



The Strategic Role of Adaptive and Performance-Based Budgeting in Advancing Public Governance

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Abstract

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The budget plays a central role in public sector organizations as a planning, control, and accountability instrument that ensures the efficient and transparent use of public resources. Beyond functioning as a fiscal instrument and policy tool, the budget also serves as a mechanism for coordinating activities across organizational units and as a performance evaluation tool to support the achievement of development goals. In practice, traditional budgeting processes often face challenges such as inflexibility, inaccurate assumptions, and limitations in performance measurement. Through sound financial governance, the budget can be transformed into a strategic instrument for promoting societal welfare and maintaining economic stability. This study employs a historical approach to trace the evolution of public budgeting, its relationship with financial governance, and its implications for the effectiveness of public policy. The findings emphasize the importance of reforming budgeting systems toward models that are more adaptive, accountable, and performance-oriented, thereby strengthening the role of public budgeting in supporting sustainable development and enhancing government responsiveness.



1. Introduction

The budget is a fundamental instrument in public sector governance that not only serves as a financial plan but also as a strategic direction for the government in managing programs and policies. In the public organizational environment, the budget plays a role as a coordination mechanism, a control tool, and a means of accountability in the utilization of state resources. Through systematic budget preparation, the government strives to ensure that every policy and development program can be implemented efficiently, transparently, and in alignment with national development priorities. Rakhman (2019) assert that effective budgetary planning is essential to ensure the optimal distribution of resources and alignment with policy goals, especially amid fiscal constraints and increasing public demands for information disclosure.

From a fiscal policy perspective, the budget functions as an instrument for economic stabilization through the management of state revenues and expenditures. Through this function, the government can steer economic growth, maintain macroeconomic stability, and encourage equitable distribution of public welfare. Marti (2019) emphasizes that performance-based budgeting as a key innovation in public financial governance promotes a stronger link between budget allocation and expected development outcomes. This approach requires every government entity to provide measurable performance indicators that reflect its contribution to achieving organizational goals, making the evaluation process more objective and data-driven.

However, budgeting practices in the public sector still face various constraints. One major challenge is the strong influence of traditional approaches that prioritize input over output or outcome. The dominance of this approach makes budget preparation less responsive to changes in the strategic environment and reduces the government's flexibility in managing programs. Shah (2021) notes that the main weakness of traditional budgeting lies in the minimal integration between strategic planning and financial implementation. This condition impacts program inefficiency and weakens the government's ability to maximize the public value generated from budget utilization. Furthermore, the effectiveness of public budgeting is highly dependent on the quality of financial governance. Weak governance can lead to inefficiency, deviations, and low public accountability. Therefore, principles of good governance such as transparency, participation, and accountability are critical foundations at every stage of budgeting.

Fisher (2022) explain that good public financial governance requires not only adequate institutional structures but also a commitment to fiscal discipline and integrity in the decision-making process. In the global context, budgetary reform is a necessity in line with the dynamics of globalization, the development of digital technology, and social and economic changes. Many countries are moving from traditional systems toward performance-based budgeting and results-oriented budgeting. This shift highlights the importance of integrating strategic planning, performance evaluation, and financial oversight to ensure that public policies deliver tangible impacts for society. Thus, the budget does not merely function as a formal financial document but as a managerial instrument that determines the direction of

development, strengthens governance, and enhances public legitimacy towards the government. Through this study, the author seeks to explore the role of the budget in public financial governance using a historical approach, to understand how the development of budgeting concepts and practices influences the effectiveness of fiscal policy and public sector performance in the modern era.

2. Literature Review

2.1. The Role of Budgeting in the Public Sector

The budget in the public sector has a strategic function as an instrument for planning, control, and accountability in managing state resources. Through the budget, the government can set program priorities more effectively and ensure that fund allocation is done efficiently to achieve set policy targets. Maita et al. (2022) emphasize that the budget is a fundamental mechanism that translates development plans into a measurable financial framework, thereby creating alignment between economic and social policies. Furthermore, the budget also serves as a communication vehicle between the government and the public, where the level of budgetary transparency is a critical indicator in strengthening public trust in government institutions.

Furthermore, public budgeting should not be viewed merely as an administrative document, but as an instrument of fiscal policy that plays a vital role in maintaining macroeconomic stability. Sari (2023) state that a budgeting process designed and implemented effectively not only strengthens the political legitimacy of the government but also ensures efficiency, integrity, and accountability in the

provision of public services. In line with the development of modern governance practices, the results-based budgeting approach is considered capable of improving the link between fund utilization and the achievement of development targets. Through this approach, the principle of value for money can be optimized, ensuring that the budget truly reflects the government's efforts in producing relevant, measurable, and valuable performance for the community.

