

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter addresses the theoretical aspects and empirical studies from previous researchers regarding facets of budgeting.

There are several parts to this chapter. Budgeting concepts are reviewed in general, including their role and relevance in the current business environment. This is followed by a review of the literature of all the variables including budget participation, organisational fairness, motivation, organisational culture and managerial performance.

#### **2.2 Definition of Budget and its Role**

Budgeting is a part of the planning and control system in organisations. Budgeting is a process of identifying financial and non-financial resources and allocating these resources for use in the future. It is a mode to formulate future plans (Milani, 1975), provides control measures (Merchant, 1981) and assists in decision making. According to Merchant (1981), a budgeting system is a system that pools information and administration processes together. It is a formal channel of communication that can motivate subordinate performance (Fisher et al., 2002) to promote effectiveness in order to achieve the final budget that is set. It is more likely as a target to be met in order to receive certain rewards, for example increments, bonus payments and promotions. Incentives to employees who perform better or meet the target profit goals can also be provided. Through budgets, all employees in the organisation will work in the same direction to meet organisational goals and strategy. That means all managers in various functions not only must understand and

agree with the goals set by the top management, but also must be aware of the plans made by other managers in various functions. With budgets, integration from different units in the organisation is made possible by pooling together the plans made by managers in different functions.

From the economic point of view, a phenomenon of limited resources but unlimited wants would give rise to a scarcity problem. Faced with scarcity, proper means must be adopted to handle the problem efficiently so as to utilise whatever resources are available optimally. In the context of organisation resources, budget serves this means. Budget plays an important role as it deals with distribution of limited resources in an efficient manner throughout the organisation so as to maximise the wealth of the organisation. Hence any diversion in the amount of resources supposed to be used with the amount actually used would be investigated and corrective action can be taken. It also means that the performance of all members of the organisation can be evaluated and controlled because budgets can be used as the basis for performance assessment (Libby and Lindsay, 2007). Kenis (1979) added that the participants' conduct, attitudes and performance is influenced by the way budgets are used in performance appraisal. In other words, budget can be used to motivate employees (Fisher et al., 2002) to perform better and make greater effort to achieve a goal.

Apart from having positive roles, various studies have also argued for the negative aspects of budget. For instance, slack behaviour (Fisher et al., 2002), data manipulation (Hopwood, 1972), its effect as a pressure device (Cherrington and Cherrington, 1973), and job related tension (Brownell, 1981; Hopwood, 1972). These negative aspects of budget can lead to the dysfunctional performance of the budget player.

Further, Prendergast (2000) claimed that in the new era of globalisation, the concept of budgeting is outdated and should be replaced by a more dynamic means for the success of the organisation, for instance using a balance scorecard. However, towards the end of his article, he admits the need for budget but that it should not be used as the sole source by which to evaluate unit managers because “the temptation to corrupt the measure is greater” (Prendergast, 2000, p. 15). The basic problem of budgets is that because it deals with estimation, it may involve inaccurate judgments (Prendergast, 2000). However, this estimation is actually based on supported assumptions (Libby and Lindsay, 2007).

Even though there are some dysfunctional consequences arising from budgeting behaviour, many of the prior efforts do support the participation mechanism in the budget-setting process that is beneficial to the organisation (Libby and Lindsay, 2007; Nik Nazli et al., 2003; Prendergast, 2000).

A study conducted by Nik Nazli et al. (2003) on Malaysian firms revealed that budgeting is perceived to be important in today’s challenging business environment. They provide evidence that despite the present modernisation era, budgets are still being used by companies in Malaysia as part of the planning and control mechanism. This finding is further supported by a recent article by Libby and Lindsay (2007). In their survey of Institute of Management Accountants (IMA) members who held a senior management position, they found that budgets are an important component in their organisations and most of the respondents claimed that they cannot manage their companies without budgets. They also found that more than half of their respondents disagreed that budgets quickly become outdated.

Greenberg and Greenberg (2006) also supported the usage of budget as it serves as a mode of communication in order to reduce information asymmetry and minimise uncertainties that exist among different departments and different levels. As such, budgets will continue to be relevant because it is an important organisation control tool and as management accounting technique, it is fundamentally acceptable and highly effective. However, the real challenge for managers is how to utilise budget appropriately for a need of today's highly challenging environment (Libby and Lindsay, 2007; Nik Nazli et al., 2003).

In sum, even though budgets may have some flaws, most of the organisations still need budget. Improving the readily available budget is better than going beyond budgeting. Libby and Lindsay (2007, p. 51) added that "budgeting appears to be a process that's evolving".

Most studies have suggested that a budget which is prepared by allowing participation from different levels of managers can promote more positive values to attitudes and behaviours (Lau and Lim, 2002; Milani, 1975). Having a significant role in developing the budget motivate lower level management to meet budgeted profit goals emphasised by the top management. A higher level of performance will be obtained by involving subordinates in the budget setting process. Moreover, participative budgeting can lead to greater commitment and cooperation which should then lead to an improvement in subordinates' productivity. Thus, all these benefits justify this study in examining the participation type of budgeting rather than others (e.g. top-down and bottom-up approach).

In the next section, studies related to budget participation, the role of organisational fairness, motivation, organisational culture and managerial performance are reviewed. The section includes the definition, functions and summaries of past studies.

## **2.3 Budget Participation**

### **2.3.1 Definition**

According to Milani (1975), participation is “a concept used to describe the extent to which a subordinate is allowed to select his own courses of action” (p. 274). Participative budgeting then is defined as a process in which the manager is involved and has control over the determination of the budget (Shields and Shields, 1998). O’Connor (1995) noted that participation can occur at both the planning and the performance evaluation stage of the budget cycle. It is a process in which different levels of managers interact and share information with one another.

### **2.3.2 Theoretical Basis of Budget Participation Studies**

Participation is one of the budgeting characteristics or the dimensions of budgeting style (Kenis, 1979; Merchant, 1981). Other dimensions include goal-clarity, feedback, evaluation and goal difficulty (Kenis, 1979). Budget participation is viewed as a concept in which managers participate in budget creation and influence the budgetary process over the outcomes of a decision making process (Magner, et al., 1995). It is one of the budgeting practices that have been adopted by organisations (Fisher et al., 2002). Not only does it give more value, it also serves as a motivation device for subordinates to meet the goals prescribed by the management.

The demand for participative budgeting is fully supported by the need to have adequate budgetary support (Nouri and Parker, 1998) for subordinates to carry out their job duties successfully. By participating in the budget setting process, managers will be more committed towards the organisation (Nouri and Parker, 1998; Parker and Kyj, 2006; Wentzel, 2002) which subsequently could improve their performance. Empirical research by Brownell and McInnes (1986) found a strong positive relationship between participation and managerial performance. Chalos and Haka (1989) added not only that managers' performance but also organisation returns will be improved by negotiation or through participative budgeting.

Participation in preparing budgets can enhance communications and cooperation among managers since all levels of managers contribute knowledge and share information (Agbejule and Saarikoski, 2006). Participating individuals communicate their need of resources for the success of their unit or department. Although subordinates are involved in the organisational decision-making process, superiors make the final decision (Libby, 1999). The head of the business unit or the top management has a major influence on the budgets ultimately set.

Through participation in setting up the budget, lower level management or subordinates are expected to provide more accurate and reliable views regarding their day-to-day operations. It is more likely to be a situation where everybody in the organisation plays their role in the community. To encourage better achievement by subordinates, the individual conditions should be considered and only the individuals are fully aware of their own circumstances; thus involving them in the decision making process allows them to provide input (Lau and Tan, 2006). Since subordinates are familiar with their working conditions and possess

significant private information (Nouri and Parker, 1998), allowing them to participate can ensure the inclusion of this information and the budget prepared is more likely to be attainable and realistic, rather than if it was imposed from above.

The needs for participative budgeting emerge because of the different levels of information held by different level of managers in organisations. These differences are perhaps due to what is known as information asymmetry. According to Shields and Shields (1998), participative budgeting enables the coordination of task interdependence between subunits in an asymmetric information environment. Based on the agency theory, differential information is owned by superior and subordinates. While employees often have private information (Nouri and Parker, 1998) regarding their day-to-day tasks, superiors possess strategic information related to the direction of the organisation as a whole. Participative budgeting enables this different information to be integrated and shared with employees throughout the organisation. Thus, budgets will be allocated more efficiently and performance will be evaluated more fairly and subsequently increase the motivation of employees.

Hence, it can be argued that an adequate level of participation can maximise the performance of organisation members to achieve organisational goals. It enables managers to appreciate the cost implications of the budget as participation in the budgeting process promotes a responsible financial budget (Chalos and Poon, 2000).

The application of budget participation is not without its critics. According to Reid (2002), although budget participation seems to be a good approach, it may not be suitable in all organisations. Participation is not essential in all organisations in order to promote

motivation to subordinates, as proven in Cherrington and Cherrington's (1973) study. In their study, they found that a top-down approach to setting the budget yields promising performance as compared to those subordinates who set their own targets. They claimed that obtaining a clear direction from top management allows them to follow and fulfil the stated goals.

However, Libby and Lindsay (2007) argued that the benefits arising from using budgets may compensate for their limitations. Thus, it is not surprising that budgets remain relevant in today's highly challenging business environment.

Budget participation is also used to maintain fairness in the organisation. With participation, the process control and decision control over the budget preparation process can be enhanced (Conlon, 1993). Decision control, also known as distributive fairness, is related to the outcome of the budget or the budget target that is set by the management. On the other hand, process control, which is also known as procedural fairness, is related to the procedures and means used by the management to determine the budget outcome. With the budget participation practices in the organisation, both distributive and procedural fairness can be promoted and increase the favourable attitudes and behaviour of employees (Lindquist, 1995; Maiga and Jacobs, 2007; Wentzel, 2002).

Based on the goal setting theory, budget also becomes the financial goal of the organisation that guides the employees' action and behaviour (Locke, 1996; Locke and Latham, 1984; 1990; 2002). Through budget participation, clearer, more specific and more attainable goals can be developed that can motivate employees to accomplish their tasks. With a high level of motivation, the performance of employees can be enhanced. Thus, it is suggested that



budget participation enables the creation of more specific and clearer goals, thus enhancing goal commitment as well as goal acceptance. When the goal is accepted by the employees, not only will their motivation be increased, but their performance improved as well.

Further, it is theorised that participation in high power distance countries is less effective compared to participation in low power distance countries (Hofstede, 1983; Lau and Buckland, 2000; Lau and Tan, 1998; O'Connor, 1995). In general, Hofstede (1983) classified Malaysia and other Asian nations as having high power distance cultures, whilst Anglo-American countries have low power distance levels including Australia, the US and Great Britain.

High power distance societies are characterised as societies which prefer to be followers, while in low power distance countries, the societies are more likely to participate in the decision making context. Even though the effectiveness of participation in the decision making process can be questioned, in the present era of globalisation, qualifications and international exposure to different cultures might change this 'mental programming'. In other words, there may be some possibilities for companies in developing countries to practise a low power distance culture (Lau and Tan, 1998).

In the next section, previous studies relating to budget participation are presented. It includes the relationship between budget participation and all the variables discussed above.

### **2.3.3 Empirical Studies on Budget Participation**

Research in budgeting has widely attracted the attention of researchers in various domains of psychological, economic and social literature (Covaleski et al., 2003). One of the most extensively discussed areas is budget participation.

Previous research has treated budget participation as either: (1) an independent variable (for example, Chong and Chong, 2002; Nouri and Parker, 1998; Parker and Kyj, 2006), (2) a moderating variable (Lau, Low and Eggleton, 1995; Shields and Young, 1993), or (3) an intervening variable (Lau and Lim, 2002) and it has been investigated using various models and variables (Shields and Shields, 1998).

Table 2.1 lists 28 published budget participation studies presented according to year from 1973 to 2007. It shows the effect of budget participation on dependent variables, moderating and mediating variables.

**Table 2.1: Summary of Research on the Effect of Budget Participation on Dependent Variables Including Moderating and Mediating Variables**

	<b>Researcher</b>	<b>Variables</b> Antecedent Variable (AV) /Independent Variable (IDV) / Dependent Variable (DV) / Moderating Variable (MV) / Intervening Variable (IVV)	<b>Research Methodology</b>	<b>Main Findings</b>
1	Cherrington and Cherrington (1973)	IDV: Budget participation, Reward contingencies DV: Performance, Satisfaction	Method: Lab experiment Subjects: 230 undergraduate students enrolled on an introductory business course	Budget participation has significant interaction with reward contingencies affecting performance and satisfaction.
2	Searfoss and Monczka (1973)	IDV: Perceived participation DV: Motivation MV: Need for independence, Authoritarianism	Method: Survey questionnaire Respondent: 365 foremen of five different industrial organisations	A significant relationship exists in the perceived participation and motivation. The need for independence and authoritarianism did not moderate the above relationship.
3	Milani (1975)	IDV: Budget participation DV: Performance IVV: Attitude toward job, Attitude toward company	Method: Survey questionnaire and using company records Respondent: 82 foremen of a large international US company	A significant relationship exists between participation and performance but the coefficients were small. Budget participation relates positively to both attitude variables. No significant relationship exists between both attitude variables and performance.

