

CHAPTER THREE

THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

3.1 Introduction

In this chapter, the theoretical foundation of the study is discussed. This is followed by discussions on the relevance of the goal setting theory that becomes the basis of the theoretical framework. Further, the development of the hypotheses is presented.

This study aims to examine the direct relationship between budget participation and managerial performance, and whether organisational fairness and motivation mediate this relationship. In addition, this study also aims to examine the moderating role of organisational culture in the relationship between budget participation and organisational fairness, motivation and performance.

3.2 Theoretical Foundation of the Study

There are three decision making functions that budgets provide: planning, control and motivation (Ronen and Livingstone, 1975). In this study, apart from the planning role, budget is viewed as providing a motivational role that may increase employee performance. With budgets that are set, it is argued that the holders may be motivated to put in more effort in order to achieve the budget, thus leading to improved performance.

There are two main theories that have been frequently used to associate budget as a motivation device: expectancy theory and goal setting theory (Murray, 1990). In the following subsection, the discussions of each theory are presented and then followed by the justification of the theory applied in this study.

3.2.1 Expectancy Theory

Expectancy theory, founded by House (1971), is based on the functions of intrinsic and extrinsic valence (perceived value) together with the expectations which are associated with work-goal accomplishment and goal-directed behaviour of subordinates (Ronen and Livingstone, 1975). Ronen and Livingstone (1975), who introduced the concept of expectancy theory in accounting literature (Brownell and McInnes, 1986, Kren, 1990), further explained that:

The basic tenet of expectancy theory is that an individual chooses his behaviour on the basis of (1) his expectations that the behaviour will result in a specific outcome and (2) the sum of the valences, i.e., personal utilities or satisfaction that he derives from the outcome (p. 672).

Thus, this theory suggests that an individual will engage in behaviour based on subjective probability estimates (Ferris, 1977) that lead to specific outcomes, including job satisfaction and desirable rewards. As such, higher motivation is portrayed when there are specific pleasant rewards and greater expectations in accomplishing those rewards (Kren, 1990).

Expectancy theory has become the predominant theory that accounting researchers use to examine the performance of employees (Kren, 1990). The theory has been widely used as a motivational facet in accounting literature, for instance, the studies by Brownell and McInnes (1986), Ferris (1977) and Ronen and Livingstone (1975).

However, in examining the motivational role of budget participation in improving performance, Brownell and McInnes (1986), who used expectancy theory, found that even though budget participation is positively related to motivation, the relationship is not significant. They were unable to verify the intervening role of motivation which is based on expectancy theory. This result was in conflict with the studies by Kenis (1979), Merchant (1981) and Searfoss and Monczka (1973). These earlier studies found a significant relationship between participation and motivation.

A close examination of the conflicting findings reveals that inconsistencies exist in the operationalisation of motivation measurement. 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) used expectancy theory to measure motivation. Thus, these inconsistencies in the operationalisation of motivation may cause these conflicting findings, and it is further suggested that an alternative motivation theory, the goal setting theory, may provide additional perspectives to explain the relationship between budget participation and both motivation and managerial performance.

Moreover, Kren (1990) added that in examining the performance effects in achieving goals, performance is highly related to the goal setting theory, rather than the expectancy theory. As explained before, expectancy theory is more related to the valence of specific outcome or desirable rewards, and the expectancy of the attainment of those rewards (House, 1971; Kren, 1990). As difficult goals require additional effort expended for the accomplishment of the work, and a difficult but attainable budget is much more motivating than an easier

goal (Hofstede, 1968), goal setting theory may be more relevant to explain the relationship between budget participation and performance. Similarly, specific budget goals increase the motivational level as compared to 'do your best', and consequently could improve performance (Becker and Green, 1962; Bryan and Locke, 1967; Locke and Bryan, 1968).

The application of expectancy theory has also been criticised by scholars mainly due to the fact that "the computations it requires are unrealistically time-consuming and often exceed working memory capacity" (Latham and Pinder, 2005, p. 502).

3.2.2 Goal Setting Theory

Goal setting theory is a theory that focuses on motivational aspects (Locke, 1996). It is based on a principle that the goals that are set serve as the objectives that individuals need to achieve (Locke and Latham, 1984). As such the goals will direct the actions and steps taken to achieve the goal.

Business organisations will most likely apply goal-setting theory in their worldwide organisation (Locke, 2004). The benefits of goal setting have been proven in extensive laboratory and organisational settings studies. Locke and Latham (1984) claimed that 90% of the studies conducted obtained favourable results of the effectiveness of goal setting. For example, the studies by Hollenbeck and Williams (1987), Ivancevich (1977), Latham and Yulk (1975) and Pritchard and Curts (1973) all found a positive effect of goal setting in improving performance.

Locke (2004) added that when there are controls over performance, the effectiveness of goal setting is demonstrated. According to Locke and Latham (2002), there are four ways by which goals may influence performance:

1. Goals provide guidelines and give direction for relevant activities to be carried out in order to achieve the goals
2. Goals provide an energizing function, in which the hard-to-achieve goal may stimulate more effort than the easy-to-achieve goal
3. Goals affect persistence where challenging goals lengthen the effort and need additional concentration
4. Goals encourage certain steps to be undertaken including conducting research and using related knowledge and strategies for the purpose of achieving goals.

Specific and challenging goals resulted in better performance than general and easier goals (Bryan and Locke, 1967; Locke and Bryan, 1968; Locke and Latham, 1984). Specific goals provide clear direction for strategies to be developed along with specific results to be reached in quantitative goals (Locke and Latham, 1984). As such, individuals become motivated to make more effort and discover related activities to be performed for goal achievement.

