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# The Influence of Risk Management, Budget, and Performance in Realizing Good Governance

**Lisnawati[1*], Hapzi Ali[2]**
[1]Student of the Faculty of Economics, Open University, email: lisnatirtana@gmail.com
[2]Lecturer at the Faculty of Economics, Bhayangkara University, email: hapzi.ali@gmail.com

Corresponding author: Author

**Abstract:** This scientific article is a literature study within the scope of financial management that covers the influence of risk management, budget, and performance in realizing good governance. The purpose of this article is to construct a hypothesis on the influence between variables that will be used in subsequent research. The research objects are online literature, Google Scholar, Mendeley, and other academic online media. This qualitative descriptive analysis research method includes library research sourced from e-books and open access e-journals. The results of this article are: 1) risk management affects Good Governance; 2) budget affects good governance; and 3) performance affects good governance.

**Keywords**: Good Governance, Risk Management, Budget, Performance

## INTRODUCTION

Since 2008, the Ministry of Finance has been implementing risk management in the public sector. Basically, according to Government Regulation No. 60 of 2008 about the Government Internal Control System, Risk Management should be used in all government entities. The reason for this is that practically all government entities in Indonesia have successfully adopted Risk Management, and one of the most extensively utilized standards is ISO 31000:2009.

Every policy and approach adopted by policymakers in government agencies contains risk, making it nearly impossible to make a choice free of risk. Risk is an integral aspect of all actions in government agencies. But rather than being something to be dreaded or avoided, risks should be well-managed to reduce their impact and be dealt with as soon as feasible.

Within the field of medicine, risk factors are characteristics linked to a higher chance of contracting a specific illness or infection. Risk factors are elements that, when applied to the business world, if left uncontrolled, can create sources of risk that will eventually negatively affect an agency. Thus, the first step in developing a risk management strategy is recognizing these risk variables. Performance in government agencies embodies the use of the state budget, which is expected to contribute positively (outcome) to the welfare of society, as essentially, government agencies formed are a manifestation of the state's presence in serving its community.

One of the key factors in evaluating how well government agencies manage the state budget is how well they control risks and mitigate them. Another important factor is how well internal controls are implemented as a first line of defence against potentially harmful actions. As a result, there is an ideal financial performance, which is necessary to achieve excellent governance. In essence, collective accountability in the decision-making process and its implementation is what is meant by good governance. In the process of managing national governance, it is an agreement achieved between the public, business, and government sectors.

Based on empirical experience, many students and writers struggle to find supporting articles for their research papers in the form of previous or relevant research papers. Relevant articles are needed to confirm the researched theories, observe the relationship or effect between variables and develop hypotheses. This paper examines the impact of risk management, budgeting and performance on good governance - a review study of the financial management literature.

Considering the background, the purpose of this article is to establish hypotheses for further research and specifically to formulate: 1) the influence of risk management on good governance; 2) The influence of the budget on good governance; and 3) the influence of performance on good governance.

## METHOD

This literature review article is written using descriptive qualitative method and literature or library research obtained from online applications such as Google Scholar, Mendeley and other online academic applications.

In qualitative research, a literature review should be used according to methodological assumptions. This means that it should be used inductively so that it does not direct the questions that researchers ask. One of the main reasons for conducting qualitative research is that it is exploratory in nature (Ali, H. and Limakrisna, 2013).

## RESULT AND DISCUSSION

### Results

Based on the background, objectives, and methods, the results of this article are as follows:

#### *Good Governance*

Good governance is a concept of good governance that is oriented towards the development of the public sector with the aim of promoting development and general well-being. This achievement will be achieved if the government fulfills its obligations well and acts with fiscal discipline and responsibility to create a legal and political framework (Mardiasmo, 2018).

Good governance is the correct and clean administration of an institution according to the principles of receiving responsible and transparent public services (Djalil, 2014).

The dimensions, indicators, synthesis, or factors that affect good governance are governance in management within Government Institutions that are responsible, disciplined, transparent, and professional in the use of the budget in accordance with applicable rules.