4	Kenis (1979)	IDV: Budget participation DV: Job satisfaction, Job-related tension, Attitude, Motivation, Performance	Method: Survey questionnaire Respondent: 169 department managers and supervisors in 28 plants	Budget participation has a significant positive relationship with satisfaction, attitude, budget motivation and budget performance. A significant negative relationship is found between budget participation and job-related tension.
5	Merchant (1981)	IDV: Budget participation DV: Motivation, Attitude, Performance MV: Organisational size	Method: Survey questionnaire Respondent: 170 middle-level managers in 19 organisations in the electronics industry	Budget participation has a significant relationship with motivation and attitude. Budget participation has a significant interaction with size and performance.
6	Brownell (1981)	IDV: Budget participation DV: Managerial performance MV: Locus of control	Method: Lab experiment Subjects: Undergraduate accounting students and managers from a large manufacturing company	A significant interaction between budget participation and locus of control affecting performance.
7	Brownell (1982a)	IDV: Budget participation DV: Performance, Satisfaction MV: Locus of control	Method: Survey questionnaire Respondent: 40 middle-level managers of a large manufacturing company	Significant interaction between participation and locus of control affecting performance and satisfaction.
8	Brownell (1982b)	IDV: Leadership style DV: Performance, Satisfaction MV: Budget participation	Method: Survey questionnaire Respondent: 38 managers of one manufacturing company	Leadership style has a significant interaction with participation affecting performance. No significant interaction is found affecting job satisfaction.
9	Brownell (1985)	IDV: Budget participation DV: Performance MV: Functional area	Method: Survey questionnaire Respondent: 120 managers from marketing and R&D in a large manufacturing company	Budget participation has a significant interaction with the functional area affecting performance

10	Brownell and Hirst (1986)	IDV: Budget emphasis, task uncertainty DV: Job-related tension, Performance MV: Budget participation	Method: Survey questionnaire Respondent: 76 line managers from a wide variety of functions, in a large manufacturing company in Australia	Both budget emphasis and task uncertainty has significant interaction with budget participation on job-related tension. Both budget emphasis and task uncertainty have no significant interaction with budget participation on performance.
11	Brownell and McInnes (1986)	IDV: Budget participation DV: Managerial performance IVV: Motivation	Method: Survey questionnaire Respondent: 224 middle level managers in three companies	An insignificant relationship is found on the effect of participation and motivation. A strong positive relationship exists in the participation and performance relationship. There is no evidence that participation increases performance via the mediating role of motivation.
12	Chalos and Haka (1989)	IDV: Budget participation DV: Performance MV: Type of state information	Method: Lab experiment Subject: 240 MBA students	Firm and managers' performance improves with participation in budgeting. A significant interaction between the type of state information and participation emerges for managers but not firm returns.
13	Mia (1989)	IDV: Budget participation DV: Managerial performance, Work motivation MV: Job difficulty	Method: Survey questionnaires Respondent: 71 middle-level managers from 6 varieties of companies, including manufacturing and service companies.	Significant interactions are found between participation and job difficulty in affecting managerial performance. No significant interactions are found with respect to work motivation.

14	Frucot and Shearon (1991)	IDV: Budget participation DV: Managerial Performance, Satisfaction MV: Locus of control	Method: Survey questionnaires Respondent: 83 Mexican managers of various types of companies, including services, manufacturing and merchandising companies.	A significant interaction is found between participation and locus of control affecting performance. No significant interaction between participation and locus of control affecting satisfaction.
15	Shields and Young (1993)	IDV: Information asymmetry DV: Performance IVV: Budget participation, Budget based incentives	Method: Survey questionnaire Respondent: 98 corporate controllers of S&P 500 firms	A significant relationship between information asymmetry and for both budget participation and budget-based incentives. Budget-based incentives have a significant relationship with performance.
16	Lau, Low and Eggleton (1995)	IDV: Budget emphasis, Task uncertainty, Task difficulty DV: Job-related tension, Managerial performance MV: Budget participation	Method: Survey questionnaire Respondent: 112 functional heads of 80 manufacturing companies in Singapore.	A significant interaction between budget emphasis, budgetary participation and task difficulty on managerial performance. No significant interaction between budget emphasis, budgetary participation and task uncertainty (and also task difficulty) on job-related tension.
17	Magner, Welker and Campbell (1995)	IDV: Budget participation DV: Attitude towards budgetary decision makers MV: Budget favourability	Method: Survey questionnaire Respondent: 53 managers attending an executive development programme (from different countries, cultures and assorted job titles).	Budget participation has a significant interaction with budget favourability affecting attitude towards budgetary decision makers.

18	O'Connor (1995)	IDV: Budget participation DV: Role ambiguity, Superior-subordinate relationship MV: Organisational culture (power distance)	Method: Survey questionnaire Respondent: 125 middle level managers of manufacturing companies in Singapore, which comprise of 14 local and 30 foreign companies	Organisational culture moderates the relationship between budget participation and role ambiguity and the superior-subordinate relationship.
19	Lindquist (1995)	IDV: Budget participation MV: Budget attainability DV: Budget satisfaction, Task satisfaction, Performance	Method: Lab experiment Subject: 86 full-time undergraduate students	Budget participation has a significant interaction with budget attainability on satisfaction and not on performance.
20	Nouri and Parker (1998)	IDV: Budget participation DV: Job performance IVV: Budget adequacy, Organisational commitment	Method: Survey questionnaire Respondent: 135 managers and supervisors of a multinational US company	Budget participation leads to budget adequacy and in turn increases job performance, directly and indirectly via organisational commitment; Budget participation improves organisational commitment and in turn increases job performance.
21	Wentzel (2002)	IDV: Budget participation DV: Performance IVV: Fairness perception, Goal commitment	Method: Survey questionnaire Respondent: 74 managers of one field site in the midst of downsizing.	Fairness perception and goal commitment mediate the relationship between budget participation and performance. Fairness perception mediates the relationship between participation and goal commitment. Goal commitment mediates the relationship between fairness and performance.

22	Lau and Lim (2002)	IDV: Procedural justice DV: Managerial performance IVV: Budget participation	Method: Survey questionnaire Respondent: 83 senior managers of manufacturing companies	Budget participation mediates the relationship between procedural justice and managerial performance.
23	Chong and Chong (2002)	IDV: Budget participation DV: Job performance IVV: Budget goal commitment, Job-relevant information	Method: Survey questionnaire Respondent: 150 middle managers from manufacturing companies	Budget goal commitment and job relevant information mediate the relationship between budget participation and job performance.
24	Parker and Kyj (2006)	IDV: Budget participation DV: Job performance IVV: Information sharing, Organisational commitment, Role ambiguity	Method: Survey questionnaire Respondent: 70 managers and supervisors from 13 companies including trucking firm and manufacturing firms	Budget participation increases both information sharing and organisational commitment, and in turn increases job performance. Budget participation decreases role ambiguity, and in turn increases performance.
25	Agbejule and Saarikoski (2006)	IDV: Budget participation DV: Managerial performance MV: Cost management knowledge	Method: Survey questionnaire Respondent: 83 middle managers of 15 Scandinavian manufacturing companies from various functional areas	Budget participation improves work performance when the participating individual has a high level of cost management knowledge
26	Lau and Tan (2006)	IDV: Budget participation DV: Job tension IVV: Procedural fairness, Trust	Method: Survey questionnaire Respondent: 152 senior managers of manufacturing organisations	Procedural fairness and interpersonal trust are both found to be important intervening variables on the relationship between budget participation and job tension. Interpersonal trust mediates the relationship between procedural fairness and job tension.



27	Maiga and Jacobs (2007)	<p>IDV: Budget participation          DV: Propensity in create slack          IVV: Distributive fairness, Procedural fairness, Managerial trust, Budget goal commitment</p>	<p>Method: Survey questionnaire          Respondent: 163 managers of manufacturing business units</p>	<p>A significant positive relationship between procedural fairness and commitment.          Lack of a significant relationship between distributive fairness and commitment.</p>
28	Chong and Johnson (2007)	<p>AV: Task uncertainty          IDV: Budget participation          DV: Job performance          IVV: Job relevant information, Budget goal level, Goal acceptance and Goal commitment</p>	<p>Method: Survey questionnaire          Respondent: 135 middle level managers from manufacturing firms in Australia</p>	<p>Task uncertainty is an important antecedent.          Task uncertainty has a significant relationship with budget participation and job relevant information.          Budget participation has a significant relationship between budget goal level, acceptance and commitment.</p>

From the table, the trend of the research in budget participation can be viewed as follows.

### **Studies from 1971 to 1980**

One of the earliest studies, in the 1970s, was Cherrington and Cherrington (1973), which examined the effect of budget participation and reward contingencies on performance and satisfaction. Employing experimental method with undergraduate students as the subjects, they found that budget participation has a significant interaction with reward contingencies in affecting performance and satisfaction. However, in examining the main effect of budget participation on performance, Cherrington and Cherrington (1973) concluded that the budgets that are imposed from above perform better than budgets that are prepared through participation.

Searfoss and Monczka (1973) conducted their study using survey approach, examining the relationship between perceived participation and motivation. Furthermore, the need for independence and authoritarianism were investigated as moderator variables. They found a significant association between budget participation and motivation. However, no significance evidence was found for the moderating effect.

Later, Milani (1975), one of the most cited studies in budget participation literature tested the model of budget participation and job performance as an independent and a dependent variable, respectively, and both foremen's attitude towards the job and towards the company as intervening variables. Even though he found significant evidence in the relationship between budget participation and foremen's performance, the coefficients were small. He also found empirical evidence in budget participation and both types of attitude relationship, but no relationship was found in attitudes and performance. Similarly, Kenis

(1979) also found that budget participation has a significant positive relationship with employees' attitude and he also found similar positive evidence in the relationship between budget participation and both motivation and budget performance. However, for the effect of budget participation on job performance, no significant relationship was found. In a survey study, Kenis (1979) also examined the effect of budget participation on job-related tension and a significant relationship was also demonstrated but in a negative direction.

In sum, in this era, the studies not only use multiple variables to examine its relationship with budget participation, but also multiple ways to see its effect on budget participation. One researcher (Kenis, 1979) only examined the direct relationship between budget participation as an independent variable with multiple dependent variables, two studies used a moderator variable (Cherrington and Cherrington, 1973; Searfoss and Monczka, 1973), while one study used intervening variables (Milani, 1975). Apart from that, a variety of dependent variables were investigated, including performance, satisfaction, motivation, job related tension and employees' attitude.

### **Studies from 1981 to 1990**

Merchant (1981) investigated the relationship between budget participation and motivation, attitude and managerial performance. Based on a survey of 201 respondents, a positive relationship was found between budget participation and both motivation and attitude. Budget participation also has a significant interaction with organisational size and managerial performance.

Later, Brownell (1981; 1982a) examined the interaction between budget participation and locus of control on managerial performance. He studied the models in two different techniques, employing laboratory experiment (1981) and survey technique (1982a). He found that regardless of the data collection method employed, similar results were found. There was significant interaction between budget participation and locus of control on performance. Moreover, Brownell (1982a) extended his research on job satisfaction. He also found significant interaction between budget participation and locus of control affecting satisfaction. He concluded that individuals with internal locus of control were more satisfied and performed better in high participation conditions than individuals with external locus of control. The individuals with external locus of control were more satisfied and demonstrated better performance in low participation conditions.

Further, unlike in his previous studies of budget participation, Brownell (1982b) examined the role of budget participation as a moderator variable. He examined the interaction between leadership style and budget participation on performance and satisfaction. He employed the questionnaire survey method and 48 managers from one manufacturing company responded. While leadership style had significant interaction with participation affecting performance, no significant interaction was found on satisfaction. Specifically, budget-focused leadership style improved employees' performance under high participation conditions and employees' performance declined under low participation conditions. These effects, however, were not found on job satisfaction.

Brownell (1985) further examined the interaction effect between budget participation and functional area on managerial performance. Similarly, significant evidence was found for the interaction. Brownell and Hirst (1986) again examined the role of budget participation

as a moderator variable. Based on 76 respondents from a variety of functions, they examined the three-way interactions of budget emphasis, task uncertainty and budget participation on both job related tension and performance. While the interactions had an effect on job related tension, no significant evidence was found on the interaction affecting performance.

Later, Brownell and McInnes (1986) examined the relationship between budget participation and managerial performance. Unlike previous studies, Brownell and McInnes (1986) examined the mediating role of motivation in the relationship. Even though a significant positive relationship existed in the relationship between budget participation and managerial performance, surprisingly no evidence was found on budget participation and motivation. Consequently, there was no evidence that participation increased managerial performance through motivation.

