

THE INFLUENCE OF GOVERNANCE AND BUDGETING MECHANISMS ON PROJECT EFFECTIVENESS: A COMPARISON BETWEEN PUBLIC AND PRIVATE SECTORS

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Abstract

This study aims to examine the influence of governance and budgeting mechanisms on project effectiveness within the public and private sectors. Employing a systematic literature review covering research published between 2015 and 2025, the findings demonstrate that effective governance enhances transparency, accountability, and efficiency, while budgeting mechanisms act as mediating factors linking governance and performance outcomes. Public sector organizations are often constrained by bureaucratic rigidity, whereas private entities emphasize flexibility, adaptability, and performance orientation. The study recommends adopting a hybrid governance model that integrates public transparency with private efficiency to achieve higher project effectiveness across sectors. The research also contributes to bridging the theoretical gap between governance, budgeting, and project success by emphasizing crosssectoral comparison as a basis for policy and managerial implications.

Keywords: Governance, Budgeting Mechanisms, Project Effectiveness, Public Sector, Private Sector, Hybrid Governance Model

Article history

Received: November 2025
Reviewed: November 2025
Published: November 2025

Plagiarism checker no 1352
Doi : prefix doi :
10.8734/musytari.v1i2.359

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Publish by : musytari



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INTRODUCTION

Project effectiveness is a key indicator used to evaluate the success of implementation activities in both the public and private sectors. Two elements that have a significant influence on this effectiveness are governance and budgeting methods. In the context of good governance, transparency, accountability, and public participation are essential principles that must be applied in government institutions, as emphasized by the World Bank (2017). Agency theory explains the potential for conflicts of interest between the principal, representing the government or investors, and the agent, representing project implementers, which can lead to inefficiency and budget overruns, as described by Jensen and Meckling (1976).

In practice, the public sector applies governance that is largely based on formal regulations and bureaucratic systems to ensure accountability. However, this method often results in project delays and increased costs. Data from the Ministry of Public Works and Housing of Indonesia (2022) indicate that forty-five percent of government infrastructure projects experience delays in budget realization, and thirty percent of these projects exceed their initial budget limits. In contrast, the private sector prioritizes efficiency, flexibility, and profit orientation, with particular attention to risk management and internal control. Budgeting mechanisms in the private sector are also more responsive to market changes, making them generally more efficient, although still vulnerable to external risks such as fluctuating demand and limited capital availability.

Previous studies have tended to examine project effectiveness in a fragmented manner. Wahyudi (2019) focused on project governance in government-implemented projects, while

Simanjuntak and Dewi (2021) analyzed budgeting efficiency in privately managed projects. However, studies that comprehensively link differences in governance and budgeting methods between the public and private sectors remain limited. This gap highlights the need for further research, as a comparative perspective across sectors can provide deeper insights into the key factors that influence project success.

The public sector also faces practical challenges, as it must enhance transparency without compromising efficiency, while the private sector must maintain flexibility without neglecting accountability. These differing characteristics demonstrate that project effectiveness depends not only on technical planning but also on the governance systems and budgeting approaches applied. Therefore, it is important to conduct this research in order to develop a hybrid governance model that combines the transparency principles of the public sector with the efficiency of the private sector, ultimately enhancing project effectiveness across various contexts.

Moreover, the study also addresses the growing relevance of sustainable governance practices in the modern economic environment. As organizations face increasing pressure to balance performance with accountability, the integration of governance and budgeting mechanisms becomes a strategic necessity. This perspective highlights that improving project effectiveness is not merely an operational issue, but also a reflection of institutional maturity and adaptability in responding to dynamic socio-economic challenges.

LITERATURE REVIEW

1. Project Governance

Project governance is understood as a set of mechanisms, policies, and principles that direct and regulate the entire process from planning to project implementation in order to achieve predetermined objectives. Shleifer and Vishny (1997) describe governance as a method to ensure that project investors gain the maximum benefit from the funds they have invested. On the other hand, the World Bank (2017) emphasizes that the principles of good governance include transparency, accountability, effectiveness, and public participation, which must be applied in project management, especially in the public sector. Jensen and Meckling (1976), in the context of agency theory, reveal the potential for conflicts of interest between the principal (government or investors) and the agent (project implementer), which can result in inefficiency and budget waste if governance is not properly implemented.

