

# **LEADERSHIP AND FISCAL IMBALANCES IN LOCAL GOVERNMENT: THE MEDIATION ANALYSIS OF BUDGET INCREMENTALISM**

**Paul ONYANGO-DELEWA**

Faculty of Business and Development Studies, Department of Accounting and Finance,  
Gulu University  
Uganda, East Africa  
*ponydel2005@gmail.com; ponydel@gu.ac.ug*

**Abstract:** *Policy, practice, and past research are largely inconclusive on what explains fiscal imbalances in local government. While leadership attributes; political functionality, managerial and technical capacity, and civic participation are often empirically-cited as dominant imbalances predictors, budget incrementalism also features as instrumental to leadership-fiscal imbalances linkages. This study employs situational, managerial, participative, and fiscal imbalances theoretical perspectives to examine budget incrementalism mediation on the leadership-fiscal imbalances relationship in local governments in Uganda, East Africa. Structural equation modeling results reveal that while political functionality and civic participation leadership explain the imbalances, managerial and technical capacity leadership does not. Besides, budget incrementalism mediates the leadership-fiscal imbalances relationship. Findings implications and future research direction bridging leadership-budget incrementalism-fiscal imbalances are discussed.*

**KeyWords:** *Local Government; Leadership; Fiscal Imbalances.*

## **1. INTRODUCTION**

With recent rapid developments in the public fiscal environment in response to global decentralization, fiscal imbalances have received surmountable attention in both research and practice (Dahlby & Wilson, 2003; Jin & Zou, 2002). Empirical findings consistently suggest that imbalances are remarkably rampant in local governments compared to other levels of government. Majority of this research (e.g. Bird & Tarasov, 2004; Sepulveda & Martinez-Vazquez, 2011) examines the local entity fiscal imbalances problem from the central government patronage context. For instance, Sepulveda and Martinez-Vazquez (2011) consider that view rational on grounds that it is the center which is largely responsible for the national fiscal resource distribution and allocation rather than sub-national entities. Specifically, central government formulates the fiscal policy required for resource allocation at the local community level albeit through the local agencies (Arikan, 2004; Sepulveda & Martinez-Vazquez, 2011).

One notable challenge the center often encounters in combating locality fiscal disparities, notwithstanding its vantage point, is that it should only play a very peripheral role in the allocation configuration. For effectiveness reasons, local governments require sufficient autonomy; legally, politically, and most importantly in fiscal-functionality terms, in order to manage the allocation mandate proficiently (Arikan, 2004; Jin & Zou, 2002).

Besides, Lessman and Markwardt (2010) observed that for local units to allocate resources transparently, it is their leadership aptitude that counts and not necessarily central patronage. This is consistent with earlier evidence (Brown & Oates, 1987) which associates fiscal imbalances in local entities with various leadership traits like political functionality, managerial and technical capacity, and civic participation.

Some scholars (e.g. Afonso, Luca & Furceri, 2010; Eyraud & Lusinyan, 2013), are also of the opinion that much as leadership-fiscal imbalances causality relationship subsists, budget incrementalism is a decisive factor in the relationship. Various referred to as supplementary budgeting, additional budgets, or soft fiscal constraints (Dahlby & Wilson, 2003; Eyraud & Lusinyan, 2013; Kornai, Maskin & Roland, 2003), budget incrementalism is said to exacerbate not only local government fiscal imbalances but also those of other sub-national agencies. Regrettably, various localities especially in the resource-constrained Sub-Sahara Africa treat such budgets as a fiscal right. Ideally, supplementaries are only meant to supplement conventional transfers for budget performance purposes (Ministry of Local Government, 2017; Eyraud & Lusinyan, 2013). This research takes an in-depth examination of the leadership-fiscal imbalances relationship in African-based local governments. In particular, budget incrementalism; a factor often ignored by previous studies, is investigated as a probable mediator in the relationship. Local government fiscal activities in Uganda, an East African country applauded for its fiscal federalism system, are used as proxy. Besides, being a behavioral science-public finance inquiry; situational, managerial, participative, and fiscal imbalance theoretical perspectives are adopted to guide the theoretical-hypotheses development direction.

## **2 THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT**

### **2.1 Fiscal Imbalances**

The concept of government fiscal imbalances resides in three dimensions closely linked to expenditure (amount and type selection) criteria (Jin & Zou, 2002; Livingstone & Charlton, 2001). Firstly, fiscal imbalances relate to expenditure-benefit relationship of specific government programs. The program, however desirable it is, whose costs exceed its benefits is considered unsustainable (Arikan, 2004; Livingstone & Charlton, 2001). Secondly, imbalances guide expenditure-adjustment policies relevant for recession conditions in the Keynesian economic stabilization model. Arbitrary expenditure fluctuations retard economic growth and may curtail community welfare (Afonso et al., 2010; Bird & Tarasov, 2004; Kornai et al., 2003). Thirdly, and possibly the most ideal imbalances trait (MacKinnon & Reinikka, 2002; Sepulveda & Martinez-Vazquez, 2011), imbalances steer long-term spending. Governments are therefore obligated to seriously appreciate the strategic fabric of their expenditure-revenue generation-debt policy (Sepulveda & Martinez-Vazquez, 2011). As its central thesis and special contribution to published knowledge, this study explores local fiscal imbalances from this long-term expenditure perspective.

MacKinnon and Reinikka (2002) posit that majority government fiscal policies focus on evaluating long-term microeconomic benefits associated with the various

programs. But since conventional imbalances seem to reside in gross expenditure sustainability plans, these fiscal disparities tend to largely affect recurrent spending (Albouy, 2012; Musgrave & Musgrave, 1973). On this basis, practice and empirical studies (e.g. Afonso et al., 2010; Brown & Oates, 1987; Sepulveda & Martinez-Vazquez, 2011) are of the view that governments, whose fiscal policies are in balance and are effective, should maintain them indefinitely. Those with imbalance policies must endeavor to review theirs continuously until required standards are met (Sepulveda & Martinez-Vazquez, 2011).

