

Employees' Budget Participation and Its Effect on Departmental Performance in Sabah Local Authority

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Abstract

This study observes the effect of Budget Participation (BP) on the Departmental Performance (DP) through Organizational Commitment (OC) in Malaysian local authorities, specifically in Sabah. A questionnaire survey was conducted with responses from fifty-eight (58) budget preparers and budget users. The data was then analysed by using SPSS and tested through mediation analysis, path analysis and Pearson Product-Moment Correlation techniques. The findings reveal that employees' participation in budgeting setting at Sabah local authorities has a positive relationship with its DP. This positive relationship is even stronger with the mediation effect of OC. Thus, it advocates that BP among employees at Sabah local authorities has strong indirect effect on the DP, through the mediation effect of OC, between BP and DP, in Sabah local authorities.

Keywords: Budget Participation, Departmental Performance, Local Authorities, Organizational Commitment

1. Introduction

Budgeting is an important part in accounting process. It is advocated as the most important source of accountability structure where the past performance and future plan are synchronized, organizational, departmental and individual roles are crystallized and duly judged, and the responsibility of each unit in an organization effectively disseminated and shared among organizational members. As public sectors all over the world are undergoing structural and functional reform under the theme of the New Public Management that demands for better transparency and accountability, the role of budgeting has become more critical. Hence, in public sector like Malaysia, budget is important as it becomes an act passed by parliament and a legal document to be adhered. However the temptation among policy makers and practitioners in public sector to adopt budgetary system practiced by private sector, which is said to be more flexible, responsive, profit oriented and

the like, insofar, is not without critics and failure reports. One of the main factors claimed to be necessary for a budgetary system to success is the support from various level in organization, so as to ensure their commitment and contributions towards the goal and strategy set in the budgetary document. As such researchers and practitioners advocate the importance of BP among employees along the budgetary process and implementation. Nevertheless, it is noted that, less attention has been given on the effect of employees' Budget Participation (BP) in the budget settings particularly in public sector organizations. Thus, this area has been under research. Significantly, despite the fact that BP has long been implemented in Malaysian local authorities, which is at least for the past decades, there have been few studies being conducted pertinent to the effect of budgeting on the departmental performance in the scope of local authorities/public sector in Malaysia¹ specifically in Sabah. Therefore, the objective of this study is one fold that is to observe the effect of employees' BP on

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the Departmental Performance (DP) of local authorities in Sabah. This research is noteworthy as it contributes to literatures on the effect of BP in the budget setting on DP. It focuses on group level performance of budget preparers and budget users at Sabah's local authorities.

2. Local Authorities in Malaysia

Referring to the Ministry of Housing and Development of Malaysia, the local authorities can be divided into the several categories depending on the total number of population and annual revenue. The first category is the City Council, which is also known as City Hall. This is the highest level of local authorities with a total population exceeding 500,000 people and the annual revenue exceeding RM100 million. Secondly, the area falls into a Municipal Council category when it has a total population exceeding 150,000 people and annual revenue exceeding RM20 million. Thirdly, the District Council which represents a local authority in rural area, having a total population not exceeding 150,000 people and annual revenue less than RM20 million. Currently Malaysia has a total of 149 Local Authorities (including Kuala Lumpur City Hall), consisting of 13 City Halls, 38 Municipal Councils and 98 District Councils. While in Sabah, there is 1 City Hall, 3 Municipal Councils, and 20 District Councils. The Ministry of Housing and Local Government involvement in developing the city, municipal and district council will give effect to economic growth if they manage the resources allocation through budget location process efficiently and effectively. Thus, it shows that the preparers of the budget have big influence to create a budget appropriate for the organizations.

3. Literatures Review and Hypotheses Development

BP is known to be most researched topic in management accounting and behavioural theory has been used to explain human behaviour by analysing the antecedents and consequences present in the individual's environment. However, due to most researchers have different variables, different approach and research design in making causal inferences² thus provide inconclusive results and findings. While previous studies have shown mixed results³ ranging from strong positive effects^{2,3} to unclear or insignificant effect^{4,5} as well as to negative effect^{6,7} of

BP has on performance. Hence, it is signalling for a complex association between BP and performance. As such, considering other variables have been suggested by researchers as these variables are believed to have effect along the relationship between BP and performance. One of the variables suggested is Organizational Commitment (OC)^{1,2,8,9}. Accordingly, this study is incorporating OC in examining the effect of BP on the performance.