In the late 1980s, Chalos and Haka (1989) examined the relationship between budget participation and performance. They also examined the interaction effect of type of state information in the relationship between budget participation and performance. Employing 240 MBA students as their experimental subjects, significant evidence was found of a budget participation-performance relationship. Budget participation increased significantly the performance of both managers and the firm. Evidence also was found for the interaction between participation and type of state information affecting managerial performance, but not firm performance. Further, Mia (1989) examined the moderating role of job difficulty in the relationship between budget participation and managerial performance, and budget participation and motivation. He found significant evidence that job difficulty interacts with participation to affect performance. When job difficulty was perceived as high, more

participation increased managerial performance. However, participation was ineffective if employees perceived low job difficulty. On the other hand, in the budget participation-work motivation relationship, no significant result was found. The level of job difficulty did not have any interaction with budget participation in affecting motivation.

Based on these nine studies conducted in 1980s, with the exception of Brownell and McInnes (1986), all the studies examined budget participation with the existence of moderator variable(s). Moderator variables that have been examined include organisational size, locus of control, functional area and type of information. Moreover, for the dependent variable, all studies examined managerial performance, two studies examined motivation and satisfaction and one study examined job related tension and attitude.

As for the findings, almost all have significant interaction with the independent variable affecting the dependent variable. However, for Brownell (1982b), while significant interaction was found between leadership style and participation affecting performance, the result is reversed for satisfaction. Similarly, in Brownell and Hirst (1986), while a significant result was found for the three-way interaction of budget emphasis, task uncertainty and budget participation affecting job-related tension, no interaction was found on performance. Mia (1989) also did not find any interaction between budget participation and job difficulty on motivation, even though significant interaction exists on managerial performance. Thus, it can be concluded that the results are not consistent in examining the effect of budget participation towards managerial performance.

### **Studies from 1990 to 2000**

In the 1990s, the trend continued in which most studies in the budget participation literature focused on the role of moderator variables in affecting the relationship. Frucot and Shearon (1991) examined the role of locus of control as a moderating variable in the relationship between budget participation and both managerial performance and satisfaction. Using the questionnaire survey method, they found significant interaction between budget participation and locus of control affecting performance, but not affecting satisfaction.

Unlike Frucot and Shearon (1991), Shields and Young (1993) examined the intervening role of budget participation and budget-based incentives in the relationship between information asymmetry and performance. Specifically, they examined the budget participation model with asymmetrical information as antecedent variables and performance as the dependent or its consequences. They found a significant relationship between information asymmetry and both budget participation and budget-based incentives. Significance evidence was also found between budget participation and budget-based incentives as well as between budget-based incentives and performance.

Lau, Low and Eggleton (1995) tested a model that comprised of budget emphasis, task uncertainty and task difficulty as independent variables, with job-related tension and managerial performance as dependent variables. Also, budget participation was modelled as the moderator variable. Using 112 respondents from manufacturing industries in Singapore, they found significant interaction between budget emphasis, budgetary participation and task difficulty on managerial performance. No significance evidence was demonstrated between budget emphasis, budgetary participation and both task uncertainty and task difficulty on job-related tension.

Magner, Welker and Campbell (1995) examined the role of budget favourability as the moderator variable in the relationship between budget participation and attitudes towards budgetary decision makers. By employing questionnaire survey, budget participation was found to interact with budget favourability affecting attitudes towards budgetary decision makers. In other words, this means that when an unfavourable budget is received, there is a less negative attitude towards budgetary decision makers if employees participate in the budgeting process.

Subsequently, O'Connor (1995) tested a model that examined the role of organisational culture as the moderator variable and role ambiguity and superior-subordinate relationship as dependent variables in the participative budgeting environment. He found that power distance moderates the relationship between budget participation and both dependent variables at the organisational culture level. In particular, power distance moderates the effectiveness of participation in reducing role ambiguity and increasing the superior-subordinate relationship.

In the late 1990s, Nouri and Parker (1998) examined the relationship between budget participation and job performance. They examined the effect of budget adequacy and organisational commitment as intervening variables in the participation-performance relationship. They provided significant evidence that budget participation leads to budget adequacy and in turn increases job performance, directly and indirectly through organisational commitment. Budget participation was also found to improve organisational commitment and in turn increase job performance.



In conclusion, in the 1990s, out of seven studies, five studies focused on various moderating variables while only two studies examined the role of mediating variables. Moreover, six studies investigated managerial performance as a dependent variable, two studies investigated satisfaction while one study each investigate job-related tension and decision maker's attitude. There were also inconsistent findings in the studies.

For instance, Frucot and Shearon (1991) that examined the interaction effect between participation and locus of control. While significant interaction was found on performance, no interaction was found on satisfaction. In contrast, Lindquist (1995) found significant interaction on satisfaction but not on performance. Thus, there are still inconclusive findings with respect to performance variables.

### **Studies from 2000 to 2007**

If in previous years the literature in budget participation mostly examined the role of moderator variables, in the late 1990s and 2000s, the trend has changed. The studies in budget participation focused more on intervening or mediating variables. Wentzel (2002) examined the relationship between budget participation and performance through the intervening variables of fairness perception and goal commitment. He found significant evidence that both fairness perception and goal commitment mediate the relationship between budget participation and performance. Moreover, fairness perception was found to mediate the relationship between participation and goal commitment. Similarly, goal commitment was found to mediate the relationship between fairness perceptions and managerial performance.

Lau and Lim (2002) examined the relationship between procedural justice and managerial performance through budget participation. Using survey questionnaires, they found that procedural justice has an indirect effect on performance via participation. Further, Parker and Kyj (2006) found budget participation increases both information sharing and organisational commitment, and in turn increases job performance. Budget participation also was found to improve organisational commitment, and in turn increases information sharing, and subsequently improves job performance. In another relationship, they also found that budget participation decreases role ambiguity, and in turn increases job performance.

Subsequently, Lau and Tan (2006) tested the relationship between budget participation and job tension through the mediating variable of procedural fairness and trust. Consistent with previous studies, significant evidence was also found in this study. Procedural fairness and interpersonal trust were both demonstrated to be important intervening variables in the relationship between budget participation and job tension. Similarly, interpersonal trust was also found to mediate the relationship between procedural fairness and job tension.

Agbejule and Saarikoski (2006) tested a quite different model. Even though they still tested the relationship between budget participation and managerial performance, they examined the moderating role of cost management knowledge. They found significant interaction between budget participation and knowledge on managerial performance. Budget participation improves work performance when the participating individual has a high level of cost management knowledge.

In the late 2000s, Maiga and Jacob (2007) examined the relationship between budget participation and propensity to create slack, via distributive fairness, procedural fairness, managerial trust and budget goal commitment. They found evidence of a direct relationship between budget participation and both distributive and procedural fairness, a significant relationship between both types of fairness and trust, trust and goal commitment relationship, and goal commitment and propensity to create slack. Further, procedural fairness and commitment are also found to have a positive relationship, while there was a lack of significant evidence in the relationship between distributive fairness and goal commitment. Finally, Chong and Johnson (2007) examined the antecedent of budget participation, together with the intervening variables of job relevant information, budget goal level, budget goal acceptance and budget goal commitment. The antecedent variable is task uncertainty, while the dependent variable is job performance. Using 135 respondents in Australia, they found that task uncertainty not only becomes an important antecedent of budget participation, but also has a significant relationship with budget participation and job relevant information. Participation also has a significant relationship with budget goal level, budget goal acceptance and budget goal commitment. Further, they also concluded that through budget participation, difficult but attainable goals can be set, which in turn increase subordinates' commitment to achieve the budget. This ultimately enhances the performance of subordinates.

Based on these studies, it can be concluded that the trend of research in budget participation has changed from focusing on moderating variable to mediating variable. Out of eight studies discussed above, seven examined various mediating variables which include organisational and goal commitment (five relationships), procedural fairness (three), distributive fairness, trust and job-relevant information (two relationships each), budget

participation, information sharing, role ambiguity, role level and goal acceptance (one relationship each). Similar to previous years, managerial performance becomes the highest variable examined as the dependent variable followed by the propensity to create slack and job-related tension. However, the findings show a significant effect with regards to performance.

Overall, from the analysis of the studies in budget participation from 1970 to 2007, it can be concluded that researchers are still interested in examining the budget participation issue particularly in its relationship to managerial performance. Many studies have been carried out to understand the relationship between budget participation and managerial performance, and yet the issue of the processes by which budget participation best operate to boost employees' job performance remain unaddressed. All these research examined the role of budget participation either as an independent variable, an intervening variable or a moderating variable. However, the results were found to be mixed. Some were found to be significant, others were found to be insignificant, while the rest found no relationship in examining the budget participation variable.

The study by Cherrington and Cherrington (1973) is an example. Using an experimental study, they provided evidence that budgets that are imposed from top management have better performance compared to those which allowed participation in controlling their budget. They claimed that obtaining a clear direction from top management allows them to follow and fulfil the stated goals.

A study by Kenis (1979), on the other hand, revealed a different result. Unlike Cherrington and Cherrington (1973), who found a negative relationship between participation and performance, Kenis found an unrelated association. Even though he found a significant relationship for the effect of participation on budget performance, a similar result was not found for the relationship between participation and job performance. Kenis operationalised budget performance as the ability of managers to achieve favourable variances with respect to their budget goal, whilst job performance was referred to as the overall budget performance.

Contrary to Cherrington and Cherrington (1973) and Kenis (1979), Milani (1975) provided empirical evidence for the direct relationship between participation and performance. However, the degree of association was rather weak based on a study in a large manufacturing company in the US. He examined the participation level of foremen workers in setting up budgets and their performance, by employing formal performance reports and comparing the individual performance with overall departmental performance. He found a small coefficient that relates participation with increasing foreman performance.

In contrast to all the previous research, Merchant (1981) found a favourable finding. He examined the characteristics of budgeting in both the corporate context and managerial and organisational outcomes. He found that there exists a strong direct relationship of participation and performance in a large and diverse firm. The same conclusion was reached by Brownell (1982a). Brownell (1982a) investigated the effect of budget participation on managerial performance in a large manufacturing company, along with the locus of control as a moderator variable. With regards to the main effect of the relationship, he found a significant positive relationship between participation and performance. This

evidence is further supported by Brownell and McInnes (1986). Additionally, Chalos and Haka (1989) investigated the budget negotiation effect to represent budget participation and its influence on performance, and concluded that not only firms' return, but also managers' return increased notably as participation took place.

It can be summarised from the extant literature that there exist conflicting empirical findings related to the effect of budget participation on managerial performance. These inconsistent results may suggest that the relationship between budget participation and performance may not a direct relationship. It prompted researchers to identify the potential reasons and suggest the possibilities of intervening and moderating variables which may link budget participation to managerial performance (Murray, 1990; Shields and Shields, 1998; Nouri and Parker, 1998).

Due to the inconsistent results, various studies have been conducted to examine the possibility that the relationship might be contingent upon the presence of other moderating factors. For instance, Merchant (1981) examined organisational size as moderator variable. He presented a conclusive finding of the interaction effect of size and corporate structure. He concluded that larger organisation have more formal administrative structures that increase the likelihood of participating in budget preparation, and consequently increase managerial performance.

Brownell (1981) examined the moderating effect of locus of control between the participation and performance relationship by employing an experimental study. The subjects were drawn from two separate populations: undergraduate accounting students (as a pilot test) and a group of managers from a large manufacturing company. He found

significant interaction of locus of control and participation on performance. Similar results appear in Brownell (1982a) and Frucot and Shearon (1991) analysing the same variable but using a field study, in which they suggest that methodological differences in conducting research do not contribute to the diverse results found in the participative budgeting study (Greenberg et al., 1994).

Other variables that have been examined as moderator variables include functional area (Brownell, 1985), type of state information (Chalos and Haka, 1989) and cost management knowledge (Agbejule and Saarikoski, 2006). All studies revealed significant interaction between these variables with participation affecting managerial performance. Further, an interaction was also found between budget favourability and participation on budgetary decision makers (Magner et al., 1995).

Apart from examining its interaction with moderator variables, participative budgeting studies were also modelled with intervening variables. Milani (1975) investigated the intervening variables of both attitudes towards job and company in the budget participation-performance relationship. However, he found that both variables failed to mediate the relationship. Brownell and McInnes (1986) provided an empirical study examining the indirect effect of the relationship between participation and managerial performance through motivation. Using expectancy theory, Brownell and McInnes (1986) were also unable to find evidence to state that motivation plays a mediating role in the relationship between budget participation and managerial performance.

However, subsequent literature examining other intervening variables for the relationship between budget participation and performance revealed significant evidence for the mediating effects of the variables. The variables include budget adequacy (Nouri and Parker, 1998), commitment (Nouri and Parker, 1998; Wentzel, 2002; Parker and Kyj, 2006; Maiga and Jacobs, 2007), fairness perception (Wentzel, 2002; Maiga and Jacobs, 2007), information sharing and role ambiguity (Parker and Kyj, 2006), and trust (Maiga and Jacobs, 2007).