Fiscal imbalances fall into two notable categories: vertical fiscal imbalances and horizontal fiscal imbalances (Dahlby & Wilson, 2003; Eyraud & Lusinyan, 2013). According to the vertical fiscal imbalances theory (Oates, 1968; Musgrave & Musgrave, 1973; Tiebout, 1956), these imbalances are closely linked to the extent sub-national expenditure is financed by local revenue and self-incurred debt. At local government level, vertical discrepancies often ignite budget incrementalism (Eyraud & Lusinyan, 2013). Incrementalism is notable for creating distorted fiscal performance incentives which eventually compels central government to increase grant transfer amounts. Recurrence of scaled-up fiscal releases leads to fiscal over-reliance, misappropriations, over-spending and tax collection laxity in susceptible localities (Dahlby & Wilson, 2003; Sepulveda & Martinez-Vazquez, 2011). Additionally, budget incrementalism that arises from vertical imbalances compromises LG budget-donor support perceptions. In the Sub-Saharan Africa, where several LGs rely heavily on donor aid, such imbalances do not only restrain aid flow, but escalate debt and its cost (Arikan, 2004; Kornai et al., 2003; Onyango-Delewa, 2016b).

In sum, vertical fiscal imbalances constitute a structural concern requiring an equally complex approach to measure and correct it. In practice, jurisdictions of most local entities lack the required both the measurement and corrective capacity (Albouy, 2012; Dahlby & Wilson, 2003).

Horizontal fiscal imbalances are imbalances that are common with various but similar levels of government, say, local governments (Dahlby & Wilson, 2003; Kornai et al., 2003). Sometimes referred to as regional disparity, horizontal imbalances arise from divergences in resource endowment and variations in local revenue raising capacity. Kornai et al. (2003) also associate these divergences with entity net-fiscal-benefit variations related to taxation. Thus, to measure and correct such imbalances effectively, the magnitude of inter-LG net-fiscal-benefits divergences must be considered (Albouy, 2012; Kornai et al. (2003). From a public policy perspective, restraining horizontal imbalances is often a diminutive effort given the imbalances endowment foundation. Thus, most jurisdictions resort to equalization grants financing as a mitigation alternative (Lessman & Markwardt, 2010). In Sub-Saharan Africa; Ghana, Kenya, Nigeria, Senegal, South Africa and Uganda, peg their regional development equilibrium agenda on maximizing equalization payments.

Respective parliaments execute grant allocations to local entities in consideration of: population size, geographical location, development level, past resource-utilization track record, budget performance, and accountability record (Livingstone & Charlton, 2001; MacKinnon & Reinikka, 2002). For instance, in Uganda, districts such as Buyende,

Iganga, Kabale, Kampala, Mpigi, and Wakiso are heavily populated relative to Kaabong, Kodito, Nakapiripirit, and Moroto in its Karamoja sub-region. Thus, resources are allocated not only on the basis of entity population and level of development, but past budget performance and accountability record, and notably fiscal imbalances status (MacKinnon & Reinikka, 2002; MoLG, 2017; Onyango-Delewa, 2016a).

## **2.2 Leadership and Budget Incrementalism**

Leadership literature (Chen, Kirkman, Kanfer, Allen & Rosen, 2007; Jung, Bass & Sosik, 1995; Yammarino, 2013) consistently recognizes the important role leaders play in organizational survival and performance. The influence of leadership in local government fiscal imbalances management is thus no exception (Afonso et al., 2010; Brown & Oates, 1987; Oates, 1968). According to Afonso et al. (2010), local entity leaders require appropriate empowerment in order to motivate peers, subordinate workers, and community representatives. Empowered leaders do not only augment their own roles but also ably take on risky assignments (Chen et al., 2007; Yammarino, 2013). Moreover, empowerment makes locality leadership fiscally-accountable. Accountability is a function of behavioral characteristics like power sharing, delegating, and attaching great importance to performance (Afonso et al., 2010; Albouy, 2012).

Empowered leadership promotes decision-making participation and autonomy from entity bureaucracy. In most localities, leaders responsible for making fiscal resource allocations and imbalances decisions include: administrators, heads of department, central government representatives, and community representatives (Afonso et al., 2010; Livingstone & Charlton, 2001).

In Uganda, prominent local government administrators are the resident district commissioner (RDC) and local council 5 (LC5) chairperson (political functionality); chief administrative officer (CAO) and heads of department (managerial and technical capacity); and community representatives (civic participation) (MoLG, 2017; Onyango-Delewa, 2016a b). The RDC is a presidential-appointee tasked to oversee administrative activities and ensure budget compliance (Livingstone & Charlton, 2001).

Local Council 5 chairpersons are the people-elected representatives at the district level to help advance their development and service delivery concerns (MacKinnon & Reinikka, 2002). Both leaders play a political leadership role consistent with situational leadership theory (Bowers & Seashore, 1966; Coch & French, 1948) which posits that good political leadership must easily adapt to varying situations, take instant control, and influence their constituents. Quite often, the RDC-LC5 mandate is interpreted as politically-supervisory to that of the chief executive (CAO). This conception usually generates operational tensions in the CAO-LC5-RDC triangulation. Livingstone and Charlton (2001) associate some budgetary and fiscal performance dysfunctions and related budget incrementalism to this leadership mishap. Situational theory recommends flexibility and resilience as panacea to conventional leadership complications (Bowers & Seashore, 1966; Coch & French, 1948). From the foregoing leadership-imbalances analysis, the following can therefore be proposed:

*Hypothesis 1: Political functionality leadership is positively related to fiscal imbalances.*

The chief administrative officer is the principal executive officer at district level in Uganda. The district constitutes the main LG administrative unit in the country's fiscal decentralization structure (MoLG, 2017). Managerial leadership theory (Tannenbaum & Allport, 1956; Tannenbaum & Schmitt, 1958), recommends application of appropriate technical and managerial skills to run and account for available fiscal and other resources. Besides, the managerial theoretical perspective requires managerial leaders to take concern for workers and their input based on a reward-punishment basis (Tannenbaum & Schmitt, 1958; Uhl-Bien, 2006). In public jurisdictions, the reward-punishment approach has been commended for resource allocation efficiency and mitigation of leadership-related fiscal imbalances and budget incrementalism (Dansereau, Alutto & Yammarino, 1984).

