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# Budget Participation and Managerial Performance in Local Government: Leader-Member Exchange as Relational Governance Mediator

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**ARTICLE INFO** **ABSTRACT**

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**Keywords:**
Budget Participation; Information Asymmetry; Leader Member Exchange; Managerial Performance; Local Government;

**Background:** Managerial performance in local government organizations remains a persistent governance challenge, as formal administrative reforms and participatory budgeting mechanisms have demonstrated limited and inconsistent capacity to produce effective organizational outcomes. Existing literature has predominantly conceptualized budget participation and information asymmetry as isolated technical variables, leaving the relational governance mechanisms connecting these constructs to managerial effectiveness substantially underexplored.

24 **Method:** This study employs a quantitative explanatory design using cross-sectional survey data collected from 178 officials within Local Government Organizations (Organisasi Perangkat Daerah/OPD) in Bantul Regency, Indonesia. 18 Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) via Smart PLS 4, with Leader–Member Exchange (LMX) positioned as a relational governance mediator. 81 21

**Results:** Budget participation positively affects managerial performance ($\beta = 0.210$) and LMX quality ($\beta = 0.675$), while information asymmetry exerts significant negative effects on both managerial performance ($\beta = -0.179$) and LMX ($\beta = -0.536$). LMX strongly influences managerial performance ($\beta = 0.650$) and significantly mediates both relationships, confirming its role as a primary relational governance mechanism.

**Conclusion:** Governance effectiveness in local government is fundamentally relational rather than procedural. The findings resonate with Islamic governance principles of shura, amanah, and adalah, suggesting that participatory, transparent, and trust-based governance practices are essential for sustained managerial effectiveness in public sector institutions.

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## INTRODUCTION

69 The effectiveness of local government organizations has emerged as a critical concern in contemporary public sector governance, particularly in developing countries where decentralization reforms have transferred substantial administrative and fiscal responsibilities to subnational

governments without correspondingly strengthening organizational capacity or relational governance dynamics. Indonesia's regional autonomy framework, institutionalized under Law No. 23 of 2014, has expanded the administrative discretion of local governments considerably; yet persistent managerial inefficiencies, fragmented coordination, and inconsistent service delivery continue to characterize a significant proportion of Local Government Organizations (Organisasi Perangkat Daerah/OPD) across Indonesian regencies (Cepiku et al., 2016; Grossi et al., 2019). These challenges extend beyond administrative issues; they have direct fiscal implications, including suboptimal budget execution rates, increased budget variance, and persistent underperformance in capital expenditure absorption, all of which jeopardize the developmental goals of Indonesia decentralization agenda (Lewis, 2017; von Luebke, 2009). These challenges indicate that formal governance mechanisms and administrative compliance, while necessary, remain insufficient conditions for achieving sustained organizational effectiveness in public sector institutions.

Among the various governance mechanisms central to local government administration, participatory budgeting occupies a position of particular theoretical and practical significance. Budgeting in public organizations functions simultaneously as a financial planning instrument, a managerial coordination mechanism, and an accountability framework that structures the interaction among organizational actors across administrative hierarchies (Chenhall, 2003; Kren, 1992). Participatory budgeting, which involves organizational members in budget preparation and decision-making, is theoretically expected to enhance managerial effectiveness through improved information sharing, psychological ownership, and goal congruence. However, empirical evidence regarding the budget participation–managerial performance relationship has remained persistently inconsistent across three decades of behavioural accounting research, with some studies reporting positive associations and others revealing negligible or conditional effects (Chenhall, 2003; Oppong et al., 2023; Riyadh et al., 2023; Shields & Shields, 1998). This inconsistency is especially significant in decentralized fiscal systems, where participatory budgeting serves both as a managerial improvement mechanism and as a fiscal accountability tool. It connects subnational resource allocation decisions to intergovernmental transfer frameworks and local revenue mobilization objectives (Lewis, 2017). This inconsistency suggests that participatory budgeting operates through mechanisms that extend well beyond formal administrative involvement.

A dimension frequently overlooked in existing participatory budgeting literature concerns the organizational information environment within which budgeting processes operate. Information asymmetry the unequal distribution of strategic and operational information among organizational actors constitutes a structural condition with substantial implications for managerial effectiveness. In public organizations, hierarchical authority structures and bureaucratic complexity frequently produce fragmented information environments in which subordinate managers possess operational knowledge inaccessible to senior administrators, while leadership-level strategic information remains similarly opaque to frontline implementers (Eisenhardt, 1989). Agency theory explains that such information imbalances generate coordination inefficiencies, invite opportunistic behavior, and weaken organizational control processes (Jensen & Meckling, 1976). Yet the relational consequences of information asymmetry its effects on organizational trust, communication quality, and leader–subordinate interaction have received comparatively limited theoretical elaboration within public sector accounting research.

This study addresses these gaps by introducing Leader–Member Exchange (LMX) as a relational governance mechanism that mediates the relationships among budget participation, information asymmetry, and managerial performance within local government organizations. LMX theory explains that organizational effectiveness is substantially shaped by the quality of reciprocal exchange relationships between leaders and subordinates, encompassing trust, communication openness, professional respect, and mutual support (Graen & Uhl-Bien, 1995; Hirvi et al., 2020). Rather than treating LMX as a conventional interpersonal leadership construct, this study positions it as a form of relational governance capability that enables participatory governance mechanisms to produce substantive, rather than symbolic, organizational outcomes. This reconceptualization has implications that extend beyond organizational behaviour. Specifically, when LMX quality mediates the relationship between budget participation and managerial performance, it also mediates the relationship between fiscal inputs, such as intergovernmental transfers, locally generated revenues, and capital expenditure allocations, and measurable service delivery outcomes (von Luebke, 2009). From this perspective, budget participation strengthens managerial performance not merely through formal procedural involvement, but by fostering the relational quality that enables effective organizational coordination and information integration.

This relational governance argument holds particular resonance within the Islamic economics and management tradition. Islamic organizational ethics emphasizes shura (deliberative consultation) as a foundational governance principle that legitimizes participatory decision-making within organizational and political institutions (Beekun & Badawi, 1999). The principle of amanah (trustworthiness and accountability) similarly mandates that organizational actors fulfil their responsibilities with integrity and transparency, while adalah (justice) requires equitable access to information and organizational resources. These principles serve not only as normative ideals but also as operational governance standards that can be systematically aligned with relational governance constructs such as LMX, providing an Islamic governance framework with direct empirical references in the behavioural accounting and public administration literature (Alhasnawi, et al., 2024; Munandar et al., 2026). Collectively, these principles suggest that governance effectiveness in Islamic organizational contexts is inherently relational and trust-based, aligning substantially with the theoretical framework advanced in this study.