As shown in previous studies, budget participation has a far more complex behavioural effect. The mixed results in the relationship between participation and performance also suggests the need for a more comprehensive model to fully explain the process by which budget participation is most effective (Brownell 1982b; Shields and Shields, 1998; Shields and Young, 1993).

In the participative budgeting context, whilst the fairness consideration may be an important factor for subordinate performance (Fisher et al., 2002), only a few studies have systematically examined the relationship (Wentzel, 2002). Moreover, the relationship between participation and fairness perceptions was also rarely examined.

Further, culture may give a significant effect in the participation model. Hofstede (1983) found that as Malaysia has the highest score of power distance (high power distance), it provides possibilities for the subordinates to behave differently as compared to other low power distance countries such as the US, Austria and New Zealand. Thus the effect of culture is expected to interact with participation, however only a few studies have examined this (Frucot and Shearon, 1991; O'Connor, 1995; Tsui, 2001).



Thus, this current study may provide a more comprehensive model of budget participation, examining its effect on managerial performance, through the intervening variables of fairness perception and motivation. Moreover, the interaction effect of culture and participation on fairness perception, motivation and managerial performance is examined as well.

#### **2.4 Organisational Fairness and Budget Participation**

Organisational fairness refers to employees' perception of fairness in the organisation. Generally, it is a situation where the outcome of the budget is perceived to be fair from the perceived fairness of procedures, to determine that outcome. It is based on the personal assessment and subjectively evaluated on what people believe to be right (Cropanzano et al., 2007). Positive perception of organisational fairness among employees within an organisation may contribute towards organisational effectiveness.

In the participative budgeting situation, the concept of organisational fairness is viewed as considering the input from different levels of management. However, not all requests and views from employees (subordinates) can be fully met due to scarce economic resources that the organisation always encounters (Libby, 1999). In the final budget set by the management, recipients will make fairness judgments considering the fairness of the budget target or the budget that is allocated, and the fairness of the allocation process to determine those targets or allocated budget. Moreover the fairness of the interpersonal treatment that they receive as part of the allocation process will be considered as well by the employees or subordinates. These concepts of fairness are known as the perception of organisational fairness and the term is used interchangeably with the term perceptions of organisational justice (Lau and Lim, 2002; Lau and Tan, 2006; Libby, 1999).

#### **2.4.1 Theoretical Basis of Organisational Fairness Studies**

Milani (1975) emphasised the importance of participation in the budgetary process. Participation in setting up the budget is beneficial to both managers and the organisation. Magner et al. (1995) noted that a more favourable budget can be obtained if subordinates are allowed to participate in budget creation. The management sets the goals of the organisation and by involving subordinates in the budgeting process a favourable attitude can be promoted not only to one's job but also to the organisation (Milani, 1975). Allowing subordinates to participate in the budgeting process may give them the perception that the organisation is fair. With the positive perception of fairness in organisation, subordinates are more willing to reveal relevant information such as resources needed (Nouri and Parker, 1998), to fulfil their task requirement and this in turn, increase their satisfaction (Lindquist, 1995). Thus the perception of fairness may be an important determinant that affects the performance of employees (Fisher et al., 2002).

Most of the budget-fairness literature has suggested the importance of fairness considerations in the budgetary process (Fisher et al., 2002). Budget is used as one of the control systems to accomplish organisational goals. Thus, in order to encourage the achievement of the budget, the perception of employees serves as one of the motivational factors that need to be addressed.

In the management literature, a number of scholars have provided evidence that organisational fairness may promote the positive effects of organisational affairs (Colquitt et al., 2001; Cropanzano et al., 2007), including building of trust between employee and employer (Alexander and Ruderman, 1987; Maiga and Jacobs, 2007), increasing organisational commitment (Wentzel, 2002; Maiga and Jacobs, 2007), developing

satisfaction (Lindquist, 1995; Tang and Sarsfield-Baldwin, 1996) and improving performance (Libby, 1999; 2001). Cropanzano et al. (2007) added that organisational fairness brings everyone in the organisation together and encourages all members to work effectively as a team. They claimed that with justice, employees can predict and control the preferable outcomes received from organisations.

Previous research has shown that there are three dimensions of organisational fairness (Byrne and Damon, 2008; Cropanzano et al., 2007; Skarlicki and Folger, 1997):

- Distributive fairness
- Procedural fairness
- Interactional fairness

#### **2.4.1.1 Distributive Fairness (Justice)**

Distributive fairness refers to the fairness of budget targets assigned or the budget that is allocated to the employees. It is also viewed as the actual outcome employees receive (Gilliland, 1993) and it “deals with the ends achieved (what the decisions are) or the content of fairness” (Tang and Sarsfield-Baldwin, 1996, p. 25). In Folger and Konovsky’s (1989, p. 115) study on compensation contracts, they refer to distributive fairness as “the perceived fairness of the amounts of compensation employees receive”. Cropanzano et al. (2007) view distributive justice as the perception of fairness on allocation or outcomes that is received by some people while not by others. Their research is anchored on a reward system practised in an organisation including pay satisfaction, bonus and other fringe benefits received. Cropanzano et al. (2007) added that distributive justice is concerned with

the workplace since in reality every member of an organisation is not treated alike and different treatment is received in terms of distribution of outcomes.

According to most researchers in the justice literature, initially, the study of justice or fairness was derived from the work of Adams (1965) (Alexander and Ruderman, 1987; Cropanzano et al., 2007; Lindquist, 1995). For instance, Cropanzano et al. (2007) cited the work of Adams as “influential equity theory of distributive justice” (p. 37). Lindquist (1995) cited Adams’s work that people are more concerned with the fairness of the outcomes, and not with the absolute level of the outcome, for instance when individuals get an increment which they are supposed to get based on their contribution and not the individuals who get a promotion because of a political relationship with the top management.

Equity theory, which uses a proportionality concept, can be used as a basis to determine the fairness of outcome (Gilliland, 1993). The ratio of output to input of one individual is calculated, and then the results are compared with others. Distributive fairness is related to the size of the resource distributed received by one manager relative to other managers (Maiga and Jacobs, 2007).

Equity theory concerns the equality of ratio of output over input. According to Lindquist (1995), distributive fairness occurs if individuals perceive their output (such as compensation, money and comfort) is balanced with their input (such as training and effort). In applying the equity theory in budgeting practices, the output is viewed as outcome or the final budget that was set by the management, while the input refers to the effort or views contributed by managers (subordinates) in the budgeting process. If what is

offered is what is decided by authorities, then the ratio is balanced, which builds a fair perception of distributive fairness (Maiga and Jacobs, 2007); otherwise employees will become resentful.

Another theory that holds in distributive fairness is instrumental theory, often regarded as a self-interest model (Conlon, 1993; Lindquist, 1995; Wentzel, 2002). The theory suggests that the opportunity given to employees to express their opinions will be perceived that they can control the decision process, as it increases the “probability of an equitable outcome” (Lindquist, 1995, p. 124). As such, the perceptions of distributive fairness will be enhanced because the likelihood of favourable outcomes is increased.

In the participative budgeting context, the opportunity to participate in the budget-creation process makes employees feel that management will consider their views. It would also provide a foundation for managers to influence resource distribution or the budget target that is set by the committee. Managers will influence the budget set based on what they perceive to be attainable. These managers, who are normally responsible for the day to day operation of the organisation, deal directly with their unit or department and thus they are probably the ones who know private information related to their work. Not only providing significant information, they are also the best person in supplying accurate and relevant information. Having the opportunity to participate in the budgeting process enables this significant information to be disclosed during budget discussions, in which it gives some credit rather than in non-participatory situations. When managers are involved in the budgeting process, the perception of distributive fairness will increase as the tendency to have more favourable budgets is increased (Magner et al., 1995).

In other words, the participatory budgeting process allows some platform for the subordinates to have an influence in the budget prepared and consequently in the final budget set by the top management. If the final outcome of the budget considers the input from participants, the budget is perceived to be fair. However, if the outcome of the budget does not consider the views of participants, the tendency to examine the process or procedures that determine those outcomes may arise (Libby, 2001). Subordinates may view the process and procedures involved and make judgments as to whether they are fair or not. This fairness perception of procedures or processes is known as procedural justice (or fairness).

#### **2.4.1.2 Procedural Fairness (Justice)**

Procedural justice is concerned with the fairness of decision-making procedures. It refers to the perceived fairness of the means by which outcomes are allocated (Cropanzano et al., 2007; Folger and Konovsky, 1989; Wentzel, 2002). According to Tang and Sarsfield-Baldwin (1996, p. 25), procedural justice deals with the “means use to achieve those ends (how decisions are made) or the process of fairness”. Most researchers in procedural justice literature (Byrne and Damon, 2008; Lau and Tan, 2006; Lindquist, 1995) have credited the work of Thibaut and Walker (1975), who have introduced the study of process to the literature on justice. Procedural justice influences the perception of the organisation in which employees work, as a whole. Perception of injustice impaired employees’ loyalty and they feel less likely to behave in organisations’ best interests (Cropanzano et al., 2007).

Procedural fairness is often viewed as having ‘voice’ in the budgetary process (Byrne and Damon, 2008). Most of the researchers acknowledge the need to have voice in budget creation (Byrne and Damon, 2008; Libby, 1999; Lindquist, 1995; Magner et al., 1995). Voice is the involvement of subordinates in contributing their opinions during the budget decision making process. According to Lindquist (1995), the instrumental theory of procedural justice (Conlon, 1993) suggests that if the individuals have the opportunity to express their opinion, they will perceive that they can control their outcomes. Voice is seen as fair because it allows the employees a chance to influence the outcomes or decision processes that affect them. With a voice in the budgeting process, subordinates will be given an opportunity to express their views and this will enhance the satisfaction of subordinates in performing their tasks even though the budget is unattainable or unfair (Lindquist, 1995).

Another theory is the non-instrumental theory of procedural justice (Lau and Tan, 2006; Lindquist, 1995), which is also known as the group-value model. In this model, procedural justice is viewed as group identification processes (Conlon, 1993). The voice is seen as important regardless of whether it affects the outcome. Individuals value their membership in groups and they support fair treatment within the group (Conlon, 1993). When they are allowed to express their opinion, they feel valued and appreciated, and “full-fledged members of the organisational group” (Lindquist, 1995, p. 124) and this “contributes to one’s long-term relationship with the group” (Wentzel, 2002, p. 251).

In the real world of today's changing new environment, organisations are facing limited resources with unlimited demands from every member in the organisation. With the aim of fulfilling the organisational goals, these resources must be allocated efficiently. In the process of setting up budgets subordinates perceived the organisation is fair by satisfying their requests for the budget (Parker and Kyj, 2006). But since there are unlimited requests, not all requests can be fully met although the views from subordinate really benefit the superiors for allocation decision purposes. If the employees believe they should receive what is supposed to be received, the perception of fairness might arise. In contrast, when individuals receive unfairness outcomes, employees react negatively (Magner et al., 1995) and they then judge the fairness of the process by which the outcome was established. If the procedures in allocating these resources are perceived to be fair by the employees, then they will be satisfied and their action will be constructive (Libby, 1999).

Employees have unfairness reactions when there is a perception that both decision outcomes and decision making procedures were unfair, that led employees to unfavourable evaluations of the top management, the budgetary decision makers (Magner et al., 1995). Individuals become demotivated and destructive actions may be taken that lead to absenteeism, reduce organisational commitment (McFarlin and Sweeney 1992) and lowered work efficiency (Libby, 1999). This negative response, however, could be lessened if fair decision making procedures are being practised in the process. Libby (2001) added that if there is procedural fairness, employee satisfaction will be enhanced regardless of whether the outcome of the budget is favourable or not.



Fair procedures in the budgeting process are viewed “as a necessary, but not sufficient condition, for overall fairness conditions in budgeting” (Maiga and Jacobs, 2007, p. 41). By participating in budget creation, employees can offer their voice which can influence the outcomes of a decision making process, thus obtaining a better budget in the perspective of the subordinates. But Libby (1999) argued that participating in the budgetary process does not necessarily mean influencing the budget. Even though subordinates were involved in the budget process, their involvement does not influence the final budget that was set. Lindquist (1995) explained that if subordinates are given the opportunity to participate, budget is perceived to be fair, even though the views of the subordinates are not taken into account in the budget outcome. Nevertheless, some literature suggests that if decision control does not exist, it will create pseudo-participation.

Pseudo-participation is a situation where employees provide input only in the budget setting process without actual decision control (Lindquist, 1995). They are only made to believe they are participating when they are not and this will result in resentment as their input is ignored. They feel that they have some control over the final budget because they were involved in the decision process but ultimately in reality the superior makes the final decision. This lack of influence in the final budget will result in employees’ frustration and low morale.

However, Lindquist (1995) in his experimental research provided evidence that process control without decision control can enhance individual satisfaction as it is not always a form of pseudo-participation. Participation with process control without decision control is better than no participation at all (Lindquist, 1995).

