



The Influence of Budgetary Participation on Managerial Performance at Banking Sector in Bandung And Cimahi City

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Abstract

Budgeting participation could improve the managerial performance. Brownell & McInness's (1986) study indicates that participation in the budget making process has a significant positive effect on the managerial performance. However, another research about it have an inconsistency results. For example: Supomo's (1996) study indicates that there is no significant causal relationships between budgeting participation and managerial performance. Chalos's & Poon's (2000) research indicates similar result with Supomo's study.

This research investigates: (1) the influence of budgetary participation indirectly on managerial performance through fairness perception, goal commitment, and job relevant information as intervening variable and (2) the influence of budgetary participation directly on managerial performance, fairness perception, goal commitment, and job relevant information (JRI). The unique feature of this research is using fairness perception, goal commitment, and JRI as intervening variable in the same times. In addition, this research was made during the global financial crisis which resulted in the threat of total collapse of large financial institutions. Respondents in this research consist of 120 managers who are working at banking sector in Bandung and Cimahi.

The Statistical Analysis is based on Structural Equation Modeling of LISREL (Linear Structural Relation) Program. The results indicate that: (1) Budgetary participation is positive effect with fairness perception, goal commitment, and JRI. (2) Budgetary participation is also positive effect with managerial performance. (3) Fairness perception, goal commitment, and job relevant information have positive effect to managerial performance. (4) Fairness Perception has also positive effect to goal commitment. As well, goal commitment has positive effect to quality and quantity of job relevant information.

Keywords: budgetary participation, managerial performance, fairness perception, goal commitment, job relevant information (JRI).

INTRODUCTION

Budgets are managerial plans for action expressed in financial terms. They are short-term comprehensive profit plans that put management's objectives and goals into operation. The achievement of management's objectives and goal is a part of managerial performance. For those, people trying to create a budget to achieve goals and struggle to act in accordance with the budget that has been made and approved. Because people



make a budget and also because people try to act on the budget, the preparation and execution of the budget has a direct relationship to human behavior. For Example:

- a. A tight or a loose budget can be influenced by the management style of the person who make a budget.
- b. While the company said they would not raise salaries if the manager cannot reach a specific target, the manager would feel scared and did not like this budget.

From the above examples, it appears that although the budget may also be influenced by human behavior, but a budget can be used as a tool for controlling the behavior of company's managers to achieve the goal that have been set by the company. But on the other side, for the managers, the budget is considered as an obstacle career and is regarded as something that can worsen their working style. They assume that a budget could cause negative behavior of the managers. (Marconi, 1989, p.121-122).

Marconi (1989) also revealed that in the budgeting process, there are 3 (three) steps to be done, which includes: (1) goal setting, (2) implementation, (3) evaluation. By doing a 3 (three) stage is expected to generate a realistic budget and effective as guidelines for managers to reach goals and effective as a guide to measure the performance of their managers. But Is it true that the goals set in the budget is a goal that can be achieved according to the manager? If the budget had been made in the hope of helping and motivating people in the work that lead to personal fears and cause other negative behaviors, and if you develop a budget that ideal (not too tight and not too loose) is a tough job, why do companies still remain making and trying to use it? How do I create a budget to be a guideline and not a threat to the executing? How to prevent negative behavior when using the budget as a guide for companies to assess the performance of its managers and guidelines for managers to act in order to achieve its goals?

Today, participation in the budget making process is considered as one of the general approach that can increase the effectiveness of the company's budget, which would also increase managerial performance, and which in turn can improve the performance of the company. (Lina, 2002:1). But sometimes participation in budgeting is not an absolute approach to solve the above problems. Although participation in the budgeting held, sometimes participation can also produce negative behavior especially managers hoping to produce a budget that can be achieved with as easy as possible and to produce a budget that is very favor of managers. Of course it is not fair to the company and could make the company lose. According to



Marconi (1989) negative behaviors that often appear on participation in budgeting is slack and pseudo-participation.