The study is conducted within OPD in Bantul Regency, a regional government institution in Yogyakarta Province, Indonesia, which has demonstrated relatively strong governance accountability compared to peer regencies and therefore provides an informative institutional setting for examining how relational governance mechanisms shape managerial outcomes beyond formal compliance. The research makes three principal contributions. First, it shifts participatory budgeting research from a procedural-administrative explanation toward a relational governance explanation of managerial effectiveness. Second, it advances the theoretical treatment of LMX within public sector governance literature by reconceptualizing it as an organizational relational capability rather than solely an interpersonal leadership phenomenon. Third, this study contributes to the fiscal decentralization literature by demonstrating that the quality of relational governance mediates the organizational effectiveness of participatory budgeting mechanisms within Indonesia's subnational fiscal governance framework. This finding has direct implications for intergovernmental fiscal design and the assessment of local government performance. Fourth, it connects empirical findings regarding governance dynamics in Indonesian local governments to Islamic organizational principles, contributing to the Islamic economics and management literature on governance, accountability, and organizational performance.

## LITERATURE REVIEW

### Relational Governance as a Theoretical Framework

Contemporary public sector governance scholarship has progressively shifted its explanatory focus from formal institutional structures toward relational coordination processes as the primary determinants of organizational effectiveness. Relational governance theory argues that organizational outcomes emerge not merely from the design of formal administrative rules and procedures, but from the quality of social interaction, trust, communication, and collaborative exchange among organizational actors (Cepiku et al., 2016; Grossi et al., 2019). This perspective is particularly relevant in public organizations, where complex accountability obligations, interdepartmental coordination demands, and political pressures require governance mechanisms capable of facilitating sustained relational coordination rather than merely procedural compliance.

Within local government organizations, budgeting constitutes an inherently relational process because it involves negotiation, information exchange, priority-setting, and collective interpretation of organizational objectives among actors distributed across administrative hierarchies. Traditional principal–agent frameworks conceptualize this process primarily in contractual and informational terms, emphasizing monitoring costs, incentive alignment, and information disclosure (Eisenhardt, 1989; Jensen & Meckling, 1976). While these perspectives illuminate important coordination problems, they remain analytically limited in explaining how organizational actors construct effective governance through ongoing relational interaction. Relational governance theory fills this gap by highlighting trust, communication quality, and collaborative interaction as constitutive elements of organizational effectiveness rather than merely background conditions (Cirella & Murphy, 2022; Grossi et al., 2019).

Social exchange theory provides a complementary micro-level explanation for relational governance dynamics by arguing that sustained cooperation among organizational actors emerges from reciprocal exchange relationships characterized by trust, mutual obligation, and perceived fairness (Cropanzano & Mitchell, 2005). Within this theoretical tradition, Leader–Member Exchange (LMX) theory offers a specific relational governance mechanism through which social exchange dynamics shape organizational outcomes. LMX theory posits that the quality of dyadic exchange relationships between leaders and subordinates-encompassing trust, affect, loyalty, and professional respect-significantly moderates organizational processes, including communication effectiveness, goal alignment, and managerial performance (Dienesch & Liden, 1986; Graen & Uhl-Bien, 1995). Integrating relational governance theory with LMX and social exchange perspectives thus provides a theoretically coherent framework for examining how participatory budgeting and information conditions shape managerial effectiveness in local government organizations.

The relational governance perspective also intersects productively with fiscal decentralization theory, which has long recognized that the performance consequences of fiscal devolution depend not only on the formal design of intergovernmental fiscal systems but also on the organizational and institutional capabilities of subnational governments to effectively translate transferred fiscal resources into service delivery (Lewis, 2017; von Luebke, 2009). In Indonesia decentralized fiscal architecture, where OPD are the primary organizational units responsible for converting Dana Alokasi Umum (DAU) and Dana Alokasi Khusus (DAK) transfers into programmatic expenditure, the quality of relational governance within OPDs serves as a critical mediating variable between fiscal resource availability and expenditure effectiveness. This connection between relational governance theory and fiscal decentralization scholarship represents a theoretically significant integration that broadens the analytical scope of both traditions.

In the Islamic governance tradition, the theoretical foundations of relational governance find parallel expression in core Quranic and prophetic principles. The concept of shura institutionalizes participatory deliberation as a governance norm, recognizing that organizational decisions achieved through collective consultation carry greater legitimacy and implementation effectiveness (Ali & Weir, 2005; Beekun & Badawi, 1999). The principle of amanah establishes trustworthiness and accountability as non-negotiable organizational obligations, while musawah (equality) and adalah (justice) require that information, resources, and decision-making opportunities be distributed equitably among organizational stakeholders. Recent scholarship in Islamic public administration and governance has begun to implement these principles as institutional standards for evaluating public sector governance reforms, particularly in Muslim-majority countries pursuing concurrent decentralization and governance improvement agendas (Alibašić, 2024; Drechsler et al., 2024; Laila et al., 2025). These principles collectively constitute an Islamic relational governance ethic that strongly aligns with the empirical framework examined in this study.

## Budget Participation and Managerial Performance

Budget participation refers to the degree to which organizational members are genuinely involved in budget formulation, deliberation, and decision-making processes (Kren, 1992). Within public sector accounting literature, participatory budgeting is expected to enhance managerial performance through several theoretically distinct mechanisms. First, participation improves information quality because subordinate managers possess operational knowledge unavailable to senior administrators, and participatory processes create structured opportunities for this information to be incorporated into budget decisions (Alhasnawi, Mohd Said, et al., 2024; Chenhall, 2003). Second, participation strengthens psychological ownership and organizational commitment because organizational members who contribute to goal-setting demonstrate greater motivation toward goal achievement (Azila-Gbettor et al., 2024; Shields & Shields, 1998). Third, participation facilitates organizational coordination by establishing shared understanding of resource constraints, operational priorities, and performance expectations across administrative units.

However, recent empirical studies have demonstrated that the budget participation–performance relationship is neither automatic nor universal. Saraf et al. (2022) argue that participation produces performance benefits primarily when organizational environments support open communication and meaningful decision-making influence rather than merely formal procedural involvement. Conversely, in bureaucratically rigid organizations where participatory mechanisms serve compliance rather than

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coordination purposes, budget participation may fail to generate substantive managerial improvements. This distinction is particularly significant in decentralized fiscal systems. When participatory budgeting is merely ceremonially compliant rather than genuinely deliberative, the informational and coordinative advantages that support its fiscal design rationale are systematically lost. This loss contributes to expenditure inefficiencies and budget absorption failures, which characterize weak local governance environments (Lewis, 2017; von Luebke, 2009). Nevertheless, within organizational settings where participatory processes genuinely facilitate information exchange and collaborative coordination, the relationship between budget participation and managerial performance is theoretically well-supported.

H1: Budget participation positively affects managerial performance in local governments.

## Budget Participation and Leader–Member Exchange

The participatory budgeting process inherently involves intensive communicative interaction between organizational leaders and subordinate managers. During budgeting discussions, organizational actors engage in information sharing, negotiation, joint problem-solving, and collaborative priority-setting. These interactions constitute a relational governance process through which the quality of leader–subordinate relationships is constructed and reinforced. LMX theory argues that high-quality exchange relationships develop through reciprocal interaction processes characterized by demonstrated trust, open communication, and mutual recognition (Graen & Uhl-Bien, 1995). Participatory budgeting provides precisely this type of structured relational interaction because involving subordinates in budget decisions signals leadership recognition of their operational competence and organizational value.