A noteworthy challenge faced by most Sub-Saharan Africa local governments in managing fiscal resources is lack of technical know-how (Arikan, 2004; Sepulveda & Martinez-Vazquez, 2011). Manpower deficiency is exacerbated by the reality that the few available are often sourced based on tribalism, nepotism, and partisan politics. This makes it quite difficult for authorities to execute disciplinary measures to curb corruption and resource misappropriation instances (Obwona, Steffensen, Trollegaard, Mwanga, Luwangwa, Twodo, Ojoo & Seguya, 2000). Thus, Uganda's chief administrative officers often adopt a technical team approach to achieve the required level of efficiency. The team comprises the chief finance officer, planning officer, procurement officer, and other heads of department. In entities with competent and autonomous management, such as Bushenyi, Mbale and Mukono few cases of fiscal imbalances and budgetary performance dysfunction flourish (MacKinnon & Reinikka, 2002; MoLG, 2017). Thus from a managerial-technical capacity leadership standpoint, it is postulated that:

*Hypothesis 2: Managerialism-technical leadership is positively related to fiscal imbalances.*

The essence of decentralization is to enable central government bestow some of its powers to sub-national entities (Arikan, 2004; Bird & Tarasov, 2004; Lessmann & Markwardt, 2010). Common entities include regions, provinces, states, and local governments depending on the political jurisdictional framework. Broadly, decentralization falls into two major dimensions: political-administrative decentralization to promote sub-national elections, and fiscal decentralization to nurture sub-national revenue resource accessibility and management (Arikan, 2004; Lessmann & Markwardt, 2010).

In the developing world, particularly the African region, decentralization in whatever form, is faced with multiple challenges. Dominant ones include resource scarcity, corruption, inadequate skills, and leadership incapacity. Such constraints are largely responsible for rampant fiscal imbalances which often compromise service delivery to the local community. Thus, some scholars (e.g. Obwona et al., 2000; Sepulveda & Martinez-Vazquez, 2011) and public policy recommend community representation and inclusive participatory planning and budgeting as a remedy to this complex fiscal configuration.

In Uganda, the core community representatives at district level are the local councilors drawn from sub-counties. These civic leaders participate in planning and budgetary activities essentially to underscore areas of relevant development concerns and ensure effective and transparent budget implementation (MacKinnon & Reinikka, 2002; Obwona et al., 2000). Civic leadership involvement in local budgetary and planning endeavors adapts to the participatory leadership theoretical proposition (Coch & French, 1948; French, Israel & As, 1960; Tannenbaum & Alport, 1956; Tannenbaum & Schmitt, 1958). This theory requires organizational leadership to always take other people's input into account. Moreover, leadership participation and group member contributions should enhance member relevance and commitment. This augments decision-making (Coch & French, 1948; Tannenbaum & Alport, 1956).

Some districts in the country like Bushenyi, Kampala, and Mbale boast of scanty instances of fiscal imbalances and budget incrementalism due to dynamic budget civic participation and the confidence the center attaches to their operations (MoLG, 2017). To examine the notion of locality civic participation more effectively, it is proposed as follows:

*Hypothesis 3: Civic participation is positively related to fiscal imbalances.*

Finally, a number of scholars (e.g. Albouy, 2012; Jin & Zou, 2002; Kornai et al., 2003) argue that budget incrementalism is the most incredible force in the entity leadership-fiscal imbalances formation. Weak leadership structures, typical of resource-strained entities in developing world jurisdictions, spark-off budget incrementalism which in turn ignites fiscal imbalances (Albouy, 2012; Jin & Zou, 2002).

If, for instance, local administrators and civic leaders ensured budget ceiling-bound expenditure, fiscal bail-outs (budget incrementalism) could be avoided (Jin & Zou, 2002; Kornai et al., 2003; Obwona et al., 2000). Moreover, Kornai et al. (2003) advice that local governments should often reinforce internal tax capacity in order to enhance local revenue. A strong local revenue base; commonly linked to focused leadership, not only relieves the center of burdensome grants, but raises their trust in their fiscal fabric. Such policy action can tremendously restrain vertical fiscal imbalances (Kornai et al., 2003; Obwona et al., 2000).

Previous studies (e.g. Brown & Oates, 1987; Oates, 1968; Musgrave & Musgrave, 1973) also provide evidence that adherence to budgetary law and regulation (budgetary institutionalization) can significantly stimulate fiscal discipline. Fiscally-disciplined entities tend to circumvent budget incrementalism practices and the resultant fiscal imbalances effects (Brown & Oates, 1987). Entities susceptible to fiscal imbalances (vertical or horizontal), are common victims of supplementary budgeting. For instance, districts such as Amolatar, Budaka, Kaabong, Kasese, Koboko, Mayuge, and Yumbe in Uganda frequently request for supplementary budgets due to their horizontal fiscal imbalances make-up. Majority entities believe they are fiscally-disadvantaged and therefore must be entitled to the soft budget (MacKinnon & Reinikka, 2002).

