CHAPTER II
LITERATURE REVIEW

A. Theoretical Framework

1. Goal Setting Theory

Goal setting theory was developed by Edwin Locke (1986). Goal setting theory explains that individual actions are controlled by ideas (thoughts) and intentions within the individual. Individuals act based on the goals they want to achieve in carrying out an activity, the stronger the desire to achieve goals, the more motivated to keep moving.

Goal Setting Theory also explains the relationship between goals determined by job performance. The basic concept of this theory is an individual who understands the purpose (what the organization expects to him) will influence his work behavior. In other words, if an individual has determined a goal for his actions in the future, then that goal will influence his actions and behavior.

Robbins and Judge (2015) stated that to achieve the desired goals the manager must know the actions and efforts to be carried out. Therefore, the manager will act in accordance with the desired goals and objectives, so that the manager can find out the actions and efforts that should be done in accordance with those desired goals and objectives. This theory also explained that setting goals that are challenging (difficult) and the results can be measured, will be able to improve job performance, which is
followed by skills. The difficult goals when accepted will result higher performance than easy goals.

Based on the description, it is known that the performance of an organization will increase if there is a match between organizational goals and individual goals. With this suitability, there will be harmony in both. This Goal Setting Theory can explain the relationship between participation in budget preparation and managerial performance through organizational commitment as a moderating variable.

2. Motivation Theory

Someone in each behavior has a goal to be achieved. This goal is a motivation to be able to achieve what is expected. Motivation is a driver for someone's actions, especially in achieving goals. There are several motivational theories proposed by experts relevant to this study, namely:

a. Needs Hierarchy Theory

This theory was developed by Abraham Maslow in 1943. This theory explained motivation in 5 hierarchies of needs, one of them is the needs for self-actualization which is the highest level of needs. The need for self-actualization is the need to use abilities, skills and potency. The needs to express the ideas and criticism of something. In other words, the need for self-actualization emphasizes the principle of individual participation in certain decision making.
b. Expectation Theory

Expectation Theory was developed by Victor Vroom in 1964. This theory argues that the power to act in a certain way depends on the strength of an expectation that the output and the attractiveness of the output will be followed by the individual (Nurcahyani, 2010). This theory focuses on three relationships, one of them is the relationship between effort with performance. The relationship between effort and performance is the probability felt by individuals who mobilize a given effort that will lead to performance. Efforts here is regarding with participatory principles that are owned by individuals in an organization.

According to the theories about motivation above, it is clear that motivation is very influential on individual attitudes. Motivation will influence the attitudes of individuals in carrying out their work. Likewise, in terms of budgeting participation. The higher individual participation in budget preparation, the higher the individual motivation will be. This is because individuals are given space or freedom to participate in the budget preparation process. Furthermore, every individual involved in preparing the budget will be more motivated to improve the performance.

3. Contingency Theory

According to Govindarajan (1986), to reconcile conflicting research findings, a contingency approach is needed by evaluating conditional factors, in this study for example the possibility of things that can lead to
more effective apparatus performance. On Participation in budget preparation, the use of contingency theory has long been a concern of researchers. Prior researchers used contingency theory when connecting the influence of participation in budget preparation on apparatus performance.

The effect of participation in budget preparation on the performance of government apparatus has contingent factor, namely organizational commitment. The factor of organizational commitment is the moderating variable, which can strengthen or weaken the effect of budget participation on the performance of government apparatus. Organizational commitment is used as a moderating variable because the higher an individual's commitment to the organization, the better performance will be.

4. Participation in Budget Preparation

According to Mardiasm (2002) the budget is a statement about the estimation of an organization's performance that to be achieved during a certain period of time and expressed in financial measures. The budget has the same function as the purpose of the organization, namely as a function of planning, coordinating and controlling, for that the budget can control the activities of the organization's work units according to what is budgeted (Silmilian, 2013). Participation is a joint decision-making process by two or more people that has a future impact on the party that making the decision. It can be concluded that participation in budget preparation as a process in an organization that involves members of the organization in achieving goals and cooperation to determine a budget plan.
Participation in budget preparation has several advantages. First, managers have a large responsibility for the implementation of the approved budget, so that managers will be motivated to improve their performance and also the budget can be implemented in accordance with budget targets. Second, participation in budget preparation can enhance morale participation and lead to greater initiatives at all levels of management. Third, participation in budget preparation has an impact on better relations or linkages within the organization that directly influence the increase of cooperation among members of the organization so can reduce the pressure and difficulties in budget execution, Thus, managers who participate in the budget preparation process can find out the available resources so that budget objectives can be achieved with reasonable reason (Supriyatno, 2010).

