt to be quite effective, due to the informants felt valued, therefore the informant would be responsible for what had been proposed and what had been agreed jointly. Informants feel trusted and involved in planning the program for the success of their institution. It encouraged to the informants felt comfortable working wholeheartedly for their organization. Even in the midst of the uncertainty that was being dealt with, informants still encouraged to show their best performance because informants felt that they had a psychological bond with their work. It is believed by the informant because the informant had knowledge of what actions to take with its team during the next year, so that the informant would effectively take the necessary action steps to achieve the predetermined success. Informant was motivated in completing their tasks well, although informant's target was not accordance with the plan. The informant believed that success and failure were certain to happen. When informants failed in carrying out their duties, then something must be corrected so that they did not fall into the same failure or error. The informant felt fully responsible for the work that produced, so that the informant will improve and enhance its performance.

The role of superiors for informants was very essential in building a positive atmosphere in the work environment. Informants felt that their superiors can

influence the behavior of other people in their institutions as desired. For informants, the spirit of serving one another is a factor in strengthening relations between employees. Managerial position is only limited to organizational structures. In their daily lives, informants feel that the relationship between employees is kinship, so that one another understands the abilities and character of each individual. Superiors will assign different responsibilities to each employee by taking a personal approach, superior evaluates and asks what difficulties are being faced and suggestions that they have for the progress of the agency. In fact, it is not uncommon when dealing with trouble situation, the superior is immediately present in the middle of a problem to provide solution and work on it jointly. With respect to the issue, the informant felt that he was being cared for, so that all tasks given by the superior would be carried out with full responsibility. The spirit of service and the desire to "reciprocate" the good attitude of its superior will be shown through the resulting performance. However, it is different if a superior does not care about its subordinates and its agency, the informant will feel uncomfortable and as the result, the performance is not optimal.

The informants argued that the human resource factor was the most important factor in achieving performance. Informants revealed that the success of an agency can occur because of the people in the agency. An agency does not only need individuals who have high intelligence, but also individuals who have attitudes and behaviors that show high fighting power when they are faced with work pressure, the pressure can be from within or outside the agency. Something that is inside an individual or something that is received by an individual that comes from outside, it can affect the level of quality of its performance. Therefore, the agency routinely carries out activities to improve the quality of its employees, both soft

skills and hard skills. Informants feel comfortable so that they have a willingness and commitment to their organization, this is what makes the informant excited and dedicates its self to the progress of its institution. When informants have a good perception of their organizational policies, the informants will show better performance, thus, as time goes by, some informants reveal that those who initially worked in staff positions began to be trusted to occupy managerial position and began to be trusted to represent its institutions in various events with other agencies.

## **CONCLUSION AND RECOMMENDATION**

This research aims to explain the overall relationship between participatory budgeting and managerial performance by including Psychological Capital as an intervening variable and Leader Member Exchange as a moderating variable. From the data analysis, all the hypotheses raised in this research are supported and significant. The results of this quantitative research are also supported by interviews with informants.

The results of this research reveal that by implementing participatory budgeting, it can increase the managerial performance. This means that appropriate participatory budgeting can improve managers; ability to make decisions and determine strategies that will have a positive impact on managerial performance in a business environment, in this case is school. It confirms that the role for each manager in each area during the budgeting process will create an increased sense of responsibility in each existing function. Therefore, it is expected that every individual, especially middle-level managers, is able to play an active role in each of its fields in making budgets to improve managerial performance.

This research also shows that one of the successes in corporate governance is how the leader manages and motivates the

employees to reach their maximum potential to be involved, assembles change, and makes good technical decisions. Therefore, the role of a leader is needed more than just managing daily operational work, as well as a planning function in a good system as a performance guide. The concept of LMX leadership style focuses more on the relationship between superiors and subordinates. Subordinates who are close to the leader (in-group) will receive and offer a set of favorable outcomes, including the attention and support of the leader, more time provided to work activities, willingness and awareness to provide ideas, and fewer work problems. Employees who are included in the in-group are more likely to have a higher performance than employees who are included in the out-group.