3.1 Departmental Performance (DP)

DP has been used specifically to measure the performance of public sector organization²⁸⁻³⁰ by examining the quantity and quality of the work produced, total number of innovations or new ideas generated by the units, accomplishment of unit production or service goal, operation effectiveness as well as morale of unit personnel of the department²⁸⁻³⁰. Based on these measurements, studies by William and Hazer²⁹ and Macintosh and William³⁰ have proven that managers' budgetary behaviour is related to managerial roles and it has a significant impact over DP. This finding is also supported by Kochik¹.

3.2 Budget Participation (BP)

BP refers to the process where manager is involved in making budget and has power to determine the budget¹⁰. Participation means there is communication between the participants. Lower – level managers will be involved in making the budget and come out with estimation, then voice it out to the top management. Abata¹² stated that participation of middle and lower managers in budgeting system may reduce information asymmetry in the organization and from this the lower level managers put high commitment to make and meet the budget plan. This shows that managers have dynamic roles in establishing budget with their day-to-day participation in departmental activities, thus they know what exactly the organization ability and need in allocating the resources through the budget making¹¹. Thus, this study includes the influence of managers in the participative budgeting.

Previous studies have proven that BP has positive effect on the managers' performance thus enhancing the DP. Through information sharing, sense of control and trust, which are reflected in a higher commitment, it shows that these budgetary information affects subordinates job performance¹³⁻¹⁵. In fact, prior literatures have proven that increased in employees' participation in the process of budgeting has led to heighten the DP.

Therefore, this study suggests that with employees' participation in the budget setting process, the quality of the setting up the budget will be improved, and consequently lead to better DP. Thus the following first hypothesis is developed.

Hypothesis 1: There is a positively association between BP and DP of budget preparers and budget users in Sabah local authorities.

3.3 Organizational Commitment (OC)

Organizational performance (OC) is defined as the connection that associates an individual to organization, which also refers to the bond that links the individual to the organization^{8,10,18}. This OC can be classified into two categories which are affective and continuance commitment¹⁹. Affective commitment is an emotional connection to the organization such that they strongly and enjoy the memberships in the organization²⁰. This indicates that one is willing to work because they love the job in that organization. The latter refers to a propensity to participate in constant lines of activities based upon cost that given to the individuals²⁰. This indicates that one will discontinuous their work if income they get is not reasonable.

Existing literatures suggest favourable job-related outcome through combination of greater exchange of information, well synchronisation of activities and increased employees' involvement is a result of manager's participation in budgeting²¹⁻²³. In fact empirical findings show that managers are confirmed to more likely become an ego-involved with the targets that they have involved in the setting². As such, the process of BP is believed to increase subordinates' trust, sense of control and ego-involvement with the organization. This subsequently causes less resistance to change and more acceptance of commitment to budget decisions¹⁰. Based on this, the second hypothesis for the study is derived as follows:

Hypothesis 2: There is a positive association between BP and OC of budget preparers and budget users of Sabah local authorities.

Other than that, literatures also suggest that OC has positive effect on employee motivation, job involvement, and job satisfaction and negatively related with absenteeism and turnover¹⁸. Additionally, there are several researchers who have suggested that employees' commitment towards organization is increased when they participate in decision-making process^{8,24-27}. Due to this, OC has been used as an intervening variable to envisage

the association between BP and performance. For example, Nouri and Parker⁸ and Yahya, Ahmad and Fatima²⁷ propose that BP has indirect effect on job performance through OC and there is positive relationship between BP and OC. It also suggests that as managers participates in the budget processes; they become more satisfied with their working environment, thus developing higher OC which leads to better performance^{8,27}. Therefore, the third hypothesis for this study is derived as the following:

Hypothesis 3: OC is expected to have a positive relationship with DP of budget preparers and budget users of Sabah local authorities.

The following Figure 1 portrays the research framework for the study.

