THE ROLE OF ORGANIZATIONAL FAIRNESS AND MOTIVATION IN THE RELATIONSHIP BETWEEN BUDGET PARTICIPATION AND MANAGERIAL PERFORMANCE: A CONCEPTUAL PAPER

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Abstract

The debates related to the role of budget participation in organizations have attracted the attention of management accounting researchers for decades. However, studies examining the relationship between budget participation and performance have found inconsistent results ranging from positive relationship to negative relationship. The inconsistent findings have encouraged researchers to further investigate for the existence of mediating variables in the relationship between budget participation and managerial performance. In this study, a more comprehensive model of participative budgeting that incorporates the element of fairness and motivation is proposed. Participation is modeled to have an indirect effect on performance through two intervening variables of organizational fairness and motivation. In particular, the objective of this study is to examine the relationship between budget participation and managerial performance. This study also aims to examine the mediating role of organizational fairness and motivation in the relationship between budget participation and managerial performance.

Key words: Budget participation; managerial performance; organizational fairness; distributive fairness; procedural fairness; motivation.

Introduction

The debates related to the role of budget participation in organization have attracted the attention of management accounting researchers for decades. Extensive research has investigated the effect of budgetary participation mainly on satisfaction and performance of subordinates (Cherrington and Cherrington, 1973; Kenis, 1979; Brownell, 1982; Frucot and Shearon, 1991; Lindquist, 1995). While the relationship between budget participation and satisfaction generally are found to be significant (Cherrington and Cherrington, 1973; Kenis, 1979; Brownell, 1982), there exist inconsistency in the findings of empirical research examining the relationship between budget participation and performance. The results range from positive relationship (Merchant, 1981; Brownell, 1982; Brownell and McInnes, 1986) to negative relationship (Bryan and Locke, 1967; Cherrington and Cherrington, 1973; Locke and Schweiger, 1979), while others reported unrelated association (Kenis, 1979).

The inconsistent findings have motivated researchers to further investigate the possibilities of the existence of mediating or moderating variables in the relationship between budget participation and managerial performance. It is suggested that by participating in the budget setting process, individual’s perception of organizational fairness may be improved and in turn increase individual’s performance (Wentzel, 2002). Even though there are studies in other domain that examined the influence of fairness on employees’ attitudes and behaviors, only a few studies in management accounting literature that examine the effect of budget participation on both distributive and procedural fairness (Wentzel, 2002; Maiga and Jacobs, 2007).

Further, participation also can increase individual’s motivation to achieve organizational goals. Based on the goal setting theory, the assignment of specific and reasonable goals (budgets) may increase individual motivation and enhance the performance level (Bryan and Locke, 1967, Locke and Bryan, 1968, Kenis, 1979, Merchant, 1981; Locke and Latham, 1984). While a few studies assumed that fairness perception

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