Budgets have a similar meaning to the concepts of goals (Locke and Latham, 1984). Budgets are prepared with the aim to distribute limited resources that organisations have and to limit spending while improving organisational performance. In view of budgets that provide a quantified planning and control device for an organisation, they also serve as goals to be accomplished. With budgets, the actions and steps taken by all the holders are directed towards achieving the budget and consequently realising organisational goals.

Goal setting provides the main purpose of enhancing the motivation level of people in organisations. Thus, it may be essential to motivate employees for budget attainment and consequently to achieve better performance.

3.2.3 Theory Applied in the Current Study

In view of budgets which have similar concepts of goals, this study applies goal setting theory as the basis of its framework. In addition, there are consistencies in the findings of the studies that were based on goal setting theory (Hollenbeck and Williams, 1987; Ivancevich, 1977; Latham and Yulk, 1975; see also Locke and Latham, 1984 for a comprehensive review). Recently, Chong and Chong (2002), who applied the theory, provided empirical support for the positive effect of budget goal commitment and information in the relationship between participation and performance. In short, goal setting theory provides favourable effects that ultimately increase individuals' performance.

Locke and Latham (1984) noted that goal setting is almost universally applicable: "There is no evidence that there are tasks on which goal setting fails to work, providing that employees have control over what they do" (p. 7). Thus, in this study goal setting theory is used as the theoretical basis as budget represents a goal to be achieved or to work within the established boundaries (Searfoss and Monczka, 1973). Budget provides the means to quantify organisational's financial plan and management often uses it as a basis to evaluate the performance of the employees (Searfoss and Monczka, 1973).

The assignment of specific and reasonable goals may increase individuals' motivation and enhance the performance level (Bryan and Locke, 1967; Locke and Bryan, 1968; Locke and Latham, 1984). Bryan and Locke (1967) also concluded that the assignment of specific and reasonable goals not only raises motivation amongst those subjects with low motivation, but also raises their performance level. They added that specific goals "favoured the development of more positive attitudes toward the task" (p. 277). Other studies have also confirmed the positive effect arising from specific but attainable goals of the behavioural consequences (Hofstede, 1968; Kenis, 1979; Steers, 1976) including establishing job satisfaction, enhancing motivation, increasing performance and encouraging favourable attitudes towards budgets.

Further, Locke and Latham (1984) argued that in the process of achieving the stated goals for improving performance, individuals must be committed to the goals. One of the ways is through participation in setting goals (Chong and Chong, 2002; Nouri and Parker, 1998; Parker and Kyj, 2006; Wentzel, 2002). However, from the goal setting perspective, Locke and Latham (1984) stressed the ineffectiveness of participation in goal setting in enhancing employee performance. They argued that as long as the goals are set fairly and reasonably, performance will increase regardless of whether it is set through participation or imposed from above. Latham and Locke (1979) also concluded that there is no difference in the performance of employees if the goals are assigned or set through participation. This insight supports the empirical results found by Ivancevich (1977), Latham and Yulk (1975) and Locke and Schweiger (1979). However, Locke and Latham (1984) later noted that while participation is not a compulsory condition in setting goals, it is "very beneficial as a means of implementing goals" (p. 111), for instance the development of appropriate actions and strategies for goal attainment. Latham and Locke (1979) also concluded that the device

of participation is useful if the organisation has competent employees, as it encourages the sharing of information from the lower level of management. Thus, better decisions can be made.

In view of budgets that are set specifically and quantitatively, suitable strategies must be performed for budget achievement purposes. Thus, the use of goal setting theory in the participative budgeting situation is relevant. Using the goal setting theory as the basis, Erez et al. (1985) and Hollenbeck and Klein (1987) also provided empirical evidence that participation in goal setting increases performance. Moreover, extant literature in accounting also provides empirical evidence that budget participation increases performance (Brownell, 1982a; Chalos and Haka, 1989; Chong and Chong, 2002; Merchant, 1981).

At present, management accounting researchers are increasingly interested in examining the role of the fairness perceptions of employees (Byrne and Damon, 2008; Lau and Lim, 2002; Lau and Tan, 2006; Lau et al., 2008; Libby, 2001; Maiga and Jacobs, 2007; Wentzel, 2002). The perceptions of both dimensions of fairness – distributive and procedural fairness – are important elements in the organisation as they can influence the attitudes and behaviour of employees (Alexander and Ruderman, 1987; Cropanzano et al., 2007; Colquitt et al., 2001; Libby, 1999; Lindquist, 1995; Maiga and Jacobs, 2007; Tang and Sarsfield-Baldwin, 1996; Wentzel, 2002). If any unfairness conditions exist, or in the absence of fairness in the workplace, this can lead to negative behaviour of employees, to them becoming demoralised and to reduced performance (Cropanzano et al. 2007; Libby, 2001; Skarlicki and Folger, 1997).

While fairness is an important determinant of organisational outcome variables in organisations, the effect of fairness perceptions in increasing performance in the budgetary setting, are rarely examined. Moreover, Latham and Locke (1979), Locke and Latham (1984) and Locke et al. (1986) recognised the importance of reasonable and fair goals together with adequate resources, as they resulted in goal acceptance. Thus, it is argued that by participating in the budgeting process, a fair budget can be determined from a fair process employed, thus increasing the performance of the employees. In other words, when the managers are involved in the budget setting process, they can influence the budget to a favourable and attainable outcome, from a fair process, thus this may improve managerial performance. Apart from examining the effect of participation on fairness perception, this study also aims to examine the relationship between fairness perceptions on motivation and its effect on performance. Further, cultural consequences may influence the model which is based on goal setting theory. Even though the budget permits the implementation of suitable strategies, different levels of power distance in different types of firms may moderate its effect.