2.2. Public Financial Governance and Accountability

Public financial governance is the institutional and normative framework that regulates how public resources are managed efficiently, transparently, and responsibly. The main principles of financial governance include accountability, integrity, transparency, and public participation. Saputra (2021) mention that good public financial governance encourages the creation of fiscal discipline, efficient allocation of resources, and increased public trust in government performance. The relationship between financial governance and public budgeting is synergistic governance provides the normative framework for the budgeting process, while the budget becomes the tool for implementing good governance principles.

Shapiro and Hanouna (2019) emphasize that the effectiveness of the budgetary system depends on how well internal and external oversight mechanisms work to ensure that budget utilization aligns with the government's strategic goals. In this context, public accountability does not only mean accounting for the use of funds but also includes the evaluation of the impact of government policies and programs. In addition, the application of good governance in public financial management contributes to increased efficiency and effectiveness of government

programs. Curristine et al. (2022) demonstrate that strong governance, supported by an independent audit system and transparent public reporting, can improve the quality of fiscal decisions and prevent budgetary deviations. The implementation of good governance also strengthens the link between strategic planning and budgeting, resulting in policies that are more adaptive to social-economic dynamics.

2.3. Challenges and Reforms in Public Budgeting

Although the concept of public budgeting continues to evolve, its practice in many countries still faces several fundamental challenges. These challenges include rigid bureaucracy, weak performance evaluation systems, and lack of institutional capacity in managing results-based budgeting. Teece (2019) state that traditional budgeting systems often fail to adapt to modern economic dynamics because of their excessive focus on administrative control rather than the achievement of policy outcomes. Public budgeting reform aims to address these issues through the application of principles of efficiency, flexibility, and accountability. One widely adopted approach is Performance-Based Budgeting (PBB), which emphasizes the link between funding and measurable outcomes. Marti (2019) asserts that the success of PBB relies heavily on a credible performance assessment system and the organizational capacity to manage data and information.

With this approach, the budget functions not only as a financial planning tool but also as a mechanism to enhance the effectiveness of public policy. Furthermore, budgetary reform also demands a transformation of bureaucratic culture toward results orientation and cross-sectoral collaboration. Rakhman (2019) add that the paradigm shift in public budgeting requires not only technical innovation but also

changes in values and behavior within government institutions. The integration of digital technology, data transparency, and public participation is believed to strengthen fiscal governance that is adaptive and responsive to public needs. The literature indicates that the effectiveness of public budgeting is highly dependent on the integration between financial governance, accountability mechanisms, and innovation in budget formulation and implementation. Continuous reform is necessary for the public budget system to adapt to contemporary demands and contribute significantly to public welfare.

3. Methods

This research employs a historical approach to examine the development of concepts and practices of public sector budgeting and its relation to government financial governance and accountability. The choice of the historical approach is based on its ability to provide a comprehensive overview of the dynamics of fiscal policy change over time, including how these transformations influence the effectiveness of public financial governance. In line with the thinking of Mustafa (2021), the historical method seeks to trace past events systematically through the evaluation of relevant evidence and sources, so that the patterns of development that shape contemporary conditions can be identified more clearly. In the context of this research, the historical approach is utilized to study the evolution of the public budgeting system, from the input-oriented traditional model to the shift toward a performance-based approach, and to understand the role of financial governance in strengthening the effectiveness and accountability of the budgetary system.

The historical research process includes data collection, source verification, interpretation, and historiographical compilation. The data collection phase was carried out by gathering various secondary references, such as academic journals, public policy documents, financial institution reports, and historical literature discussing public budgeting and financial governance in the period spanning. Subsequently, the verification phase was conducted to assess the authenticity, credibility, and relevance of each source. External and internal criticism is an important part of this stage, as emphasized by Lichtman (2023), so that the data used has adequate historical validity. After that, the interpretation process was carried out by analyzing the cause-and-effect relationship between financial governance reform and changes in the public budgeting system. The analysis was conducted thematically to identify patterns of change that emerged consistently throughout the period under review.

The final stage involves compiling a historiographical narrative that presents this analysis in the form of a descriptive outline of the development of public budget concepts and their relevance to enhancing accountability and the effectiveness of state financial governance. This historical approach allows for the understanding that the public budgeting system did not develop instantly but is the result of an evolutionary process influenced by policy, political, and economic dynamics. Thus, this research views the budget not only as a technocratic document but also as a reflection of the paradigm shift in government toward governance that is increasingly transparent, accountable, and results-oriented.