Public finance policy has long regarded local entity supplementary budgets a constraint to national fiscal structure and a habit that should not be tolerated. Central government should therefore endeavor to work closely with local entity leadership to minimize budget incrementalism practices and fiscal imbalances incidences (Oates, 1968;

Spulveda & Martinez-Vazquez, 2011). The foregoing empirical deliberation suggests that in local government, budget incrementalism links leadership to fiscal imbalances. Much as previous research may have paid relatively little attention to this proposition, the following hypothesis is posited:

*Hypothesis 4: Budget incrementalism mediates the leadership-fiscal imbalances relationship.*

### **3 METHODS**

#### **3.1 Sample**

Data were collected from randomly and purposively selected (Kenny, 2008; ShROUT & Bolger, 2002) 21 districts and 4 municipalities in north-western and eastern regions of Uganda. The regions host localities susceptible to supplementary budgeting and fiscal imbalances (MacKinnon & Reinnika, 2002; MoLG, 2017). A total of 280 structured surveys were distributed to various administrators and heads of department while civic leaders were interviewed. The survey contained statement items in regard to study variables and constructs built on a 5-point Likert scale. The scale was anchored on a “Strongly Disagree-Strongly Agree” configuration (Barret, 2007; ShROUT & Bolger, 2002). The response rate from the unit of analysis; a district, perspective was 100 percent given that at least a questionnaire was received from each entity. A total of 267 questionnaires were returned; denoting an 87% unit of inquiry response rate. However, only 255 of them were adopted for hypothesis testing due to missing data and response inconsistency concerns (Kenny, 2008; Nevitt & Hancock, 2001).

The study reveals that 58% of the participants are male and in the 31-40 year age bracket. Most of them (64%) are married, educated to the level of Bachelor’s degree (43%), and have served in their respective positions for at most five years. Consistent with previous studies (Mackinnon & Reinikka, 2002; Obwona et al., 2000), these findings suggest that budgetary and fiscal activities in Uganda’s local governments are run by a fairly young and quite inexperienced male workforce. Besides, it is a workforce whose managerial and technical capacity is largely feeble (Livingstone & Charlton, 2001; Onyango-Delewa, 2016b).

### **4 MEASURES**

#### **4.1 Fiscal Imbalances**

The variable fiscal imbalances were operationalized by vertical fiscal imbalances and horizontal fiscal imbalances (Bird & Tarasov, 2004). Vertical fiscal imbalances were assessed by scales adapted and modified from Sepulveda and Martinez-Vazquez (2011) ( $\alpha = 0.879$ ). Sample statements: “This entity receives adequate central government grants relative to local revenue collections.”; “The grants are remitted promptly.” Horizontal fiscal imbalances were measured by modified versions of scales employed by Kornai et al. (2003) ( $\alpha = 0.902$ ). Sample statement: “...LG generates same local revenue like others in the region.”

## **4.2 Leadership**

Notable leadership indicators include: political functionality, managerial and technical capacity, and civic participation (Jung et al., 1995; Yammarino, 2003). Political functionality was measured by means of a customized scales in Jung et al. (1995) ( $\alpha = 0.798$ ). Sample statements: “Political leaders interfere with the LG fiscal operations.”; “Development programs have succeeded because of political oversight.” We assessed managerial and technical capacity using guidelines in the work of Chen et al. (2007), and Yammarino (2003) ( $\alpha = 0.913$ ).

Sample statements: “...LG lacks the right managerial and technical capacity to run mandated fiscal resources.”; “Sourcing manpower is done transparently with no regard to tribe or political affiliation.” In order to evaluate civic participation attribute, scales in Uhl-Bien (2006) ( $\alpha = 0.861$ ) were adopted and tailored. Sample statement: “Civic leaders have the capacity to understand and technically participate in fiscal management.”

## **4.3 Budget Incrementalism**

Budget incrementalism is the study’s purported mediating variable between leadership and fiscal imbalances in local government. It was assessed by means of modified scales in Dahlby and Wilson (2003) and Lessman and Markwardt (2010). The content items exhibited ( $\alpha = 0.917$ ). Related sample statements: “...LG requests for supplementary budgets from central government.”; “In the LG, supplementary budgets are considered a fiscal right.”; “Supplementary budgets do not in any way affect the LG-center fiscal relations.”

## **5 CONTROL VARIABLES**

Four participant demographic variables: gender, education, position, and tenure were included in the study model as control variables. Previous studies (Albouy, 2012; Eyraud & Lisinyan, 2013) suggest that such biographical factors are related to and tend to influence fiscal imbalances decisions in local entities. Thus, in order to control for their influence, gender was assessed dichotomously (0 = Female, N = 108; 1 = Male, N = 147). Educational status was coded as (1 = Secondary Level, N = 37; 2 = Diploma, N = 94; 3 = First Degree, N = 85; 4 = Other Qualifications, N = 39). Job position was coded by (1 = RDC, N = 28; 2 = CAO, N = 28; 3 = LC5 Chairpersons, N = 28; 4 = Heads of Department, N = 39; 5 = Councilors, N = 42). Tenure in respect to the entity and serving under current supervisor were noted in years within a range of (up to 2 – 11 plus) years. Additionally, we also adopted and controlled for one latent factor to enhance statistical analysis required for Harman’s One Factor validity testing. Simulation research (e.g. Nevitt & Hancock, 2001; Preacher & Hayes, 2008) recommends that such a factor must be controlled to suppress its potential hypothesis testing and outcome negative effects.

## **6 ANALYTICAL STRATEGY**

Structural equation modeling (SEM) (AMOS v.20) (Barrett, 2007; Preacher & Hayes, 2008) was used to test the study hypotheses. According to Barrett (2007), SEM



provides a reliable evaluation of composite-variable systems in hypothesized models. Such evaluation is capable of effectively revealing the model data's compliance level.

The study data were tested through a dual step analytical strategy, recommended for achieving model evaluation effectiveness (Barrett, 2007; Nevitt & Hancock, 2001). In Step One, a measurement model with no control variables in it was tested using confirmatory factor analysis (Nevitt & Hancock, 2001; Preacher & Hayes, 2008). Its output; whose contents should only have higher-order-term latent construct items, facilitated the construction of a structural model required for hypothesis testing in Step Two (Nevitt & Hancock, 2001).

Step Two constitutes the desired structural model in which both direct and mediation effect estimation is exhibited. Kenny (2008) and Shrout and Bolger (2002) suggest that in situations where only one item is displayed for each control variable latent construct error variances, the variances should be fixed to zero. Thus, all the study control variable latent constructs and their model paths were loaded on both the mediating variable (budget incrementalism) and the dependent variable (fiscal imbalances) as suggested by simulation research (Nevitt & Hancock, 2001; Preacher & Hayes, 2008).