More recently, the *Harian Pikiran Rakyat* (2006:11) reported that the Council seeks to prevent negative actions associated with the 2006 budget, such as mark-up in the budget, and others. This phenomenon indicates that the budgetary participation can still arise negative behaviors which can certainly worsen their performance, and it is interesting to study further.

Indeed, many researchers have examined the relationship budgetary participation on managerial performance, but unfortunately have not shown consistent results. Some previous researchers, such as: Brownell and McInnes (1986), Wentzel (2002) found that among budgetary participation and managerial performance are positive and significant relationship. However several other researchers, such as: Supomo (1996), Chalos and Poon (2000) found that between budgetary participation and managerial performance have insignificant relationship.

Gul (1995) stated that the inconsistency results of this study might be due to the absence of a simple direct relationship between budgetary participation and managerial performance. An expert called Govindarajan (1986) suggested that the inconsistency of research results can be resolved using contingency approach. Indriantoro and Supomo (2002) states that the contingency approach has an influence on the nature or direction of the relationship between variables. Thus, in this study, the contingency variables will have an impact on the relationship between budgetary participation and managerial performance. The contingency approach that defined here is a variable intervening or moderating variables. In this study, the authors are interested in using the perception of fairness, commitment to budgetary goals and information relevant to the job as an intervening variable. Thus the title of this study is “The Influence of Budgetary Participation on Managerial Performance at Banking Sector in Bandung and Cimahi City”. Several issues to be examined in this study are:

1. The influence of budgetary participation to increase the perception of fairness.
2. The influence of participation in budgeting for increased commitment to the budget target.
3. The influence of budgetary participation to increase information that is relevant to the job.
4. The influence of budgetary participation on managerial performance.



THEORITICAL FRAMEWORK AND HYPOTHESIS

Theoritical Framework

Budget Participation, Perceptions of Fairness, Managerial Performance

Choi and Mattila (2006) suggested that the information will lead to higher perceptions of fairness. Participation budgeting allows managers to obtain information about the preparation of a comprehensive and clear budget (Tyler, 1989, p.830-838). Thus, participation in budget making process can improve the perception about the fairness of the approved budget that made by budgeting participation system. Finally, The fairness perception can improve managerial performance, because they believe that the budget has been made as rational as possible so that the passion to achieve the objectives of this budget will increase. (Wentzel, 2002).

Fairness Perceptions and Goal Commitment

The Results of research conducted by Wentzel (2002) stated that the high of fairness perception will generate a strong commitment to the objectives of budget. It is because when the manager believes that a budget that has been made as rational as possible and realistic, so they will be convinced that the goals or targets that contained in the budget are also realistic. Thus, their commitment to the goal of budget will increase.

Budgeting Participation, Goal Commitment, and Managerial performance

Participation will enhance the company's commitment to targets (Vicent & Kar Ming, 2002). Strong commitment will encourage individuals to work hard to achieve organizational goals (Angel and Perry, 1981). Strong commitment to the goal of manager's budget influence positively on the managerial performance improvement (Wentzel, 2002).