Recent research on participatory governance supports this argument by demonstrating that inclusive decision-making processes strengthen organizational trust and communication effectiveness (Grossi et al., 2019). From a relational governance perspective, budget participation functions as a relational process through which organizational coordination capabilities and trust structures are actively constructed rather than merely assumed. Consequently, higher levels of genuine budget participation are expected to foster stronger LMX quality within local government organizations.

H2: Budget participation positively affects leader–member exchange in local governments.

## Information Asymmetry and Managerial Performance

Information asymmetry occurs when organizational actors possess systematically unequal access to strategically relevant information, creating structural conditions that impede effective coordination and accountability. Agency theory characterizes information asymmetry as a fundamental governance problem because principals-typically organizational leaders or higher-level administrators-cannot fully observe or evaluate the actions and informational environments of agents, creating opportunities for moral hazard, adverse selection, and strategic manipulation (Eisenhardt, 1989; Jensen & Meckling, 1976). In public organizations, information asymmetry acquires additional complexity because multiple accountability principals-including legislative bodies, oversight agencies, and citizens-create layered monitoring demands on organizational agents operating across fragmented administrative structures.

Within local governments specifically, high levels of information asymmetry weaken managerial performance by reducing decision-making quality, limiting supervisory effectiveness, and creating coordination gaps between administrative units responsible for complementary service functions. Alam & Alam (2020) demonstrate that information imbalance between budget preparers and approvers in public organizations creates conditions for budgetary slack and resource misallocation, both of which reduce organizational efficiency and managerial effectiveness. More recent scholarship by Höglund et al. (2018) further confirms that information transparency in public sector organizations is strongly associated with performance management effectiveness, suggesting that reducing information asymmetry constitutes a governance reform priority with direct managerial performance implications.

H3: Information asymmetry negatively affects managerial performance in local governments.

## Information Asymmetry and Leader–Member Exchange

The quality of leader–member relational exchange depends critically on the conditions of communication transparency and mutual trust that characterize organizational interaction. Information asymmetry undermines both conditions by creating structural barriers to open communication and by generating organizational suspicion regarding the motives underlying selective information disclosure

(Gerstner & Day, 1997; Suwanda & Suwanda, 2026). When subordinates perceive that leaders strategically withhold organizational information, or when leaders recognize that subordinates manipulate informational access to protect operational discretion, the reciprocal trust foundational to high-quality LMX relationships erodes substantially.

This argument finds theoretical support in both LMX theory and social exchange perspectives. Graen & Uhl-Bien (1995) emphasize that LMX development requires sustained patterns of open communication and demonstrated trustworthiness between organizational parties. Information asymmetry disrupts this developmental process by introducing informational opacity that signals distrust and undermines reciprocal exchange obligations. Within Indonesian public sector organizations, where hierarchical authority norms already constrain upward information flows, high information asymmetry may create particularly severe relational barriers that damage governance effectiveness (Anggara, 2025; Cepiku et al., 2016).

H4: Information asymmetry negatively affects leader–member exchange in local governments.

## Leader–Member Exchange and Managerial Performance

LMX theory posits that the quality of reciprocal exchange relationships between organizational leaders and members constitutes a primary determinant of individual and organizational effectiveness (Alo & Arslan, 2022; Graen & Uhl-Bien, 1995). High-quality LMX relationships-characterized by mutual trust, open communication, professional loyalty, and reciprocal support-enable organizational actors to coordinate responsibilities more effectively, communicate problems more openly, and collaborate more productively toward organizational objectives. Within public sector organizations, where administrative complexity and accountability obligations demand sustained coordination across multiple organizational functions, relational governance quality becomes particularly consequential for managerial effectiveness.

Recent empirical studies in public administration confirm that LMX quality positively influences organizational performance outcomes including employee commitment, role clarity, and managerial effectiveness (Tasdemir et al., 2025; Zada et al., 2023). From a relational governance perspective, LMX represents an organizational capability that transforms formal governance mechanisms from symbolic procedural requirements into substantively effective coordination instruments. Without sufficient relational quality, formal budgeting participation and administrative accountability structures may remain procedurally operational while generating minimal organizational coordination value.

H5: Leader–Member Exchange positively affects managerial performance in local governments.

## The Mediating Role of Leader–Member Exchange

The present study argues that budget participation and information asymmetry do not influence managerial performance exclusively through direct administrative channels. Instead, their governance effects are substantially mediated through the quality of relational exchange embedded within organizational interaction processes. Participatory budgeting creates structured opportunities for communicative interaction between leaders and subordinates, fostering LMX quality through demonstrated trust and reciprocal engagement, which subsequently strengthens organizational coordination and managerial effectiveness. Conversely, information asymmetry undermines LMX quality by eroding communication transparency and organizational trust, thereby weakening the relational governance foundation on which effective managerial coordination depends.

This mediation argument positions LMX as an explanatory relational mechanism that accounts for the organizational processes connecting formal governance inputs-participatory procedures and information conditions-to managerial outcomes. By conceptualizing LMX as a mediating relational governance capability, this study addresses an important explanatory gap in participatory budgeting research and advances a more theoretically complete account of how governance dynamics shape organizational effectiveness in local government institutions.

H6: LMX mediates the relationship between budget participation and managerial performance in local governments.

H7: LMX mediates the relationship between information asymmetry and managerial performance in local governments.

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## METHOD

### . Research Design

This study employs a quantitative explanatory design to examine causal relationships among budget participation, information asymmetry, LMX, and managerial performance within local government organizations. The explanatory approach is appropriate because the research objectives involve testing theoretically derived hypotheses concerning the directional effects of organizational governance constructs within a complex public institutional environment. A cross-sectional survey design is adopted, with data collected at a single time point from organizational officials directly engaged in budgeting and managerial coordination processes within OPD in Bantul Regency, Yogyakarta Province, Indonesia. Bantul Regency is selected because it has demonstrated relatively strong governance accountability performance among Yogyakarta Province regencies, providing an institutional context in which the effects of relational governance mechanisms can be meaningfully examined against a baseline of administrative functionality.

### Population, Sample, and Sampling Procedure

The study population comprises officials within OPD in Bantul Regency who possess direct involvement in budgeting processes, financial administration, and managerial coordination activities. Target respondents include Heads of OPD (Kepala OPD), Heads of Financial or Planning Subdivisions (Kepala Subbagian Keuangan/Perencanaan), and financial or managerial staff engaged in budget preparation, implementation, and reporting activities. Purposive sampling is employed to ensure that respondents possess substantive organizational experience and direct engagement with the governance processes examined in this study. Purposive sampling is widely adopted in public sector governance and behavioural accounting research when specific organizational roles are required to provide valid perceptual assessments of governance quality, leadership interaction, and managerial effectiveness (Hair et al., 2017). Sampling criteria include direct involvement in budgeting or financial administration, familiarity with organizational governance processes, and a minimum of one year of organizational experience. A total of 178 valid questionnaires were returned and used for analysis.