Good and effective governance can enhance the effectiveness of ongoing projects, and this is influenced by several factors. First, strong governance improves transparency and accountability, thereby reducing the risk of budget misuse (Mardiasmo, 2016). Second, governance strengthens risk management and internal control, allowing projects to be completed on time, within budget, and with the expected quality (Turner, 2018). Third, governance promotes efficiency in resource utilization through realistic planning, periodic evaluation, and data-based decision-making (Alkaraan, 2021). In addition, the implementation of transparent governance plays an important role in increasing public and investor trust. Research by Wang et al. (2024) shows that in public-private partnership projects, clear governance and risk-sharing mechanisms can attract more private investment.

The management principles in the public sector, which aim to ensure accountability, often become barriers to efficiency. Complex bureaucratic processes in tender stages, administrative verification, and preliminary audits often slow down project implementation (Rinaldi, 2020). The rigid budgeting system under the state and regional budgets (APBN/APBD) also makes it difficult for the government to adapt to rising material costs because budget changes require legislative approval, which takes time (Mardiasmo, 2016). Political influence also affects effectiveness, as many projects are implemented based on electoral interests rather than public needs (Wahyudi, 2019).

The private sector focuses more on efficiency, flexibility, and internal control. Project management in the private sector is more oriented toward the use of incentives, performance contracts, and risk management (Shleifer and Vishny, 1997). Recent research by Winataa and Gultomb (2023) shows that contract models and incentive structures in toll road projects in Indonesia have a significant impact on cost and time performance. Research by Gui, Song, and Wen (2025) also confirms that administrative efficiency strengthens the relationship between contractual governance and project performance, particularly in public-private partnership (PPP) projects. This indicates that effective governance can function as a strategic tool to ensure project success, both in the public and private sectors.

2. Government Budgeting Mechanisms

Budgeting mechanisms in the public or government sector are fundamentally based on the state and regional budget systems (APBN/APBD), which are rigid and bureaucratic. Hansen and Mowen (2018) explain that the budget serves as a guideline for resource distribution as well as an accountability tool for government financial management. Mardiasmo (2016) asserts that government budgets prioritize fiscal transparency and political control, although they have weaknesses in terms of limited flexibility. Data from the Ministry of Public Works and Housing (PUPR, 2022) show that 45 percent of government-managed infrastructure projects experience delays in budget implementation, with 30 percent exceeding the predetermined cost limits.

Research conducted by Rinaldi (2020) and Wahyudi (2019) reveals that lengthy bureaucratic procedures, from tenders and administrative verification to budget revision approvals, often hinder efficiency. Recent studies by Pattiasina et al. (2023) state that weak budget implementation at the regional level is influenced by limited managerial capacity and inefficient resource allocation. The OECD, in *Government at a Glance* (2025), emphasizes that to address these issues, many countries have begun to adopt performance-based budgeting so that public spending becomes more focused on measurable outcomes rather than mere procedural compliance.

3. Private Sector Budgeting Mechanisms

The private sector applies budgeting systems that are more flexible, responsive, and efficiency-oriented. Simanjuntak and Dewi (2021) found that private companies can quickly make budget adjustments to respond to increases in material prices and changes in market demand. This finding is consistent with Alkaraan (2021), who states that flexibility in budgeting enhances a company's ability to prepare for uncertainties in the business environment.

Shleifer and Vishny (1997) reveal that budgeting systems applied in the private sector are often linked to performance contracts and incentives designed to avoid moral hazard and improve work efficiency. Research by Sunaryo, Yanti, Amrulloh, and Lestari (2025) shows that private companies implementing innovative approaches such as performance-based budgeting and zero-based budgeting tend to be more effective in allocating resources than those still using conventional methods. The ability to adapt and focus on results thus becomes a major advantage of private-sector budgeting systems compared to the public sector, which tends to be less flexible.

4. Project Effectiveness

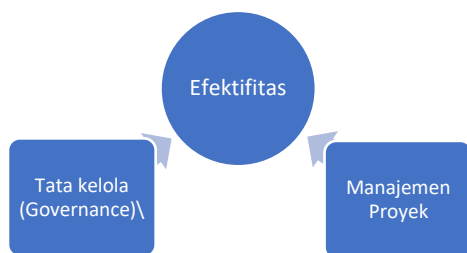
Project effectiveness is defined as the degree to which the predetermined objectives are achieved in terms of cost, time, and quality, as stated by PMI (2017). In recent literature, effectiveness also considers aspects of sustainability and social impact. Effectiveness in the public sector is often constrained by financial limitations, complex bureaucracy, and political interference that turns projects into tools for local or political interests. For example, in the study *Unjust by Default* by Hidayat et al. (2024), it was found that rent-seeking practices in

Indonesian local governments were used to alter development planning documents, resulting in project delays and a decline in quality.

