



THE ROLE OF SUPERVISORY AND LEADERSHIP TYPE IN BUDGETING COMMITMENT ON HOSPITALS' FINANCIAL PERFORMANCE IN EAST JAVA PROVINCE, INDONESIA

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ABSTRACT

Analysis of an organization's financial performance reveals whether an organization's financial condition is performing better or worse. This reflects its performance and achievement in that time period. In order to achieve good financial performance, the organization's staffs need to be committed to work according to the organization's plans and its budgetary commitment. Leadership type is crucial in determining the organization's success because it affects and enhances the staff's commitment to participate in creating and implementing the organization's budget. Supervision control is needed to ensure that budgetary commitment is on target and does not deviate from its predetermined commitment. This study to analyzed the role of supervisory role and leadership type on budgetary commitment and financial performance across 15 hospitals in East Java, Indonesia. 10 participants were surveyed from each hospital with questionnaires about supervisory role, leadership type, budgetary commitment, and financial performance. We also obtained secondary data in the form of financial statements from each hospital and later correlated this data with our questionnaire using a path analysis computer software Smart Partial Least Square. The results showed that a hospital's managerial supervision (estimated path coefficient = 0.222, $p=0.001$) and its leadership type (estimated path coefficient = 0.572, $p=0.000$) positively influenced the hospital's budgetary commitment. Leadership type (estimated path coefficient = 0.294, $p=0.020$) and budgeting commitment (estimated path coefficient = 0.243, $p=0.030$) directly influenced a hospital's financial performance. While managerial supervision has no direct effect on a hospital's financial performance (estimated path coefficient = 0.130, $p=0.125$), it exerts its effects on financial performance indirectly through its effect on budgetary commitment.

Keywords: Supervision, Leadership, Budgeting commitment, Financial performance and hospital.

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Contribution/ Originality

This paper contributes to the practitioners of the hospitals through the implementation of budgetary commitments and the achievement of financial performance, especially the leadership of the delegate authority to subordinates and prepare human resources who are competent in the implementation of the budget thus improve financial performance.

1. INTRODUCTION

The role of a hospital has been transformed from a public good that serves social needs to its current role that needs to stay competitive by anticipating environmental changes and practice good managerial skills. Changing an organization requires a great deal of commitment and dedication on the part of the management team to make it work. This sort of commitment and dedication is needed mainly when a mismatch exists between the organization's own performance and the requirements of customers, the environment, or standards of excellence. It also is required when the organization's leaders hold a vision of the future that requires a shift in the organization's direction. Under such circumstances, commitment to a culture change process is crucial to the future success of the organization (Cameron, 2006). Currently the hospital competition is getting tougher, it has some consequences for the hospital management to improve service quality and overall performance, as outlined in a good planning. The irregularities in the business world places a high demand on hospital to plan its future carefully with careful budget planning and effective management strategies so that it can work effectively and efficiently.

This study is conducted based on several past studies on an organization's financial performance. Libby (1999) examines the relationship between the use of a fair budgeting process and subordinate performance. Results indicate significant performance improvements when voice and explanation are combined as compared to voice alone. Although study is similar to this study since it analyzes the effect of budgeting process toward financial performance, the study does not account for budgeting commitment and it focuses on manufacturing company. Another study done by Wentzel (2002) on budgeting research suggests that fairness perceptions play a role in performance. In particular, it demonstrated a positive relation between fairness and performance during budgeting. Lau and Lim (2002) found that there exist a non-significant relationship between budgeting participation and managerial performance.

Supervisory duties are needed in an organization (whether it is public or private) to ensure that workers are carrying out their duties that is delineated by the organizations' goals and directions. Better supervisory skills ensures that these goals are better carried out (Artley, 2001). Furthermore, to ensure that the organization's budgetary objectives are on target and without deviation, it is necessary to exert supervisory control which can improve the organization's achievement in reference to its predetermined objectives. Supervisory controls for hospital can be described in the following factors : 1) supervisory control toward a hospital's direction, 2) supervisory control toward a hospital's strategic budgeting allocation, 3) supervisory control toward quality control and price control, 4) supervisory control toward protecting patient's rights and obligation toward to and from the hospital, 5) supervisory control toward following hospital ethics and regulations.