The limitation in this research is the presence of personal judgment in filling out the research questionnaire enables dishonesty and bias of social desire, although technically the reduction of social desirability bias in this research has been undertaken by providing anonymous questionnaires. In addition, it is difficult to find out the schools that are able to participate in research, due to the school's policy which is quite strict in accepting research, moreover this research has been conducted during the new school year. Looking for objects that have a high willingness to participate in development and research, it is a solution for further researcher, for example manufacturing, printing, and others.

The results of this research are expected to make a positive contribution to explain the concept and model of the relationship between participatory budgeting and managerial performance. Furthermore, this research is also expected to contribute to the development of the theory with the construct of psychological capital and the concept of leadership is linked to participatory budgeting. The results of this research are also expected to provide practical contribution to the

employee of psychological capital as a measurable construct, to be developed and the implementation of appropriate leadership styles as important factors that can affect on the performance.

## REFERENCES

- Adler, R. W., & Reid, J. (2008). The effect of leadership style and budget participation on job satisfaction and job performance. *Asia-Pacific Management Accounting Journal*, 3(1), 21-46.
- Anthony, R. N., & Govindarajan, V. (2009). *Management Control System*. Jakarta, Indonesia: Salemba Empat.
- Bandura, A. (1997). *Self-Efficacy: The Exercise of Control*. New York: Freeman.
- Bangun, N. (2017). Partisipasi Anggaran dan Kinerja Manajerial Melalui Psychological Capital dan Persepsi Terhadap Inovasi (Penelitian Empiris pada Satuan Kerja Perangkat Daerah di Provinsi DKI Jakarta). *Jurnal Akuntansi*, 21(2), 278-301.
- Brownell, P., & McInnes, M. (1986). Budgetary Participation, Motivating and Managerial Performance. *The Accounting Review*, October, 587-600.
- Covaleski, M. A., Evans, J. H., Luft, J. L., & Shields, M. D. (2003). Budgeting Research: Three Theoretical Perspectives and Criteria for Selective Integration. *Journal of Management Accounting Research*, 15, 3-49.
- Creswell, J. W. (2016). *Research Design: Pendekatan Metode Kualitatif, Kuantitatif dan Campuran. Research Design, 4nd Edition. 4 ed.* Yogyakarta: Pustaka Pelajar.
- Eker, M. (2008). The Affect of The Relationship Between Budget Participation and Job-Relevant Information on Managerial Performance. *Ege Academic Review*, 8, 183-198.
- Gerstner, C. R., & Day, D. V. (1997). Meta-analytic review of leader-member exchange theory: Correlate and construct issues. *Journal of Applied Psychology*, 82: 827-844.
- Graen, G., Liden, R., & Hoel, W. (1982). Role of leadership in the employee withdrawal process. *Journal of Applied Psychology*, 67, 868-872.
- Gul, F. J., Tsui, S. C., & Kwok, H. Y. (1995). Decentralization as a moderating factor in the budgetary participation-performance relationship: Some Hong Kong evidence. *Accounting and Business Research*. 25(98), 107-113.
- Hair, J. F., Christian M. Ringle., & Sarstedt, M. (1995). Decentralization as a moderating factor in the budgetary participation-performance relationship: Some Hong Kong evidence. *Accounting and Business Research*, 25(98), 107-113.
- Hair, J. F., G. T. M. Hult, C. M. Ringle, & Sarstedt, M. (2013). *A primer on partial least squares structural equation modeling (PLS-SEM)*. SAGE.
- Hansen, D., & Mowen, M. M. (2009). *Akuntansi Manajerial*. Jakarta, Indonesia: Salemba Empat.
- Hartono, J. (2011). *Konsep dan aplikasi struktural equation modeling berbasis varian dalam penelitian bisnis*. Yogyakarta, Indonesia: STIM YKPN.