### **2.4.1.3 Interactional Fairness (Justice)**

According to Colquitt et al. (2001), interactional justice (fairness) is the most recent advancement in the justice literature introduced by Bies and Moag (1986). This form of fairness refers to the importance of the quality of the interpersonal treatment of how one person treats another when procedures are implemented.

Colquitt et al. (2001), Gilliland (1993) and Greenberg (1990) suggest that interactional justice has two important components: (a) informational justice and (b) interpersonal justice. Informational justice is concerned with the fairness of sharing of information or explanations provided by the superior to the subordinates. It is a provision of adequate justifications for a decision that was made. Normally known as ‘explanation’, it is a justification provided by the superior when the outcome of the decision was not influenced by the input contributed by an individual.

Interpersonal justice refers to the interpersonal relationship in which the superior shows respect and dignity to their subordinates. It is an interpersonal treatment an individual receives during the decision process (Gilliland, 1993). It is considered an important determinant of fairness which is independent of the outcomes resulting from that treatment (Greenberg, 1990). Examples of interpersonal treatment are honesty, courtesy, timely feedback and respect for rights.

Even though Byrne and Damon (2008), Cropanzano et al. (2007) and Skarlicki and Folger (1997) suggest the three dimensions of organisational fairness, it is still debated as to whether organisational fairness should be structured as 2-factors or 3-factors. Colquitt (2001) alleged that “it is currently unclear whether organisational justice is best depicted by two or three factors” (p. 386). Moreover, Moorman (1991) claimed that interactional fairness is actually a subset of procedural fairness.

While there are mixed views regarding the dimensions of organisational fairness, accounting researchers focus their investigations on only one or two dimensions of organisational fairness, but using different combinations. For instance, Lau and Lim (2002), Lau and Sholihin (2005) and Lau and Tan (2006) are more interested in examining only one dimension of organisational fairness: procedural fairness. Lindquist (1995), Libby (2001), Wentzel (2002) and Maiga and Jacobs (2007) are concerned with only two dimensions: the distributive and procedural fairness, whilst Libby (1999) and Byrne and Damon (2008) focus their study on procedural and informational fairness.

Based on the goal setting theory, performance is enhanced if the goal set is fair and reasonable (Latham and Locke, 1979; Locke and Latham, 1984). The determination of a fair and reasonable goal can be realised in the budget participation context. In other words, involvement of managers in the budget setting process enables the determination of a fair, attainable and reasonable budget from the fair process and procedures. Thus, it is suggested that budget participation increases both distributive and procedural fairness, and consequently increases the performance of managers.

As such, this study focuses on only two dimensions of organisational fairness, distributive fairness and procedural fairness, to examine thoroughly their impact on organisational attitudes and behaviours. While Lindquist (1995) and Libby (2001) conducted their study using laboratory experiments, Wentzel (2002) and Maiga and Jacobs (2007) used the questionnaire survey approach. Thus, this study follows Wentzel (2002) and Maiga and Jacobs (2007) to examine the effect of budget participation on distributive and procedural fairness as dimensions of organisational fairness in a field setting.

#### **2.4.2 Empirical Studies on Organisational Fairness**

Organisational justice research has been a widely studied topic for an effective organisational functioning in the workplace. It is a topic of philosophical interest that seeks to describe and explain the role of fairness in organisational settings.

This concept of organisational fairness has been investigated from various fields, including legal, political and psychological settings (Lau and Lim, 2002). It was introduced in accounting control systems literature in the mid-1990s in examining the relationship between accounting control and subordinates' behaviour. Amongst the pioneers in this field are Libby (1999), Lindquist (1995) and Magner et al. (1995). Most of the studies in accounting literature examine the effect of budget participation on organisational fairness dimensions, and/or its consequences on satisfaction (Lau et al., 2008; Lindquist, 1995), performance (Lau and Lim, 2002; Libby, 1999; 2001; Lindquist, 1995; Wentzel, 2002; Byrne and Damon, 2008), attitudes towards supervisor and organisation (Magner et al. 1995), trust (Lau and Tan, 2006; Lau et al., 2008; Maiga and Jacobs, 2007), goal and organisational commitment (Lau et al., 2008; Maiga and Jacobs, 2007; Wentzel, 2002), and job related tension (Lau and Tan, 2006).

Most of the researchers in the psychology domain argued that absence of justice in the workplace may increase retaliation (Skarlicki and Folger, 1997) and other negative employee behaviour (Cropanzano et al. 2007). In other words, this means that maintaining fairness can lead to positive effects of employee reactions that can promote higher motivation and increase performance as well.

As budgets serve as one of the accounting control systems in organisations, participating in budgeting affairs may make employees feel that they are appreciated (Lau and Tan, 2006) and can boost their self esteem. When subordinates are given a chance to participate in the budgeting process, it also means that they can express their views through ‘voice’ concerning the needs and target that they perceive is achievable. Lindquist (1995) suggested that high participation in the organisation can introduce fairness in the budget setting process. The more the individual participates in the budgetary process, the higher the fairness they perceived. He claimed that this opportunity may enhance individuals’ satisfaction and consequently their job performance in performing their task even if the budget is unattainable or unfair.

However, in his experimental study, he found that when the subjects have voice in the budgeting process, satisfaction is increased, “even when budgets received were perceived to be unfair” (p. 134). However, this effect is not found for performance.

Extending the work of Lindquist (1995), Libby (2001) conducted an experimental study testing the effects of fairness on performance in a non-participative budgeting setting. She found that a fair budgeting outcome has an influence on performance.

In another research, Libby (1999) provided evidence arguing that there is no significant difference in the performance of the employee who is allowed voice with no influence and the one who has no chance of a voice at all. Libby (1999) argued that even though the employee is given a chance to be involved in the decision making process, if their involvement does not influence the budget, it is similar to no participation at all. Unlike Lindquist (1995), Libby (1999) viewed the participation process or the subordinates' involvement in the budgeting process as a consultative budgeting process, in which even though subordinates are involved in the decision making process, the final decision lies with the superior. She based her argument on the real world of organisations, where there are limited economic resources, thus not all requests from subordinates can be granted. Based on this foundation, instead of involvement with influence (or participative budgeting – on which most of the research is based), Libby (1999) examined the effect of involvement without influence (consultative budgeting) on performance. Similar to Lindquist (1995), Libby (1999) found that there is no significant effect of voice alone on subordinates' performance.

Further, using organisational justice theory, Libby (1999) viewed the fair budgeting process as having a voice and explanation. Voice is achieved through participation in the budgetary process, where subordinates offer their views on what they perceive to be the achievable budget. Explanation should be provided to the subordinates when the final budget set does not consider the input supplied by them, otherwise they would view their involvement in the budgeting process as pseudo-participation. Pseudo-participation will diminish the fair perception as it will demotivate employees (Pasewark and Welker, 1990).

Using the same concept, Byrne and Damon (2008) also examined the performance of subordinates, by replicating Libby's (1999) study. Contrary to Libby (1999), Byrne and Damon (2008) found a significant effect of voice on performance. This finding supports the previous empirical result of Lind et al. (1990) of the positive effect of voice on performance, with voice increasing fairness perception and consequently increasing performance.

The above discussions on the beneficial effect of fairness perception only involve those studies conducted in laboratory experiments. There are also studies that employed questionnaire survey in examining and evaluating the perceptions of fairness. Magner et al. (1995) examine the interaction effect of budget participation and budget favourability on attitudes towards supervisors and firms. They provided empirical evidence for the interaction between budget participation and budget favourability in affecting managers' attitudes towards the supervisor and the firm. They concluded that there was a need to have favourable budgets from the participation process that increase the behavioural impact of the managers. However, if the managers receive an unfavourable budget, less negative attitudes emerge if they perceived the procedures employed as fair. While they suggested the need to have voice and influence in the participative decision making, no systematic evaluation of distributive and procedural fairness has been conducted that examined their effect on attitudes towards the supervisor and the firm.

Wentzel (2002) examined the effect of fairness perceptions and goal commitment on performance in the participative budgeting setting. He examined the role of both distributive and procedural fairness and found that budget participation improves the perceptions of fairness, which increases goal commitment and consequently increases

performance. He concluded that there was a need to involve employees in the participatory process particularly in downsizing fields as it leads to a sense of fairness which mitigates some of the negative consequences, but in turn enhances the performance of the managers.

Motivated by Wentzel's (2002) study, Maiga and Jacob (2007) also examine the role of distributive and fairness perceptions. They examine the influence of fairness perceptions, trust and goal commitment on budget slack in the participative budgetary setting. They found that budget participation affects the perceptions of fairness, trust and goal commitment, which in turn negatively influences the creation of budget slack.

While distributive and procedural fairness have been studied as dimensions to organisational fairness, most of the studies in fairness have put more effort into procedural justice than distributive justice. This is more likely to be due to the significance of the fairness procedures relative to its outcome (Colquitt et al., 2001). Additionally, Alexander and Ruderman (1987) provide empirical evidence for a larger contribution of procedural fairness than distributive fairness. In accounting literature, studies that examine only procedural fairness include Lau and Lim (2002), Lau and Sholihin (2005) and Lau and Tan (2006).

The issue of which dimensions influence more to behavioural attitudes and performance is still unresolved as the studies by Folger and Konovsky (1989), McFarlin and Sweeney (1992) and Tang and Sarsfield-Baldwin (1996) show conflicting results. Folger and Konovsky (1989) and McFarlin and Sweeney (1992) found distributive justice is related to personal outcome (for instance, pay satisfaction and job satisfaction), and procedural justice is more related to organisational outcome (for instance, organisational commitment). On



the other hand, Tang and Sarsfield-Baldwin (1996) found that while procedural justice and distributive justice are associated with employees' satisfaction and organisational commitment factors, they affect different aspects of the factors. For instance, distributive justice is related to pay and promotion satisfaction, while procedural justice is related to supervision satisfaction.

Previous empirical findings support the positive relationship of distributive fairness in affecting job satisfaction (Alexander and Ruderman, 1987), goal commitment (Maiga and Jacobs, 2007; Wentzel, 2002), trust (Maiga and Jacobs, 2007) and performance (Libby, 2001; Wentzel 2002).

Alexander and Ruderman (1987) found a significant positive relationship between procedural fairness and favourable subordinates' behaviours. Significant evidence also found an impact of procedural fairness on goal commitment (Maiga and Jacobs, 2007; Wentzel, 2002) and trust (Maiga and Jacobs, 2007). Further support also appears in Lau and Lim (2002), Libby (2001) and Wentzel (2002), which provide the empirical evidence that fairness of procedures affects performance.

In contrast, these results are not consistent in Lindquist (1995) and Libby (1999) who view procedural fairness as having 'voice' in the budgetary process. Even though Lindquist found procedural fairness increased budget and task satisfaction, both Lindquist and Libby found no significant relationship between procedural fairness and employee performance.

These mixed results may suggest that the relationship between fairness and performance is still unclear and not merely a simple direct relationship and the relationship may be indirect through mediator or moderating effect (Libby, 1999; Lindquist, 1995). Skarlicki and Folger (1997) provided empirical evidence that fair procedures moderate the negative behaviour of employees even though there is a low level of distributive justice. When fair perception of procedures exists, there is no reason to challenge its outcome (distributive fairness) (Tang and Sarsfield-Baldwin, 1996).

Moreover, Lau and Lim (2002) also conclude for the complex rather than simple relationships between procedural fairness and performance. While procedural fairness was significantly related to performance, the effect is indirect through participation.

Research in other domains also found significant evidence of the absence of a direct relationship between procedural fairness and performance. Empirical research by Earley and Lind (1987) and Kanfer et al. (1987) has proven that the direct effects of procedural justice are conflicting, which may suggest the existence of a complex relationship between procedural justice and performance.

Even though there are many studies that examine the influence of fairness on employees' attitudes and behaviour, only a few studies in management accounting literature examine the effect of budget participation on fairness in field studies (Wentzel, 2002; Maiga and Jacobs, 2007). Both Wentzel and Maiga and Jacobs investigated the direct effect of participation and fairness perception, and they provided empirical evidence of the positive relationship between participation and both distributive fairness and procedural fairness.

While Wentzel (2002) proposed a model that examined the mediating effect of fairness perceptions and goal commitment in the relationship between budget participation and performance, Maiga and Jacobs (2007) provided a model in which fairness perception, trust and goal commitment mediated the relationship between budget participation and budgetary slack.

The current study aims to extend the study of Wentzel and Maiga and Jacobs by proposing a model in which fairness perception and motivation mediates the relationship between budget participation and performance. In addition, it also examines the interaction effect of participation and culture on organisational fairness, which is neither examined in Wentzel's nor Maiga and Jacobs's studies. Further, the role of organisational fairness on motivation and subordinate performance is also investigated.