Thus, in this study, the effects of budget participation on managerial performance, organisational fairness and motivation are examined. Furthermore, this study also investigates the indirect relationship between participation and performance through organisational fairness and motivation. Finally, the interaction effects of organisational culture and budget participation on organisational fairness, motivation and managerial performance are also examined.

3.3 Theoretical Framework and Hypotheses

Figure 3.1 shows the theoretical framework for the study. The discussions on the formulation of hypotheses are presented next.

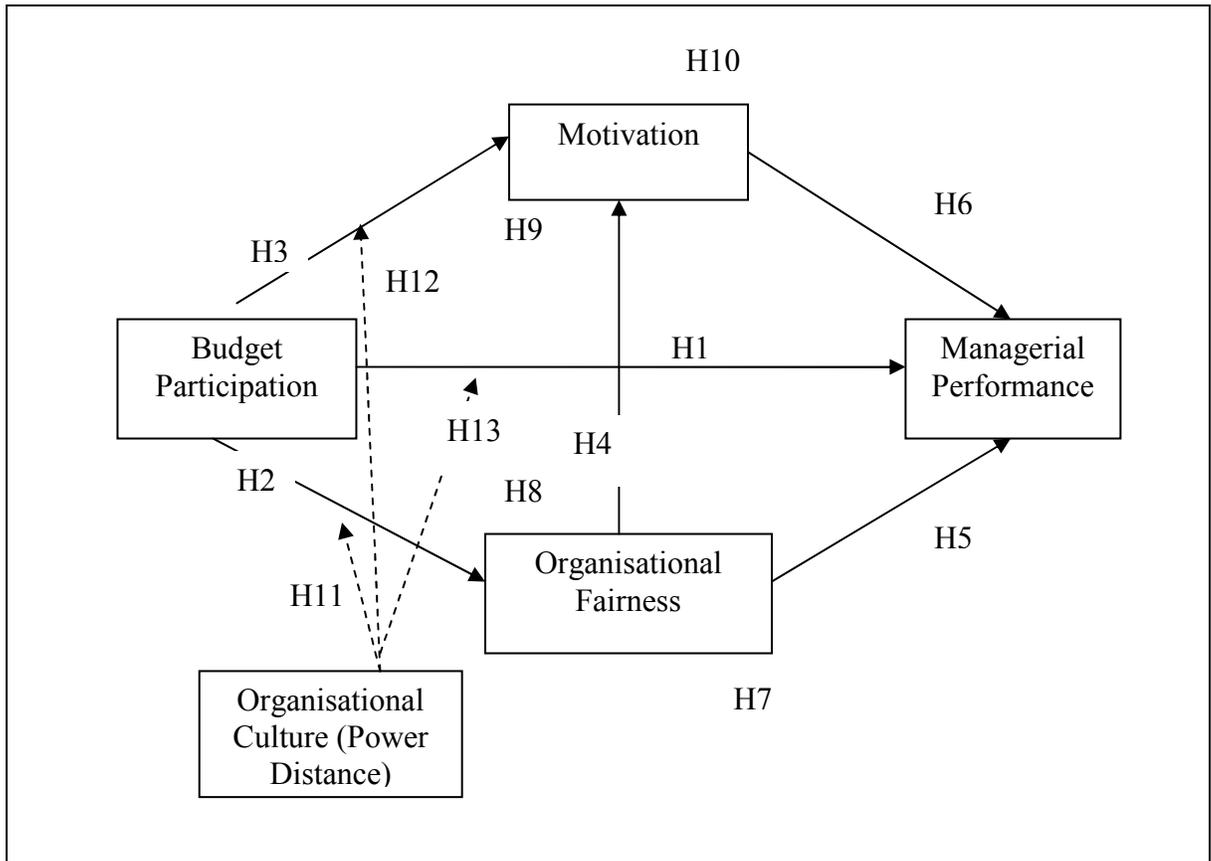


Figure 3.1: Theoretical Framework of the Research

3.3.1 Budget Participation and Managerial Performance

Budget participation is one of the dimensions of budgeting style (Kenis, 1979; Merchant, 1981). This style of budgeting involves a process by which managers provide views and have some influence over the budget that is prepared by the management (Kenis, 1979; Magner et al., 1995; Shields and Shields, 1998). Participative budgeting enables the involvement of managers in budgetary decisions and provides possibilities for the influence of the final budget.

According to the goal setting theory, specific and clear goals lead to an increase in the performance of employees. Even though there was no conclusive evidence regarding the role of participation in enhancing performance, Locke and Latham (1984) and Latham and Locke (1979) acknowledge the benefit from participation, such as the sharing of knowledge between managers involved in the decision making process. This conclusion is supported by the empirical evidence of participation in task-goal setting (Erez et al., 1985; Hollenbeck and Klein, 1987) and in budgetary setting (Brownell, 1982a; Chalos and Haka, 1989; Chong and Chong, 2002; Merchant, 1981).

It is suggested that by involving employees in setting up budgets, more specific and clear budgets can be prepared, thus increasing their performance. This is because when the employees are involved in the budgeting process, they personally set the goals or standards to accomplish (Mia, 1989). They feel responsible to achieve them and appropriate action will be undertaken to realise the goals, which consequently enhances performance.