## **7 RESULTS**

### **7.1 Descriptive Statistics**

Means, standard deviations, variable inter-correlations, and reliability coefficients computed with (SPSS V.19) are presented in Table 1. It can be observed that budget incrementalism is associated with the political function ( $r = -.203$ ,  $p < 0.01$ ) and to managerial and technical capacity ( $r = .314$ ,  $p < 0.05$ ). It relates with civic participation to the extent of ( $r = .163$ ,  $p < 0.05$ ) but to the entire LG leadership ( $r = .235$ ,  $p < 0.01$ ). Leadership as whole associates with vertical fiscal imbalances and horizontal fiscal imbalances to magnitudes ( $r = -.228$ ,  $p < 0.05$ ) and ( $r = .296$ ,  $p < 0.01$ ) respectively. In entirety, leadership associates with the entire fiscal imbalances structure is ( $r = .173$ ,  $p < 0.05$ ). Finally, fiscal imbalances as a whole also relate with budget incrementalism to ( $r = .216$ , ns). These results suggest close inter-variable and construct relationships.

Item	M	SD	1	2	3	4	5	6	7	8
1. PF	3.03	1.905	(.798)							
2. MTC	2.96	2.030	-.301	(.913)						
3. CP	3.08	2.051	-.222	.359	(.861)					
4. LP	8.96	2.935	.456**	.503**	.559**	(.839)				
5. BI	3.07	2.011	-.203**	.314*	.163*	.235**	(.917)			
6. VFI	3.22	1.874	.369	.426*	-.522	-.228*	-.427	(.879)		
7. HFI	3.15	2.118	-.204*	.139	.362**	.296**	-.305	.224	(.902)	

---

8. FI	5.78	2.074	-.331	.446*	.249	.173*	.216	.544**	.589**	(.815)
-------	------	-------	-------	-------	------	-------	------	--------	--------	--------

---

Table 1. Means, Standard Deviations, Inter-Variable Correlations, and Reliabilities

Notes: M=Mean; SD=Standard Deviation; \*p < 0.05; \*\*p < 0.01 (two-tailed); N=255; Reliabilities in parenthesis; Main variables in bold; PF=Political Functionality; MTC=Managerial -Technical Capacity; CP=Civic Participation; LP= Leadership; BI=Budget Incrementalism; VFI=Vertical Fiscal Imbalances; HFI=Horizontal Fiscal Imbalances; FI=Fiscal Imbalances.

## 8 HYPOTHESIS TESTING

Before testing the study structural model, the two step strategy measurement model was first appraised for possible infiltration of common methods variance (CMV). Thus, confirmatory factor analysis was executed to evaluate both CMV and also establish the status of construct and discriminate validity of the 5-point scale employed (Barrett, 2007; Preacher & Hayes, 2008). Common methods variance was tested using a five-factor model comprising constructs: political functionality, managerial and technical capacity, civic participation, vertical fiscal imbalances, and horizontal fiscal imbalances. Its output was then compared with the contents of the single latent factor theoretically-generated (Harman's One Factor) model for validity assessment (Nevitt & Hancock, 2001; Preacher & Hayes, 2008).

Harman's One Factor model goodness-of-fit indices must be poor relative to those of the five-factor model to signify absence of a common methods variance threat to the research data (Shrout & Bolger, 2002). The five factor model goodness-of-fit indices ( $\chi^2 = 9.823$ ;  $df = 12$ ;  $\chi^2/df = 0.819$ ; IFI = 0.976; TLI = 0.989; CFI = 0.975; RMSEA = 0.041) compared better to those of Harman's model ( $\chi^2 = 11.514$ ;  $df = 18$ ;  $\chi^2/df = 0.640$ ; IFI = 0.852; TLI = 0.917; CFI = 0.893; RMSEA = 0.172). The results suggested no variance risk to the dataset (Kenny, 2008; Shrout & Bolger, 2002).

Moreover, confirmatory analysis output exhibited quite large and statistically-significant factor loadings. Equally, internal-consistence (reliability) alpha coefficients for most constructs ( $> 0.52$ ;  $p < 0.01$ ;  $\alpha \geq 0.700$ ) were also big. Barrett (2007) and Kenny (2008) associate such results with strong inter-construct items and thus an assurance for both construct and discriminate validity. Besides, absence of the variance hazard and validity confirmation, provide a good foundation for hypothesis testing upon whose findings can be relied (Kenny, 2008; Preacher & Hayes, 2008).

As indicated earlier, structural equation modeling (SEM) (Barrett, 2007) was used to test the proposed hypotheses direct and indirect (mediation) effects based on the structural model. In compliance with previous simulation studies advice on generating credible output (e.g. Nevitt & Hancock, 2001), data were further subjected to multicollinearity verification before carrying out a full SEM hypothesis testing. All items tolerance values (TVs) and variance inflation factors (VIFs); conventional multicollinearity measurements, met the ( $< 1.00$ ;  $< 10.0$  respectively) (Table 2) condition required to show absence of multicollinearity threat to the data (Kenny, 2008). Besides, the structural model whose goodness-of-fit indices were quite ideal; ( $\chi^2=0.928$ ;  $df=5$ ;  $p=0.731$ ;  $\chi^2/df=0.186$ ; NFI=0.981; IFI=0.963; TLI=0.955; CFI=0.972; RMSEA=0.027), was used in testing both direct and indirect effects (Table 2).

