

Why Psychology Matter in Public Sector Budgeting ? An Indonesia Research Evidence

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Abstract— This is an critical opinion to explain why public sector need to notify psychology in the budgeting process. This article convinced that psychology studies important to understand people involved in budgeting process, in all of budget cycle, from preparation step, ratification, implementation and the accountability of budget process. An archival research used to dig depth understanding behaviour in four budget cycle. The data observed in research paper that was presented in Indonesia accounting symposium for 18 years. It was found that the role of psychology as personal problem increased related the impact of public sector reform. Pressure to change a new accounting standard, accounting techniques required a new mind setting up about the value of new public management i.e accountability and transparency. This research have implication in public sector path in using behavioral focus or variable instead of the technical aspect of public sector budgeting. In practical, by understanding the behacioral aspect especially psychology of budgeting actors, it make easiear for government or parliament to make decision related controlling the behacior aspect

Keywords: psychology, public sector reform, public sector budgeting cycle

I. INTRODUCTION

Psychology is the scientific study of the behavior of individuals and their mental processes covering everything that people think, feel and do(Henriques, 2004). As a scientific study, psychology uses scientific tools and help people to overcome their difficuties in overcome stress in life.

How about the corelation between psychology and budget? In financial personal literature, budget always corelate with financial quantification. Psychology matters when money comes (<https://www.economics.com/stories/why-psychology-matters-when-it-comes-to-money/>) Some previous research mention psychology and money(Dunn, Gilbert, & Wilson, 2011; Jameson, 2004; Jonas, Hansen, Walper, & Frey, 2015; Pathak, 2011; Thaler, 1985; Vohs, Mead, & Goode, 2006), psychology and debt(Brown, Taylor, & Wheatley Price, 2005; Lea, Webley, & Levine, 1993; Sussman & Shafir, 2012), psychology and saving(Loibl, Kraybill, & DeMay, 2011; Thaler, 1994; van Veldhoven & Groenland, 1993), psychology and credit card.

It all talk about psychology and personal finance and people wellness. Uncontrollable spending lead people being stress and unwellness. Psychologist try to help people in behaviorist approach and cognitive approach. The work of research related of human personal problem of money is part of psychology disipline, economic pschology. **Economic Psychology**studies the **psychological** mechanisms that underlie consumption and othereconomic behaviors. It deals with **economic** preferences, choices, decisions, and factors influencing these, as well as the consequences of **economic** decisions(Earl, 1988; Lea et al., 1993; Tarde & Toscano, 2007)

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How about money management in macro context in government level? Does psychology also matter in public sector budgeting? Managing money in government level known as public budgeting or government budgeting. Budgeting has traditionally been the process through which governments decide how much to spend on what, limiting expenditures to the revenues available and preventing overspending (Sicilia & Steccolini, 2017).

Budget is a blood flow in organization. Budget is an important part in management control to guarantee the organization in operationalized efficiently (Raghuandan, Fyfe, Kistow, Allaham, & Raghuandan Students, 2012).

This is an critical opinion to answer a provocative question, why public sector need to notify psychology in the budgeting process. It is important because in fact there is evidence related government employee their busy difficult work stressfull. People perceived that psychology is unscientific (Lilienfeld, 2012), while in the other hand behavior is proven have significant relation with people behavior (Raghuandan et al., 2012)(Yuhertiana, 2015)

II. METHODOLOGY

This is an archival research review that convinced psychology occurs in public sector accounting discipline, focusing on personal behavior matter in all of government budget cycle. It is scrutinized the articles in Indonesia annual accounting symposium (Simposium Nasional Akuntansi – SNA) that was held from 1998 – 2016. There are 345 articles related behavior and public sector accounting on those period. SNA is an credible accounting conference that is conducted by Institute of Indonesia Chartered Accountant – Accounting Lecturer Compartment (IAI – KAPD).

III. RESULT AND DISCUSSION

In public sector organizations, there are several factors such as the absence of a clear classification of a position, the range of powers, fiscal and political conditions, the difference in characteristics and organizational culture. Kanter and Mirvis (1989) said that Government employees are more cynical and less of their organization compared to employees in the private sector.