Participation also encourages the dissemination and exchange of relevant knowledge and information to and from subordinates and their superior in fulfilling task requirements (Agbejule and Saarikoski, 2006; Parker and Kyj, 2006; Shields and Shields, 1998). Moreover, it also ensures budget adequacy (Nouri and Parker, 1998), leads to more trust of subordinates for both the organisation and their superior (Lau and Tan, 2006), increases organisational commitment (Nouri and Parker, 1998; Parker and Kyj, 2006; Wentzel, 2002) and enhances transparency (Lau and Lim, 2002).

All these positive effects of participation may lead to improved employee performance. Even though Bryan and Locke (1967), Cherrington and Cherrington (1973) and Locke and Schweiger (1979) found a negative impact on participation, Kenis (1979) found an unrelated association, while Milani (1975) found a weak relationship. More recent literature, however, has provided empirical evidence for the benefit of participation in enhancing managerial performance, for example studies by Brownell (1982a), Brownell and McInnes (1986), Chalos and Haka, (1989), Merchant (1981), Lau and Lim (2002) and Wentzel (2002).

In this study, it is also expected that budget participation can increase managerial performance. Hence, the following hypothesis is developed:

H1: There is a positive relationship between budget participation and managerial performance

3.3.2 Budget Participation and Organisational Fairness

There are two dimensions of organisational fairness considered in this study: distributive fairness and procedural fairness.

Distributive fairness is related to the fairness of the final budget prepared by the management (Gilliland, 1993; Tang and Sarsfield-Baldwin, 1996). If employees have some influence in the budget that was set, the perception of distributive fairness may be enhanced. Moreover, distributive fairness could also be enhanced by allowing them to have some say on matters that affect their work and their performance.

Equity theory suggests that individuals perceive distributive fairness as the ratio of their output towards input (Adams, 1965). Distributive fairness occurs when output and input are balanced. Output is viewed as the outcome of one's process (compensation in terms of money or comfort) and input is viewed as something that the individuals contribute (effort or training) (Lindquist, 1995). In the participatory budgeting context, while budgeted outcome is viewed as output, managers' effort is viewed as input (Lindquist, 1995). Thus distributive fairness exists when there is a balance between the effort and the outcome, otherwise, unfairness perceptions will be created.

It is argued that when individuals participate in the budgeting process, it provides a platform for the employees to contribute some effort and his or her ability to the budget. This may include getting relevant information to increase the effectiveness of the budget. Distributive fairness occurs if the resulted budget is what they expected it to be, the budget is attainable and fair. Thus it is suggested that through participation, the expectation that the

budget is fair and attainable is increased, thus increasing the perceptions of distributive fairness.

Moreover, according to the instrumental theory (Conlon, 1993; Lindquist, 1995; Wentzel, 2002), when the employees or subordinates are given the chance to express their opinions, there is a good chance for subordinates to influence the budget. When they have some influence over the budget, their distributive fairness will be increased. Thus, it is proposed that by allowing participation in the budgeting process, the participants (managers, subordinates) can affect the decision process, so that they can achieve the targeted goal. The perception of distributive fairness should increase as the tendency to have a more favourable budget is increased.

While distributive fairness is to ensure the achievement of an attainable budget, procedural fairness deals with the fairness of procedures or processes applied to determine the final budget. Based on procedural justice theory, participation enables subordinates to have both voice and vote, which makes them feel that the procedures are fair (Lindquist, 1995). When they have both voice and vote, they perceive that they have a high degree of process control in their budget (Lindquist, 1995). Thus, it is suggested that when the degree of process control is increased, the perceptions of procedural fairness will also be increased.

Participation also fosters the exchange of information, in which managers can express the organisation's goals and expectation to employees and similarly employees may obtain information regarding their task and responsibilities (Tang and Sarsfield-Baldwin, 1996). Moreover, this move could enhance the positive perceptions of fairness, which may

improve employees' satisfaction (Tang and Sarsfield-Baldwin, 1996) and consequently increase performance.

In addition, the understanding of the way budget is distributed is influenced by participating in the process. When they participate, control over processes is gained (Wentzel, 2002). When employees have higher process control, their perception of procedural fairness is then enhanced.

Extant literature has suggested the positive impact of participation on both distributive and procedural fairness. For instance, the studies by Wentzel (2002) and Maiga and Jacobs (2007) provided empirical evidence on the effect of budget participation on both dimensions of organisational fairness.

Thus, the following hypothesis is further suggested:

H2a: There is a positive relationship between budget participation and distributive fairness

H2b: There is a positive relationship between budget participation and procedural fairness

As a whole,

H2: There is a positive relationship between budget participation and organisational fairness

3.3.3 Budget Participation and Motivation

Participation in decision making enables the communication and agreement of organisational financial goals. Through participation, subordinates may have the opportunity to provide essential information regarding their task requirements. Subordinates are normally well-versed about their working environment than superior, then by involving subordinates in the decision making process, enable superior to design a better budget-goal, which motivates employees to achieve the budget (Shields and Shields, 1998).

It is theorised that for the budgets that are set through participation, the aspiration level of employees will increase (Becker and Green, 1962). Thus, employees are more motivated to achieve what they help to create.

Moreover, participation in decision making improves the morale of the employees (Cherrington and Cherrington, 1973). Participation increased job satisfaction (Brownell, 1982a; Chenhall and Brownell, 1988; Kenis, 1979; Lindquist, 1995), improve goal and organisational commitment (Chong and Chong, 2002; Parker and Kyj, 2006) and makes employees feel appreciated and want to become part of the activities and improves employees' attitude towards their job (Milani, 1975).