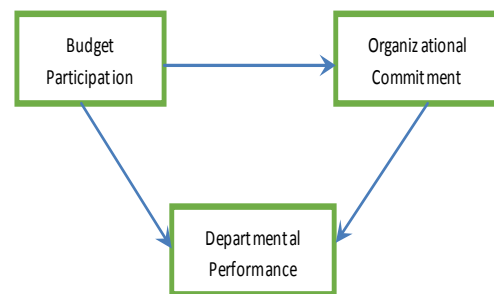


Figure 1. Research framework.

4. Research Design and Methodology

4.1 Research Design

This study applied quantitative analysis with cross sectional design to measure behaviour, knowledge, opinions or attitudes³¹. A questionnaire survey is used for data collection to enable the researchers to make generalization of findings from a sample of responses to a population that lead the researchers to make inference about some characteristics involved³².

4.2 Population, Sample and Data Collection

The population for this study is the local authorities in Sabah which represented by 1 city council, 3 Municipal Councils and 20 District Councils. Specifically, it focuses on budget preparers and budget users who are directly involved in the budget setting and that they have the ability to influence the budget setting processes. They involved in establishing a predetermined goals or stan-

dards of performance for their organization, reporting of actual performance results and evaluate the performance against the predetermined standards. The sample is drawn from the directory of local council provided by the Ministry of Housing and Local Government of Malaysia. A total of 85 questionnaires were distributed but only 68 were returned, with only 58 respondents that have completed the questionnaire. This represents a total of 68.23% respondents from the sample size of the study. All usable responses were then further analyzed by using Statistical Package for Social Science (SPSS).

5. Results

5.1 Descriptive Findings

Based on the usable sample collected, no responds were collected from the city hall, 13 samples or 22.41.5% from town councils and 45 samples or 77.59% were from districts council. Majority of the respondents are males (50.3%) while the remaining are females (49.7%). The result also indicates that 40.9% of the respondents are both budget users as well as budget preparers, 31.8% are budget preparers and the remaining of 27.3% are budgets users. The age of the respondents are ranging from 21 to 56 years old with majority of the respondents 62.1% or 36 held their current position in their organization between a period of 3 to 10 years, 12 of the respondents or 20.1% between 6 to 10 years, 10 or 17.24% held their current position between 11 to 15 years.

5.2 Reliability Test

Reliability test is conducted in order to examine the consistency of the answers from the respondents. Table 1 below shows the Cronbach Alpha (CA) coefficient value for each of the composite variable. Since the value of CA is more than 0.7, thus it confirmed the consistency of the answers from the respondents, thus the data is reliable as it fulfils the assumption of reliability.

5.2 Hypotheses Testing

To analyse the strong relationship between two variables, the study has conducted the Pearson Product-Moment Correlation Analysis. On the first stage, the analysis was focused on testing the relationship between BP and DP, and on the second stage the study tests the relationship between OCs with DP. While on the third stage the relationship between BP and OC was tested.

Table 1. CA value

Variable	Cronbach Alpha
BP	0.895
DP	0.851
OC	0.915

Table 2. Result of mediation analysis

Analysis/ Variables	β	T Value	P Value	Adj. R ²	Sobel Test
Independent Variable					
Departmental Performance (DP)					
Dependent Variable					
Budget Participation (BP)	0.332*	3.971	0.015	0.131	
BP/OC	0.421*	4.011	0.001	0.151	
Independent Variable					
Departmental Performance (DP)					
Dependent Variable Organizational Commitment (OC)	0.487*	1.35	0.003	0.218	
BP/DP OC	0.165*	4.127	0.032	0.129	2.173

* Path Coefficient

In order to check whether OC has a full or partially mediated effect on DP of the Sabah local authorities, the study conducted a regression analysis following the procedure suggested by Barron and Kenny³³. According to Kochik (2011) a variable may be considered as a mediator if it carries the influence of a given independent variable (IV) to a given dependent variable (DV). In this case, to establish a full mediation relationship, the effect of BP (IV) on DP (DV) controlling for OC (M) should be non-significant with the strongest demonstration of mediation occurring when the direct BP (IV) to DP (DV) path is zero. This procedure is also following the procedures as suggested by Baron and Kenny³³. Additionally, the regres-

sion analysis is performed as part of the procedure in path analysis as it assists to examine the effect (whether direct and indirect effect) of OC has on DP. The path analysis is important to test the fit of the correlation matrix against two or more causal models.