Why psychology matters in public sector budgeting today. There are two causes. First, it is the **impact of** public sector budgeting reform (Sicilia & Steccolini, 2017). An open government policy in democratically developed societies aims to increase transparency, citizen trust and public participation. Government need to report their activities to be transparent for public. Internet technology made it easier. Some countries made an URL address is a must for government entities to publish their activities. In Indonesia, in previous before the Public Information Act, all of the annual financial report of government are made publicly. But there are complaining from government manager (city major, government leader) about the pressure from NGOs, journalists, to report the audit findings as there are indications of adverse financial state. Because of this pressure, then the Congressional ACT of transparency information that set them up. This shows there is a psychological factor over pressures.

There are received barriers opposing the introduction of open government data. On the basis of cognitive theory and a literature review, the essential factors that impede public servants in implementing open government data are conceptualized and summarized in a model. The perceived risk-based attitude of public servants is identified as the main barrier. Other significant obstacles include perceived legal barriers, perceived

hierarchical structuring of authorities, perceived bureaucratic decision-making culture and perceived organizational transparency.(Wirtz, Piehler, Thomas, & Daiser, 2016)

Second cause that psychology have significant role on publicsector budgeting is the people role as the Institutional Driver of Efficiency in Public Sector. Human resource management practices also matter a great deal.The soft aspects of human resource management, such as employeesatisfaction and morale, are considered to be the most important driversof performance. While wages are still important for staff, non-monetaryincentives are also essential. High wage levels – compared to similar work inthe private sector – could lead to inefficiencies, although governments oftenare model employers and their wage policies reflect equity concerns as well.Wages are also important for attracting and retaining qualified staff,especially in case of skill shortages. Performance-related pay initiativesappear to have a low impact on staff motivation. (OECD, 2007)

There is extensive literature on wage differences between public sectorworkers and otherwise comparable private sector workers covering manyOECD countries. In many countries wages in the public sector are higher thanin the private sector although they vary over time and across countries. Thepublic sector wage difference is the highest at the lower end of the wagedistribution (*i.e.* low-salaried or poorly-skilled workers are paid better in thepublic sector) and decreases as one moves up the wage distribution.

Significant differences have also been found in the differential by variousworker characteristics, such as occupation and gender. For example, inGermany wages for men were lower in the public sector than in the privatesector, but the opposite was found for women.

The strict division between career-based systems and position-basedsystems does not reflect the reality of OECD countries. Many fall in between,with systems characterised by a relatively high level of delegation of HRMfunctions to ministries and a relatively low level of individualisation (lifelongcareers and minimum lateral entry). These hybrid systems are often termeddepartment-based systems. There are also countries with a high level ofindividualisation and a low level of delegation.Findings are more inconclusive on the impact of ownership, competitionand agencification. While private ownership is not a guarantee of higherefficiency, public ownership does not necessarily lead to higher inefficienceseither. Rather than ownership *per se* it is the importance of competitivepressure on efficiency that matters. However, there is a need to further explorefor what and with whom public organisations compete. The nature of servicedelivery, *e.g.* whether it has features such as low asset specificity (high levelsof alternative uses for resources) and low information costs, is crucial forsuccessful competition in public services.

Regarding agencification, there is some evidence that a reduction of inputcontrols combined with steering for results, financial incentives andcompetition could lead to increased efficiency. However, the impact on thequality of service delivery and policy effectiveness is unclear.

Psychology has an significant corelation in public sector budgeting. The multifaceted nature of budgeting has generally translated into its being the subject of enduring interest by different disciplines, including political science, public administration, accounting, psychology, management and organization studies(Sicilia & Steccolini, 2017)



1. Psychology in Preparation Budgeting Process

The budget is no longer simply a management tool that is associated with the financial data for planning and control. In 1952, Argyris found the fact that the budget affect employee behavior (Welsch et al., 1988). Research on the burgeoning budget related to the field of Economics, psychology, social and political (Syakhroza, 2003). Research on the behavior of the budget more refers to the premise of participative budgeting Argyris. Empirically found that budgetary participation has a positive and negative impact against the behavior of employees (Magner, 2003). Positive impact the existence of budgetary participation related to the variable job satisfaction, organizational commitment, trust in the organization, satisfaction with the budget, the perceived fairness of the budgeting process, budgetary performance and job performance. As for the negative impact of budgetary participation is budgetary slack.

Budgetary slack resulted in not optimal allocation of resources. According to Magner (2003) this is because when employees who are evaluated and compensated, possibly on the basis of budgetary performance have input into their budget, they may provide information so as to bias the budgets to make them easier to attain. For management, the allocation of the optimal and appropriate resources is urgently needed, therefore it is important to know the research undertaken factors that lead to budgetary slack.