### Variable Measurement

All constructs are measured using reflective multi-item scales on a five-point Likert response format (1 = strongly disagree; 5 = strongly agree). Budget participation is measured through five indicators capturing involvement in budget preparation, opportunity to express operational perspectives, influence over budget decisions, and participation intensity during budgetary discussions, adapted from Kren (1992). Information asymmetry is operationalized through five indicators reflecting information ownership differentials, limited information accessibility, selective information disclosure, and informational imbalance during decision-making, adapted from Eisenhardt (1989). Leader–Member Exchange (LMX) is measured using six indicators capturing mutual trust, communication quality, professional respect, reciprocal support, collaborative interaction, and relational loyalty between leaders and subordinates, adapted from Graen and Uhl-Bien (1995) and Liden and Maslyn (1998). Managerial performance is operationalized through seven indicators reflecting planning effectiveness, coordination capability, supervisory effectiveness, evaluation activities, problem-solving capacity, staff development, and achievement of organizational objectives, adapted from Yang and Holzer (2006).

### Common Method Bias Mitigation

Given the cross-sectional self-report design, this study implements several procedural remedies to minimize common method variance, as recommended by Podsakoff et al. (2003). These include guaranteeing respondent anonymity and confidentiality, randomizing questionnaire item sequence, separating predictor and criterion variable items within the questionnaire structure, providing explicit instructions differentiating the nature of each construct, and conducting pilot testing with fifteen respondents prior to large-scale data collection. Harman's single-factor test is subsequently applied as a post-hoc diagnostic check, with results indicating that no single factor accounts for a majority of the total variance in the data, suggesting that common method bias does not substantially threaten the validity of the findings.

### Data Analysis

Partial Least Squares Structural Equation Modeling (PLS-SEM) using SmartPLS 4 is adopted as the primary analytical technique. PLS-SEM is particularly well-suited for this study because it accommodates complex mediation structures involving multiple latent constructs, performs robustly with moderately sized samples, and is appropriate for predictive and exploratory governance research rather than strictly confirmatory structural analysis (Hair et al., 2017). The analysis proceeds in two stages: measurement model evaluation followed by structural model evaluation. Measurement model assessment examines outer loadings (threshold > 0.70), Average Variance Extracted (AVE > 0.50), Composite Reliability (CR > 0.70), Cronbach's Alpha ($\alpha > 0.70$), and discriminant validity via the Heterotrait–Monotrait Ratio (HTMT < 0.90). Structural model evaluation examines coefficients of determination ($R^2$), effect sizes ($f^2$), predictive relevance ($Q^2$), and direct and indirect hypothesis testing via bootstrapping with 5,000 resample iterations.

## RESULTS AND DISCUSSION

### Respondent Profile

The sample of 178 respondents comprised 60.7% male and 39.3% female officials. The majority (43.3%) fell within the 36–45 age range, with 33.1% above 45 years of age. Educational attainment was predominantly at the bachelor's degree level (64%), followed by master's degree holders (30.9%). Positional distribution included Heads of OPD or Senior Managers (24.7%), Heads of Financial or Planning Subdivisions (29.8%), and financial or managerial staff (45.5%). A substantial majority (62.9%) reported 6–10 years of organizational experience, indicating that respondents possessed sufficient institutional familiarity to provide reliable perceptual assessments of the governance and managerial processes under investigation. These characteristics are broadly consistent with respondent profiles in comparable Indonesian local government studies and suggest an adequately experienced and organizationally embedded sample (see Table 1).

### Measurement Model Evaluation

All constructs satisfy the recommended psychometric thresholds for PLS-SEM analysis (Shmueli et al., 2019). Outer loadings for all indicators exceed 0.70, ranging from 0.935 to 0.959, confirming satisfactory indicator reliability. AVE values for all constructs exceed 0.50 (ranging from 0.891 to 0.900), confirming adequate convergent validity. Composite Reliability values range from 0.970 to 0.981, and Cronbach's Alpha values from 0.969 to 0.981, both substantially exceeding the 0.70 threshold and indicating strong internal consistency across all measurement instruments. Discriminant validity assessed via the HTMT ratio reveals that all inter-construct HTMT values remain below the 0.90 threshold, confirming that each latent variable is empirically distinguishable from others in the model (see Tables 2 and 3). These results collectively indicate that the measurement model possesses strong psychometric integrity and supports valid structural model estimation.

### Structural Model Evaluation

The structural model demonstrates strong explanatory and predictive capability. Budget participation and information asymmetry collectively explain 74.6% of the variance in LMX ($R^2 = 0.746$), indicating that the information environment and participatory governance conditions substantially shape relational governance quality within local government organizations. The combined predictors explain 81.0% of the variance in managerial performance ($R^2 = 0.810$), demonstrating that the relational governance framework advanced in this study possesses substantial explanatory power. Predictive relevance values ($Q^2$) exceed zero for both endogenous constructs ($Q^2$ LMX = 0.739; $Q^2$ MP = 0.695), confirming that the model maintains satisfactory out-of-sample predictive relevance. Effect size analysis reveals that LMX exerts a large effect on managerial performance ($f^2 = 0.565$), while budget participation and information asymmetry each demonstrate small-to-medium effects on managerial performance in direct path assessments. These results are summarized in Tables 4 and 5.

**Table 1. Respondent Profile**

| Characteristic | Category | Frequency | Percentage (%) |
|---|---|---|---|
| Gender | Male | 108 | 60.7 |
| | Female | 70 | 39.3 |
| Age | 26–35 years | 42 | 23.6 |

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| | | | |
|---|---|---|---|
| | 36–45 years | 77 | 43.3 |
| | >45 years | 59 | 33.1 |
| Education | Diploma | 9 | 5.1 |
| | Bachelor's Degree | 114 | 64 |
| | Master's Degree | 55 | 30.9 |
| Position | Head of OPD/Senior Manager | 44 | 24.7 |
| | Head of Financial/Planning Subdivision | 53 | 29.8 |
| | Financial/Managerial Staff | 81 | 45.5 |
| Working Experience | 1–5 years | 46 | 25.8 |
| | 6–10 years | 112 | 62.9 |
| | >10 years | 20 | 11.3 |

**Table 2. Measurement Model Evaluation**

| Construct | Indicator | Outer Loading | Cronbach's Alpha | CR | AVE |
|---|---|---|---|---|---|
| Budget Participation (BP) | BP1 | 0.943 | 0.969 | 0.97 | 0.891 |
| | BP2 | 0.946 | | | |
| | BP3 | 0.943 | | | |
| | BP4 | 0.949 | | | |
| | BP5 | 0.939 | | | |
| Information Asymmetry (IA) | IA1 | 0.952 | 0.972 | 0.973 | 0.899 |
| | IA2 | 0.947 | | | |
| | IA3 | 0.947 | | | |
| | IA4 | 0.946 | | | |
| | IA5 | 0.949 | | | |
| Leader–Member Exchange (LMX) | LMX1 | 0.946 | 0.978 | 0.978 | 0.900 |
| | LMX2 | 0.958 | | | |
| | LMX3 | 0.943 | | | |
| | LMX4 | 0.942 | | | |
| | LMX5 | 0.955 | | | |
| | LMX6 | 0.947 | | | |
| Managerial Performance (MP) | MP1 | 0.948 | 0.981 | 0.981 | 0.897 |
| | MP2 | 0.953 | | | |
| | MP3 | 0.946 | | | |
| | MP4 | 0.951 | | | |
| | MP5 | 0.935 | | | |
| | MP6 | 0.940 | | | |
| | MP7 | 0.959 | | | |

**Table 3. Discriminant Validity (HTMT Ratio)**

| Construct | BP | IA | LMX | MP |
|---|---|---|---|---|
| Budget Participation (BP) | - | | | |
| Information Asymmetry (IA) | 0.028 | - | | |
| Leader–Member Exchange (LMX) | 0.695 | 0.551 | - | |
| Managerial Performance (MP) | 0.667 | 0.541 | 0.807 | - |

**Table 4. Coefficient of Determination ($R^2$) and Predictive Relevance ($Q^2$)**

| Construct | $R^2$ | $Q^2$predict |
|---|---|---|
| Leader–Member Exchange (LMX) | 0.746 | 0.739 |
| Managerial Performance (MP) | 0.810 | 0.695 |

## Hypothesis Testing

Bootstrapping results (5,000 iterations) confirm statistical support for all seven hypotheses (see Table 6). The structural path results are discussed in the following section in relation to the theoretical framework, prior empirical evidence, and Islamic governance implications.