**Table 2. Multiple Regression Coefficients and Structural Equation Modeling**

HYP	Model	Unstandard Coefficients		Standardized Coefficients	CR	Sig.	Collinearity Statistics		95% CI	
		$\beta$	SE	$\beta$	(t-value)		TV	VIF		
	Constant	5.297	.394	-	13.458	0	-	-		
	Pf	-.032	.073	.030	-.438	*	.999	1.001		
	Mtc	.147	.068	.145	2.144	*	.999	1.001		
	Cp	.045	.070	.044	.649	*	.998	1.002		
	R <sup>2</sup>			.752		*				
	Adj.R <sup>2</sup>			.629		*				
	<i>Direct Effects</i>									
SEM	H1:	FI ← Pf		.950	3.529	**				
	H2:	FI ← Mtc		-	-1.788	*				
	H3:	FI ← Cp		.389	2.213	**				
	<i>Indirect Effect</i>									
		LD ←								
		BI ←								
									[-.112; -.012]	
	H4:	FI			1.593	*				
		FI		.441	.728	*				
				.130						

Notes: HYP=Hypothesis; CR=Critical Ratio; TV=Tolerance Value; VIF=Variance Inflation Factor; CI=Confidence Interval; Pf=Political Functionality; Mtc= Management and Technical Capacity; Cp=Civic Participation; FI=Fiscal Imbalances; LD=Leadership; BI=Budget Incrementalism; \*p < 0.05; \*\*p < 0.01. Hypotheses Status: H<sub>1</sub> (Supported); H<sub>2</sub> (Not Supported); H<sub>3</sub> (Supported); H<sub>4</sub> (Supported); LD, BI, and FI are the study variables.

**8.1 Direct Effect Tests**

Direct effect results indicate a positive and significant relationship between political functionality and fiscal imbalances ( $\beta=.950$ ,  $p < 0.01$ ). Thus Hypothesis 1 is supported. In Hypothesis 2, it had been proposed that management and technical capacity relates positively and significantly with fiscal imbalances. The data could not support that hypothesis ( $\beta= -.389$ ,  $p < 0.05$ ). However, data support Hypothesis 3 which stated that in local government, civic participation (Cp) has a positive and significant relationship with fiscal imbalances ( $\beta=.639$ ,  $p < 0.01$ ). These findings are further substantiated by the significant regression output ( $R^2 =.752$ ; Adjusted  $R^2 =.629$ ,  $p < 0.05$ ).

**8.2 Indirect (Mediation) Effect Test**

Hypothesis 4 stated that budget incrementalism has a mediating influence on the leadership-fiscal imbalances relationship. In order to explain this paradoxical influence, empirical support (Kenny, 2008; Nevitt & Hancock, 2001; Preacher & Hayes, 2008; Shrout & Bolger, 2002) was invoked. Kenny (2008) suggests mediation if independent-mediating variable and the mediating-dependent variable relationships are statistically significant. Mediation is still assumed no matter whether independent-dependent variable relationship is direct or not (Shrout & Bolger, 2002). The results ( $\beta=.441$ ;  $\beta=.130$ ,  $p < 0.05$ ) suggest data support Hypothesis 4.

Moreover, based on the SEM bootstrapping mediation methodology (Nevitt & Hancock, 2001; Preacher & Hayes, 2008), the system (AMOS) invokes the *boot* bundle in [R] to fully-explore the hypothesized mediation model. The idea is to generate a set of confidence intervals (CIs) necessary for assessing the required mediation status (Preacher & Hayes, 2008). A total of 2500 bootstrap samples were engaged in order to test the mediation effect. An (0.10) effect size and 95% bias-corrected CIs [-.112; -.012] were generated.

These results also exhibited a statistically significant relationship in that no zero value arose within the CIs [-.112; -.012] values. Thus, the bootstrap results further authenticate data support to Hypothesis 4 (Nevitt & Hancock, 2001; Preacher & Hayes, 2008). From a statistical analysis context, a notable finding from this study is that: leadership in local government has some causality influence on fiscal imbalances. That influence is, however, tenable only when budget incrementalism activities mediate the relationship.

## **9. DISCUSSION**

While some of the findings from this study reinforce previous empirical evidence, others are quite novel. Hypothesis 1 stated that political functionality leadership relates positively with fiscal imbalances. The hypothesis was affirmed by data. These results corroborate previous evidence (Albouy, 2012; Dansereau et al., 1984; Jin & Zou, 2002) that acknowledges political influence on local entity fiscal activities. Albouy (2012) recommends for political patronage to spur accountability and transparency necessary for ironing out horizontal fiscal imbalances. Hypothesis 2 suggested that managerial and technical leadership has a positive association with fiscal imbalances.

Contrary to managerial leadership theory and conventional western-based empirical findings (Walumbwa, Avolio, Gardner, Wersing & Peterson, 2008), the hypothesis did not secure data support. In Sub-Saharan Africa and Uganda in particular, weak budgetary institutionalization, tribalism, and nepotism augment fiscal imbalances despite managerial and technical proficiency. Finance and planning functions manpower is sourced locally largely on the know-who basis and with little consideration for technical competence

Hypothesis 3 indicated that in local entities, civic participation relates positively with fiscal imbalances. It was confirmed by data reinforcing past research (Uhl-Bien, 2006) that posits that especially in resource-strained African-based localities, participatory planning and budgeting involving community representatives is instrumental in ironing out fiscal imbalances. However, participants must be skilled (Uhl-Bien, 2006; Walumbwa & Lawler, 2003).

It was postulated in Hypothesis 4 that budget incrementalism mediates the leadership-fiscal imbalances relationship. With data support, it implies that if leadership has to wield any influence on fiscal imbalances, then budget incrementalism is foreseeable. The finding concurs with the positing in recent studies (Kornai et al., 2003; Sepulveda & Martinez-Vazquez, 2011) that fiscal imbalances expose local agencies to budgetary incrementalism. Budget incrementalism is often exacerbated by weak

leadership exercised in equally weak budgetary regulation settings (Albouy, 2012; Sepulveda & Martinez-Vazquez, 2011). In Uganda, incrementalism practices thrive due to weak budgetary regulation compromised by partisan politics. This renders fiscal imbalances mitigation efforts fruitless (Obwona et al., 2000).