Development of research on budgetary slack since 1973 more oriented to organizational factors. As for a recent study shows the tendency of research put more emphasis on the importance of individual factors such as performed by Stevens (1996); Douglas & Wier (2000); Blanchette et al., (2002). They are oriented on the importance of ethics or morals. Henrika Mardiasmo (2002) and examine individual personality factors by incorporating variable locus of control. The trend of research on budgetary slack which leads to the importance of individual factors is able to answer allegations of Dunk and Perera (1996), that the influence of participation during this budget shows the results equivocal on various research, may caused by factors of personal managers.

It has been explained earlier that this research focuses on individual factors. During this research on budgetary slack had never connected the individual's capacity as a whole which includes aspects of education both formal and non formal, experience and ethics. A recent study (Steven, 1996; Douglas & Wier, 2000, Blanchette et al., 2002) focused on the ethical and moral variables only.

Research on ethics shows the different findings. Stevens (1996) found that subordinate associate slack as misrepresentations or dishonesty that pressing subordinates to reduce slack. Otherwise, Blanchette et al., (2002) found that the subordinate assume budgetary slack is ethically so that positive effect. Thus tend to raise budgetary slack. As for Douglas & Wier, (2000) found that an ethical position is relatively dependent on the

perceptions of subordinates, the relativist subordinates tend to raise budgetary slack while the idealist subordinates tend to reduce slack.

2. Psychology in Ratification Process

Recognition of members of Parliament, about the failure of the budget for the people escorting: values have many missing, such as sensitivity, concern, empathy, willing to sacrifice, unity of heart. Plus the lack of intellectual kemampuan and mature experience.

3. Psychology in Implementation Budgeting Process

The locus of control role. The principal of financial control in public sector was conducted in very cash-restricted budget. This is particularly troublesome when in practice in the field, which is often an important activity should be immediately done. The budgeting process is quite long, where the planning on the Government conducted one year before, causing the quality planning has a large deviation at the time of implementation. This led to the executor of the budget are having the pressure where one side is required to run the proposed program, and budget have been approved and funding is there, on the other hand, the tight budget account that often changes can not be done, cause program cannot be realised. This causes pressure psychologically. Government employee with internal locus of easily adjust and fit with the situation, they have the ability to control themselves better than the external, that can not be received when there is regulatory barriers.

4. Psychology in Accountability Budgeting Process

This cycle include the phase of reporting, controlling and auditing. In this discussion, it is focuses on

Related to the profession of auditor, this profession has its own character because it is necessary to uphold the professionalism, integrity and independent itself. Auditors are required to work meticulously well-planned, procedural, so that the whole system works can be recorded as a form of accountability that reflect professionalism.

In fact, the auditor often faced with various obstacles in the field. A very tight work schedules (Svanberg & Öhman, 2013) (Bowrin & Ii, 2010) with short time deadline (Hapsari, 2016) (BAMBER & BYLINSKI, 1987). Auditors often considered biased in its decision (Thornton, Reinstein, & Miller, 2007) because it is considered not to have enough evidence (Rozmita Goddess Yuniarti R, 2015), less experienced (Adi Kurniawan, 2005) (Herliansyah & Ilyas, 2006) and there are retention time rotation of Auditors.

Auditors do not escape from psychological factors as employees in the workplace. Has long conducted research on happiness and productivity. The issue is how to manage an organization so that employees can be both happy and productive--a situation where workers and managers are both satisfied with the outcomes. (Staw, 1986). Current job demands resulted in a large number of problems in the work place that may interfere with the performance of employees, even the stress at work can lead to physical health was also disrupted.

One of the professions that have a high level of stress is an auditor. Various deadline was one of the causes of high. Completion of the work deadline field, making reports, completion of report creation of opinion has been known as a cause of stress level of auditor. Constraints faced by related psychological aspect identified Auditors related to his professional decisions. In his research, (Svanberg & Öhman, 2013) (Bowrin & Ii, 2010) (Hutabarat, 2012) mention that time budget pressure associated with ethics because Auditors tend not to

complete the procedures Auditors, using evidence that is not complete so that the quality of audits being questioned. On the basis of this is becoming very important to prove whether the psychological aspects of this tendency in terms of stress due to the limited time was able to improve the dysfunctional behavior of the auditor.

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