**Table 5. Effect Size ($f^2$)**

| Path | LMX | MP |
|---|---|---|
| Budget Participation (BP) | 1.795 | 0.083 |
| Information Asymmetry (IA) | 1.131 | 0.079 |
| Leader–Member Exchange (LMX) | | 0.565 |

**Table 6. Hypothesis Testing Results**

| Hypothesis | Path | β | Mean | SD | t-statistic | p-value | Decision |
|---|---|---|---|---|---|---|---|
| H1 | BP → MP | 0.210 | 0.212 | 0.050 | 4.208 | 0.000 | Supported |
| H2 | BP → LMX | 0.675 | 0.676 | 0.042 | 16.210 | 0.000 | Supported |
| H3 | IA → MP | −0.179 | −0.181 | 0.049 | 3.640 | 0.000 | Supported |
| H4 | IA → LMX | −0.536 | −0.537 | 0.042 | 12.620 | 0.000 | Supported |
| H5 | LMX → MP | 0.65 | 0.647 | 0.058 | 11.270 | 0.000 | Supported |
| H6 | BP → LMX → MP | 0.439 | 0.437 | 0.042 | 10.392 | 0.000 | Supported |
| H7 | IA → LMX → MP | −0.349 | −0.348 | 0.044 | 7.971 | 0.000 | Supported |

Note. BP = Budget Participation; IA = Information Asymmetry; LMX = Leader–Member Exchange; MP = Managerial Performance.

## Discussion

### Budget Participation as Relational Governance and its Islamic Governance Resonance

The confirmation of H1 ($\beta = 0.210$, $p < 0.001$) demonstrates that budget participation positively and significantly influences managerial performance within OPD in Bantul Regency. This finding aligns with behavioural accounting theory suggesting that participatory involvement in goal-setting processes strengthens managerial information quality, psychological ownership, and coordination effectiveness (Chenhall, 2003; Kren, 1992). However, the comparatively modest direct effect coefficient contrasted against the substantially larger indirect effect mediated through LMX ($\beta = 0.439$, $p < 0.001$) reveals that the governance value of budget participation operates primarily through the relational processes it catalyses rather than through formal procedural involvement alone. This observation contributes a theoretically important qualification to participatory budgeting literature: participation is organizationally effective to the extent that it generates genuine relational interaction and strengthens governance coordination rather than merely satisfying administrative procedural requirements.

The strong positive relationship between budget participation and LMX quality (H2: $\beta = 0.675$, $p < 0.001$) provides direct empirical support for the argument that participatory budgeting constitutes a relational governance process. Consistent with LMX theory (Graen & Uhl-Bien, 1995) and recent relational governance scholarship (Grossi et al., 2019), participatory interaction during budgeting processes creates structured opportunities for trust formation, mutual recognition, and communicative engagement between leaders and subordinates conditions that are precisely constitutive of high-quality exchange relationships. This finding resonates powerfully with the Islamic governance principle of shura, which institutionalizes participatory deliberation as a mechanism for building organizational legitimacy, collective commitment, and governance trust (Ali & Weir, 2005; Beekun & Badawi, 1999). In Islamic organizational ethics, consultation is not merely an administrative procedure but a relational obligation that honors the knowledge, judgment, and dignity of organizational participants an understanding that closely parallels the relational governance interpretation advanced in this study.

The mediation finding for H6 further confirms that the organizational effectiveness of participatory budgeting is substantially explained by the LMX quality it generates. This result addresses a persistent explanatory gap in behavioural accounting literature regarding why participation produces inconsistent performance effects across organizational contexts (Shields & Shields, 1998): participation enhances performance when, and because, it strengthens the relational governance quality enabling effective organizational coordination.

### Information Asymmetry as a Relational and Informational Governance Problem

The negative direct effects of information asymmetry on both managerial performance (H3: $\beta = -0.179$, $p < 0.001$) and LMX quality (H4: $\beta = -0.536$, $p < 0.001$) confirm that informational fragmentation constitutes a dual governance problem simultaneously undermining decision-making quality and eroding the relational trust foundations of effective organizational coordination.

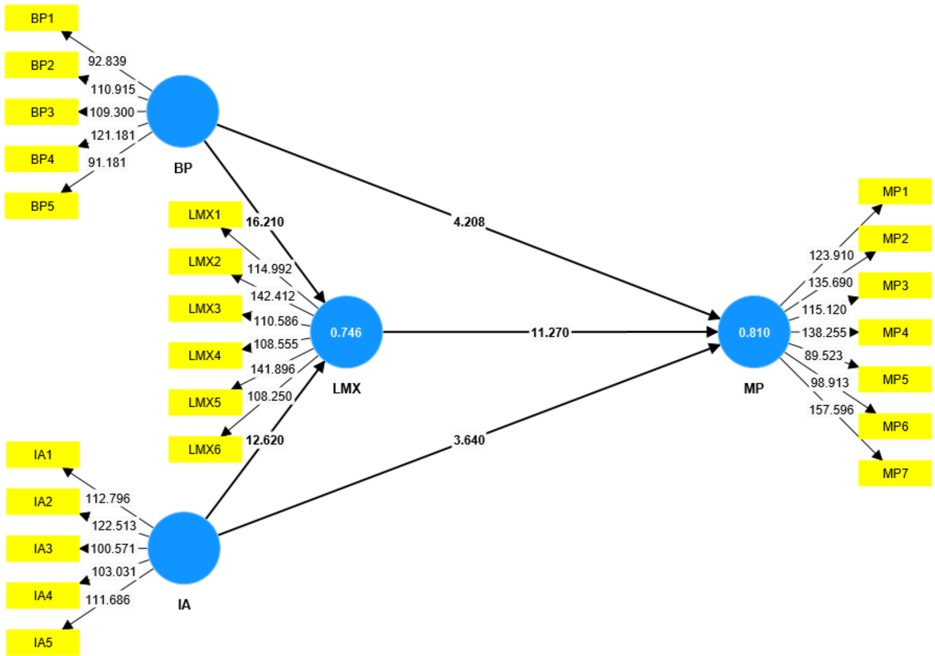


**Figure 1. Hypothesis Testing Results**

The comparatively stronger effect of information asymmetry on LMX than on managerial performance directly (note the substantially larger absolute coefficient for the LMX path) suggests that information asymmetry's most consequential governance damage operates through the relational channel a finding that organizational and public sector accounting research has not previously examined with systematic empirical rigor.