From a goal setting perspective, participation enables the creation of specific budgets, which improves task uncertainty. As the budget portrays clear directions to be headed, more positive feelings towards the budget emerge for its achievement. This in turn enhances the motivation level of the employees. Moreover, Bryan and Locke's (1967) experimental study proposed that by giving subjects a specific goal to be achieved, favourable attitudes would be portrayed in the task assignments. This positive attitude is

further supported by subsequent researchers (Kenis, 1979; Merchant, 1981; Searfoss and Monczka, 1973) who suggest that participation leads to increasing motivation of employees.

Thus in this study, a similar relationship is expected.

H3: There is a positive relationship between budget participation and motivation

3.3.4 Organisational Fairness and Motivation

Organisational fairness in this study is related to the perception of fairness of the outcome or budget target the employee received and the perception of fairness of the procedures or processes involved. Fairness perceptions in the workplace exist if employees believe equality exists in the distribution amount (Lindquist, 1995) with reference to other managers (Maiga and Jacobs, 2007). It is based on the equity concepts that have been cited by most of the scholars (Alexander and Ruderman, 1987; Cropanzano et al, 2007; Lindquist, 1995) since the work of Adams (1965). Further, perceptions of fairness also are demonstrated if employees believe the procedures employed to determine the outcome is fair.

The fair process and fair procedures applied in the organisation enable the creation of a fairer outcome (budget outcome), thus increasing the fairness perceptions of the employees (Cropanzano et al., 2007; Fisher et al., 2002). Based on the goal setting theory, when the employees view budget as fair, they will commit to the budget as the level of goal acceptance is increased (Locke and Latham, 1990; Locke et al., 1988). Similarly, when the budget is viewed as fair, it increases the motivation to accomplish the budget. Employees'

perceptions of fairness serve as a motivational factor to encourage the achievement of the budget.

Positive feelings about fairness in budgeting process affect the employees' attitudes and behaviour. Employees portray favourable evaluations to the managers if they perceive that the budgeting processes are fair (Magner et al., 1995). In addition, employees with a better perception of the firm in which they work behave in the organisations' best interests (Cropanzano et al., 2007), show less absenteeism (McFarlin and Sweeney, 1992) and increase their work efficiency (Libby, 2001).

Moreover, previous studies show a meaningful organisational outcome appears with favourable perception of fairness. It encourages the subordinates–superior relationship in terms of increasing trust (Alexander and Ruderman, 1987; Folger and Konovsky, 1989; Lau and Tan, 2006; Lau et al., 2008; Maiga and Jacobs, 2007) and a better relationship between the individual and the organisation itself, for instance enhancing organisational commitment (Folger and Konovsky, 1989; Maiga and Jacobs, 2007; Wentzel, 2002).

All these favourable effects of the fairness impression suggest that fairness perception may serve as a motivational factor for employees in performing their task requirements. While perceived fairness in respect of the outcome of the budget and the procedures to determine those outcomes may become determinant to motivate employees, to date there has been no study that systematically evaluates the relationship. Further, Libby (1999; 2001) suggested that fairness leads to increased employee motivation, and yet no empirical evidence has been provided.

Thus, in this study, based on the positive influence that fairness could offer as discussed above, it is proposed that organisational fairness plays a role in enhancing employee motivation. The following hypothesis is formulated:

H4a: There is a positive relationship between distributive fairness and motivation

H4b: There is a positive relationship between procedural fairness and motivation

As a whole,

H4: There is a positive relationship between organisational fairness and motivation

3.3.5 Organisational Fairness and Managerial Performance

In equity theory, Adams (1965) put forward the concept of balancing the ratio of an individual's output to his or her input. In applying the concept in the budgeting process, the budget decision or budgeted outcome can be viewed as the output, while the individual's effort and ability can be viewed as the input (Lindquist, 1995). When both are matched together, the perception of distributive fairness resulted, and consequently improved the individual's performance.

Lindquist (1995) cited the work of Earley (1984) which found the goal setting procedures in procedural justice increased the employees' performance. Subsequent researchers also found a favourable effect of voice on performance (Earley and Lind, 1987; Lind et al., 1990). As procedural fairness is often viewed as having 'voice' in the budgetary process (Byrne and Damon, 2008), it can be suggested that procedural fairness perceptions lead to the enhancement of performance. Based on procedural justice theory, Fisher et al. (2002)

also concluded that “fairness considerations in the budget-setting process [are] important determinants of subordinate performance” (p. 40).

Extant literature also provides empirical evidence for the direct relationship between fairness perceptions and performance. For instance, Byrne and Damon (2008) and Libby (2001) found a significant main effect in the relationship between perception of fairness and performance. In contrast, Libby (1999) and Lindquist (1995) were unable to demonstrate a significant influence of fairness perception and performance.

Even though there is a conflict in the findings of the relationship between fairness perceptions and performance, other literature has provided empirical evidence for the positive impact of perceived fairness on the attitudes and behaviour of employees, for instance, in the development of employees’ satisfaction (Alexander and Ruderman, 1987; Folger and Konovsky, 1989; Lau et al., 2008; Lindquist, 1995; Tang and Sarsfield-Baldwin, 1996), enhancing job involvement (Tang and Sarsfield-Baldwin, 1996) and decreasing retaliation behaviour (Skarlicki and Folger, 1997), for instance, the tendency to create slack (Maiga and Jacobs, 2007) and job related tension (Alexander and Ruderman, 1987; Lau and Tan, 2006).