## **10. IMPLICATIONS FOR THEORY AND PRACTICE**

Several important theoretical and practical implications emerge from this research. First, its findings corroborate situational-political functionality-civic participation leadership theoretical views (Coch & French, 1948; Tannenbaum & Allport, 1956; Yammarino, 2013). Local governments require active, respectful and participatory leadership in order to combat the leadership-budget incrementalism-fiscal imbalances complexities effectively. However, in contrast to managerial leadership theory that associates managerialism with suppressed fiscal imbalances (Tiebout, 1956; Musgrave & Musgrave, 1973), the findings suggest a very mild managerial and technical competence-fiscal imbalances connection. This outcome may be possible in Africa-based entities which benefit from weak regulation, partisan politics, tribalism, and nepotism (Bird & Tarasov, 2004; Mackinnon & Reinikka, 2002).

From practice standpoint, the study findings are in tandem with past empirical perspective (Kornai et al., 2003; Sepulveda & Martinez-Vazquez, 2011) that mitigating local fiscal imbalances requires serious central government attention. Majority budgetary institutions authorize central government to hold the largest portion of national fiscal resources; arguably, for effective policy execution. These excess resource balances often breed centre-locality vertical fiscal disparities (Dahlby & Wilson, 2003; Lessmann & Markwardt, 2010; MoLG, 2017).

Fiscal federalism policy also compels central government to extend similar spending mandate to local governments. When executed, the mandate often breeds vertical fiscal imbalances at the local level (Arikan, 2004; Sepulveda & Martinez-Vazquez, 2011). Thus, since the center is partially responsible for local imbalances, it may set fiscal regulations tailored to the entities revenue-spending realities. Such regulations should be easy to implement and enforce.

The implication for practice in respect to locality leadership varies from one leadership attribute to another. Consistent with previous research (Jin & Zou, 2002), the current study reports that political functionality is indeed vital for addressing fiscal imbalances. However, when political intervention is divisive and excessive, it may instead yield negative repercussions to planning and budgeting (Walumbwa et al., 2008).

Managerial and technical leadership is has for long been considered a panacea to deep-rooted fiscal discrepancies in public institutions (Brown & Oates, 1987; Eyraud & Lusinyan, 2013; Tiebout, 1956). Even in apparently weak resource-constrained and nepotism-driven African local entities, technical capacity can be fruitfully exploited. Much as the current study found a mild managerial and technical leadership-fiscal imbalances association, practice still benefits. For instance, African-based entities should opt for sourcing finance personnel from the center to avoid tribal, sectarian and partisan politics interference. This enhances easy staff transfer and development flexibility crucial

for accountability and transparency in managing fiscal imbalances (Dahlby & Wilson, 2003; Jin & Zou, 2002).

Civic participation ensures communities accessibility to public goods and services often prescribed in the fiscal federalism framework (Bird & Tarasov, 2004). This research advocates for fiscally-sensitized and experienced civic representatives in order to secure quality service delivery. Moreover, it has been found that in local government, budget incrementalism mediates the relationship between leadership-fiscal imbalances. It is therefore suggested that there is need for practitioners to address incrementalism meaningfully. Measures such as adequate grant allocations, monitoring resource application, and instituting effective regulatory mechanisms (Afonso et al., 2010; Dahlby & Wilson, 2003; Obwona et al., 2000) may be helpful.

## **11. LIMITATIONS AND FUTURE RESEARCH DIRECTION**

Much as this research provides a number of new perspectives for local governments on their leadership-budget incrementalism-fiscal imbalances equation, it is not without limitations. First, the study employed a cross-sectional research design. This one-point-in-time data collection approach limits the confirmation of results-causality that may lead to wrong conclusions and impair future policy decisions (Kenny, 2008; Shrout & Bolger, 2002). Random sampling-based experimental or time-lagged longitudinal inquiries are recommended for addressing inter-variable causality effectively (Shrout & Bolger, 2002).

Second, being a simulation investigation, its models may have been over-simplified. Interpretation of such models tends to overlook intended inter-variable relationships because they oscillate around model conditions and properties (Barrett, 2007; Preacher & Hayes, 2008). Future studies can avoid over-simplification by adopting models with new appropriate variables for better theoretical composition and enhanced methodological stance (Barrett, 2007).

Data were sourced from various entity units; administrators, managers, and civic leaders, in order to avoid possible self-rated bias. But since the variables were measured through a survey, data were potentially exposed to common methods variance risk. Future studies can employ other data collection methods such as face-to-face interviews or use panel data to generate better comparable results (Shrout & Bolger, 2002).

## **12. CONCLUSION**

The concern about leadership and fiscal imbalances in local government especially in Africa dominates recent empirical and policy debate. As imbalances perpetually gain ground, there is need for their in-depth and meticulous investigation. In order to overcome past research fractious explanations to fiscal imbalances, this research invoked three outstanding leadership attributes; political functionality, managerial and technical capacity, and civic participation. It stimulates further analysis of fiscal imbalances and its antecedents by demonstrating that budget incrementalism mediates the leadership-fiscal imbalances relationship.