These results extend agency theory (Eisenhardt, 1989; Jensen & Meckling, 1976) by demonstrating that information asymmetry in public organizations is not only a principal-agent monitoring problem but also a relational governance problem that disrupts organizational coordination by undermining communication transparency and trust. In Indonesian local governments, where hierarchical bureaucratic norms, political pressures, and administrative fragmentation frequently produce selective information disclosure, this relational damage is organizationally consequential and may explain persistent coordination failures observed despite formal governance reform efforts (Cepiku et al., 2016).

The Islamic governance perspective adds normative depth to these findings. The principle of adalah (justice) in Islamic organizational ethics demands equitable access to information among organizational participants because informational inequity constitutes a form of organizational injustice that corrupts governance accountability (Ali & Weir, 2005). Similarly, amanah (trustworthiness) obligates leaders and subordinates alike to maintain honesty and transparency in information sharing, recognizing that selective disclosure violates the sacred trust embedded in organizational roles and responsibilities. These Islamic principles suggest that information asymmetry is not merely a technical governance inefficiency but an ethical failure with direct implications for organizational trust, relational quality, and managerial effectiveness.

The mediation of the information asymmetry–performance relationship through LMX (H7: $\beta = -0.349$, $p < 0.001$) demonstrates that the governance damage caused by information asymmetry is substantially transmitted through relational quality deterioration. Organizations facing high information asymmetry thus experience compounded governance disadvantage: weakened decision-making quality and simultaneously eroded relational coordination capacity. This finding underscores the governance priority of addressing information transparency not merely as an accountability compliance requirement but as a relational governance intervention.

## LMX as Relational Governance Capability in Public Organizations

The strong direct effect of LMX on managerial performance (H5: $\beta = 0.650$, $p < 0.001$) and the large associated effect size ($f^2 = 0.565$) collectively establish that relational governance quality constitutes the most organizationally consequential determinant of managerial effectiveness within the present model. This finding confirms and extends the LMX literature's central argument (Graen & Uhl-Bien, 1995; Liden & Maslyn, 1998; Sedighi et al., 2022) by demonstrating its relevance within Indonesian public sector governance contexts characterized by bureaucratic hierarchy and administrative complexity. More theoretically significant, however, is the reconceptualization of LMX as a relational governance capability that this study advances a conceptual reframing that positions LMX not merely as an interpersonal leadership outcome but as an organizational resource through which formal governance mechanisms acquire substantive coordination value.

This reconceptualization addresses an important theoretical limitation in public sector governance scholarship that has predominantly evaluated governance effectiveness through formal institutional mechanisms legal frameworks, administrative procedures, accountability systems while undertheorizing the relational processes through which such mechanisms either achieve or fail their organizational purposes (Grossi et al., 2019). The present findings demonstrate that formal governance inputs, including participatory budgeting, translate into effective managerial outcomes primarily through the relational governance quality they generate and sustain. Governance effectiveness in local government is therefore relational and emergent rather than structurally determined.

The practical and normative implications of this finding are substantial. For Indonesian local governments pursuing governance improvement, investments in communication transparency, leadership development, collaborative governance capacity, and organizational trust-building are not merely cultural amenities but governance effectiveness requirements with demonstrable managerial performance implications. From an Islamic management perspective, the centrality of relational quality in governance effectiveness reflects the Quranic emphasis on ukhuwwah (organizational brotherhood and solidarity), ta'awun (mutual cooperation), and ihsan (excellence in interpersonal conduct), which collectively establish relational ethics as foundational to organizational effectiveness in Islamic governance contexts (Ali & Weir, 2005; Beekun & Badawi, 1999).

## Economic and Fiscal Governance Implications

The empirical findings of this study carry substantial implications for fiscal governance in Indonesia's decentralized administrative system that extend considerably beyond the organizational behaviour literature within which they are primarily situated. Indonesia's decentralization architecture, institutionalized under Law No. 23 of 2014 and operationalized through intergovernmental fiscal transfer mechanisms including Dana Alokasi Umum (DAU), Dana Alokasi Khusus (DAK), and Dana Bagi Hasil (DBH), presupposes that subnational governments possess both the administrative capacity and the organizational relational capability to translate transferred fiscal resources into effective public expenditure. The persistent gap between fiscal resource availability and public service delivery quality in Indonesian regencies widely documented in the decentralization literature (Lewis, 2017; von Luebke, 2009) may be substantially explained by the relational governance deficits that this study identifies as primary determinants of managerial effectiveness within OPD.

From a fiscal decentralization perspective, LMX quality within OPD functions as a critical organizational mediating variable between the formal architecture of intergovernmental fiscal arrangements and the substantive outcomes those arrangements are designed to produce. von Luebke (2009) demonstrates that local government performance in Indonesia is not determined primarily by fiscal resource availability but by the organizational governance quality within which fiscal decisions are made and executed. The present findings extend this argument by providing micro-organizational evidence that relational governance quality measured through LMX is the primary mechanism through which participatory budget processes translate into managerial effectiveness. When LMX quality is high, the information-sharing, trust, and collaborative coordination enabled by participatory budgeting convert fiscal inputs into well-executed programmatic expenditure; when LMX quality is low, participatory processes remain procedurally operational but organizationally inert, producing the expenditure inefficiencies and budget absorption failures that characterize governance-weak local government environments.

More specifically, the present findings suggest five interconnected fiscal governance channels through which LMX quality affects economic outcomes within Indonesian local government. First, high-quality LMX relationships improve budget execution efficiency by reducing the communicative friction that delays expenditure authorization and programmatic implementation a particularly consequential dynamic in OPD where capital expenditure absorption rates frequently fall below 80% in the final administrative quarter, generating resource idleness that undermines developmental programming (Lewis, 2017). Second, the trust and communication transparency characteristic of high-LMX organizations reduce budget variance by enabling more accurate and operationally realistic budget formulation during participatory processes, because subordinate managers with genuine relational influence over budget decisions are more likely to disclose operational constraints and resource requirements honestly rather than strategically. Third, by reducing information asymmetry's corrosive effects on relational trust as demonstrated by the H4 and H7 findings high LMX quality structurally reduces incentives for budgetary padding, over-estimation of expenditure requirements, and the creation of discretionary slack that constitutes a primary source of wasteful public spending in Indonesian local government contexts (Alam & Alam, 2020).

Fourth, relational governance quality mediated through LMX affects program completion rates because effective organizational coordination depends on the sustained communicative engagement between leaders and implementing staff throughout the expenditure cycle, not merely during budget formulation. In bureaucratic organizations where LMX quality is low, implementation supervision is frequently perfunctory, cross-unit coordination is weak, and accountability for program completion is diffuse conditions that generate the chronic incomplete project rates observable in regency-level capital expenditure data across Indonesia. Fifth, and most directly relevant to the fiscal decentralization literature's central concern with public service effectiveness, the present findings suggest that subnational governments with higher relational governance quality are better positioned to achieve the service delivery objectives that constitute the normative justification for fiscal devolution (von Luebke, 2009). These five channels collectively suggest that relational governance quality is not a secondary or background condition for fiscal decentralization effectiveness but a primary organizational mechanism through which decentralized fiscal architecture either achieves or forfeits its developmental purposes.