5. Uncertainty of Environment

Duncan in Hwang (2005) states that uncertainty of environment is an individual's limitation in assessing the probability of failure or the success of decisions that have been made. In other word, individual have difficulty to predict the success of a decision. Furthermore, Duncan suggests that uncertainty of environment can be defined through three components.

The first component is a lack of information relating to environmental factors associated with the decision-making situation given. The second component of uncertainty of environment is not knowing the outcome of a particular decision in relation with how much the organization
will lose if the decision is incorrect. The last component is the inability to place probabilities, with any level of confidence, regarding how environmental factors will affect the success or failure of decision units in carrying out their functions.

According to Govindrajan (1986), one of the main sources of uncertainty coming from the environment is the regulator. In this case the regulator relates to regulations issued by the government to regulate organizations and policies that influence the practice of an organization. Uncertainty that arises can be in the form of rapid regulatory changes in a certain time span, the existence of rules that differ from one another, etc.

In conditions of high environmental uncertainty, individuals difficult to predict the failure and success of the decisions they make. Uncertainty of environment in this case is a condition in which the village government meet uncertainty that can be caused by external influences. The uncertainty such as changes in regulations or not match between regulations with one another.

6. Organizational Commitment

Allen and Meyer (1990) state that organizational commitment is emotional attachment, identification and involvement of individuals with the organization and the desire to remain as a member of the organization. Allen and Meyer (1990) also explain that there are three components of organizational commitment, namely affective commitment, continuance commitment and normative commitment.
Affective commitment is defined as an employee's emotional relationship to the organization. Individuals with high affective commitment have emotional closeness with the organization where they work and have a desire to remain in the organization. It is because they support organizational goals and are willing to contribute to their organization.

The second component is continuance commitment. This commitment is defined by the individual's desire to remain in the organization due to the calculation of losses if they leave the organization.

The third component is normative commitment. This commitment is the individual's feelings to remain in the organization because of pressure. They are very concerned with what others say if they leave the organization.

7. Managerial Performance

According to Mulyadi (2001) performance is a periodic determination of the operational effectiveness of an organization, part of an organization, and employees based on the targets, standards and criteria that have been previously determined. Managerial performance is the performance of individuals in managerial activities, such as planning, investigating, coordinating, evaluating, supervising, staffing, negotiating, and representing (Mahoney, 1963).

Furthermore, Mahoney (1963) states that planning is the determination of policies and a set of activities to be carried out based on
current and future conditions. Planning is an important aspect before implementing the program. The way to develop the organization's work activity plan, objectives, policies, direction of taken action are discussed in the planning phase.

The second managerial activity is investigation which is an activity to checks through collecting and presenting information. Investigations are usually recording of reports and accounts, inventory, measuring results, preparing financial statements, preparing records, conducting research and analyzing work. This investigation process serves to facilitate the implementation of measurement results and analysis of the work or activities that have been carried out.

The third managerial activity is coordination which is the process of working together with other parts of the organization by exchanging information. Coordination aims to connect and adapt programs, launch relationships with other managers, arrange meetings, provide information to superiors, and cooperate with other units. With coordination, managers or employees will have guidance in carrying out their responsibilities within the organization.

The fourth managerial activity is evaluation. Evaluation is an assessment carried out by the leader on plans that have been made and expectations of proposals, reports or observations about job performance. Evaluation is needed so that the management function in an organization
can run well and the results of the assessment can be taken as a necessary decision.

Other managerial activities are supervision. Supervision is an activity to measure and correct individual performance to ensure that what happened is in accordance with the plan. With proper and good supervision in the organization, there will be a balance and also can foster the creativity, so that it will improve performance within the organization.

Other managerial activity is staffing. Staffing is maintaining conditions and subordinates, selecting new managers, placing and promoting subordinates in their units. With a good staffing within the organization, the managers will work in accordance with the competency and expertise they have. With these competencies, managers will work optimally so that organizational goals will be achieved in accordance with expectations.

Negotiation is part of the managers’ job because managers have authority over their organization. Managers also have the center of information that needed to negotiate in the organization they lead. Negotiations that can be done by managers such as making agreements in terms of making purchases, sales or contracts for goods or services, tax negotiations, connecting suppliers, negotiating with sales representatives, with agents or consumers.