- Hasniasari, R., & Sholihin, M. (2014). Analisis Hubungan Penganggaran Partisipatif dan Kinerja: Pengujian Efek Mediasi Keadilan Persepsian dan Komitmen pada Lembaga Hukum Sektor Publik di Indonesia. *urnal Akuntansi dan Keuangan*, 16 (1), 23–32.
- Hughes, R. L., Ginnett, R. C., & Curphy, G. (1999). *Leadership: Enhancing the lessons of experience* (3<sup>th</sup> ed). Boston: Irwin McGraw-Hill.
- Kreitner, R., & Kinicki, A. (2005). *Perilaku Organisasi*. Jakarta: Salemba Empat.
- Lau, C. M., & Tan, S. L. (2003). The Effects of Partisipation and Job Relevant Information on the Relationship Between Evaluative Style and Job Satisfaction. *Review of Quantitative Finance and Accounting*, 21, 17-34.
- Lina. (2015). Partisipasi Penyusunan Anggaran, Psychological Capital, dan Kinerja Manajerial. *Jurnal UPH*, 14(3), 301–20.
- Luthans, F., Avolio, B. J., Avey, J. B., & Norman, S. M. (2007). Positive Psychological Capital: Measurement and Relationship with Performance and Satisfaction. *Personnel Psychology*, 60, 541-472.
- Luthans, F., Avolio, B. J., Avey, J. B., & Norman, S. M. (2008). The Mediating Role of Psychological Capital in the Supportive Organizational Climate-Employee Performance Relationship. *Journal of Organizational Behavior*, 29, 219-238.
- Mahoney, T., Jerdee, T., & Carrol, S. (1965). The Jobs of Management. *Industrial Relations*, 4(2), 97-110.
- Milani, K. (1975). The relations of participation in budget setting to industrial supervisor performance and attitudes: a field study. *The Accounting Review*, 50(2), 274-284.
- Mulyadi. (2001). *Akuntansi Manajemen: Konsep, Manfaat dan Rekayasa*. Yogyakarta, Indonesia: PT. Salemba Empat Patria Universitas Gajah Mada.
- Nouri, H., & Parker, R. J. (1996). The effect of organizational commitment on the relation between budgetary participation and budgetary slack. *Behavioral Research in Accounting*, 8, 74-90.
- Robbins, S. P. (2003). *Perilaku organisasi*. Jakarta, Indonesia: PT Indeks Kelompok Gramedia.
- Rosse, J. G., & Kraut, A. I. (1988). Reconsidering the vertical dyad linkage model of leadership. *Journal of Occupational Psychology*, 61, 63-71.
- Sardjito, B., & Muthaher, O. (2008). Pengaruh Partisipasi Penyusunan Anggaran terhadap Kinerja Aparat Pemerintah Daerah: Budaya dan Komitmen Organisasi sebagai Variabel Moderating. *Jurnal Ekonomi dan Bisnis*, 2(1), 37-49.
- Sholihin, M., & Ratmono, D. (2013). *Analisis SEM-PLS dengan warpPLS 3.0: untuk hubungan nonlinier dalam penelitian sosial dan bisnis*. Yogyakarta, Indonesia: Andi.
- Truckenbrodt, Y. B. (2000). *An empirical assessment of the relationship between leader member exchange and organizational commitment and organizational citizenship behavior*. Florida: Disertasi Nova Southeastern University.
- Venkatesh, R., & Blaxkovich, J. (2012). The Mediating Effect of Psychological Capital on the Budgeting Participation – Job Performance Relationship. *Jornal of Management Accounting Research*, 24, 159-175.

- Wang, C. J. (2016). Does leader-member exchange enhance performance in the hospitality industry? The mediating roles of task motivation and creativity. *International Journal of Contemporary Hospitality Management*, 28(5), 1–45.
- Wayne, S. J., Shore, L. M., & Liden, R. C. (1997). Perceived organizational support and leader member exchange: A social exchange perspective. *Academy of Management Journal*, Vol. 40, No. 1, 82-111.