Public-private partnership (PPP) projects initiated by the government demonstrate that with effective contract design and transparent supervision, such projects can be completed more quickly and with better-controlled expenditures compared to conventional public projects (*Examining Solicited Projects of PPP*, 2024; *Optimizing PPP*, 2025). Recent research in the private sector highlights that flexibility in budgeting, strong internal control systems, and the ability to adapt to market conditions play a significant role in improving effectiveness. The study *Financial Risk, Debt, and Efficiency in Indonesia's Construction Industry* by Wibowo et al. (2024) shows that private companies with strong risk management strategies can maintain efficiency even under debt pressure and price fluctuations.

Public-Private Partnerships in Public Sector Management by Wibisono et al. (2025) shows that infrastructure projects involving collaboration between public and private entities, by integrating operational efficiency and sustainability aspects, produce more optimal outcomes. By applying governance practices and flexible budgeting mechanisms, the private sector often succeeds in completing projects on schedule and with better-controlled budgets compared to purely public projects.

The following figure illustrates the conceptual framework of this study:



Notes:

- Governance influences project success both directly and indirectly.
- Budgeting mechanisms function as mediating variables in this relationship.
- The public and private sectors act as moderating factors that affect the strength and intensity of the relationships among variables.

RESEARCH METHODOLOGY

This research employs a **qualitative systematic literature review** combined with a comparative review approach. The objective is to analyze, compare, and synthesize prior studies that discuss governance, budgeting mechanisms, and project effectiveness across both public and private sectors. This methodological choice enables the researcher to explore patterns and variations in previous findings, identify knowledge gaps, and develop an integrative conceptual framework linking governance, budgeting, and effectiveness.

The review process covered academic studies published between 2015 and 2025 and included journal articles, policy reports, and case studies. The data collection began with identifying relevant keywords such as “project governance,” “budgeting mechanisms,” “publicprivate comparison,” and “project effectiveness” through databases like Scopus, ScienceDirect, and Google Scholar. From an initial pool of 120 documents, 35 highquality studies were selected after screening for relevance, empirical validity, and methodological rigor. The selection criteria followed the PRISMA (2020) systematic review guidelines, which emphasize transparency in inclusion and exclusion processes.

The data analysis employed thematic synthesis to identify major conceptual patterns and empirical relationships. The first stage involved categorizing studies based on governance principles and their effects on project performance. The second stage examined budgeting mechanisms as mediating or moderating factors that influence project outcomes. The third stage compared differences between public and private sector practices, focusing on how

governance flexibility, accountability, and financial control shape overall project effectiveness. Through this approach, the study captures both the similarities and the distinctions in how different organizational systems manage governance and budgeting processes. The methodological design ensures that conclusions drawn from the review are based on a comprehensive and balanced assessment of diverse scholarly perspectives rather than on individual case findings alone.

DISCUSSION

Based on the synthesis of the reviewed literature, it is evident that project governance serves as a critical element in ensuring successful project implementation. Within the public or governmental sector, governance functions primarily as a control and accountability mechanism for the use of public funds. The World Bank (2017) emphasizes that the application of good governance principles such as transparency, responsibility, effectiveness, and public participation forms the foundation for governments in executing development projects. However, numerous studies highlight that public management is often hindered by bureaucratic complexity.

Rinaldi (2020) found that government-managed infrastructure projects in Indonesia frequently experience delays exceeding thirty percent due to complicated tendering and administrative approval processes. Similarly, Wahyudi (2019) noted that bureaucratic systems emphasizing procedural compliance tend to impede efficiency and agility in project execution. From the reviewed literature, it can be concluded that public management systems that prioritize procedural accountability have not yet been able to guarantee project success due to their limited adaptability to changing field conditions.

The analysis further indicates that project governance in the private sector prioritizes efficiency, flexibility, and measurable outcomes. Shleifer and Vishny (1997), through corporate governance theory, explain that private companies establish control systems emphasizing performance-based contracts and incentives to reduce conflicts of interest between owners and managers. Winataa and Gultomb (2023) reinforce this finding by showing that well-structured contracts and clear incentive systems in Indonesian toll road projects significantly improve cost efficiency and timeliness. These results are also supported by Gui and Wen (2025), who found that administrative efficiency has a direct impact on the effectiveness of public private partnership projects.

Based on the reviewed studies, it can be inferred that private entities possess advantages in implementing governance that is both efficient and responsive to environmental changes, although they still face challenges such as moral hazard and limited public oversight. The literature also reveals that budgeting mechanisms play a vital role as a link between governance and project effectiveness. Hansen and Mowen (2018) argue that budgets serve not only as planning instruments but also as management control tools to ensure efficient resource utilization.