4. Results

The results of this study indicate that the budget holds a very strategic role in shaping public financial governance that is transparent, accountable, and effective. Based on a historical review of the development of the budgeting system, it is evident that the function of the budget has undergone a fundamental change from merely an administrative tool to a managerial instrument that supports decision-making and the implementation of public policies in a more structured and results-oriented manner. This evolution is clearly seen in the shift from traditional budgeting practices which focused on input and procedural compliance toward modern budgeting approaches that emphasize efficiency, effectiveness, and alignment between resource allocation and development achievements. This transformation not only reflects adaptation to the complexity of modern state functions but also shows increasing public demands for fiscal accountability.

In the early stages of the development of the public financial system, budgeting was mostly functioned as an administrative control tool (Masdar et al., 2021). The main focus was on ensuring that public funds were spent in accordance with applicable legal provisions. This approach positioned the budget as a mechanism that emphasized proceduralism rather than the achievement of policy outcomes. However, as the need for public services, economic development, and political and social dynamics increased, this approach became insufficient. The complexity of modern governance demands a budgeting system that is more adaptive, responsive, and aligned with strategic development goals.

Governments in various countries then began to introduce more progressive budgeting models, such as performance-based budgeting (PBB) and the Medium-Term Expenditure Framework (MTEF). The PBB approach allows the budget to be directly linked to the achievement of outputs and outcomes, while the MTEF provides a medium-term framework that can increase fiscal stability and policy continuity. Marti (2019) asserts that performance-based budgeting is a logical evolutionary form from traditional systems towards a more rational, measurable, and transparent approach to managing public funds. Thus, budgeting is not just a financial planning instrument but also a strategic tool to ensure that public policies yield tangible benefits for society.

The results of the historical analysis also highlight that public financial governance is an important foundation for increasing the effectiveness of the budgeting system. Quality budgeting cannot be separated from strong governance practices, because governance provides the structure, norms, and mechanisms that ensure every stage in the budget cycle planning, approval, execution, monitoring, and evaluation runs according to the principles of transparency and accountability. Fisher (2022) state that the success of the public budgeting system is highly influenced by the quality of financial governance, especially concerning fiscal discipline, information disclosure, and effective internal and external oversight mechanisms. In other words, the budgeting system and financial governance are two elements that are interconnected and mutually reinforcing in the effort to realize a results-oriented government focused on public value.

The findings of this study also indicate that the traditional budgeting system has various structural weaknesses that can hinder the effectiveness of public policy. Bureaucratic, rigid, and unadaptive budgeting models often lead to inefficiency and inhibit the government's response to socio-economic dynamics. Rakhman (2019) assert that one of the main challenges of the traditional budgeting system lies in the lack of synchronization between strategic plans and the actual performance of the organization. In many cases, budgets are prepared based on inaccurate or even obsolete assumptions, while performance evaluation is carried out in a limited manner without comprehensive indicators. This results in the quality of public decision-making being less than optimal.

From a governance perspective, this research reveals that the integration between the budgeting system and financial oversight mechanisms is a key element for the success of fiscal reform. Strong financial oversight ensures that resource allocation is genuinely used to support the achievement of policy goals. Conversely, the budget provides a framework for systematically measuring performance and accountability. Historically, weak fiscal oversight has often been the root cause of waste, inefficiency, and even corruption practices in the public sector. However, the emergence of more independent internal and external audit systems and the application of transparent oversight mechanisms are increasingly strengthening the quality of state financial governance. Saputra (2021) emphasize that effective public financial governance is characterized by audit openness, process integrity, and public involvement in budget oversight.

The evolution of the public budgeting system cannot be separated from the influence of globalization and the development of information technology. Digitalization in public financial management contributes significantly to increasing transparency, data accuracy, and fiscal accountability (Bach, 2020). Governments in various countries are beginning to implement Financial Management Information Systems (FMIS) to integrate the processes of planning, budgeting, budget execution, and financial reporting on a single digital platform. Maita et al. (2022) show that the implementation of FMIS in many developing countries has demonstrably increased financial administration efficiency, improved coordination between agencies, and strengthened the accuracy of fiscal information. Digitalization also enables the government to monitor budget realization in real time, allowing decision-making processes to be carried out more quickly and data-driven.

