

Opportunistic Behavior Budgeting In Regional Approach To Agency Theory

Empirical Study On Regency / City In East Java

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Abstract: The establishment of a Regional Revenue and Expenditure Budget (APBD) process is a political process that creates a relationship between the legislative and executive and legislative and public since the Regional Autonomy Act No. 22 in 1999 was assigned. Those relationships are able to explain the budget framers' opportunistic behavior to achieve their own group interests in certain sectors' expenditure allocation. This phenomenon becomes interesting to study from the perspective of agency theory. This study aimed to get empirical evidence of the effect of PAD, DAU and SiLPA on the budget framers' opportunistic behavior in the district/city in East Java. The study was conducted in 38 districts/cities in East Java by using secondary data from the budget of each district/city from 2011 to 2015. Based on a census sampling method, 186 samples of the data were obtained. Hypothesis testing is done by multiple linear regression using SPSS software version 20.0. Research shows that the PAD, DAU and SiLPA have a significant positive effect on the budget framers' opportunistic behavior. The results of this study can be used as a recommendation for local governments to improve the budget establishment process.

1 INTRODUCTION

There have been a number of corruption cases in Indonesia, particularly in the government sector. Corruption cases occur mostly in the local budgeting process involving local funds. The phenomenon of corruption of APBD funds has often occurred since the enactment of the Law on Regional Autonomy No. 22 of 1999, which creates an agency relationship between the budgeting party, i.e the executive, the legislature and the people. Opportunistic behavior is a behavior that tends to benefit certain parties. An expenditure budget is allocated, obtained from local revenue sources. PAD (local revenue), the DAU (General Allocation Fund) and SiLPA (the remaining budget) are some of the components of local revenue sources. Consequently, PAD, DAU and SiLPA can become an access to budget compiler to do opportunistic. Based on the preliminary description, the problem can be formulated as follows:

1. Does PAD affect the opportunistic behavior in local budgeting in any Regency / City in East Java?
2. Do DAU effect on opportunistic behavior in local budgeting in any Regency / City in East Java?
3. Does SiLPA have an effect on opportunistic behavior in local budgeting in any Regency / City in East Java?

The purpose of this study is to test empirically and to answer questions to such problems.

2 LITERATURE REVIEW

2.1 Agency Theory

According to Scott (2003, p.305), through home visits, agency is the development of a theory that explains a design contract in which the agents work or carry out a duty on behalf of the principal; when the desire or purpose is contrary, there will be conflicts.

The government agency relationships in local budgeting occur between the three parties, namely, the executive, the legislative, and the people. With the amendment of the Law on Regional Autonomy of Law No. 32 of 2004, the regional head is no longer elected by DPRD but directly by the people. So the implication is the executive and legislative act as agents and the people act as principal. Johnson (1994, p.5) also mentions the executive or bureaucratic relationship with the legislature or congress with the name of self-interest models.

2.2 Opportunistic Behavior

Opportunistic behavior is an implication of the agency relationship between the executive, legislative, and the people, in which the agents can take advantage of this information to carry out moral hazards due to the asymmetry of information between principal and agent (Latifah, 2010). Opportunistic behavior that executives carry out is to allocate existing resources for budgets that can provide political advantages and advantages for individuals, such as the infrastructure budget (Keefer & Khemani, 2003), and capital (Arslan & Saglam, 2011), grants and social aid (Ritonga & Nature, 2010).

The infrastructure budget is considered to be the right target for opportunism because infrastructure is the right sector to fulfill people's promise. The capital budget can be an appropriate target for corruption because people tend not to know the special items and high-tech aspects (Arslan & Saglam, 2011; Haque & Kneller, 2008) and it is difficult to be monitored (Mauro, 1998). Grants and social assistance budgets can also be opportunistic targets on the eve of general elections, as the funds can be misused for campaign purposes (Ritonga & Alam, 2010). While the budget for education and health are likely to be reduced, education and health is an important sector and fundamental to be met by the executive and legislative (Ablo & Reinikka, 1998), so education and health cannot be targeted for corruption (Mauro, 1998).

It can be concluded that the mode of opportunistic behavior is often done as set allocations modified to meet individual political interests and the interests of both the executive and legislative branches.

2.3 Hypothesis Development

2.3.1 The Effect of PAD on Opportunity Budgeting

Increasing PAD is an increase in local resources that the executive can allocate to allocations that support its interests. Increased revenue may increase Opportunistic Budget Compiler. Rochmatullah and Probahudono (2014). Amran et al. (2015), Hendaris and Rahayu (2012), Sholikhah and Wahyudin (2014), Maimunah (2006), Sularso et al. (2014) and Abdullah and Asmara (2006) showed that the larger the PAD then the greater the opportunistic behavior. However, Megasari (2015) did not find that PAD has a positive effect on opportunistic budget compilers. Based on the empirical study above, the researcher formulated the research hypothesis as follows:

H1: PAD has a positive effect on the opportunistic behavior of budget compilers.