Good Governance has been extensively researched by previous researchers, including the influence of Good Governance and the government's internal control system on regional government performance (Putra & Dwiana Putra, 2018), the implementation of Good Governance in Government Institutions (Erita, 2016), and the application of Good Governance in the Performance Report of Government Institutions (LKjIP) in the Provincial Government of South Sumatra (Sarimalia, 2021).

### *Risk Management*

Risk management is a structured and systematic process in identifying, measuring, mapping, developing the possibility of risks, and monitoring and controlling risks (Djohanputro, 2008).

Risk management is an effort to know, analyze, and control risks in every activity with the aim of achieving good effectiveness and efficiency (Darmawi, 2019).

The dimensions, indicators, synthesis or factors affecting risk management are efforts to mitigate risks by applying a systematic method to minimize potential losses so that goals can be achieved effectively and efficiently.

Risk management has been extensively researched by previous researchers, including the implementation and critical success factors of risk management in Government Institutions (Jauhari et al., 2021), risk management analysis in realizing good governance in the Bandung Barat Regency Government (Maizi et al., 2019), and the effect of risk management implementation on financial performance in the Bandung regency local government (Nugraha & Novianty, 2022).

### *Budget*

A budget is a written plan regarding the activities of an organization stated quantitatively for a specific period and generally in currency units (M. Nafarin, 2007).
A budget is a systematically compiled plan that encompasses all company activities, usually in the applicable currency units for a specific period (Suharsimi, 2010).

The dimensions, indicators, synthesis or factors influencing the budget is a systematically prepared plan for a certain period, usually in monetary units. Budget and activities are like two inseparable sides of a coin, because every planned activity usually has a necessary budget.

This budget has been extensively researched by previous researchers, including the influence of good corporate governance principles on budget management in government agencies (Maulamin et al., 2019), efficiency analysis of the budget in public service agency government institutions (Fitrah & Handayati, 2022), and the influence of performance-based budgeting on the performance accountability of the Cimahi city government agency (Selviani, 2021).

### *Performance*

Performance is a depiction of a company's financial condition at a specific period concerning aspects of fund input and fund distribution, which is usually measured by indicators of capital adequacy, liquidity, and profitability (Jumingan, 2006).

Performance, according to the Indonesian Accountant Association, is the ability of a company to manage and control the resources it possesses (IAI, 2007).

Previous researchers have investigated performance in detail, including the analysis of performance accountability of the Sidoarjo regency government agency (Fadila & Budiwitjaksono, 2022), the influence of transparency and accountability on the performance of government agencies (Novatiani et al., 2019), and the influence of the implementation of the government agency performance accountability system (SAKIP) on the application of good governance (Rosliyati, 2014).

## Relevant Research Results

Research of relevant articles as a basis for establishing research hypotheses, explaining the results of previous studies, describing similarities and differences of previous studies related to the research design according to Table 1 below.

**Tabel 1: Relevant Research Results**

| No | Author (Year) | Previous Research Results | Similarities With This Article | Differences With This Article | H |
|---|---|---|---|---|---|
| 1 | (Putra & Dwiana Putra, 2018) | Risk management and the internal control system of the government have a positive and significant impact on good governance | Risk management has a positive influence on good governance | Risk identification has a positive effect on good governance | H1 |
| 2 | (Maizi et al., 2019) | Risk management in realizing good governance has a significant influence | Risk management has a significant effect on good governance | Good risk mitigation has an effect on good governance | H1 |
| 3 | (Illayuniga & Rahayu, 2019) | Budget planning and performance evaluation have a positive and significant effect on performance accountability | Budget planning has a positive effect in realizing good governance | Budget execution affects good governance | H2 |
| 4 | (Maulamin et al., 2019) | Principles of good corporate governance together influence 94.6% of budget management in Government Agencies | In realizing good governance, the role of budget execution has a significant influence | Wise budget use in activities has a positive effect in realizing good governance | H2 |
| 5 | (Rosliyati, 2014) | In realizing of the government agency performance accountability system (SAKIP) significantly affects the application of good governance at the BKPLD office of Tasikmalaya regency | In realizing good governance, good performance in Government Agencies has a significant influence | Human resources and agency performance affect good governance | H3 |
| 6 | (Edowati et al., 2021) | Transparency with government performance has a positive and significant influence on improving the performance of the Deiyai regency local government | Government performance has a positive and significantly impact in realizing good governance | Transparency in performance management has a positive effect in realizing good governance | H3 |

Note: The "H" in the table likely refers to different hypotheses that the author is setting based on previous research.