Goal Commitment and Job Relevant Information

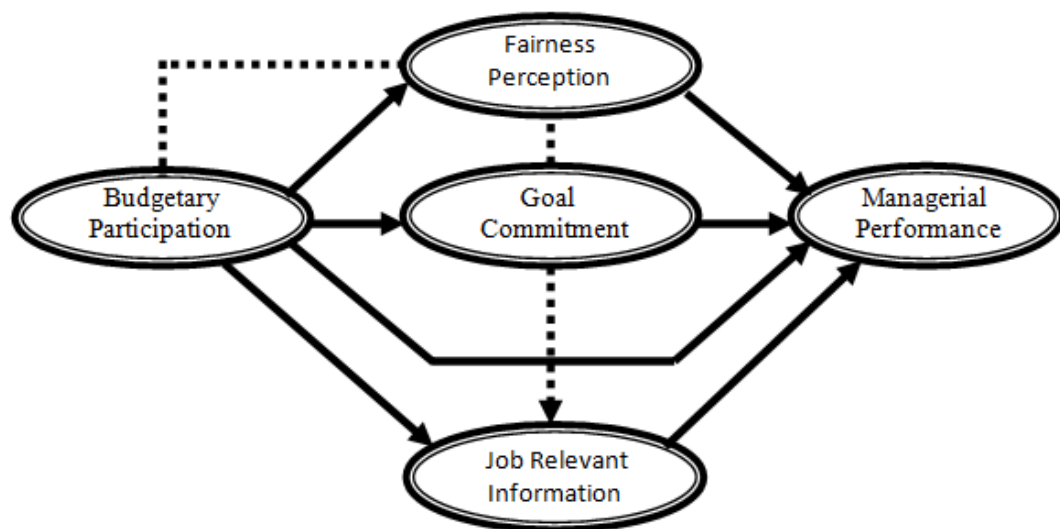
Strong commitment will encourage individuals to hard work to achieve organizational goals (Angel and Perry, 1981). One form of hard work is to find, collect, and analyze information that relevant to the job. (Vicent & Kar Ming, 2002). Thus, a strong commitment to the goal of the budget will impact positively on the information that is relevant to the job (Yusfaningrum and Ghozali, 2005).

Budgeting Participation, Job Relevant Information and Managerial Performance

In the process of participation, subordinates are given the opportunity to provide input in the form of information in its possession to his superiors that supervisor will gain a better understanding of knowledge that relevant to the job. (Yusfaningrum and Ghozali,

2005). Kren (1992) using a “ job relevant information (JRI)” as an intervening variable to explain the relationship of budgetary participation and managerial performance. The results are there is positive influence from budgetary participation on managerial performance when using information that relevant to the job as an intervening variable. And the research results of Vincent and Kar Ming (2002), found that there is a positive effect from job relevant information on managerial performance. Based on the description above, the research’s paradigm can be described as follows:

FIGURE 1. Research’s Paradigm



Hypothesis

Based on the description in the framework above, the hypothesis in this study were:

1. Hypothesis I:

Participation in budgeting can improve the fairness perception, goal commitment, and job relevant Information partially and simultaneously.

2. Hypothesis II:

Budgetary participation, the fairness perception, goal commitment, and job relevant information can improve the managerial performance partially.

THE OBJECT OF RESEARCH AND RESEARCH METHODOLOGY

The Object of Research



The objects in this study preferred the personality traits, attitudes, or the fundamental character of the individual manager in the company. Basic character identified in this study was the participation of the budget, an immediate response on the fairness, commitment to budgetary goals, the desire to find information that is relevant to the job, and managerial performance. The unit of analysis in this study is the managers who are related with budget making process or the managers that asked to reach the goals of budget in the banking sector at Bandung and Cimahi.

Research Methodology

According to Soekanto Soerjono Manheim's statement (Subiyanto, 2000:1), that is an action research investigation conducted diligently, carefully, and hoping to develop in-depth knowledge. Sekaran (2000) provides guidance on the design of the study, which includes aspects: (1) objective inquiry (purpose of the study), (2) Types of investigation, (3) The level of investigator disturbance (extent of researcher interference), (4) The investigation condition (study setting), (5) the unit of analysis (unit of analysis), and (6) Time Horizon. The design of the study the author will do refer to aspects suggested by Sekaran (2000), which includes:

1. The purpose of the study

The purpose of this research is to test the hypothesis, in which the hypothesis proposed in this study was developed from the results of previous studies along with the support of the theory that are relevant to this study. Testing this hypothesis is based on the data collected.

2. The type of investigation

Type of investigation is evident from the type of research relationships between variables. The type of relationship between the variables studied in this research in the form of a causal relationship. This means that the relationship between the variables of the other variables is a causal relationship. Theoretically, this causal relationship has been established based on a review of the literature and research results.