These implications also connect to local revenue mobilization dynamics. Lewis (2017) demonstrates that Indonesian local governments with stronger governance accountability records achieve higher levels of own-source revenue (Pendapatan Asli Daerah/PAD) mobilization, as fiscal accountability strengthens taxpayer confidence and reduces revenue leakage through informal fee extraction. The present findings suggest a relational governance pathway through which organizational trust as the core constituent of high-quality LMX relationships may reinforce fiscal accountability norms within OPD, supporting honest revenue reporting, transparent expenditure documentation, and the reduction of discretionary off-budget resource manipulation. From a public finance perspective, governance reform strategies that strengthen LMX quality within OPD are therefore not merely managerial interventions but fiscal interventions with measurable implications for local revenue performance, expenditure quality, and ultimately, the allocative efficiency of Indonesia's intergovernmental fiscal system.

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The policy implications of these findings are correspondingly significant. The Indonesian Ministry of Home Affairs and Badan Pengawasan Keuangan dan Pembangunan (BPKP) have historically prioritized compliance-based governance reforms financial reporting standardization, audit process improvements, procurement digitalization as the primary instruments of subnational governance improvement. While these structural reforms are necessary, the present evidence suggests they are insufficient without complementary investments in the relational governance capabilities that determine whether compliance mechanisms produce substantive coordination outcomes. Specifically, local government governance improvement strategies should integrate leadership development programs targeting LMX quality enhancement, communication transparency initiatives that reduce information asymmetry within OPD, and participatory budgeting process redesigns that prioritize genuine deliberative engagement over procedural compliance. These relational governance investments, currently absent from mainstream Indonesian local government reform frameworks, are empirically demonstrated to generate substantive fiscal governance improvements through their effects on managerial performance.

## Islamic Governance Implications

The findings of this study are not merely theoretically coherent with Islamic governance principles they provide empirical substantiation for claims that Islamic organizational ethics scholars have advanced primarily at the normative and conceptual level. The integration of Islamic governance principles with the quantitative relational governance evidence presented here advances a more empirically grounded Islamic public administration theory with direct implications for governance reform in Muslim-majority public sector contexts (Alibašić, 2024; Drechsler et al., 2024).

## Shura-Based Participatory Budgeting

The strong positive effect of budget participation on LMX quality (H2: $\beta = 0.675$, $p < 0.001$) provides empirical validation for the governance logic embedded within the Quranic principle of shura (Q. 3:159; Q. 42:38). Shura does not merely prescribe consultation as a procedural formality; it institutionalizes deliberative participation as a governance mechanism whose effectiveness is realized through the relational trust and collective legitimacy that genuine consultation generates (Ali & Weir, 2005; Beekun & Badawi, 1999). The present findings demonstrate precisely this mechanism: participatory budgeting when operationalized as genuine deliberative involvement rather than ceremonial compliance generates high-quality leader-subordinate exchange relationships that subsequently drive managerial effectiveness. In Indonesian public administration, where decentralization has transferred formal deliberative authority to local governments without consistently generating substantive participatory governance cultures, the institutionalization of shura-informed participatory budgeting practices represents both a governance reform opportunity and an Islamic organizational ethics imperative (Hassan et al., 2020). Recent scholarship in Islamic public administration confirms that shura-based deliberation strengthens governance legitimacy and organizational commitment in Muslim-majority institutional contexts (Drechsler et al., 2024), providing normative reinforcement for the empirically confirmed participatory governance mechanisms examined in this study.

## Amanah-Based Transparency and Information Governance

3 The significant negative effects of information asymmetry on both LMX quality (H4: $\beta = -0.536$, $p < 0.001$) and managerial performance (H3: $\beta = -0.179$, $p < 0.001$) acquire profound normative significance when interpreted through the principle of amanah. In Islamic organizational ethics, amanah (trustworthiness, integrity, and faithful stewardship of organizational responsibilities) constitutes a non-negotiable governance obligation that prohibits selective information disclosure, strategic opacity, and the manipulation of informational advantage for personal or departmental gain (Kamaruddin & Hanefah, 2021). The empirical evidence that information asymmetry erodes both relational trust and managerial effectiveness provides organizational behaviour evidence for the Islamic governance proposition that violations of amanah operationalized here as information opacity and selective disclosure systematically damage the relational and coordination foundations of organizational effectiveness. In the context of Indonesian local government, where hierarchical authority structures and political pressures frequently incentivize selective information management, the amanah principle provides a normative governance standard that directly addresses the information transparency deficits identified in this study (Anggara, 2025). Islamic public administration reform in Indonesia may productively engage the amanah framework to justify and motivate information transparency reforms within OPD that go beyond compliance-based financial disclosure to encompass the operational and relational information transparency that the present findings demonstrate to be essential for governance effectiveness. Recent work in the Journal of Islamic Accounting and Business Research has begun to operationalize amanah-based governance standards as measurable organizational accountability criteria (Abd. Wahab et al., 2017; Aribi et al., 2019), an approach that the present study's empirical findings strongly support.

## Adalah-Based Performance Evaluation

The mediating role of LMX in both governance pathways, combined with the large direct effect of LMX on managerial performance (H5: $\beta = 0.650$, $f^2 = 0.565$), carries important implications for Islamic principles of adalah (justice and equity) as applied to performance evaluation in public sector organizations. Adalah in Islamic governance requires not only that organizational decisions be procedurally fair but that performance evaluation systems reflect equitable recognition of organizational contributions and distribute accountability obligations impartially across administrative hierarchies (Ali & Weir, 2005). The present findings suggest that performance evaluation frameworks that ignore relational governance quality systematically misattribute managerial performance differentials to individual capability differences while overlooking the structural relational governance conditions that enable or constrain effective performance. An adalah-informed performance evaluation framework for

**Table 7. Conceptual Framework: Integrating LMX Dimensions with Islamic Governance Principles**

| LMX Dimension | Islamic Governance Principle | Governance Mechanism | Organizational Manifestation | Fiscal Governance Implication |
|---|---|---|---|---|
| Trust | Amanah (Trustworthiness and Faithful Stewardship) | Organizational actors fulfill responsibilities with integrity; prohibits selective information disclosure and opportunistic manipulation of informational advantage | Transparent financial reporting; honest budget disclosure; reliable implementation of organizational commitments across administrative hierarchies | Reduction of budgetary slack, over-estimation, and discretionary spending; improvement of revenue reporting accuracy and expenditure accountability |
| Participatory Communication | Shura (Deliberative Consultation) | Decision-making legitimated through genuine collective deliberation; consultation honors the knowledge and dignity of all organizational participants | Genuine subordinate involvement in budget formulation; open discussion of operational constraints; collaborative priority-setting across administrative levels | Improved budget execution efficiency; more realistic and operationally accurate budget formulation; higher program completion rates through shared ownership |
| Fairness and Mutual Respect | Adalah (Justice and Equity) | Equitable distribution of information, decision-making access, and accountability obligations; performance evaluation that recognizes relational governance conditions | Impartial supervisory practices; equitable access to organizational information; recognition of subordinate contributions to governance outcomes | Reduction of information asymmetry-induced coordination failures; stronger intergovernmental accountability; improved public service delivery equity |
| Professional Loyalty | Ukhuwwah (Organizational Solidarity) | Sustained cooperative commitment to collective organizational objectives; mutual support across administrative units | Cross-departmental coordination; sustained program implementation beyond formal reporting periods; collective accountability for organizational outcomes | Improvement of capital expenditure absorption rates; reduction of incomplete project rates; enhanced inter-unit coordination in service delivery |
| Reciprocal Support | Ta'awun (Mutual Cooperation) | among organizational | Leaders providing resource access, | Stronger fiscal governance chains |