## **2.5 Motivation and Budget Participation**

### **2.5.1 Definition**

Motivation is defined as “internal factors that impel action [and] external factors that can act as inducements to action” (Locke and Latham, 2004; p.388). Searfoss and Monczka (1973, p. 544) define motivation as “a psychological construct which is used to account for the factors that arouse, maintain and direct behaviour toward a goal”. Generally, it is a situation whereby the individual is energised to achieve a goal, for the attainment of some reward or appreciation. It is also related to individuals' engagement in certain behaviour towards attaining a desired goal; in the workforce situation, employees who are motivated, show more favourable attitudes and increase their performance (Bryan and Locke, 1967).

### **2.5.2 Theoretical Basis of Motivation Studies**

Budget is used to allocate resources for a specified period of time. Apart from the functions of a budget as a device to plan, control and coordinate of various functional activities of the organisation, it is also related to the motivational aspects of employees in improving performance (Kenis, 1979). A budget that provides goal clarity gives more motivation to the managers than the goals that are set as “do your best” (Kenis, 1979; Latham and Locke, 1984). Managers are also motivated with a budget that is tight but attainable rather than too tight level (Kenis, 1979). If the budget is too difficult to achieve, it will demotivate the employees as they perceive the task as unreachable (Latham and Locke, 1979).

Budgets are used by the management as a necessary, but not sufficient condition for the basis of performance evaluation (Libby and Lindsay, 2007), giving rewards or penalty, either achieving favourable or unfavourable budget variance. Thus, in order to get better rewards and accomplishment, employees may be motivated to put more effort into attaining budgeted goals with favourable variances. However, studies also show that better performance can be achieved for the specific, difficult but attainable goals, even without the rewards and recognition offered (Latham and Locke, 1979; Locke and Latham, 1984; 1990).

In a participative situation, generally the goals or budget is set after considering the views and opinion of managers involved in the process. Budget participation enables the creation of more positive values of employees that improve the attitude and behaviour of employees (Milani, 1975; Lau and Lim, 2002). The budget that is prepared through participation encourages higher motivation to achieve as the managers feel they own the budget and

become part of it. Attaining the budget becomes an important goal; as such, they are willing to put in more effort to realise the budget.

Motivation can be differentiated in two parts: extrinsic and intrinsic motivation (Brownell, 1983; Dermer, 1975; Wong-On-Wing et al., 2010). While extrinsic motivation is referred to as additional rewards that could be achieved upon satisfying the budgeted goal, intrinsic motivation is referred to as a higher order need of personal satisfaction upon achieving good budget performance (Dermer, 1975). Extrinsic motivation also relates to performing of certain activities as a means to an end, while intrinsic motivation is more related to the performing of certain activities as an end in itself (Wong-On-Wing et al., 2010).

Individuals who have extrinsic motivation are motivated to perform an action for the purpose of achieving potential external incentives and rewards. Among the outcomes of extrinsic rewards used in Brownell's (1983) empirical study are pay raise, high pay, respect from boss and other employees, special rewards or recognition and promotion. In a recent study, Wong-On-Wing et al. (2010) classified extrinsic motivation into autonomous and controlled extrinsic motivation, which is based on self-determination theory. Autonomous extrinsic motivation is "when behaviour is performed out of choice because individuals value the behaviour" (Wong-On-Wing et al., 2010, p.135). Controlled or non-autonomous extrinsic motivation is "when one's behaviour allows for satisfaction of an external demand or reward contingency" (Wong-On-Wing et al., 2010, p.135).

On the other hand, those who have intrinsic motivation are motivated by internal factors, which are more related to personal achievement and self satisfaction, the performing of certain activities for their own sake and achieving personal satisfaction. Intrinsic motivation includes personal growth and development, feelings of security and accomplishment, giving help to others and setting higher standards for oneself (Brownell, 1983).

Dermer's (1975) study suggests that extrinsic motivation is related to intrinsic motivation, in such a way that there is an increased need for extrinsic motivation when there is intrinsic motivation. In other words, there is a positive significant relationship between intrinsic and extrinsic motivation, which supports Hofstede's (1968) study.

While there are two types of motivation, this study only examined the one that is related to personal pleasure, self satisfaction and a sense of accomplishment: intrinsic motivation. As the framework of this study is developed based on the principles in the goal setting theory, intrinsic motivation is more relevant. It is suggested in the goal setting theory that the clarity of the goals set serves as the objectives to direct the action and activities of the employees. When the goals are clear and specific, they lead to goal commitment and goal acceptance, which consequently fosters the motivation to accomplish the goal. As such, the motivation of employees is to accomplish goals not because of rewards or external factors such as bonus, pay rise or recognition, but more for the self satisfaction upon fulfilling the goals.

Regarding the theories relevant to the motivation, there are many theories that have been developed that discussed the theory of work motivation. These theories provide the basis for the individuals to perform well. According to Reid (2002) in her critical evaluation of motivation, the most credible work of motivation theory comes from Maslow's (1954) hierarchy of needs theory. However, this theory has lack of empirical support and is based on untested assumptions.

Reid (2002) added that many subsequent theories on motivation then emerged, including hygiene factors by Herzberg et al. (1959) and Theory X and Y by McGregor (1960). Herzberg et al. (1959) identified 2 factors that increase job satisfaction in the workplace; "motivators" and "hygiene factors". "Motivators" relates to challenging work and recognition, while "hygiene factors" relates to job security, salary and other fringe benefits. Theory X and Y are more related to the assumption made by the management towards their employees. Theory X assumes the negative behaviour of employees (employees do not enjoy works, no ambition and avoid responsibility), while Theory Y assumes a more favourable behaviour of employees (more ambitious, accept responsibility and do well at work).

The evolution of motivation theory is extended with expectancy theory (Vroom, 1964) which is known as the first systematic formulation of motivation theory (Steers et al., 2004) which is then expanded by Porter and Lawler (1968). Other important cognitive theories are equity theory (Adams, 1965) and goal setting theory (Locke, 1968), which unlike other theories which focused on organisation, these theories focused on the individual (Reid, 2002; Steers et al., 2004).

While many theories have emerged to predict the behaviour and attitudes of employees, in this study a goal setting theory is applied. As budgets represent a goal to be achieved or to work within the established boundaries (Searfoss and Monczka, 1973), the assignment of specific and reasonable goals may increase individual motivation and enhance the performance level (Bryan and Locke, 1967). Other studies have also constituted the positive effect arising from the specific but attainable goals on the behavioural consequences (Hofstede, 1968; Kenis, 1979; Steers, 1976) including job satisfaction, attitudes towards budgets, motivation, performance and favourable attitudes.

With the budget, the actions and steps taken by all the holders are directed towards achieving the budget and consequently realising organisational goals. Goal setting may be essential to motivation and better performance.

### **2.5.3 Empirical Studies on Motivation**

Participative budgeting refers to the involvement and influence managers have in setting up the budget (Magner et al., 1995; Shields and Shields, 1998). Participating in the budgeting process can provide an adequate space for the flows of communications and clarifying the subordinates' duties and inform management expectation to them (Kenis, 1979). It also can provide an opportunity for superiors to be exposed to the problems and accomplishments of the lower level managers in achieving budget targets as opposed to the actual results. As such, participation can provide some contribution in motivating subordinates to improve their job satisfaction and performance. Moreover, according to Ronen and Livingstone (1975), one of the functions of budget is providing motivation to the employees. Budgets motivate individuals because budgets show the levels to achieve or the boundaries within which to work. It provides the challenging factor to exceed the limit.



Previous researchers have assessed the motivation construct as independent, mediating or dependent variables. For instance, Brownell and McInnes (1986) examined motivation as an independent variable to performance. In the same study, they also investigated motivation as a mediating variable in the relationship between participation and performance. Kenis (1979), Merchant (1981) and Searfoss and Monczka (1973) are examples of studies that examined motivation as a dependent variable.

Based on the psychology literature, there is an association between motivation and performance (Locke and Schweiger, 1979) as motivation increases subordinates' trust and organisational commitment and consequently may enhance the performance of the employees. Locke and Bryan (1968) also show experimental evidence that relates positively the motivation of subjects with better performance. In a more real setting, Brownell and McInnes (1986) also provided evidence for the positive effect of motivation and performance.

For the relationship between budget participation and employees' motivation, Becker and Green (1962) proposed that through participation, motivation may increase which ultimately increases employees' performance. Subsequent studies also found a positive relationship between participation and motivation, for instance Hofstede (1968), Kenis (1979), Merchant (1981) and Searfoss and Monczka (1973). It is suggested that since lower level managers are better informed of their day-to-day activities, they directly know the needs in their functional units. Thus, through participation, a more realistic plan could be developed and provide positive motivational effects (Merchant, 1981).

While many studies show the significant positive effect of participation and motivation, this favourable effect is not found in Brownell and McInnes (1986). Even though Brownell and McInnes (1986) found budget participation is positively related with motivation, the relationship is not significant.

A close examination of the conflicting findings revealed that the inconsistencies may be due to the different operationalisation of motivation measurement (Brownell and McInnes, 1986; Chong and Chong, 2002; Murray, 1990). Searfoss and Monczka (1973) measured motivation by using subordinates' rating of their superiors' effort in achieving the budget, while Kenis (1979) and Merchant (1981) used intrinsic motivation based on instruments developed by Hackman and Lawler (1971) and Hackman and Porter (1968), respectively. In contrast, Brownell and McInnes (1986) and Mia (1989) used expectancy theory to measure motivation.

These conflicting findings have also led researchers to suggest that it is possible that budget participation has an indirect effect on motivation. Searfoss and Monczka (1973) and Murray (1990) have also suggested that there is a possibility that perceived participation and motivation is indirectly related to achieving budget. Moreover, in view of inconsistent findings in Brownell and McInnes (1986), they also suggested an indirect relationship may exist between the variables. Shields and Shields (1998) further supported this notion by suggesting that budget participation has an indirect effect on motivation and is “conditional on moderating, other independent and intervening variables” (p. 65).

These suggestions support the motivation studies that examined various mediating and moderating variables to further strengthen the relationship between budget participation and motivation, even though the results are not convincing. Searfoss and Monczka (1973) examined the relationship between budget participation and motivation to achieve budget, with the existence of two moderating variables: the need for authoritarianism and independence. While a significant positive effect is found in the direct relationship between participation and motivation, no moderating effect is found for authoritarian and independence.

Mia (1989) examined the role of job difficulty as a moderating variable in the relationship between budget participation and both managerial performance and work motivation. Based on 76 respondents from a variety of companies, he provided empirical evidence for the significant interactions of job difficulty and participation on managerial performance. The effect for work motivation, however, is not obtained. However, Brownell (1983) is able to find significant interaction between participation and management-by-exception on motivation. The effect of direct relationship, however, is not significant.

Thus, these inconsistent findings further verify the need to examine the effect of participation on motivation through moderating or mediating variables, as has been suggested by previous studies (Brownell and McInnes, 1986; Murray, 1990; Searfoss and Monczka, 1973; Shields and Shields, 1998). As such, this study aims to fill in the gap by examining the role of fairness perception as mediating variable in the relationship between budget participation and motivation. As fairness perceptions are important in enhancing favourable attitudes and behaviours of employees (Alexander and Ruderman, 1987; Folger and Konovsky, 1989; Lau et al., 2008; Tang and Sarsfield-Baldwin, 1996), it is suggested

that budget participation increases motivation through the role of fairness perception as mediating variable. Moreover, the effectiveness of budget participation in enhancing motivation may differ in different ownership structure of the firms. The differences in power distance index between local and foreign firms may affect the effectiveness of budget participation in influencing motivation level of employees (Douglas et al., 2007; O'Connor, 1995). Thus, this study proposes that budget participation may have interaction with organisational culture (operationalised as power distance) in affecting manager's motivation.

## **2.6 Organisational Culture and Budget Participation**

### **2.6.1 Definition**

Organisational culture is defined as “values shared by members of an organisation (or organisational sub-unit) that manifests themselves in the practices of that organisation” (Pratt and Beaulieu, 1992. p. 667). Hofstede (2001) also defined organisational culture as the manifestation of shared values in terms of observable shared practices, which covers symbols, heroes and rituals. Symbols are based on words, pictures or objects that have a particular meaning with a culture (Hofstede et al., 1990). Heroes are related to persons who become the models for behaviour, while rituals are collective activities that are essential within a culture (Hofstede et al., 1990). Each organisation has their own unique culture, including the sub-cultures which can be found in each department in the organisation and each work group in each department (Hofstede et al., 1990).

Apart from organisational culture, Hofstede (1984a) also defined national culture as “the collective programming of the mind which distinguishes the members of one human group from another” (p. 21). It is more related to the way of life, norms and values of certain groups of people compared with others. Hofstede defined culture in terms of collective mental programming because the mental has been conditioned through different educational and experiences that are shared with members within the same nation, but not with individuals in other nations (Hofstede, 1983). Some examples of these programming include languages, customs, traditions and common way of thinking.