These positive benefits arising from the contribution of fairness perception support the consequent favourable effect on managerial performance. As such, the following hypotheses are proposed:

H5a: There is a positive relationship between distributive fairness and managerial performance

H5b: There is a positive relationship between procedural fairness and managerial performance

As a whole,

H5: There is a positive relationship between organisational fairness and managerial performance

3.3.6 Motivation and Managerial Performance

In a participative budgeting context, based on goal-setting theory, budget serves as a goal to be achieved at the organisational level. The fulfilment of self-satisfaction upon achieving budget goals encourages them to exert more effort in fulfilling task requirements (Dermer, 1975). This motivation device can enhance managers' performance and subsequently could develop a feeling of accomplishment and personal achievement as a return for attaining favourable budget variance. This argument proposes that improving employee motivation can increase managerial performance.

Moreover, in a goal setting perspective, a clear, tight but attainable goal is the most preferred type of budget (Becker and Green, 1962; Hofstede, 1968; Kenis, 1979; Locke and Latham, 1984). Budget specified by the management through a participatory process enables the creation of an attainable budget and it builds managers' motivation to achieve the targeted goal (Merchant, 1981).

The theory of work performance also stresses that motivation is one of the factors that leads to an increase in managerial performance (Blumberg and Pringle, 1982). It is argued that as motivation is related to psychological characteristics, it affects the individual's ability to perform their tasks effectively. When there is a high level of motivation it fosters a high level of performance (Agbejule and Saarikoski, 2006).

Previous research has suggested the positive effects of motivation in enhancing performance (Brownell and McInnes, 1986; Kenis, 1979; Shields and Shields, 1998; Wong-On-Wing et al., 2010). Locke and Schweiger (1979) also provided significant evidence in their empirical study in the psychological domain for a relationship between motivation and performance. In this study, it is also proposed that motivation may increase the performance of employees.

H6: There is a positive relationship between motivation and managerial performance

3.3.7 Budget Participation, Organisational Fairness and Managerial Performance

There are a number of studies that have examined the relationship between budget participation and managerial performance, however, the findings are often conflicting. The findings range from positive relationship (Brownell, 1982a; Brownell and McInnes, 1986; Merchant, 1981), negative relationship (Cherrington and Cherrington; Bryan and Locke, 1967; Locke and Schweiger, 1979) to unrelated relationship (Kenis, 1979), suggesting the possibilities of indirect relationship between participation and managerial performance (Brownell, 1982b; Hopwood, 1976; Shields and Shields, 1998).

Various studies have examined the mediating effect of attitudes (Milani, 1975), budget adequacy (Nouri and Parker, 1998), goal and organisational commitment (Maiga and Jacobs, 2007; Nouri and Parker, 1998; Parker and Kyj, 2006; Wentzel, 2002), fairness perception (Wentzel, 2002), information sharing and role ambiguity (Parker and Kyj, 2006) in the relationship between participation and performance.

In applying the goal setting concept in the participatory budgeting environment, it is suggested that fair and reasonable goals lead to the enhancement of the performance of employees. Involving managers in the budgeting process enables the control and influence of the budget, thus increasing the fairness perceptions of budgeted outcome and the procedures used to determine that outcome. These increments of both distributive and procedural fairness, in turn, increase managerial performance.

Wentzel (2002), who proposed a model that examined the mediating effect of fairness perceptions and goal commitment, found that both fairness perceptions and goal commitment mediate the relationship between participation and performance. In view of this favourable effect, this study attempts to provide some insights by examining the effect of budget participation on performance through the fairness perceptions variable. The purpose is to provide generalisability of Wentzel's findings in different settings. As such it is expected that the perception of organisational fairness may mediate the relationship between budget participation and performance.

Moreover, since Wentzel (2002) and Maiga and Jacobs (2007) found a significant positive relationship between participation and both distributive and procedural fairness, and Byrne and Damon (2008) found a significant positive relationship in the relationship between fairness and performance, it is argued that both perception of fairness may mediate the relationship between budget participation and performance. Thus, the following hypotheses are developed:

H7a: Distributive fairness mediates the relationship between budget participation and managerial performance

H7b: Procedural fairness mediates the relationship between budget participation and managerial performance

As a whole,

H7: Organisational fairness mediates the relationship between budget participation and managerial performance

3.3.8 Budget Participation, Organisational Fairness and Motivation

Extant literature provides evidence that the relationship between participation and motivation is mixed. Kenis (1979), Merchant (1981) and Searfoss and Monczka (1973) are examples of studies that demonstrate the positive influence of participation on motivation. In contrast, Brownell and McInnes (1986) were unable to support a significant positive relationship.

These inconsistent findings may suggest the possibility of an indirect effect that participation has on motivation. Shields and Shields (1998) suggested that the relationship is far more complex. The relationship between participation and motivation may not be a direct one; it may be indirectly related through mediating variables. One possible variable may be organisational fairness, which consists of distributive fairness and procedural fairness.

It is argued that when the employees participate in the decision making process, the possibility to influence the final budget set is increased, thus enhancing the likelihood of having a more favourable budget. This in turn can increase employees' motivation in performing their tasks. Similarly, participation in budget creation may increase the perceived participation of procedural fairness, and consequently can improve motivation of employees.

Previous studies have provided evidence that budget participation has a significant effect on both distributive fairness and procedural fairness (Maiga and Jacobs, 2007; Wentzel, 2002). Even though no studies have examined the effect of fairness perception on motivation, it is proposed that these fairness perceptions may increase employees' motivation.