## Discussion

Based on theoretical research, this literature review article will discuss the relevant articles, analyze the influence between the variables and create a conceptual idea for the research plan. Based on the research results, the discussion of this article is to review the relevant articles, analyze the influence between the variables and create a conceptual idea of the research plan.

### *The Influence of Risk Management on Good Governance*

Risk management is a systematic process for managing the uncertainty associated with negative impacts by identifying, analysing, evaluating and mitigating risks within an organization. Its purpose is to minimize or reduce the negative consequences of potential risks. When implementing good governance, risk management is essential as it helps to identify, analyse and manage operational risks. The principles or concepts of risk management include at least 8 principles that must exist in risk management, namely:

a. Integrated

   Risk management is an integral part of the activities in an agency as it supports achieving objectives, enhances performance, and fosters innovation.

b. Structured and Comprehensive

Risk management contributes to relevant and consistent results.

c. Adaptable
 This means that in achieving its goals, risk management can be tailored to both internal and external contexts.
d. Inclusive
 Risk management requires contributions from various departments so that multiple perspectives and responses can be considered.
e. Availability of Good Information
 Precisely targeting the right information to the right party at the right time.
f. Behaviour and Culture
 Risk management is undoubtedly influenced by human behaviour and culture. Therefore, the role of leadership is needed to provide a role model to motivate their subordinates.
g. Improving Work Effectiveness
 Risk management can enhance work effectiveness, ensuring objectives are achieved optimally.
h. Dynamic
 The principle here indicates that risk management practices should be agile, adjusting to changing circumstances and environments (ISO 31000:2018)

Risk management affects good governance; if risk management is seen positively, good governance is also perceived positively and vice versa. Risk management is the process of minimizing potential harms by identifying, analysing, evaluating and mitigating risks. If the agency implements it properly, good governance is realized.

Factors influencing risk management include: Leadership Commitment: The role of leadership is crucial in considering risks in every decision-making process. Leaders are the primary key to change. Continuous Communication: Consistent communication with both those responsible and all employees regarding the importance of risk management is vital.

Recognition: Rewarding those who can mitigate risks effectively. To enhance good governance by considering risk management, what management needs to do is first identify every potential risk, then analyse, evaluate, and decide what steps will be taken to minimize the forthcoming risks. This process should involve all parties to contribute to realizing good governance.

Risk management impacts good governance, consistent with the research conducted by: (Selsabila & Rini Lestari, 2022), (Maizi et al., 2019), (Nugraha & Novianty, 2022).

***The Influence of Budget on Good Governance***

A budget is a tool used to plan activities in detail and systematically, typically in monetary units. The country's financial budgeting is the process of drafting an annual financial plan approved by the DPR (House of Representatives) in the form of APBN (State Revenue and Expenditure Budget), containing systematic and detailed plans for a budget year, including income and expenses.

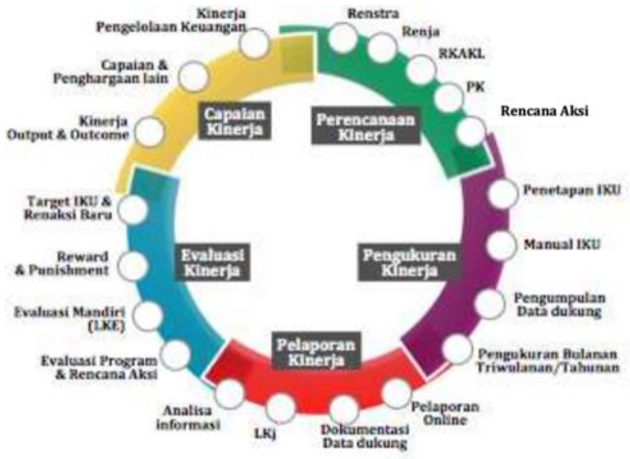
Budget principles or concepts include democracy, fairness, transparency, high morality, rationality and accountability. As such, the preparation of this budget corresponds to the common goals and priority programs of the implementation of good governance. The budget affects good management. If the budget is viewed positively, good governance is also perceived as such, and vice versa. This can be explained by the fact that the sanctioned budget given to an institution to implement a given program, if used wisely and responsibly, is a manifestation of good governance. On the other hand, if the approved budget is not well implemented, the agency cannot demonstrate good governance, leading to unattainable goals.