2.3.2 The Effect of DAU on Opportunity Budgeting

Based on agency theory, the legislature and the executive as an agent of the people can allocate DAU for budget allocations for projects that are profitable.

Hendaris and Rahayu (2012), Bungkes et al. (2016), Maimunah (2006) and Sularso et al. (2014) found that DAU has a positive effect on opportunistic budget compilers. Based on the empirical study above, the researcher formulated the research hypothesis as follows:

H2: DAU has a positive effect on the opportunistic behavior of budget compilers.

2.3.3 SiLPA's Influence on Opportunity Budget Opportunities

Based on agency theory, the legislature and the executive as an agent of the shelf at SiLPA can reallocate funds to the budget allocation in financing profitable projects.

Rochmatullah and Probahudono (2014), Amran et al. (2015), Bungkes et al. (2016), Sularso et al. (2014) and Megasari (2015) show that SiLPA has a positive influence on the opportunistic behavior of the budget. Based on the empirical study above, the researcher formulated the research hypothesis as follows:

H3: SiLPA has a positive effect on the opportunistic behavior of budget compilers.

3 RESEARCH METHODS

Based on existing problems, this research uses an explanatory approach. The explanatory approach in this study aims to get an explanation of the relationship (causality) between variables through hypothesis testing (Sugiyono, 2012, p.21).

3.1 Population and Sample

The population in this study is the districts and cities of East Java, with details of 29 districts and nine cities, from 2011 to 2015. Selection of the sample was done using the census sampling technique. Sensus sampling is all the population to be sampled (Anshori & Iswati, 2009, p.106). Characteristics that the researchers used in the selection of the population are as follows:

1. Districts and cities that have published APBD on the website of the Directorate General for the Fiscal Years 2011-2015.
2. The published APBD contains the data used in the full study during the period 2011-2015.

3.2 Source Type and Data Collection

The data collected is the data cross (cross section). The data source used is secondary data with documentation method, written documents of regency/city government in East Java. Secondary data that is needed in this research is APBD for each regency/city in East Java from 2011-2015.

3.3 Operational definition

3.3.1 Opportunity Budget Opportunity (OPA)

Opportunistic behavior, behavior-budgeting is done by the compiler good budget Parliament as the legislature and the executive as the local government to be influenced by the strength and ability to allocate resources in the budgets of expenditure in order to achieve even a desire by all means nor the illegal act.

Important issues in the allocation of resources into public spending are the selection of goods or services for programs that are difficult for others to monitor (Mauro, 1998). For example, shopping for specialty items and high-tech items (capital expenditures) are examples of expenditure that is corrupted because few people understand the goods. That is, the tendency of executives to prefer the

capital expenditure is a realization of their self-interest. Capital expenditure is likely to increase (Tanzi & Davoodi, 1997).

Moreover, spending on grants and social assistance at the time of legislative elections also showed indications of opportunistic behavior budgeting, evidenced by grants and social aid at the time of elections in the region being greater than the local incumbent non-incumbent (Ritonga & Nature, 2010).

Therefore, the OPA score indicates the change (spread) of a certain budget allocation from the previous year's APBD to the current year's APBD. Spread occurs due to differences in preference in resource allocation between principal and agents. There are two stages of OPA measurement developed from Abdullah and Asmara (2006), namely:

1. Calculating spread education budget (ΔPdk), spread the health budget ($\Delta Kkes$), spread public works budget (ΔPPU), spread the budget grants ($\Delta Hibah$), spread the social assistance budget ($\Delta Bansos$) and spread the capital budget ($\Delta Modal$). Spread (Δ) = the budget of the current year (t) - the budget the previous year (t-1).
2. Accumulate spread education budget (ΔPdk), spread the health budget ($\Delta Kkes$), spread public works budget (ΔPPU), spread the budget grants ($\Delta Hibah$) and spread the social assistance budget ($\Delta Bansos$) and spread the capital budget ($\Delta Modal$). Calculation of OPA = $\Delta Pdk + \Delta Kkes + \Delta PPU + \Delta Hibah + \Delta Bansos + \Delta Modal$

Information:

ΔPdk : decreased education budget

Δkes : decreased health budget

ΔPPU : increased public works budget (infrastructure)

$\Delta Grants$: increased budget for grants

$\Delta Bansos$: increased spending on social assistance

$\Delta Capital$: increased budget for capital expenditure

If the education and health budget does not go down, or the public works budget, grants, social assistance and capital do not go up, then there is a score of 0 (zero). The score for OPA is a positive number.