3. The level of researchers's disturbance

In this study, the extent about the level of disruption to the researcher depends on the environment or the conditions of the investigation conducted.

4. The investigation's environmental or conditions



Research on the apparent problems and presented in this study involves the managers that naturally occur in the day-to-day operations, in which the phenomenon takes place naturally without any intervention of the researcher.

5. The unit of analysis

The unit of analysis is determined by the formulation of the research problem or question, as it will affect the process of selecting, collecting, and analyzing data. The unit of data analyzed in this research is the data coming from the manager in the research area (the manager who works in the banking sector at Bandung and Cimahi).

6. Time Horizon

This research is a field with a survey method. Data will be collected by sending questionnaires to the managers who work in the banking sector which covers the time period of 2008.

This study used Structural Equation Model (SEM) as an analytical technique. According to Hair's statement (1998, p.604-605) that the minimum size of respondent if using SEM are 100-150 respondents and the ideal size of respondent if using SEM are 200 respondents, so the samples which taken in this study were 34 banks in Bandung and Cimahi with 120 respondents consisting of bank managers.

RESULTS AND DISCUSSION

Validity Test

This test is performed to determine the validity of this research instruments. Testing is done by correlating each item score by Spearman rank correlation analysis techniques appropriate to the scale of measurement data based on the Likert method that generates data with ordinal scale. The amount of data used is 30 pieces. The results are as follows:

TABLE 1. Validity Test Results

Variable: Participation In Budgeting		
Indicator	Validity Coefficients	Explanation
X1	0,871	valid
X2	0,761	valid
X3	0,950	valid
X4	0,896	valid
X5	0,884	valid



Variable: Fairness Perception

Indicator	Validity Coefficients	Explanation
Y _{1,1}	0,791	valid
Y _{1,2}	0,750	valid
Y _{1,3}	0,807	valid
Y _{1,4}	0,745	valid
Y _{1,5}	0,822	valid
Y _{1,6}	0,614	valid
Y _{1,7}	0,697	valid
Y _{1,8}	0,730	valid
Y _{1,9}	0,725	valid
Y _{1,10}	0,754	valid
Y _{1,11}	0,662	valid
Y _{1,12}	0,619	valid
Y _{1,13}	0,652	valid

Variable: Goal Commitment

Indicator	Validity Coefficients	Explanation
Y _{2,1}	0,850	valid
Y _{2,2}	0,710	valid
Y _{2,3}	0,857	valid

Variable: Job Relevant Information

Indicator	Validity Coefficients	Explanation
Y _{3,1}	0,862	valid
Y _{3,2}	0,912	valid
Y _{3,3}	0,877	valid

Variable: Managerial Performance

Indicator	Validity Coefficients	Explanation
Y _{4,1}	0,739	valid
Y _{4,2}	0,710	valid
Y _{4,3}	0,729	valid
Y _{4,4}	0,653	valid
Y _{4,5}	0,318	valid
Y _{4,6}	0,647	valid
Y _{4,7}	0,878	valid
Y _{4,8}	0,760	valid
Y _{4,9}	0,648	valid
Y _{4,10}	0,698	valid

Note: valid if the result > 0,3

Reliability Test



This test is performed to determine the reliability of this research instruments. Testing was conducted Spearman Brown analysis techniques with the amount of data being tested are as many as 30 pieces. The results are as follows:

TABLE 2. Reliability Test Results

Variabel	Equal-length Spearman-Brown	Keterangan
Participation in Budgeting	0,9592	Reliable
Fairness Perception	0,9635	Reliable
Goal Commitment	0,7325	Reliable
Job Relevant Information	0,8690	Reliable
Managerial Performance	0,9510	Reliable