In the public sector, budgeting mechanisms are governed by the state and regional budget systems known as APBN and APBD, which emphasize fiscal transparency and legal accountability. However, various studies such as Mardiasmo (2016) and Pattiasina et al. (2023) show that these systems are rigid and often fail to adapt to changing project conditions. The OECD (2025) reports that many countries, including Indonesia, have begun implementing performance-based budgeting to address inefficiency and increase the focus on results rather than procedures. The reviewed literature thus suggests that public budgeting systems continue to emphasize procedural compliance over the achievement of optimal project outcomes.

In contrast, private sector budgeting mechanisms are more flexible and responsive. Simanjuntak and Dewi (2021) found that private companies are able to quickly adjust their budgets in response to market changes or fluctuations in raw material prices. Sunaryo and Lestari (2025) further demonstrated that the application of flexible budgeting and zero-based budgeting among private firms in Indonesia has significantly improved efficiency and

effectiveness in resource allocation. This approach allows organizations to critically evaluate each budget component, minimizing excessive expenditures and optimizing project results. The main distinction between the public and private sectors lies in their budgeting orientation. Public budgeting emphasizes procedural control, while private budgeting focuses on flexibility and operational efficiency.

The reviewed literature also demonstrates that governance and budgeting processes are mutually reinforcing in achieving project effectiveness. Effective governance helps direct strategy, strengthen risk control, and ensure that projects are executed according to plan. At the same time, flexible budgeting enables organizations to adjust strategies in response to external changes. Hidayat, Rakhman, and Siregar (2024) found that poor governance in local governments often results in rent-seeking practices that hinder the effectiveness of development projects. In contrast, Wibowo, Pratama, and Kurniawan (2024) found that private construction companies with sound governance and responsive budgeting systems are able to maintain cost efficiency even under high financial risk. From this synthesis, it can be concluded that project success depends not only on technical execution but also on the integration of effective governance and consistently responsive budgeting processes.

Various studies suggest that a hybrid governance model that combines the transparency and accountability of the public sector with the efficiency and flexibility of the private sector could serve as a solution for improving project effectiveness. Wibisono, Anwar, and Nugroho (2025) emphasize that public private partnership projects foster collaboration between private sector managerial efficiency and public sector accountability. Similarly, Wang, Zhang, and Li (2024) found that clear governance structures and balanced risk distribution in public private partnership projects attract greater private investment and accelerate project completion. Based on these findings, the adoption of a hybrid governance model is recommended as an effective approach to enhancing project success in Indonesia.

Conceptually, these findings support Agency Theory as proposed by Jensen and Meckling (1976), which posits that good governance can minimize conflicts of interest between principals and agents through appropriate supervision and incentive systems. The literature suggests that when governance is applied consistently and supported by effective budgeting mechanisms, project effectiveness increases significantly. This research highlights that the integration of governance and budgeting mechanisms serves as a key factor in achieving project effectiveness across both public and private sectors.

CONCLUSION

This study concludes that governance and budgeting mechanisms play crucial and interdependent roles in determining project effectiveness across public and private sectors. The public sector prioritizes accountability and regulatory compliance but suffers from limited flexibility, while the private sector excels in efficiency and adaptability yet faces challenges in transparency and public scrutiny. Effective governance enhances transparency, accountability, and risk control, while flexible budgeting optimizes resource utilization and responsiveness to environmental changes.

The integration of governance and budgeting mechanisms is essential for achieving superior project outcomes. A hybrid governance model that merges public-sector transparency with private-sector efficiency is proposed as a strategic framework to enhance project implementation. This model encourages transparent reporting and stakeholder engagement, supports administrative efficiency, and promotes the adoption of performance-based budgeting systems that directly link resource allocation to measurable results. Furthermore, collaboration between public institutions and private organizations is essential to combine their respective strengths in project planning, financing, and oversight.

From a policy perspective, adopting hybrid governance frameworks can enhance the efficiency of public expenditure and increase private sector participation in infrastructure development. For private enterprises, incorporating transparency and accountability standards

can improve their reputation and eligibility for public partnerships. Future research should extend this study by using empirical approaches to test causal relationships between governance, budgeting mechanisms, and project effectiveness with real project data.

Expanding such analysis to include public-private partnership contexts across developing countries may also uncover cross-cultural factors influencing governance success. Overall, this research emphasizes that project effectiveness depends not only on technical execution but also on the degree of integration between governance practices and budgeting systems. Aligning these mechanisms with institutional objectives and stakeholder expectations is key to achieving sustainable project success in both the public and private domains.

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