3.3.2 Local Original Revenue (PAD)

PAD is revenues consisting of the results of regional taxes, levies, income from profitable local companies, and others. How to measure these is by using a spread PAD (ΔPAD), the change in increase or decrease in revenue from the budget of the current

year (t) to the budget the previous year (t-1) (Abdullah & Asmara, 2006; Sularso et al., 2014).

$$PAD = \Delta PAD$$

$$= PAD_{Budgets(t)} - PAD_{Budgets(t-1)}$$

3.3.3 General Allocation Fund (DAU)

General Allocation Funds (DAU) are funds derived from APBN, allocated for the purpose of equitable inter-regional financial capacity to finance their expenditure needs in the context of decentralization. The total amount of DAU is set to at least 26% of the Net Domestic Revenue (NOP) set forth in the APBN. DAU is measured by the DAU (ΔDAU) spread from the APBD of the current year (t) to the previous year's budget (t-1) (Sularso et al., 2014).

$$DAU = \Delta DAU$$

$$= DAU_{Budgets(t)} - DAU_{Budgets(t-1)}$$

3.3.4 Over Time Budget Calculation (SiLPA)

According to Permendagri No. 13 of 2006, SiLPA includes exceedances of reception PAD, exceedance of acceptance of balancing funds, exceedance of acceptance of other valid regional revenues, exceedance of financing receipts, expenditure savings, liabilities to third parties with end of year resolved and the rest fund kegiata n Advanced, which is borne out in the budget change. SiLPA is measured by the spread SiLPA ($\Delta SiLPA$) from the budget of the current year (t) to the budget of the previous year (t-1) (Sularso et al., 2014).

$$SiLPA = \Delta SiLPA$$

$$= SiLPA_{Budgets(t)} - SiLPA_{Budgets(t-1)}$$

4 RESULTS

The analysis technique used in this research is multiple linear regression analysis considering that this tool can be used as a model for the prediction of the dependent variable opportunistic behavior budgeting (OPA) with several independent variables are: PAD, DAU, and SiLPA. The hypothesis test is done by using SPSS 20.0 program. Regression models were used to test the hypothesis to be formulated as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e \quad (1)$$

Information:

Y : Opportunity Budgeting Practices (OPA)

a : Constants

$\beta_1 \dots \beta_n$: Regression direction coefficient

X 1 : PAD

X 2 : DAU

X 3 : SiLPA

e : Residual Error

4.1 Data Analysis and Discussion

Table 1: Results of Multiple Linear Regression Model.

| Variables | B | Sig |
|-----------|------|-------|
| PAD | .863 | 0.000 |
| DAU | .521 | 0.000 |
| SiLPA | .533 | 0.000 |

Based on the results contained in the table above, it can be composed of a multiple linear regression equation as follows.

$$OPA = 37918.044 + 0.863PAD + 0.521DAU + 0.533SiLPA + \epsilon$$

Table 2: Coefficient Determination Test Results.

| Model | R | R Square | Adjusted R Square |
|-------|-------------------|----------|-------------------|
| 1 | .640 ^a | .410 | .400 |

Results in the table above show the value of Adjusted R Square of 0.400 (40%). This suggests that the independent variables used in this study can predict an opportunistic composer budget by 40%, while the remaining 60% is predicted by other variables that are not used in this study.

Table 3: The Effect of PAD on OPA.

| Variables | Regression coefficient | Sig | Conclusion |
|-----------|------------------------|-------|--------------------------------|
| PAD | 0.863 | 0.000 | Positive Significant Influence |

Based on analysis, this study found the significant value that is equal to $0.000 < \alpha = 0,05$ dan β value of 0, 863. This shows that the hypothesis (H1) is accepted and concluded that changes PAD positive significant effect against opportunistic behavior budgeting. These results are consistent

empirically with Rochmatullah and Probohudono (2014), Amran et al. (2015), Hendaris and Rahayu (2012), Sholikhah and Wahyudin (2014), Maimunah (2006), Sularso et al. (2014) and Abdullah and Asmara (2006) in finding that change income own positive effect on opportunistic behavior.

In line with the definition of PAD, which is a regional resource, the increase of existing resources will increase the opportunistic behavior of budget compilers. PAD is able to give way for making up the budget for political corruption in the legal regulatory framework.