| | | | | |
|---|---|---|---|---|
| | | actors to achieve collective governance objectives | information, and institutional support to subordinates; subordinates reciprocating with honest reporting and organizational commitment | from budget formulation through expenditure execution; reduced information gaps between planning and implementation units |

The dimensions of Leader-Member Exchange (LMX) are adapted from the works of Graen and Uhl-Bien (1995) as well as Liden and Maslyn (1998). The principles of Islamic governance are based on the research of Ali and Weir (2005), Beekun and Badawi (1999), and Hassan et al. (2020). The implications of fiscal governance are derived from Lewis (2017) and von Luebke (2009), as interpreted through the findings of the present study.

Indonesian OPD would therefore need to incorporate relational governance quality indicators communication transparency, LMX quality metrics, participatory budget engagement measures alongside conventional financial performance and program completion indicators. This represents a significant and practically implementable extension of the Islamic governance framework into public sector performance management design, addressing a gap that scholars in the Journal of Islamic Accounting and Business Research have identified as a priority for Islamic public administration research (Abd. Wahab et al., 2017; Aribi et al., 2019; Hassan et al., 2020).

## Islamic Public Administration Reform in Indonesia

Collectively, the Islamic governance implications of this study suggest a coherent reform agenda for Indonesian local government that integrates Islamic organizational ethics with empirically validated relational governance principles. Such a reform agenda would comprise three interconnected policy dimensions. First, shura-informed participatory budgeting processes should be redesigned to ensure genuine deliberative engagement where subordinate managers exercise substantive influence over budgetary decisions rather than ceremonial procedural compliance. This would require revisions to Permendagri (Ministry of Home Affairs regulations) governing OPD budget formulation processes to include deliberative quality standards alongside documentary compliance requirements. Second, amanah-based information governance frameworks should be institutionalized within OPD through structured communication protocols, information-sharing obligations, and organizational accountability mechanisms that reduce selective disclosure and hierarchical information monopolization. Third, adalah-informed performance evaluation systems should be developed for OPD heads and senior managers that incorporate relational governance quality as an explicit performance dimension, recognizing that managerial effectiveness is substantially determined by the relational conditions that leaders create and sustain within their organizations (Tasdemir et al., 2025). These three reform dimensions shura, amanah, and adalah constitute an Islamic governance triad that is not only normatively coherent but empirically validated through the present study's findings, providing a uniquely rigorous foundation for Islamic public administration reform advocacy in Indonesia and comparable Muslim-majority decentralized governance contexts (Hassan et al., 2020; Munandar et al., 2026).

## CONCLUSION

This study examines the relational governance dynamics underlying managerial performance within Local Government Organizations in Bantul Regency, Indonesia, by investigating the roles of budget participation, information asymmetry, and Leader-Member Exchange through a theoretically integrated framework. The findings consistently demonstrate that governance effectiveness within local government institutions is fundamentally relational in character: budget participation enhances managerial performance primarily through the relational governance quality measured as LMX that participatory interaction generates, while information asymmetry weakens managerial effectiveness largely through its corrosive effects on organizational trust and communication quality. LMX emerges as the most consequential governance determinant in the model, functioning as a relational governance

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capability that enables formal administrative mechanisms to produce substantive organizational coordination outcomes rather than remaining procedurally symbolic.

These findings carry direct implications for fiscal governance in Indonesia's decentralized administrative system. The persistent gap between fiscal resource availability and public service delivery quality in Indonesian regencies is not primarily attributable to intergovernmental fiscal design deficiencies but to the organizational relational governance deficits within OPD that prevent fiscal inputs from being efficiently converted into programmatic outputs. Budget execution efficiency, budget variance reduction, wasteful spending minimization, program completion rates, and public service effectiveness are all organizational outcomes that depend on the relational governance quality that this study identifies as the primary mechanism of managerial effectiveness in local government. These findings suggest that governance reform agendas under Indonesia Law No. 23 of 2014 framework should be expanded to incorporate relational governance investments communication transparency programs, leadership development targeting LMX quality, and participatory budgeting redesigns emphasizing deliberative authenticity alongside the compliance-based structural reforms that have historically dominated Indonesian local government improvement efforts.

Four principal contributions emerge from this study. Theoretically, it advances participatory budgeting research beyond procedural-administrative explanations by demonstrating that participation operates as a relational governance process whose effectiveness is determined by the quality of organizational interaction it generates. Conceptually, it repositions LMX from an interpersonal leadership construct toward a relational governance capability within public sector organizational analysis. Fiscally, it connects relational governance quality to concrete economic governance outcomes budget execution efficiency, expenditure quality, program completion, and local revenue mobilization providing an organizational micro-foundation for the fiscal decentralization theory's macro-level concern with subnational government performance (Lewis, 2017; von Luebke, 2009). Contextually, it connects empirical governance findings within Indonesian local government to Islamic organizational principles particularly shura, amanah, and adalah demonstrating that effective participatory and trust-based governance aligns with both institutional theory and Islamic organizational ethics. The conceptual mapping of LMX dimensions onto Islamic governance principles, presented in Table 7, provides a replicable analytical framework for Islamic public administration research in comparable Muslim-majority decentralized governance contexts.

22 Several limitations warrant acknowledgment. The cross-sectional design precludes causal inference regarding the temporal dynamics through which relational governance capabilities develop and deteriorate within organizational contexts. The geographic restriction to Bantul Regency limits direct generalizability to other Indonesian local governments with different institutional, cultural, and political environments. Self-reported perceptual data, despite procedural bias mitigation, may also introduce subjective measurement distortions. 60 Future research should employ longitudinal or mixed-method designs capable of tracing relational governance dynamics over time. Comparative studies across regencies or provinces with varying governance quality levels would also illuminate whether the relational mechanisms identified here operate consistently across different institutional environments. Comparative studies across regencies with systematically varying fiscal decentralization performance including regencies with different PAD mobilization rates, budget execution efficiency profiles, and governance quality assessments would illuminate whether the relational mechanisms identified here operate consistently across different fiscal institutional environments and would strengthen the connection between organizational relational governance theory and fiscal decentralization scholarship. Additionally, future investigations may profitably integrate constructs such as organizational culture, Islamic work ethics, digital governance capability, psychological safety, or public service motivation to develop a more comprehensive explanatory model of managerial effectiveness within contemporary Indonesian local government contexts.

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