### **2.6.2 Theoretical Basis of Organisational Culture Studies**

This study adopts cultural dimensions of Hofstede (1980) to represent culture at the organisational level. In examining cultural differences across nations, Hofstede collected data from 1967 to 1978 from a large multinational corporation. Data were collected through 116,000 questionnaires for 40 countries and he later extended the research to another ten countries and three multi-country regions thus giving a total of 53 countries and regions (Hofstede, 1983). From this study, four dimensions of national culture, independent of each other, are identified: power distance, individualism, uncertainty avoidance and masculinity.

Subsequent research later introduced the fifth dimension of culture, Confucian dynamism (Hofstede and Bond, 1988). This research was based on the Chinese Value Survey, responded to by 100 students in each of 22 selected countries (Hofstede and Bond, 1988).

The definition of each of the five dimensions is as follows.

### **2.6.2.1 Power Distance**

Power distance concerns the issue of inequality among individuals in organisations. It is associated to the inequality of distribution of power and authority. According to Hofstede (1983, p.81), “the level of power distance is related to the degree of centralisation of authority and the degree of autocratic leadership”. Large power distance societies are normally related to an autocratic style of leadership and centralisation of decision making. In contrast, a more participative style of leadership is likely to occur in low power distance societies with more decentralisation of power.

Based on Hofstede (1983), examples of countries with a high power distance level are Malaysia, the Philippines, Mexico, Singapore and South Korea; whilst low power distance level societies include Austria, New Zealand, Norway, USA and Germany.

### **2.6.2.2 Individualism**

Hofstede (1984b) relates the individualism dimension as the relationship between an individual and its group within the society to which they belong. Those in high individualism societies are concerned more about themselves and their immediate family (Hofstede, 1983). The USA, Australia, Britain, Canada and Netherlands are examples of individualist countries (Hofstede, 1983).

On the other hand, those in low individualism societies, called collectivism societies, consider everyone in the group and they are tightly integrated societies (Hofstede, 1983). Collectivism societies are normally comfortable working in a group and they are likely to be dependent on each other. Examples of these societies include Pakistan, Colombia, South Korea, Singapore and Malaysia (Hofstede, 1983).

### **2.6.2.3 Uncertainty Avoidance**

Uncertainty avoidance is related to the uncertainty of the future. Since events occurring in the future cannot be exactly known at the present, the way to cope with uncertainty depends on the particular society. In order to deal with these uncertainties and anxiety levels (Frucot and Shearon, 1991), individuals adopt “strict codes of behaviour and a belief in absolute truth” (Hofstede, 1984b, p. 390) in order to minimise these uncertainties and anxieties. Societies with strong uncertainty avoidance are adverse to risks, emotional, security-seeking and intolerant; while societies with a weak uncertainty avoidance or uncertainty acceptance are risk takers, less aggressive and relatively tolerant (Frucot and Shearon, 1991; Hofstede, 1984b). Countries with strong uncertainty avoidance include Portugal, Japan, Belgium, France and South Korea and those in weak uncertainty avoidance include Singapore, Hong Kong, Jamaica, Sweden and Denmark (Hofstede, 1983).

### **2.6.2.4 Masculinity**

The masculinity dimension concerns male and female values and its impact on social activities (Hofstede, 1984a). It is related to the distribution of the social role of the different sexes in different societies. Masculine culture expects men to be assertive, dominant and to strive for material success and women to focus on interpersonal relationships and “to serve and care for nonmaterial quality of life and for children” (Hofstede, 1984b, p. 390). These societies limit the roles that should be occupied by men and women. At the other extreme, feminine culture permits both men and women to serve many different roles. This culture places more value on relationships and quality of life. Hofstede (1983) considers countries with masculine culture, amongst others, to be Japan, Austria, Mexico, Switzerland and Italy; while countries with feminine cultures include Sweden, Norway, Denmark, Netherlands and Costa Rica.

### **2.6.2.5 Confucian Dynamism**

Confucian dynamism is related to the orientation attached to the future (or long-term orientation) versus the past and present (or short-term orientation). The values which reflect future orientation include “persistence (perseverance), ordering relationships by status, thrift and having a sense of shame” (Hofstede and Bond, 1988, p.17). For the societies whose emphasis is on past and present orientation, the values include personal steadiness and stability, protecting one’s face, respect for tradition, and reciprocation of greetings, favours, and gifts (Hofstede and Bond, 1988, p. 17). Some examples of countries with a high score (future orientation) on the Confucian dynamism scale include Hong Kong, Taiwan, Japan, South Korea and Brazil; while countries which score low (past and present orientation) on the scale include Pakistan, the Philippines, Canada, Britain and the USA (Hofstede and Bond, 1988).

### **The Interaction between National Culture and Organisation Culture**

In distinguishing national culture from organisational culture, Hofstede (2001) noted that in national culture there are considerable differences in values and more similarities in practices. In organisational culture, however, it shows more similarities in values and considerable differences in practices. Values are normally acquired during one’s early age, mainly from family and the neighbourhood, while organisational practices are acquired through socialization at the workplace (Hofstede, 2001).



While there are distinct definitions in respect of national culture and organisational culture, Hofstede and Bond (1988) acknowledged that the definition of national culture can be applied to both national and organisational culture. Moreover, Hofstede's (1980) dimension and measures of power distance are relevant and operational at the organisational level (Pratt and Beaulieu, 1992) since "it reflects both the culture's values and perceived practices" (p. 671). It is further supported by O'Connor (1995), who suggested that the power distance dimension is "meaningful in comparing organisational cultures" (p. 386).

Hofstede (2001) also found that the measurement for values and practices in the power distance dimension may be associated. The first dimension of organisational culture, termed process-oriented (a concern with means) versus results-oriented (a concern with goals) is correlated and resembled with power distance (O'Connor, 1995). High power distance is related to process-oriented cultures while low power distance is related to results-oriented cultures.

Similar to O'Connor (1995) and Pratt and Beaulieu (1992), this study uses power distance cultural values identified by Hofstede (1980) as a surrogate measure of organisational culture. Power distance has also been identified as the relevant dimensions that affect leadership in organisations (Hofstede, 1983; Lau and Tan, 1998). Leadership usually play the most significant role in setting the organisational culture of the organisation. It has been argued (O'Connor, 1995; Soeters and Schreuder, 1988) that the organisational culture of a company is influenced by the organisational culture of its parent company. Since top management of multinational companies usually come from the parent companies, it is expected that these leaders will inculcate the organisational culture of the parent company home countries in these multinational companies. Hence, Anglo-American multinational

companies in Malaysia are expected to practice low power distance values in their organisation. On the other hand, local multinational companies are expected to practice high power distance values in their organisation.

Further, examining only the power distance dimension in determining cultural effect is consistent with O'Connor's (1995) empirical study where he used "[only] power distance...to derive expectations about the perceived appropriateness of budget participation at the organisational level" (p. 385). As such, this study uses the power distance dimension to represent organisational culture, which is defined as "the collective programming of the mind that distinguishes the members of one organisation from another" (Hofstede, 2001, p. 391).

Power distance refers to the leadership style of an organisation which ranges from autocratic to democratic or participative styles. Autocratic style is more related to the enforcement of decisions by the top management. In this style, since only the top management make decisions, centralisation of power is normally portrayed and the subordinates are willing to be followers (Hofstede, 1983). It is theorised that in these high power distance societies, inequality of power occurs and any decisions will be made without the prior consultation of subordinates (Hofstede, 1980; 1983; 1984a). Hofstede (1980; 1983; 1984a) classifies this style of leadership as high power distance. High power distance society tends to be characterised by followers and strong dependence needs of superiors (Hofstede, 1983). They are willing to accept inequalities and expect management to behave autocratically.

Unlike the autocratic style, a more lenient and democratic leadership, called the democratic or participative style, is related to more discussion and participation in the decision making process (Hofstede, 1983). In these low power distance societies, decentralisation of power normally exists, equality of power occurs and decisions are made after considering views and opinions from different levels of management. This style of leadership is classified as low power distance (Hofstede, 1980; 1983; 1984a).

It is argued in the literature that the effectiveness of participation is based on the cultural value that the societies have (Douglas et al., 2007; Frucot and Shearon, 1991; Hofstede, 1980; Lau and Tan, 1998; O'Connor, 1995). O'Connor (1995) provided empirical evidence that the effectiveness of participation is moderated by power distance, in which different levels of power distance show different results. Further support for the influence of culture on management control system is found in Douglas et al. (2007), Frucot and Shearon (1991) and Harrison et al. (1994).

Thus, this study aims to examine the effect of power distance in the participative budgeting context on Malaysian local companies and foreign Anglo-American companies, in which the subsidiary is situated in Malaysia. It is theorised that as Malaysia is a high power distance country, the effectiveness of budget participation can be argued, as compared with foreign Anglo-American countries (Hofstede, 1983). In particular, based on Hofstede's (1983) index of power distance, Malaysia is ranked as the country with the highest power distance score of 104 (1<sup>st</sup> place) (Hofstede, 2001) while Anglo-American countries (United States, Australia and Great Britain) are ranked between 38<sup>th</sup> and 44<sup>th</sup> place (out of 53 countries, in descending order) with scores ranging from 35 to 40 (Hofstede, 2001). These measurements indicate that Malaysia is a high power distance society, while Anglo-

American countries are low to moderate power distance societies. Thus, the effectiveness of budget participation practices at the organisational level can be argued due to the differences in cultural value. While budget participation is highly effective in Anglo-American companies, whether the same effect occurs in local companies with a high power distance score (Frucot and Shearon, 1991; Hofstede, 1980; Lau and Tan, 1998; O'Connor, 1995). In other words, this study attempts to examine whether the effectiveness of budget participation in enhancing managerial performance, promoting more fairness perceptions and increasing motivation is moderated by the differences in low and high power distance level.

### **2.6.3 Empirical Studies on Organisational Culture**

The interest in examining culture and its influence to the management control system has attracted the attention of management accounting scholars since the late 1980s (Pratt and Beaulieu, 1992). According to Frucot and Shearon (1991), differences in cultural values and norms among nations may give diverse reactions and responses to the budgeting system. Tang and Sarsfield-Baldwin (1996) further supported this study suggesting that scrutiny investigations should be held that involve possible interaction between superior, subordinates and cultural aspects as “different employees have their own personality, perceptions and attitudes” (p. 31) and by giving the same information, their reactions could differ.

O'Connor (1995) examined the influence of organisational culture on role ambiguity and the superior-subordinate relationship in the participatory environment. In particular, he investigated the interaction effect of power distance with participation in planning and participation in the evaluation process in reducing role ambiguity and enhancing

subordinates' trust and respect for their supervisor. Using the sample of managers working in local and foreign firms situated in Singapore, he found that the effectiveness of participation is moderated by power distance culture, in which high power distance and low power distance culture shows a different result.

O'Connor (1995) cited the study of Hwang (1989) that examined Singaporean counterparts and House's (1971) study of Australian managers which found similar results. In examining the effect of participation on motivation, national culture was found to moderate the relationship. The result suggests that budget participation improves motivation only in low power distance culture and not in high power distance culture.

Further evidence is found in the research by Frucot and Shearon (1991) who replicated Brownell's (1982a) study in the different countries. The aim is to generalise the findings of Brownell (that used managers in US as samples) in the interaction effect of locus of control and participation on both managerial performance and satisfaction. While the findings in Frucot and Shearon (that used Mexican managers as samples) are consistent with Brownell in the effect of locus of control in the budget participation–performance relationship, no interaction of locus of control affecting satisfaction is found. They provided the conclusions that the different results are probably due to the cultural influences in both countries, specifically in the US and Mexico (Frucot and Shearon, 1991).

Further support for the influence of culture on the management control system is found in Harrison et al. (1994). In their study that compared Anglo-American and East Asian nations, positive influence of culture was demonstrated. Similarly, Douglas et al. (2007) found significant differences in budgeting behaviours of Egyptian managers working in

local firms and Egyptian managers working with US firms in Egypt, providing evidence for the influence of culture in budgeting systems.

Tsui (2001) also provided empirical evidence of the effect of culture in the relationship between budget participation, management accounting systems and managerial performance. She collected samples from Chinese managers working in China and Western managers working in Hong Kong. Based on the results, it is suggested that management accounting practices in Western economies may not be generalisable to the Chinese community (Tsui, 2001). This suggestion is further supported by Etemadi et al. (2009), who examine similar variables to Tsui (2001) in Iran. They provided evidence of dysfunctional management accounting tools and techniques developed in Western countries to be applied in the Iranian environment.

These positive effects of cultural influence, however, are not consistent with Lau and Tan (1998). They examined cultural influence on the relationship between evaluative style and managerial performance in Australia and Singapore, and found no effect on the relationship. They argued that this surprising result could be due to the “internationalisation and globalisation of [the] financial market” (p. 174) and the higher qualifications and international exposure that Singaporean managers have.