The results of the research indicate that the increase in PAD from the previous year for the following year is significant, particularly vulnerable to use by certain parties to fund programs that can provide personal benefits, especially for political purposes, such as keeping promises during the campaign to be re-elected in the next period.

Table 4: The Effect of DAU on OPA.

| Variables | Regression coefficient | Sig | Conclusion |
|-----------|------------------------|-------|--------------------------------|
| DAU | 0.521 | 0.000 | Positive Significant Influence |

Based on analysis of statistics, this study found that the significant value that is equal to $0.000 < \alpha = 0.05$ and the β value of 0.521. This shows that the hypothesis (H 2) is received and concluded that the General Allocation Fund perubahan has a positive significant effect against opportunistic behavior budgeting. The test results are in line with results found in the studies by Hendaris and Rahayu (2012), Bungkes et al. (2016), Maimunah (2006) and Sularso et al. (2014), who found that the DAU had a positive effect on the opportunistic budget constituents.

DAU is a fund sourced from APBN allocated to regions with the aim of equitable financial capacity among regions to fund regional needs for decentralization. DAU has the largest proportion in the reception area, which is at least 26% of the net domestic revenue in the state budget. DAU that has properties Block Grant that grants its use is quite flexible, in the sense that there are not many binding rules on the use of funding. In line with the DAU, which has the largest share of regional revenues and the flexible nature of the DAU, the DAU is able to become an object for budget constraints to behave opportunistically. Such opportunistic behavior is

executed by executives by allocating it to expenditures that can benefit them.

To realize the importance, the executive must be approved by the legislature as a fellow agent in a partnership to approve or reject the proposed policies of the executive. So legislat ifpun also as an agent of the people who have the advantage of information also have different interests than the increase in the DAU that can be used to propose allocations on activities or projects that legislati advantageous. While the people as the principal expect that DAU is sourced from central to local financial rate purpose can be allocated on shopping and programs that can improve people’s welfare.

The results of the study show that the increase of DAU from the previous year to the next year tends to be significant; it will impact the more liberal budgeting parties to utilize DAU as one source of funding to finance programs in accordance with their interests and can provide long-term benefits.

Table 5: The Effect of SiLPA on OPA.

| Variables | Regression coefficient | Sig | Conclusion |
|-----------|------------------------|-------|--------------------------------|
| SiLPA | 0.533 | 0.000 | Positive Significant Influence |

Based on analysis of statistics, this study found that the significant value that is equal to $0.000 < \alpha = 0.05$ and the β value of 0.533. This shows that the hypothesis (H 3) is received and concluded that changes the remaining budget positive significant effect against opportunistic behavior budgeting. The test results are in line with results found in the studies by Rochmatullah and Probohudono (2014), Amran et al. (2015), Arslan and Saglam (2011), Haque and Kneller (2008), Keefer and Khemani (2003), Bungkes et al. (2016), Sularso et al. (2014) and Megasari (2015) indicating that SiLPA has a positive influence on the opportunistic behavior of the budget.

In line with the understanding of SiLPA, then SiLPA properties of free cash flow, the free cash remaining after being used to finance operating activities. SiLPA is able to create opportunism in budgeting by reallocating expenditures that support the interests of budget constituents, such as infrastructure spending, capital expenditures, grant spending and Bansos spending. Therefore, from the results of the research, it can be said that the greater the SiLPA allocated to APBD districts/cities next

year, the greater the opportunity of the budgeting parties to use it on programs that can provide benefits both political and to individuals, which indicates an opportunistic behavior in the preparation of the previous year's budget that will be used by certain parties to reallocate to the program in accordance with its preference. It is necessary to have a policy to improve the quality of budgeting in order to output the resulting budget in accordance with what has been budgeted.

5 CONCLUSIONS

1. The results of testing and analysis show that Pendapatan Asli Daerah (PAD) has a positive effect on Opportunity Budget Opportunity (OPA). These results indicate that the increase in revenue from the previous year to the current year will increase opportunistic behavior budgeting.
2. Test results and analysis show that the General Allocation Fund (DAU) has a positive effect on Opportunity Budgeting (OPA). These results indicate that increased DAU from the previous year to the current year will increase opportunistic behavior budgeting.
3. Test results and analysis show that the Over Time Budget Calculation (SiLPA) has a positive effect on Opportunity Budget Opportunity (OPA). These results indicate that increased SiLPA from the previous year to the current year will increase opportunistic behavior budgeting.

The suggestion for Local Governments is local governments should further improve the quality of the budgetary planning phase to implementation with emphasis on budget allocations in accordance with the needs of society and should further enhance budget transparency and impose controls from planning to implementation of the budget as a form of accountability to the public.

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