Note: Reliable if the result > 0,70

Structural Equation Modelling (SEM) Analysis Results

In structural equation modelling there are two types of models that are formed, the measurement model and structural model. Measurement model describes the proportion of variance of each manifest variables (indicators) that can be explained in the latent variable. From the measurement model will be known significant indicator in the formation of the latent variables as an indication of validity of the relevant indicators to measure latent variables. In addition to testing significance of the manifest variables, the measurement model can also be searched construct reliability value that indicates whether the collection of the manifest variables have a high degree of correspondence in the form of latent variables. Lower limit of the value construct an acceptable reliability is 0.7 (Hair et al, 1998; p.612) and the limit variance extracted values are still acceptable is 0.5 (Hair et al, 1998; p.612)

After each measurement model of latent variables are described so elaborated structural model will examine the influence of each independent latent variables (exogenous latent variable) on the dependent latent variables (endogenous latent variable). From the result of combining the measurement model and structural model diagram obtained for the full model as follows.

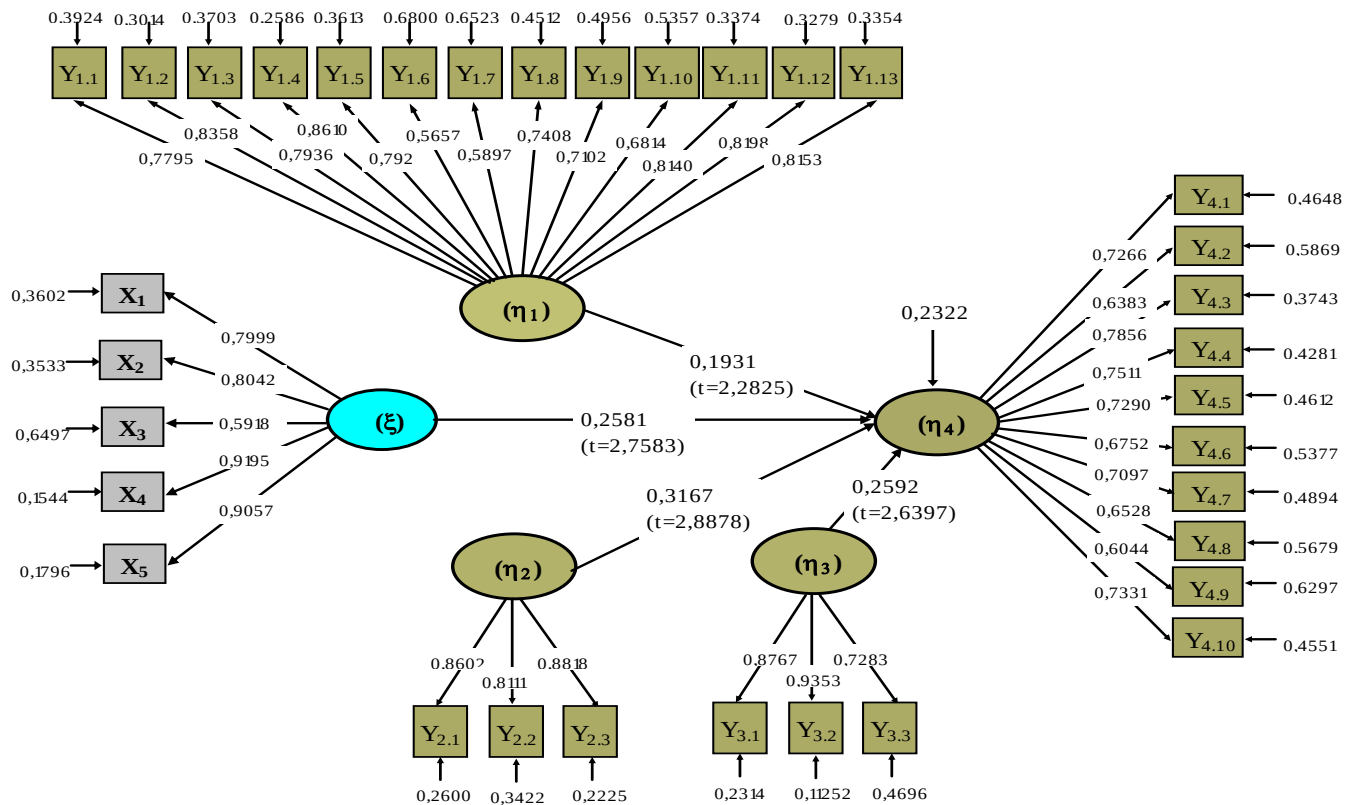


FIGURE 2. Structural Equation Modelling (SEM) Diagram

Ho. $\gamma_{41} = 0$: Participation in budgeting has no effect on managerial performance.

Ha. $\gamma_{41} \neq 0$: Participation in budgeting influence on managerial performance.

In the picture above can be seen in the path coefficients budgetary participation on managerial performance at 0.2581 with a positive direction. Path coefficient is positive can be interpreted that participation in budgeting positive influence on managerial performance then the value of t-count (2.7583) greater than tkritis (1.96) shows that at 95% confidence level can be concluded that there is a significant influence of participation in budgeting on managerial performance.

In the picture above can be seen also point the fairness perception coefficient on managerial performance at 0.1931 with a positive direction. Path coefficient is positive can be interpreted that the fairness perception have a positive effect on managerial performance then the target path coefficients budget commitment on managerial



performance at 0.3167 with a positive direction. Path coefficient is positive can be interpreted that the commitment to the goal of a budget positive influence managerial performance. The path coefficient of information relevant to the work of the managerial performance of 0.2592 with a positive direction. Path coefficient is positive can be interpreted that the job relevant information have a positive effect of managerial performance. Furthermore, the calculated t value (2.6397) is greater than t critical (1.96) shows that at 95% confidence level can be concluded that there is a significant influence of the job relevant information on managerial performance.