Furthermore, the research results show that the modernization of the budgeting system encourages the formation of an institutional culture that is more focused on performance. The concept of value for money which promotes efficiency, effectiveness, and economy has become the main principle in modern budgeting (Anggraini et al., 2021). The government no longer assesses the success of a program solely based on physical realization and budget absorption, but on the extent to which the program provides measurable results for the community. Thus, the orientation of budgeting shifts from being compliance-based to performance-driven. This study also found that external pressures, such as international standards on fiscal transparency, global policy reforms, and public demands for more open government, have also accelerated budgetary reform. Initiatives such as the open

budget initiative, the fiscal transparency code, and open government practices encourage governments to be more open in conveying budget information to the public. This creates space for the community to be involved in the oversight process and participation in the budget cycle, thereby strengthening democratic accountability. Sari (2023) state that the legitimacy of the budgeting system is strongly influenced by the extent to which the government is able to provide fiscal information that is accurate, easily accessible, and relevant to the wider community.

The results of this research affirm that the budget is not merely a financial document but a strategic instrument that reflects the government's ability to plan, manage, and account for public policies. The evolution of the budgeting system reflects a long process of fiscal reform influenced by political, economic, technological dynamics, and public demands. Through results-oriented, transparent, and accountable budgetary reform, the government can improve the quality of public services and strengthen public trust in state institutions. These findings simultaneously show that the success of the budgeting system is highly determined by the alignment between governance practices, institutional capacity, and the government's commitment to integrity and continuous improvement in state financial management.

5. Discussion

The results of this research indicate that the role of the budget in public financial governance has undergone significant development in line with the shift in the government paradigm toward the principles of good governance. The budget is

no longer understood only as an administrative instrument for recording the flow of state revenue and expenditure, but has become a strategic tool that determines the direction, quality, and effectiveness of public resource management. As stated by Reba and Harris (2021), modern budgeting systems must be results-oriented budgeting, so that every allocation of state expenditure must have a clear link to measurable development achievements.

The increasing complexity of public needs and demands for fiscal accountability strengthen the urgency of budgetary transformation. The public increasingly demands government openness in compiling, executing, and evaluating the budget. This fiscal transparency serves not only as a means of information but also as a mechanism to strengthen government legitimacy and build public trust. Shapiro and Hanouna (2019) assert that the disclosure of fiscal information is a key pillar in modern financial governance, as it provides space for broader public participation and allows for more effective oversight of state financial management. Thus, the budget acts as a communication medium that connects the government and the public in ensuring the achievement of public policy goals accountably.

Nevertheless, this research also identifies that the budgetary reform process faces non-trivial challenges, especially related to institutional constraints and bureaucratic culture. Many public organizations still maintain an orientation towards procedural compliance rather than performance achievement, thereby hindering the optimal implementation of performance-based budgeting. Cepiku (2021) asserts that budgetary reform is prone to failure if it is not accompanied by a change in bureaucratic mindset and an increase in the capacity of human resources in the

public sector. Thus, strengthening the competence of officials, providing technical training, and implementing performance-based incentive systems are important prerequisites in supporting sustainable budgetary transformation. In addition to internal challenges, external factors such as political stability and regulatory support also determine the success of budget governance.

A transparent and accountable budgeting system requires a strong legal foundation, effective oversight mechanisms, and political commitment to maintain fiscal discipline and prevent deviations. Sparkes et al. (2019) emphasize that the success of fiscal reform requires synergy between institutional aspects, technology, and visionary leadership, thus being able to create an environment that supports the consistent implementation of fiscal policy. This discussion confirms that the budget in public financial governance has a multidimensional character, not only as an economic instrument but also as a governance and political tool. A well-designed and managed budget has the potential to strengthen the effectiveness of public policies, increase public trust, and accelerate the achievement of inclusive and sustainable development goals.

6. Conclusion

This research concludes that the budget is a fundamental element in public financial governance that serves as a tool for planning, control, and accountability to achieve national development goals. From the results of historical and literature analysis, it is proven that public budgeting has evolved from a traditional, input-oriented system to a performance-based system that emphasizes efficiency,

transparency, and results. This transformation strengthens the budget's position as a strategic instrument in ensuring the optimal and equitable use of public resources. Good public financial governance is a primary prerequisite for the effectiveness of the budgeting system. The integration between fiscal discipline, transparency, and strong oversight forms the foundation for an accountable public financial system.

However, the success of budgetary reform is highly dependent on institutional factors, organizational culture, and political commitment to maintaining the integrity of the fiscal process. Therefore, strengthening the capacity of officials, applying information technology, and increasing public participation are needed so that budgeting can become a development instrument that is adaptive to environmental changes. The findings of this study assert that public budgeting is not only an administrative process but a reflection of results-oriented government governance focused on public welfare. By applying the principles of good governance, the budgeting system can act as a key catalyst in realizing transparent, efficient, and socially just governance.

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