While there are numerous studies that examine the influence of culture in the US, Australia, Mexico, Egypt and some Asian nations, for instance in Singapore and Hong Kong (Douglas et al., 2007; Frucot and Shearon, 1991; Harrison et al., 1994; Lau and Tan, 1998; O’Connor, 1995; Tsui 2001), none have investigated the influence of culture in Malaysian societies. Having the highest score reported in power distance (Hofstede, 1983), this study

examines whether the effectiveness of budget participation is influenced by organisational cultural differences between local and foreign firms in Malaysia. It may provide evidence that can offer further insights into the influence of culture at the organisational level in Asian nations.

Further, whilst there is evidence that suggests the influence of culture in the management control system in an organisation, at present there are only a few studies that systematically examine the influence of culture within a particular nation. Extending the work by O'Connor (1995), this current study may provide further empirical support for cultural differences, particularly power distance differences in affecting employees' attitudes and behaviour in Malaysian societies.

Moreover, Leung and Lind (1986) and Lindquist (1995) suggested that cultural value can influence employees' perceptions of procedural justice. While the studies on power distance have been investigated mainly to examine its interaction effect with participation on role ambiguity and the superior-subordinate relationship (O'Connor, 1995), managerial performance (Lau and Buckland, 2000; Lau and Tan, 1998) and the design of management planning and control systems (Douglas et al., 2007; Harrison et al., 1994), none of the published studies have investigated the interaction effect of culture and participation in enhancing the perception of organisational fairness and increasing employees' motivation. Thus, this current research may contribute to the existing literature by providing further evidence regarding the influence of cultural values on fairness perception and motivation.

## **2.7 Managerial Performance and Budget Participation**

Managerial performance is generally related to the level of achievement in performing tasks against certain targets or present standards specified by the management. Mahoney et al. (1965) suggested that managerial performance can be described in two main dimensions: managerial functions and managerial competence.

Managerial functions cover all aspects of managerial performance and each category is mutually exclusive. Mahoney et al. (1965, p. 100) classifies these categories as:

a. Planning

Determining goals, policies, and courses of action, include budgeting, work scheduling, setting up procedures, setting goals and programming.

b. Investigating

Collecting and preparing information for records, reports, and accounts including inventorying, measuring output, preparing financial statements, job analysis and performing research.

c. Coordinating

Exchanging information with people in the organisation to relate and adjust programmes, include advising and cooperation with other departments, liaison with other managers and meeting arrangements.



d. Evaluating

Assessment and appraisal of reported or observed performance, including employee appraisals, judging output records, financial reports and product inspection.

e. Supervising

Directing, leading, and developing subordinates including counselling and training subordinates, explaining work rules and handling complaints of subordinates.

f. Staffing

Maintaining the workforce of the organisation, including recruiting, employment interviewing, selection, placement and promotion of employees.

g. Negotiating

Purchasing, selling, or contracting for goods or services, including tax negotiations, contacting suppliers, dealing with sales representatives and dealers or clients and advertising products.

h. Representing

Advancing general organisational interests including public speeches, consultation, community drives, news releases and attending conventions.

Unlike basic managerial functional skills, managerial competence is closely related to the specific skills and knowledge possessed by the managers in performing their tasks. The managerial performance is thus measured in terms of their competencies. Based on Mahoney et al. (1965), the categories and areas of competence are as follows:

a. Employees

Competence related to employees, including recruiting, hiring, training, promotion, wages and salary administration.

b. Finances

Competence related to the collection, receipt, and payment of funds, including budgeting, accounting, reporting and loans.

c. Materials and goods

Competence in the determination of materials standards or orders, inspection, inventorying, issuance and processing of all finished and raw goods.

d. Purchases and sales

Competence in market forecasts, buying and selling, promotion, and distribution of goods and services.

e. Methods and procedures

Competence in analysis, revision, and installation of procedures and methods.

f. Facilities and equipment

Competence in installation, maintenance, and determination of standards or orders for facilities and equipment used in the business.

According to Mahoney et al. (1965), for the purpose of analysing how managers work, it can be based on the functional or competence dimensions of performance. Most of the literature measuring performance utilises the functional dimensions of performance (Agbejule and Saarikoski, 2006; Brownell, 1982a; Brownell and Hirst, 1986; Brownell and McInnes, 1986; Kren, 1990; Lau et al., 1995; Parker and Kyj, 2006). As mentioned earlier, functional dimensions cover all aspects of basic management skills, while managerial competence covers more specifically the knowledge and skills required for performing specific tasks. As managers can vary in terms of their level (lower, middle and top management), using functional dimensions to measure managerial performance provide a likelihood of measuring management responsibilities and overall success in the tasks assigned (Mahoney et al., 1965). Hence, the current study is also utilising the functional dimensions to measure managerial performance, so that the results can be comparable.

Previous studies have evaluated the performance of managers based on either financial and/or non financial factors (Milani, 1975; Parker and Kyj, 2006; Shields and Young, 1993; Wentzel, 2002). According to Heneman (1974), to measure and predict the performance of employees is not a simple process. Thus, the organisation must identify the dimensions of performance that are common to managerial jobs (Heneman, 1974).

### **2.7.1 Theoretical Basis of Managerial Performance Studies**

Blumberg and Pringle (1982) suggested that there are three dimensions of work performance – i.e. the elements of capacity, willingness and opportunity – which is collectively called the theory of work performance. The first two of these elements concern personal or individual factors, while the third factor (opportunity) concerns the environmental (Blumberg and Pringle, 1982).

Blumberg and Pringle argued that these three elements should work together in order to increase the performance of employees. In the absence or reduction of any of the elements, performance will be diminished.

Table 2.2 shows Blumberg and Pringle's (1982) dimensions based on the theory of work performance and examples of the studies that have examined the dimension.

**Table 2.2: Dimensions of Theory of Work Performance**

<b>Dimensions</b>	<b>Definition</b>	<b>Examples of Studies</b>
<b>Capacity</b>	The physiological and cognitive capabilities that enable an individual to perform a task effectively. Examples: Ability, age, health, knowledge, skills, intelligence, level of education, endurance, stamina, energy level, motor skills.	Agbejule and Saarikoski (2006).
<b>Willingness</b>	The psychological and emotional characteristics that influence the degree to which an individual is inclined to perform a task. Examples: Motivation, job satisfaction, job status, anxiety, legitimacy of participation, attitude, perceived task characteristics, job involvement, ego involvement, self-image, personality, norms, values, perceived role expectations, feelings of equity.	Milani (1975); Kenis (1979); Merchant (1981); Brownell and McInnes (1986); Nouri and Parker (1998); Wentzel (2002), Parker and Kyj (2006), Lau and Tan (2006).
<b>Opportunity</b>	The particular configuration of the field of forces surrounding a person and his or her task that enables or constrains that person's task performance and that are beyond the person's direct control. Examples: Tools, equipment, materials, and supplies; working conditions; actions of co-workers; leader behaviour; mentorism; organisational policies, rules, and procedures; information; time; pay.	Brownell (1981); Brownell (1982a); Lau et al. (1995); Nouri and Parker (1998).

*Adapted from Blumberg and Pringle (1982)*

Most of the previous research examines only one dimension of performance determinants. In order to ensure the generalisability and comparability of the findings with other studies, this study also focuses on one dimension, the willingness factor, specifically budget participation, organisational fairness and motivation that may be a function of organisational performance.

Moreover, this study aims to investigate the budget participation practices of Malaysian managers in organisations. Thus, the direct effect of participation on managerial performance, together with its indirect effect through organisational fairness and motivation is examined.

Even though many existing studies have examined the willingness dimension as a determinant of performance, the results were conflicting. For instance, in examining participation as a dimension of performance, Merchant (1981) found a strong relationship between budget participation and performance. This result is further supported by Brownell and McInnes (1986). Contrary to Merchant and Brownell and McInnes, Milani (1975) found a weaker relationship between participation and performance, while Kenis (1979) found an unrelated association. Thus, the current study attempts to provide better insights for the good determination of managerial performance in the participative budgeting environment.

### **2.7.2 Empirical Studies on Managerial Performance**

To date, several determinants of performance have been investigated. The examples include participation (Brownell, 1985; Brownell and McInnes, 1986; Kenis, 1979; Lau and Lim, 2002; Lau et al., 1992; Merchant, 1981; Milani, 1975), motivation (Brownell and McInnes, 1986; Merchant, 1981), budget adequacy (Nouri and Parker, 1998), fairness perception (Lau and Lim, 2002; Libby, 1999; Lindquist, 1995), organisational commitment (Parker and Kyj, 2006; Nouri and Parker, 1998; Wentzel, 2002) and cost management knowledge (Agbejule and Saarikoski, 2006).

However the results are often conflicting. This may be due to the existence of mediating or moderating variables in the relationship between independent variables and dependent variables of managerial performance (Shields and Shields, 1998; Shields and Young, 1993).

Regarding the measurement used to measure job or managerial performance, previous literature shows a variety of instruments are used. Agbejule and Saarikoski (2006), Brownell (1982a), Brownell and Hirst (1986), Brownell and McInnes (1986), Kren (1990), Lau et al. (1995), Parker and Kyj (2006) and Wentzel (2002) used Mahoney et al.'s (1965) instrument, which is based on the perceptions of managers with regards to their performance. On the other hand, Milani (1975), used company records as a source, whereas Nouri and Parker (1990) used a scale developed by Govindarajan and Gupta (1985). In contrast, Shields and Young (1993) use both financial and non-financial measures. Financial measures are based on the percentage of change on net income, common stock price and ROI, and non-financial measures are based on the subjective rating of the overall performance.

Consistent with most of the studies that examine the effect of budget participation on managerial performance, this study utilises the instruments developed by Mahoney et al. (1965). Since this established measurement has been widely used in previous studies, using the same instrument in measuring managerial performance enables the results to be comparable.

## **2.8 Gaps in the Budget Participation Studies**

Based on the literature review above, several research gaps can be identified. First, the effect of budget participation on managerial performance revealed inconsistent findings. These mixed results suggest for the need to have a richer model to fully explain the process by which budget participation is most effective (Shields and Shields, 1998; Shields and Young, 1993). Thus, this study aims to provide a broader scope of investigation through the joint consideration of organisational fairness perception, motivation and organisational culture in the effect of budget participation and managerial performance.

Second, while fairness perceptions are argued to influence the favourable effects of employee reaction in the organisation (Folger and Konovsky, 1989; Lau et al., 2008; McFarlin and Sweeney, 1992; Tang and Sarsfield-Baldwin, 1996), only a few studies directly examined the relationship between budget participation and both dimensions of fairness perception (for example, Wentzel, 2002; Maiga and Jacobs, 2007). While Wentzel (2002) proposed a model that examined the mediating effect of fairness perceptions and goal commitment in the relationship between budget participation and performance, Maiga and Jacobs (2007) provided a model that examined the mediating effect of fairness perception, trust and goal commitment in the relationship between budget participation and budgetary slack. Thus, this study attempts to extend the research by Wentzel (2002) and



Maiga and Jacobs (2007) by proposing a model in which fairness perception and motivation mediates the relationship between budget participation and managerial performance. In addition, it also examines the effect of cultural value in the relationship between budget participation and organisational fairness, motivation and managerial performance.

Third, on the relationship between budget participation and motivation, the results showed inconclusive evidence. This has led to the suggestion for the need to examine the effect of participation on motivation through moderating or mediating variables (Brownell and McInnes, 1986; Murray, 1990; Searfoss and Monczka, 1973; Shields and Shields, 1998). Thus, this study attempts to close this gap by investigating the possible mediating role played by organisational fairness and its dimensions in the relationship between budget participation and motivation.

Fourth, Frucot and Shearon (1991), Lau and Buckland (2000) and O'Connor (1995) have provided empirical evidence that suggest the influence of culture on the management control system in an organisation, in the context of high and low level of power distance. While there are many studies that have examined the influence of culture in US, Australia, Mexico, Egypt and some Asian nations, for instance in Singapore and Hong Kong (Douglas et al., 2007; Frucot and Shearon, 1991; Harrison et al., 1994; Lau and Tan, 1998; O'Connor, 1995; Tsui 2001), none have investigated the influence of cultural value in Malaysian societies. Having the highest score reported in power distance (Hofstede, 1983), this study examines whether the effectiveness of budget participation is influenced by organisational cultural differences between local and foreign firms in Malaysia. It may

provide evidence that can offer further insights into the influence of culture at the organisational level in Asian nations.

Thus, this current study may provide a more comprehensive model of budget participation, examining its effect on managerial performance, through the intervening variables of fairness perception and motivation. Moreover, this study also investigates the moderating role of organisational culture in the relationship between budget participation and fairness perception, motivation and managerial performance.

## **2.9 Summary**

This chapter presents the definition of budget and its role in the current business environment. It is followed by the review of the literature for each variable used in this study.

The five variables used in this study are: budget participation, organisational fairness, motivation, organisational culture and managerial performance. For each variable, the theoretical aspects and empirical studies are presented. The gaps or justifications for including the variables in the studies are also discussed. This chapter ends with a discussion on the gaps found in the budget participation studies which form the basis for the current study.