In order to direct the employees' desire, a strong leadership is needed to create an environment where there can be interactions between two or more individuals so that they can work together synergistically toward the organization's goals. Kouzes and Posner (2007) suggested activities and reflections for leaders to further develop the previously explained Commitment. Leadership is about influencing, motivating, and enabling others to contribute toward the effectiveness and success of the organizations of which they are members. Leaders apply various forms of influence—particularly persuasion and related tactics that build commitment—to ensure that followers have the motivation and role clarity to achieve specified goals (McShane and Von, 2010).

The important thing, according to Meyer *et al.* (1993) employees are theorized to experience this force in the form of three bases, or mindsets: affective, normative, and continuance, which reflect emotional ties, perceived obligation, and perceived sunk costs in relation to a target, respectively. Thus, any scale that purports to measure organizational commitment should tap one of these mindsets and should reference the target, what the employee is committed to, be it the organization, a team, a change initiative, or a goal. An organization's type of leadership is important because it could affect and enhance employees' commitment to participate in making and implementing a

budget (Hellriegel and Slocum, 2004). Leadership type can be divided into the following characteristics : authoritarian, participative, delegative. Both managerial and leadership type influences a hospital's commitment toward its budgeting commitment.

One can analyze whether a hospital is working in this manner by analyzing its financial performance. Financial performance is a depiction of an organization's financial condition and it can be analyzed with financial analysis instruments in order to identify whether the organization's financial condition is in good or bad order. The health of an organization's financial performance reflects the achievements of the organization within a certain time period. In order to achieve good performance, an organization needs all of its employees' commitment to work in accordance with the organizations' plans and its budgets. The employees need to have a strong desire to attain the objectives of the budget.

This research is written to analyze the influence of supervisory roles and leadership type in relation to budgetary commitment and financial hospitals in fifteen hospitals in East Java, Indonesia. Specifically, we wish to test the following hypotheses:

Hypothesis 1. Supervision is positively related to budgeting commitment.

Hypothesis 2. Leadership type is positively related to budgeting commitment.

Hypothesis 3. Supervision is positively related financial performance.

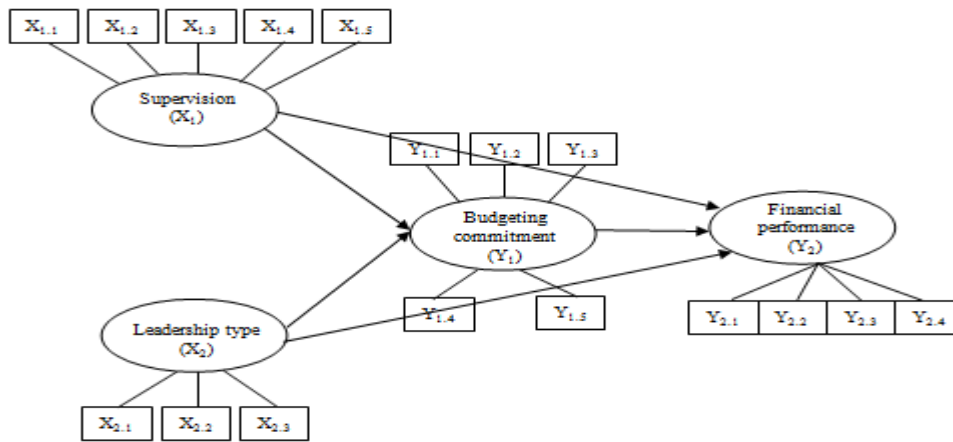
Hypothesis 4. Leadership type is positively related financial performance.

Hypothesis 5. Budgeting commitment is positively related financial performance.