## References

1. Afonso, A., Luca, A. & Furceri, D. 2010. "Fiscal policy responsiveness, persistence, and discretion". *Public Choice*, 145(3-4): 503-530.
2. Albouy, D. 2012. "Evaluating the efficiency and equity of federal fiscal equalization". 96(9): 824-839.
3. Arikian, G.G. 2004. "Fiscal decentralization: A remedy for corruption?" *International Tax and Public Finance*, 11(2): 175-195.
4. Barrett, P. 2007. "Structural equation modelling: Adjudging model fit". *Personality and Individual Differences*, 42(5): 815-824.
5. Bird, R. M. & Tarasov, A. V. 2004. "Closing the gap: Fiscal imbalances and intergovernmental transfers in developed federations". *Government and Policy*, 22(1): 77-102.
6. Bowers, D. G. & Seashore, S. E. 1966. "Predicting organizational effectiveness with a four-factor theory of leadership". *Administrative Science Quarterly*, 11, 238-263.
7. Brown, C. C. & Oates, W.E. 1987. "Assistance to the poor in a federal system". *Journal of Public Economics*, 32(3): 307-330.
8. Chen, G., Kirkman, B.L., Kanfer, R. Allen, D & Rosen, B. 2007. "A multilevel study of leadership, empowerment, and performance in teams". *Journal of Applied Psychology*, 92(2): 331-346.
9. Coch, L. & French Jr, J. R. P. 1948. "Overcoming resistance to change." *Human Relations*, 1, 512-532.
10. Dahlby, B. & Wilson, L. S. 2003. "Vertical fiscal externalities in a federation". *Journal of Public Economics*, 87(5): 917-930.
11. Dansereau, F., Alutto, J.A. & Yammarino, F. J. 1984. *Theory Testing in Organizational Behavior: The Variant Approach*. Prentice Hall.
12. Eyraud, L. & Lusinyan, L. 2013. "Vertical fiscal imbalances and fiscal performance in advanced economies". *Journal of Monetary Economics*, 60(5): 571-587.
13. French Jr, J. R. P, Israel, J. & As, D. 1960. "An experiment on participation in a Norwegian factory: interpersonal dimensions of decision-making". *Human Relations*, 13(1): 3-19.
14. Jin, J. & Zou, H. 2002. "How does fiscal decentralization affect aggregate, national, and sub-national government size?" *Journal of Urban Economics*, 52(2): 270-293.
15. Jung, D. I., Bass, B.M. & Sosik, J. J. 1995. "Bridging leadership and culture: A theoretical consideration of transformational leadership and collectivistic cultures". *Journal of Leadership and Organizational Studies*, 2(4): 3-18.
16. Kenny, D. 2008. "Reflections on mediation". *Organizational Research Methods*, 11(2): 353-358.
17. Kerr, N. & Tindale, S. 2004. "Group performance and decision making". *Annual Review of Psychology*, 55, 623-655.
18. Kornai, J., Maskin, E & Roland, G. 2003. "Understanding the soft budget constraint". *Journal of Economic Literature*, 41(4): 1095-1136.
19. Lessmann, C. & Markwardt, G. 2010. "One size fits all? Decentralization, corruption, and the monitoring of bureaucrats". *World Development*, 38(4): 631-646.
20. Livingstone, I. & Charlton, R. 2001. "Financing decentralized development in a low-income country: Raising revenue for local government in Uganda". *Development and Change*, 32(1): 77-100.
21. Mackinnon, J. & Reinikka, R. 2002. "How research can assist policy: The case of economic reforms in Uganda". *The World Bank Research Observer*, 17(2): 267-292.
22. Marion, R. & Uhl-Bien, M. 2002. "Leadership in complex organizations". *The Leadership Quarterly*, 12(4): 389-418.
23. Ministry of Local Government (MoLG), Uganda. 2017. *The Consolidated Local Government Budget Desk and Sector Budgeting Manual*. Kampala, Uganda.
24. Musgrave, R. A. & Musgrave, P.B. 1973. *Public Finance in Theory and Practice*. McGraw-Hill, Inc., New York, USA.

25. Nevitt, J. & Hancock, G.R. 2001. "Performance of bootstrapping approaches to model test statistics and parameter standard error estimation in structural equation modeling". *Structural Equation Modeling*, 8(3): 353-377.
26. Oates, W. E. 1968. "The theory of public finance in a federal system". *The Canadian Journal of Economics/Revue canadienne d'Economique*, 1(1): 37-54.
27. Obwona, M., Steffensen, J., Trollegaard, S., Mwanga, Y., Luwangwa, F., Twodo, B.,
28. Ojoo, A. & Seguya, F. 2000. "*Fiscal Decentralization and Sub-National Government Finance in Relation to Infrastructure and Service Provision in Uganda*". The World Bank, Washington, DC.
29. Onyango-Delewa, P. 2016 (a). "Financial planning as an antecedent of fiscal transparency in local government: The mediating effect of civic participation". *Public Finance and Management*, 16(4): 434-459.
30. Onyango-Delewa, P.. 2016 (b). "Central government patronage, donor aid, and budget performance in local government: Testing a mediation effect". *Journal of Public Budgeting, Accounting and Financial Management*, 28(2): 139-170.
31. Preacher, K. J. & Hayes, A. F. 2008. "Asymptotic and re-sampling strategies for assessing and comparing indirect effects in multiple mediator models". *Behavioral Research Methods*, 40(3): 879-891.
32. Sepulveda, C. F. & Martinez-Vazquez, J. 2011. "The consequences of fiscal decentralization on poverty and income equality". *Government and Policy*, 29(2): 321-343.
33. Shrout, P. E. & Bolger, N. 2002. "Mediation in experimental and non-experimental studies: New procedures and recommendations". *Psychological Methods*, 7(4): 422-445.
34. Stogdill, R. M. 1974. "*Handbook of Leadership: A Survey of Theory and Research*". Free Press.
35. Tannenbaum, A. S. & Allport, F.H. 1956. "Personality structure and group structure: An interpretative study of their relationship through an event-structure hypothesis". *Journal of Abnormal and Social Psychology*, 53(3): 272-280.
36. Tannenbaum, A.S. & Schmitt, W.H. 1958. "How to choose a leadership pattern". *Harvard Business Review*, 36, 95-101.
37. Tiebout, C. M. 1956. "A pure theory of local expenditures". *Journal of Political Economy*, 64(5): 416-424.
38. Uhl-Bien, M. 2006. "Relational leadership theory: Exploring the social processes of leadership and organizing". *The Leadership Quarterly*, 17(6): 654-676.
39. Walumbwa, F. O. & Lawler, J. J. 2003. "Building effective organizations: Transformational leadership, collectivist orientation, work-related attitudes and withdrawal behaviors in three emerging economies". *International Journal of Human Resource Management*, 14(7): 1083-1101.
40. Walumbwa, F. O., Avolio, B. J., Gardner, W. L., Wernsing, T. S. & Peterson, S. J. 2008. "Authentic leadership: Development and validation of a theory-based measure". *Journal of Management*, 34(1): 89-126.
41. Yammarino, F. 2013. "Leadership: Past, present, and future". *Journal of Leadership and Organizational Studies*, 20(2): 149-155.



This article is an open access article distributed under the terms and conditions of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License.