The last managerial activity is representative. Representative is the activity of conveying the vision, mission and activities of the organization
with speech, consultation and others to parties outside the organization. The role of managers must be able to balance the interests of all the groups they represent when making decisions, and must pay attention to the wishes of other groups with the presence of representatives, it is expected that the organization can hold the trust of the public, so that the organization will further improve its performance in achieving organizational goals.

B. Literature Review and Hypotheses Development

1. Relationship of Participation in Budget Preparation with Managerial Performance

Tapatfeto (2013) revealed that participation in budget preparation has a positive effect on managerial performance, with the participation in budgeting will improve managerial performance in the organization. Managers who hold managerial positions are expected to be able to produce a high managerial performance. Therefore, management needs a budget as an important component in planning and controlling in the organization. Planning is a foresight to see what actions should be taken so that organizational goals can be realized.

This is the same as the study conducted by Wiratno et al (2016) which also revealed the relationship between participation in budget preparation and manager performance has a significant positive relationship. Preparation of budget can act as a planning and performance criteria, where the budget can be used as a control system to measure managerial performance. This means that participation budgets can be assessed as a
managerial approach that can improve the performance of each manager as an individual because it is expected that each individual will be able to improve its performance in accordance with the predetermined targets.

Managers who have high budget participation will better understand budget goals. Because the performance of managers will be assessed based on budget targets that can be achieved, managers will be serious in preparing the budget and causing an increase in the performance of the manager. Based on the description above, hypothesis in this study can be formulated as follow:

\( H_1 \) : Participation in budget preparation has positive significant effect towards managerial performance of village government

2. Relationship of uncertainty of environment with Managerial Performance

Duncan's theory in Hwang (2005) which states that uncertainty of environment is an individual's limitation in assessing the probability of a failed or successful decision being made. Environmental uncertainty can be defined through three components, one of them is a lack of information relating to environmental factors associated with the decision-making situation given. Therefore, the high uncertainty of the organizational environment can make it difficult for managers to develop effective planning and control (Milliken, 1987)

According to Govindrajan (1986), one of the main sources of uncertainty coming from the environment is the regulator. In this case the
regulator relates to regulations issued by the government to regulate organizations and policies that influence the practice of an organization. Uncertainty of environment in this case is a condition in which the village governments meet uncertainty such as changes in regulations or not match between regulations with one another.

This shows that the higher the environmental uncertainty will result in a decrease in managerial performance. In other word, the higher the level of uncertainty of environment, the managerial performance will get worse.

Based on the description above, hypothesis in this study can be formulated as follow:

H2 : Uncertainty of environment has negative significant effect towards managerial performance

3. The Influence of Organizational Commitment on the Relationship Between Participation in Budget Preparation and Managerial Performance

Wiratno et al (2016) stated that stating that participation in budget preparation has a positive influence on managerial performance when organizational commitment is strong. In this case organizational commitment acts as an individual bond with the organization so that individuals feel they have the organization and can improve their managerial performance. The participation of all managers in decision making strengthens the tendency of subordinates to get to know the organization, so that organizational commitment will increase.
Strong organizational commitment in individuals will make individuals strive to achieve organizational goals. Conversely, individuals with low organizational commitment will have low attention to achieving organizational goals and tend to try to fulfill their personal interests. Participation in budget participation not only directly improves work performance, but also indirectly (moderating) through organizational commitment. Based on the description above, hypothesis in this study can be formulated as follow:

H₃: Organizational commitment can strengthen the relationship between participation in budget preparation and managerial performance of village government.

4. The Influence of Organizational Commitment on the Relationship between Uncertainty of Environment and Managerial Performance

Staw and Salancik in Chairy (2002) proposed two types of organizational commitment, namely: attitudinal commitment and behavioral commitment. Attitudinal commitment is a condition that an individual considers the extent of his personal values and goals are in accordance with the values and goals of the organization, as well as the extent of his desire to maintain his membership in the organization. In addition, the organizational commitment proposed by Mowday et al. (1982) characterized by: (1) strong belief and acceptance of organizational goals and values; (2) readiness to work hard; and (3) a strong desire to survive in the organization.
Members of the organization with a strong commitment to survive in
the organization and have the readiness to work hard will remain in the
organization despite high uncertainty of environment. This is because
members of the organization will consider uncertainty of environment as a
challenge and will not influence their commitment to the organization and
will continue to improve their managerial performance.

H₄ : Organizational commitment can weaken the relationship between
uncertainty of environment and managerial performance of village
government

C. Research Model

![Diagram](image)

Figure 2.1
Research Model