2. MATERIAL AND METHOD

This research is an observational cross-sectional research that utilizes hospitals in East Java province in Indonesia as its subject from April to July 2015 with a sample of 15 hospitals that consists of 6 public hospitals, 7 private hospitals, and 2 corporate hospitals. 15 hospitals samples so the total sampel o 150 respondents. 10 random participants were sampled from each hospital's non-accounting department and given a questionnaire that asked about the hospital's supervision, leadership type, and budgetary commitment. 10 participants who sampled was the head of the installation / department in the hospital, consisting of : 1) Emergency departments, 2) Installation Disease, 3) Installation of childhood illness, 4) Installation Disease Surgery, 5) Installation of obstetrics & gynecology, 6) Radiology, 7) Installation of eye/skin/sex, 8) Installation of laboratory, 9) Installation of Operating Room, and 10) Installation of Nutrition. Questionnaires variable supervision, leadership type and budgeting commitment given to respondents that are the heads of hospital installations. Questionnaires supervision and the type of leadership is based on the perception given by the head of the installation of the behavior displayed by head of the hospital management. Financial performance is measured from the achievements of hospitals in a given period which reflects the financial soundness.

This research 4 variables which consists of 1) dependent variable : hospital's financial performance; 2) independent variables : supervision and leadership type, 3) intervening variables : budgeting commitment. (table 1)



Notes :

X₁ : Supervision

- X_{1.1}= supervisory control toward a hospital’s direction
- X_{1.2} = supervisory control toward a hospital’s strategic budgeting allocation
- X_{1.3} = supervisory control toward quality control and price control
- X_{1.4} = supervisory control toward protecting patient’s rights and obligation toward to and from the hospital
- X_{1.5} = supervisory control toward following hospital ethics and regulations

Y₁ : Budgeting allocation

- Y_{1.1.} = integrity
- Y_{1.2} = Cognition
- Y_{1.3} = Affect
- Y_{1.4} = behavior

X₂ :

- leadership type
- X_{2.1.} = authoritarian
- X_{2.2} = participative
- X_{2.3} = Delegative

Y₂ :

- Y_{2.1.} = Liquidity Ratio
- Y_{2.2} = Leverage Ratio
- Y_{2.3} = Activity Ratio
- Y_{2.4} = Functional Result Ratio

The technique analysis using structural equation modeling - partial least squares (PLS) estimation (SmartPLS 3.0) to test the hypothesized model. PLS is a combination of principal components analysis and regression that has proven to be a powerful technique to simultaneously estimate all path coefficients and item loadings in a model (Hair *et al.*, 2011).

3. RESULT AND DISCUSSION

Results of testing the Convergent Validity seen from the average variance extracted (AVE) for each construct has a value greater than 0.5 so it is said to have grades good discriminant validity.

Variable	AVE
Budgeting commitment	0,535
Supervision	0,553
Leadership type	0,599

Variable	Composite Reliability
Budgeting commitment	0,920
Supervision	0,925
Leadership type	0,931

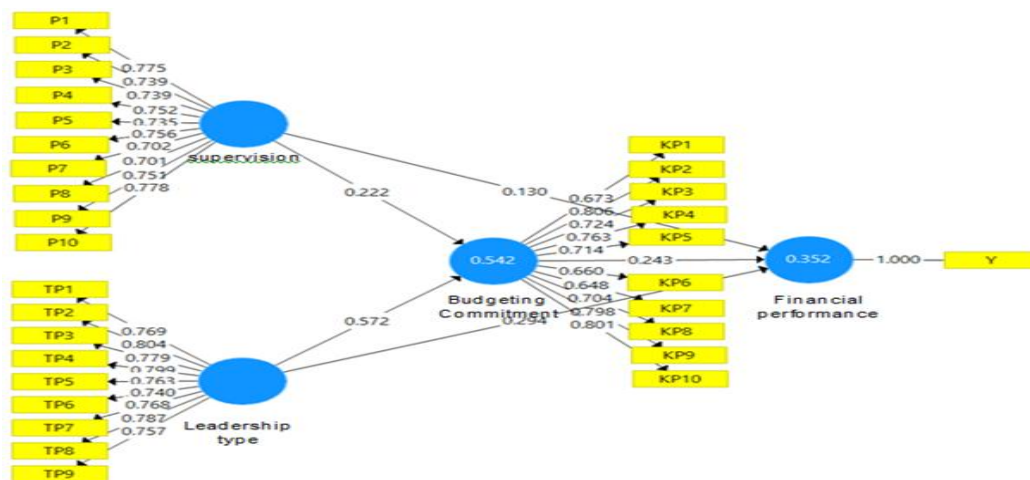
Testing the reliability of each construct has a composite value reliability above 0.7 indicating that it has a good reliability.