Factors affecting the budget include inflation, as inflation signifies the continuous rise in the prices of goods, influencing budget drafting in determining input cost units.

The budget plays a role in good governance, aligning with research conducted by: (Novatiani et al., 2019), (Selviani, 2021), (Maulamin et al., 2019).

### *The Influence of Performance on Good Governance*

Performance represents the accomplishment of objectives or targets of government agencies from their vision, mission, and strategy, indicated as the level of success or failure in executing activities consistent with the set programs and policies. (Permen KKP Number 68 Year 2017 (1), n.d.)



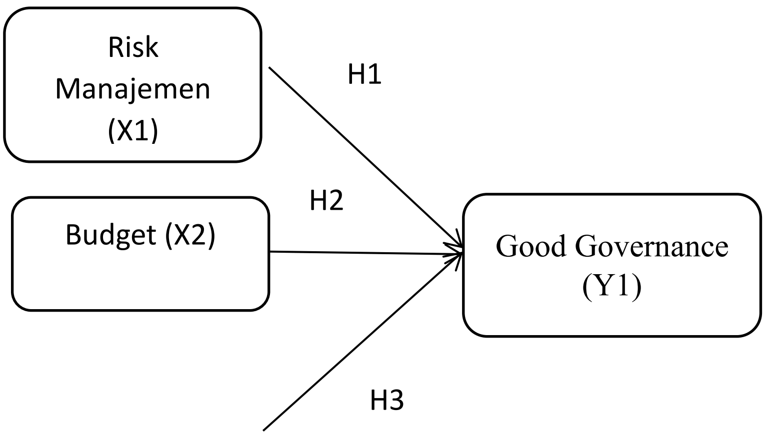

Gambar 2.
Siklus Pengelolaan Kinerja Kementerian Kelautan dan Perikanan

Performance indicators should contain several important elements, including those that are specific and clear, objectively measurable, related to achievable goals and objectives, and unbiased. Efficiency affects good governance: if efficiency is perceived positively, so is good governance and vice versa. This can be explained by the statement that the success of good governance depends on the fulfilment of set performance objectives.

Factors influencing the performance of an agency include leadership, exemplified by implementing agency commitments, adequate resources, the execution of rewards and punishments, and a strong collective desire to achieve objectives. Performance plays a role in good governance, consistent with the research conducted by: (Rosliyati, 2014), (Fadila & Budiwitjaksono, 2022), (Riantiarno & Azlina, 2019).

### *Research Conceptual Framework*

Based on the problem formulation, discussion, and relevant research, the conceptual framework for this article can be derived as shown in Figure 1 below.



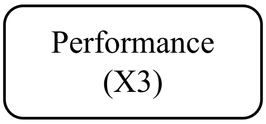



**Figure 1: Conceptual Framework**

Based on the conceptual framework diagram above, risk management, budget, and performance all influence good governance. Apart from the three exogenous variables affecting good governance, many other variables include:

1. x4: (Ramadhania & Novianty, 2020), (C & Ali, 2019)
2. x5: (Pertiwi, 2015), (Rosliyati, 2014)
3. Performance: (Ansori & Ali, 2017), (Riantiarno & Azlina, 2019)

## CONCLUSION

Based on the objectives, outcomes, and discussions, the conclusion of this article is to formulate hypotheses for further research, namely: 1) risk management influences good governance; 2) budget influences good governance, and 3) performance affects good governance.

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