Limitation of Research

The unit of analysis in these studies is related to the manager or the assigned budget to achieve the budget targets in the banking sector in the city of Bandung and Cimahi. In order for the sampling of the unit of analysis may produce samples that can represent the population, the authors use the sampling technique called stratified random sampling.

The population is a manager who works in Bandung and Cimahi but with the limited data about the accurate number of bank manager in Bandung and Cimahi then the study sampling technique is used to determine the number of banks to be a place where the sample was taken. It can create the impression is recognized inconsistencies between units of analysis studied the process of retrieving a sample and the limitations / weaknesses of the study.

Thus, in the future if there is a better and more accurate research data about the number of bank managers in Bandung than now, it would be better if the number of managers is being used in a number of populations and being used in sampling process.

CONCLUSIONS

1. From the results of hypothesis testing and significance, participation in budget making process have a positive and significant impact on the fairness perception, the goal commitment of budget, and the job relevant information partially and simultaneously. This means that the greater opportunity given to managers to participate in the preparation of the budget will make the higher the perception of managers that the budget is fair and reasonable so the commitment of manager to reach the goal of budget will increase and the passion and effort of manager to finding job relevant information will higher.



2. From the results of hypothesis testing and significance, participation in the preparation of the budget, the fairness perception, the goal commitment, and the job relevant information have a positive and significant impact on managerial performance partially. This means that the magnitude of the manager's participation in the budgeting process that led to the manager's perception of the fairness about the budget also increases, which increases the manager's commitment and efforts to find job relevant information that increases the managerial performance.

SUGGESTION

For the next researcher, is expected to expand the research object or extend the model to include leadership styles (Sumarno, 2005) or locus of control (Lina, 2002) into the model. In addition, further research is also recommended to use another method that can overcome the weaknesses in the methods that being used in this study because the weakness in the survey method of data acquisition enables the emergence of dishonest answers in the questionnaire.

For Banking sector, to optimize the benefits of the budget for increasing managerial performance, the author suggest that the company can give an opportunity for managers to participate in the budget making process because it is useful for increase their commitment and efforts in reaching the goals which contained in the budget.

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