3.1. Loading Factor

Test against the outer loading aims to see the correlation between the scores of items or indicators with a construct score. Indicators are considered reliable if it has a correlation value above 0.7, but in the development phase correlation of 0.5 is acceptable.

	Loading factor		
	Supervision	Leadership type	Budgeting commitment
1	0,775	0,769	0,673
2	0,739	0,804	0,806
3	0,739	0,779	0,724
4	0,752	0,799	0,763
5	0,735	0,763	0,714
6	0,756	0,740	0,660
7	0,702	0,768	0,648
8	0,701	0,787	0,704
9	0,751	0,757	0,798
10	0,778	0,769	0,801

The overall result shows that supervision is conducted in public and private hospitals in order to ensure the implementation of ethical compliance, quality control, and financial supervision. In contrast, supervision is conducted in corporate hospitals in order to determine the hospitals' policy. Participative leadership style is found throughout all hospitals with public hospitals showing tendency for more autocratic leadership style. Private hospitals employs a more varied leadership style ranging from autocratic to delegative. Corporate hospitals tend to employ delegative leadership style. Budgetary commitment in public hospitals and corporate hospitals tend to be identical in nature where it is aimed to maintain good attitude. While budgetary commitment in private hospitals is aimed toward establishment and maintenance of good attitude. In general, the results of public hospitals and private hospitals financial ratios achievement are in the range of quite good to good category, while corporate hospitals have good or very good category of financial ratios.

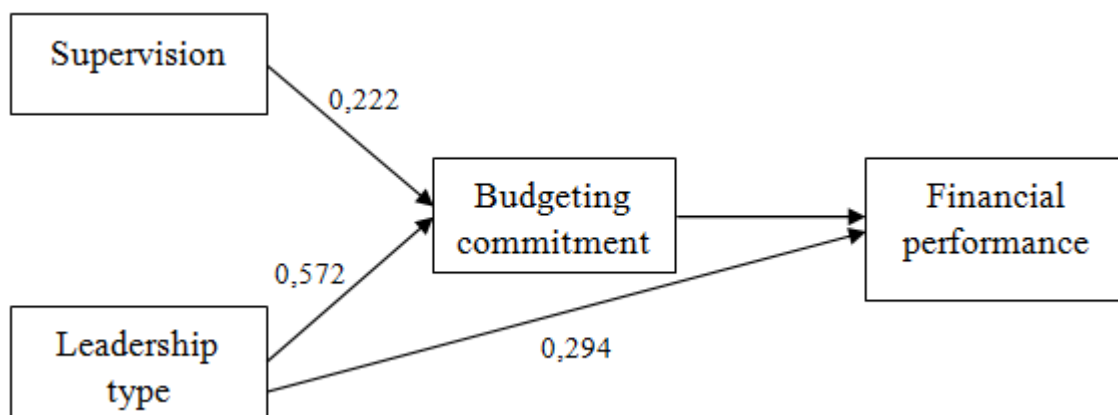


Results for Inner Weights

	Original Sample (O)	Sample Mean (M)	Standard Error (STERR)	T Statistics (O/STERR)	P Values
Supervision -> Budgeting commitment	0,222	0,228	0,067	3,292	0,001
Leadership type -> Budgeting commitment	0,572	0,571	0,065	8,752	0,000
Supervision -> financial performance	0,130	0,129	0,085	1,537	0,125
Leadership type -> financial performance	0,294	0,288	0,126	2,326	0,020
Budgeting commitment -> financial performance	0,243	0,252	0,112	2,171	0,030