Both dimensions of organisational fairness have been examined as intervening variables in the relationship between budget participation and performance (Wentzel, 2002) and the relationship between budget participation and budget slack behaviour (Maiga and Jacobs, 2007). However, at present no studies have examined the effect of fairness perception in the relationship between participation and motivation.

Thus, this study fulfils the gap by investigating the effect of fairness perception in the participation–motivation relationship. The following hypothesis is formulated:

H8a: Distributive fairness mediates the relationship between budget participation and motivation

H8b: Procedural fairness mediates the relationship between budget participation and motivation

As a whole,

H8: Organisational fairness mediates the relationship between budget participation and motivation

3.3.9 Budget Participation, Motivation and Managerial Performance

Previous scholars have argued that with conflicting findings in the participation and performance relationship, it is very likely that the relationship is indirect rather than direct (Hopwood, 1976; Shields and Shields, 1998; Shields and Young, 1993). One variable that may mediate the relationship is motivation. This is also based on the suggestion by Becker and Green (1962) that the involvement of employees in the budget setting process increases the motivation of employees, and consequently increases the performance of employees.

It is argued in the goal setting theory that participation enables the creation of a more acceptable budget that builds the motivation level of managers to be more committed to achieve it. This in turn may enhance the performance of managers as they are more motivated in performing their tasks.

There are various studies that suggest the favourable effect of participation on motivation (Kenis, 1979; Merchant, 1981; Searfoss and Monczka, 1973) and the positive effect of motivation on performance (Brownell and McInnes, 1986). This argument suggests that participation in budgeting may increase the motivation of employees and consequently can improve managerial performance.

The following hypothesis is further suggested:

H9: Motivation mediates the relationship between budget participation and managerial performance

3.3.10 Organisational Fairness, Motivation and Managerial Performance

The findings for the association between fairness perception and managerial performance are also mixed. Some studies provided empirical evidence for the favourable effect of fairness perceptions on performance (Libby, 2001; Byrne and Damon, 2008), while others failed to show significant influence of fairness perceptions on performance (Lindquist, 1995; Wentzel, 2002).

These inconsistent results may suggest the influence of other variables that may mediate the relationship between fairness perception and managerial performance. Libby (1999) also provided a similar conclusion. In her experimental study that examined the effect of fair budgeting process on performance, she concluded that “it is unclear whether fairness leads to performance directly or through some intervening or moderator variables” (p. 136).

While various research was conducted to examine the effect of certain variables in affecting fairness – performance relationship, for instance, budget participation (Lau and Lim, 2002; Lindquist, 1995) and goal commitment (Wentzel, 2002) – none of the studies examined the intervening effect of motivation in the relationship between organisational fairness and performance relationship.

This study contributes to the existing literature by providing empirical evidence for the possibility of the motivation to mediate the effect of both dimensions of organisational fairness, distributive and procedural fairness, on managerial performance. The hypotheses below are further suggested:

H10a: Motivation mediates the relationship between distributive fairness and managerial performance

H10b: Motivation mediates the relationship between procedural fairness and managerial performance

As a whole,

H10: Motivation mediates the relationship between organisational fairness and managerial performance

3.3.11 Budget Participation, Organisational Fairness and Organisational Culture

Culture is defined by Hofstede (1984a) as mental programming that structures certain groups of people or nations to behave or think in ways which distinguish one group of people or nation from one another. The five dimensions of culture are power distance, individualism, uncertainty avoidance, masculinity and Confucian dynamism. Consistent with O'Connor (1995), in this study only power distance culture is used to represent organisational culture.

In the budgeting context, it is theorised that participation in high power distance societies is less effective compared to low power distance societies (Hofstede, 1983). The reason is mainly that the members of high power distance societies favour the autocratic style of leadership, in which a superior gives clear direction and goals to be achieved. Unlike high power distance societies, low power distance societies are more prone to participate in decision making, especially in those decisions that affect their task requirements and performance evaluation.

Hofstede (1983) classified Malaysia and other Asian nations as having high power distance cultures. Even though Malaysia obtained the highest score as regards power distance level (Hofstede, 1983; 1984b), in the globalisation era nowadays, qualification and international exposure to different cultures might change this 'mental programming' in such a way that companies in developing countries may practise low power distance culture. No relationship is found between culture and evaluative style in Lau and Tan's (1998) study, probably due to the tertiary education possessed by managers.

However, in line with the rapidly changing business environment and the emergence of multinational companies in which the home based is at a low power distance level, but the subsidiaries are at a high power distance level (Malaysia), the participation effectiveness in budgeting process may differ. O'Connor (1995) and Frucot and Shearon (1991) in their empirical findings found that it is not where the company is situated but the home countries of the company that will affect the culture.

Thus, in this current study, in order to examine the interaction effect between culture and participation in different levels of power distance, samples are collected from companies with different ownership structure: those controlled by local equities and those owned by foreign equities.

Previous studies have examined the interaction effect of power distance and participation in affecting performance (Lau and Tan, 1998; Lau and Buckland, 2000), role ambiguity and the relationship between manager and subordinate (O'Connor, 1995). In addition, culture also has an impact on the interrelationship between locus of control and participation on job satisfaction (Frucot and Shearon, 1991).

While power distance culture may affect the usefulness of participation in increasing both distributive and procedural fairness, to date, no published studies that have empirically examined the effect. Thus, in this study it is proposed that organisational culture may interact with budget participation in affecting perception of organisational fairness.

The following hypothesis is further suggested.

H11: Organisational culture moderates the relationship between budget participation and organisational fairness

3.3.12 Budget Participation, Motivation and Organisational Culture

The impact of participation in improving employees' motivation cannot be denied. Most of the studies that examine the relationship between budget participation and motivation revealed a significant positive relationship (Kenis, 1979; Merchant, 1981; Searfoss and Monczka, 1973). However, the cultural differences may mitigate the relationship.