Table 2 presents the mediation analysis of the study. The result reveals that, BP was a significant predictor for DP at $p < 0.05$ with regression explains 13.1% variance in the DP. It is also found that, the BP has significant effect on OC at 5% level of which regression indicates that 15.1% explain the variance in the OC. When the study put forward DP as a criterion and that OC as a predictor, the result provides evidence that OC affects DP significantly at $p < 0.05$ with the regression explain 21.8% variance in the DP. Significantly, the result also reveals that OC has mediating effect on the relationship between BP and DP. This can be proven as the path coefficient between BP and DP has reduced from $\beta = 0.332$ to $\beta = 0.237$. Thus, it shows that as all the conditions have been fulfilled, therefore, it can be concluded that OC has marginally mediated the relationship between BP and DP. Besides, the study implemented a further test through Sobel Test to examine the significance of the indirect effect of BP and DP via OC. As indicated in Table 2 the mediator is significant ($Z = 2.173$, more than 0).

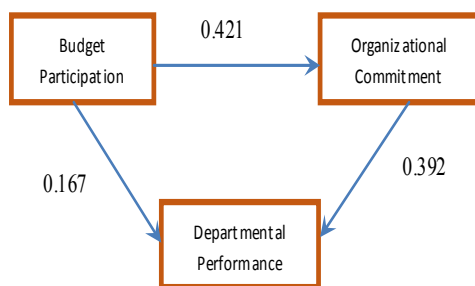


Figure 2. The path model for DP.

Figure 2 illustrates the total direct effect of BP on DP via OC of Sabah Local Authority. While Table 3 shows the total relationship between BP and DP of local authority in Sabah. The total correlation of 0.332 comprises of both direct effect (0.167) and indirect effect (0.165). The indirect effect of BP on DP consists of the following path:

$$BP \rightarrow OC \rightarrow DP \quad 0.421 \times 0.392 = 0.165$$

On the part of hypotheses testing, the study predicts that BP has a significant positive effect with DP (H1). The results presents that hypothesis (H1) is supported

as the $p < .05$. As such it proven that DP of Sabah local authorities is influenced by the participation of both budget preparers and budget users in the budget setting. This finding is consistent with previous studies^{1,2,8,9,13,14,27,34} as it suggests that employees' participation in budget setting enhances the DP of local authorities.

Table 3. Decomposition of observed correlation

Combination of Variables	Observed Correlation	Direct effect	Indirect effect	Spur effect
BP/OC	0.421	0.421	-	-
OC/DP	0.487	0.392	0.120	-0.025
BP/DP	0.332	0.167	0.165	-

As for H2, the study predicts a significant positive association between BP and OC in Sabah local authorities. The result shows that this H2 is supported as the BP is proven to have significant positive relationship with OC ($p < .05$). This may propose that, as employees involved in budget setting, the OC is thus increased, and therefore employees will be more supportive to achieve budget objectives in line with the organizational goals. This finding is also consistent with previous studies^{1,8,27}.

Last but not least, for H3, the result supports there is a significant positive relationship between OC and DP ($p < .05$). Hence providing evidence that more committed employees in local authorities will be more motivated and dedicated to their work, thus resulting in better DP. This finding corresponds to the results reported by previous studies^{1,8,9,27}.

6. Conclusion

This study observes the relationship between employees' BP and DP in Sabah local authorities. It explores the effect of BP for both budget preparers and users on DP in Sabah local authorities by incorporating OC as an intervening variable. The result suggests that DP is improved through BP. Nevertheless this effect is stronger in indirect direction compared to direct direction. In other words, it explains that although the association between BP and DP is significant, nonetheless the path analysis depicts that this correlation arose as BP has a strong correlation with the OC. The results further indicate that DP is influenced by the OC directly; as such BP itself is not directly affects the DP. As a conclusion, the study has found enough evidence

to suggest that BP of budget preparers and budget users affects DP of Sabah local authorities indirectly via OC. However, the study only used OC as an intervening variable to better link the relationship between BP and DP. Future researchers may examine other intervening variables such as job budget adequacy and role ambiguity¹, and motivation² in public sector as these variables may provide further insight on the effect of BP in Sabah local authority as well as in Malaysia as a whole.

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8. References

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