The results of this research have also supported some of our hypotheses. This study conclude that there exist significant causality relationships between supervisory roles and leadership type in budgeting commitment toward hospitals' financial performance in East Java. In agreement with hypotheses 1, 2, 4, and 5, we see that the supervision variable significantly influences the budgetary commitments with an estimated path coefficient of 0.222 with a statistical t value of 3.292 (p value = 0.001). Leadership styles are proven to significantly influence budgetary commitment with an estimated path coefficient of 0.572 with a statistical t value of 8.752 (p value = 0.000). The types of leadership significantly influence the financial performance with an estimated path coefficient of 0.204 with a statistical t value of 2.326 (p value = 0.020). Budgetary commitment is shown to have significant effect on financial performance with a path coefficient of 0.243 with a statistical t value of 2.171 (p value = 0.030). Unfortunately, Hypotheses 3 was not supported since the supervision variable did not significantly influence financial performance because the regression lines coefficient obtained was 0.130 with a statistical t value of 1.537 (p value = 0.125).

Our results suggest that leadership type serves as the variable that exerts the most influence toward increasing a hospital's financial performance via the budgeting commitment. It not only directly and robustly affects the budgetary commitment (original sample value = 0.572), but it also directly affects the financial performance by budgetary commitment effect (original sample value = 0.294). In contrast with our hypotheses, supervisory variable indirectly affects financial performance through its subtle indirect effect from budgeting commitment variable (original sample value = 0.222). We found that a hospital's supervision does not directly affect its financial performance. The budgetary commitment directly and robustly affects the financial commitment (original sample value = 0.243).



4. CONCLUSION AND RECOMMENDATION

This study findings suggest that in order to increase a hospital's budgeting allocation, supervisory roles should be directed toward factors that increase a hospital's directive and controlling service quality and financial cost. The overall result shows that supervision is conducted in public and private hospitals in order to ensure the implementation of ethical compliance, quality control, and financial supervision. In contrast, supervision is conducted in corporate hospitals in order to determine the hospitals' policy.

Leadership type should be geared toward participative type by accepting inputs from employee including employee's effectiveness and also in delegating leadership authorities to employees in decision making and work completion. Leadership in hospitals should be aimed at creating a harmonious cooperation by offering subordinates opportunities to participate, and leaders further delegate authority to subordinates to make decision and accomplish work. Participative leadership style found throughout all hospitals with public hospitals showing tendency for more autocratic leadership style. Private hospitals employs a more varied leadership style ranging from autocratic to delegative. Corporate hospitals tend to employ delegative leadership style.

Budgetary commitment in public hospitals and corporate hospitals tend to be identical in nature where it is aimed to maintain good attitude. While budgetary commitment in private hospitals is aimed toward establishment and maintenance of good attitude.

Based on the results of this study, the researcher would like to suggest the following:

First, for the hospitals: a) leadership in hospitals should be aimed at creating a harmonious cooperation by offering subordinates opportunities to participate, and leaders to further delegate authority to subordinates. Therefore, hospitals should prepare competent human resources that are able to improvise. b) By taking into account the results of this study, hospital management should be conducted in the corporate way.

Second, for further research about the correlations between supervision and leadership styles and financial performance, other mediatory variables can be used, for example job relevant information (JRI) and budget sufficiency.

Third, in the education context, it is necessary to develop hospital budgetary policy education which leads into accrual-based financial performance achievement as suggested in the Regulation of the Ministry of Health Affairs, which state that hospitals should arrange financial reports based on accrual accounting system.

Novelties in the current dissertation are as follows:

First, leadership styles affected financial performance.

Second, leadership styles significantly affected the improvement of hospitals' financial performance through budgetary commitment.

Third, managerial supervision did not directly affect the financial performance, but it had an indirect effect through budgetary commitment.

Fourth, the financial performance of corporate hospitals was better than that of private hospitals, and the financial performance of private hospitals was better than that of public hospitals.

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