In high power distance countries, even though participation is being practised, the effectiveness of the participation role can be questioned. Employees are normally given budget target that is imposed from the top management. This action can demotivate employees since no opportunity is given to provide their views. On the other hand, for companies which have a low power distance culture, motivation may increase through participation.

While budget participation is related to motivation (Hofstede, 1968; Kenis, 1979; Merchant, 1981; Searfoss and Monczka, 1973), the impact of cultural differences on the relationship is rarely examined and to date there is no published study that examines whether cultural differences have interaction with participation in enhancing employees' motivation.

In this study, it is proposed that the cultural effect represented by power distance may have a moderation effect in the previously identified relationship of budget participation and motivation. The following hypothesis is further suggested.

H12: Organisational culture moderates the relationship between budget participation and motivation

3.3.13 Budget Participation, Managerial Performance and Organisational Culture

In the absence of consistent findings in the relationship between budget participation and managerial performance, apart from examining its possible explanations from the impact of intervening variables, the relationship may be contingent upon other moderating variables.

Moderating variables that have been used in the budget participation-performance relationship include locus of control (Brownell, 1981; Brownell 1982a; Frucot and Shearon, 1991), organisational size (Merchant, 1981), functional area (Brownell, 1985), type of state information (Chalos and Haka, 1989) and cost management knowledge (Agbejule and Saarikoski, 2006).

As Douglas et al. (2007), Frucot and Sheron (1991), Harrison et al. (1994) and O'Connor (1995) provided empirical evidence that organisational culture plays a role in influencing employees' attitudes and organisational behaviour, the interaction between culture and budget participation on managerial performance may be expected. It might be expected that the relationship between budget participation and managerial performance is stronger in low power distance companies. On the other hand, the relationship between budget participation and performance is weaker in high power distance companies. In other words,

low power distance company provides a more conducive environment in enhancing the role of budget participation to improve performance. Employees in low power distance companies are more likely to participate in decision making as the gap between subordinate and superior is expected to be low. As such, the following hypothesis is developed:

H13: Organisational culture moderates the relationship between budget participation and managerial performance

Based on the theoretical development that has been discussed above, Figure 3.1 shows the theoretical framework for this study. This model proposes that fairness perception and motivation act as mediating variables in the relationship between budget participation and managerial performance, while organisational culture is examined as a moderating variable.

Table 3.1 presents the summary of the research questions, objectives and main hypotheses developed.

Table 3.1: Summary of Research Questions, Objectives and Main Hypotheses

Research Questions	Research Objectives	Hypotheses
<p>1. Does budget participation have a direct relationship with managerial performance, organisational fairness and motivation?</p>	<p>1. To examine whether budget participation has a direct relationship with managerial performance, organisational fairness and motivation.</p>	<p>H1: There is a positive relationship between budget participation and managerial performance</p> <p>H2: There is a positive relationship between budget participation and organisational fairness</p> <p>H3: There is a positive relationship between budget participation and motivation</p>
<p>2. Does better perception on organisational fairness have a direct relationship with motivation and managerial performance?</p>	<p>2. To examine whether organisational fairness has a direct relationship with motivation and managerial performance.</p>	<p>H4: There is a positive relationship between organisational fairness and motivation</p> <p>H5: There is a positive relationship between organisational fairness and managerial performance</p>
<p>3. Does motivation have a direct relationship with managerial performance?</p>	<p>3. To examine whether motivation has a direct relationship with managerial performance.</p>	<p>H6: There is a positive relationship between motivation and managerial performance</p>

<p>4. Does organisational fairness mediate the relationship between: (i) budget participation and managerial performance, and (ii) budget participation and motivation?</p>	<p>4. To examine whether organisational fairness mediates the relationship between: (i) budget participation and managerial performance, and (ii) budget participation and motivation.</p>	<p>H7: Organisational fairness mediates the relationship between budget participation and managerial performance</p> <p>H8: Organisational fairness mediates the relationship between budget participation and motivation</p>
<p>5. Does motivation mediate the relationship between: (i) budget participation and managerial performance, and (ii) organisational fairness and managerial performance?</p>	<p>5. To examine whether motivation mediates the relationship between: (i) budget participation and managerial performance, and (ii) organisational fairness and managerial performance.</p>	<p>H9: Motivation mediates the relationship between budget participation and managerial performance</p> <p>H10: Motivation mediates the relationship between organisational fairness and managerial performance</p>
<p>6. Does organisational culture moderate the relationship between: (i) budget participation and organisational fairness, (ii) budget participation and motivation, and (iii) budget participation and managerial performance?</p>	<p>6. To examine whether organisational culture moderates the relationship between budget participation and organisational fairness, motivation and managerial performance.</p>	<p>H11 Organisational culture moderates the relationship between budget participation and organisational fairness</p> <p>H12 Organisational culture moderates the relationship between budget participation and motivation</p> <p>H13 Organisational culture moderates the relationship between budget participation and managerial performance</p>

3.4 Summary

This chapter presents a discussion of the theoretical foundation for this study. The justifications for the use of a goal setting theory as a basis for the theoretical framework are also presented.

Furthermore a discussion of the development of the hypotheses is presented. Altogether, there are 13 hypotheses developed. Generally the hypotheses cover the direct relationship between the variables, the mediating effect of fairness perceptions and motivation in the relationship between budget participation and managerial performance and the moderating effect of organisational culture.