The Impact of Budget Participation on Job Performance of University Executives: A Study of APTIK-Member Universities in Indonesia

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ABSTRACT

This research aimed to test empirical evidence regarding the role of mediating variables on the impact of budget participation on job performance. The research population comprised 850 university executives from 16 APTIK-member universities. Data for the research were gathered through mail survey, with a response rate of 46.94 percent.

The results of the direct relationship test showed that budget participation had a positive and significant impact on job performance of university executives. The results from the structural equations showed that variables like trust, organizational commitment, budget adequacy and job satisfaction demonstrated a negative and significant mediating effect on the relationship between budget participation and job performance of university executives. This research indicated that the budget adequacy problem was the most critical mediating variable because it had a direct impact on the job satisfaction of university executives, which in turn affected their job performance.

Keywords: budget participation, trust, organizational commitment, budget adequacy, job satisfaction, job performance

บทคัดย่อ

การวิจัยนี้มุ่งทดสอบข้อมูลเชิงประจักษ์เกี่ยวกับอิทธิพลของกลุ่มตัวแปรกลางและการมีส่วนร่วมในการจัดสรรงบประมาณที่มีต่อผลการทำงาน ประชากรในงานวิจัยได้แก่ ผู้บริหารมหาวิทยาลัยระดับต่างๆ จำนวน 850 คน จาก 16 มหาวิทยาลัยในกลุ่มสมาชิก APTIK การเก็บข้อมูลดำเนินการโดยใช้การสำรวจด้วยแบบสอบถามทางไปรษณีย์ โดยมีอัตราการตอบกลับร้อยละ 46.94

การทดสอบความสัมพันธ์ทางตรง พบว่า การจัดสรรงบประมาณมีผลกระทบเชิงบวกต่อผลการทำงานของผู้บริหารมหาวิทยาลัย การวิเคราะห์สมการโครงสร้างแสดงให้เห็นว่า ตัวแปรกลาง 4 ตัวแปร ได้แก่ ความไว้วางใจ ความผูกพันต่อองค์กร ความเพียงพอของงบประมาณ และความพึงพอใจต่องาน มีผลกระทบเชิงบวกต่อความสัมพันธ์ระหว่างการมีส่วนร่วมในการจัดสรรงบประมาณและผลการทำงาน ทั้งนี้ความเพียงพอของงบประมาณเป็นตัวแปรกลางที่มีความสำคัญที่สุดเพราะมีผลทางตรงต่อความพึงพอใจของผู้บริหารมหาวิทยาลัย ซึ่งส่งผลต่อผลการทำงาน

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INTRODUCTION

Budget participation (Becker and Green, 1970: 375) is a process that enables managers to participate in proposing, negotiating and discussing their budget proposals. If the budgeting process works appropriately, it is believed that the process can motivate managers, earn their trust, and increase their commitment to achieve the highest performance. On the contrary, if the process does not work as expected, then some problems in management control and influence cost (time and effort spent) may occur as a result (Besanko *et al.*, 2007). This can have a significant impact on budget participation by affecting the performance of managers performance in profit-oriented organizations as well as in non-profit-oriented organizations like universities.

If there is appropriate behavior and the budgeting process is operating smoothly, budget participation will not have an impact on the job performance of university executives. However, if the process does not work as expected, the problems of management control will occur. Some of these management control problems were described by Welch (Libby and Lindsay, 2003: 28), "making a budget is an exercise in minimization. You're always trying to get the lowest out of people, because everyone is negotiating to get a lower number." In their paper Hope and Fraser (2003) argued that budget is no more than a yearly ritual, a routine and something that consumes much time for those who are involved and thus prevents new innovations from occurring. In order for budget participation to have a positive and significant impact on the performance of managers, top level management must consider other variables that influence the relationship. According to many researchers, one such variable is trust. While the subjects of previous studies have been mostly profit-oriented organizations, the subjects of the present research are universities which are members of APTIK (*Asosiasi Perguruan Tinggi Katolik* or the Association of Catholic Institutes of Higher Learning). In this paper the author explored the mediating variables, which consists of trust, organizational commitment, budget adequacy and job satisfaction. Previous studies (Cook and Wall, 1980; Nouri and Parker, 1998, among others) had demonstrated that these variables had positive impact on job performance. In this study, the author investigated whether these variables had the same impact on job performance of APTIK-member university executives. The research employed a survey method with a questionnaire.

RESEARCH FRAMEWORK

Based on the above mentioned background, it was considered critical to conduct research on the impact of budget participation on the performance of managers, especially of university executives working for the APTIK-member universities. The research on the mediating variables aimed to collect evidence on whether or not applying one additional variable would give a better solution for university executives in formulating and implementing their budgets. In addition, it was considered critical to investigate whether adding one variable, i.e., trust, would strengthen or weaken the impact of budget participation on the job performance of university executives. The theoretical model used to examine the effect of budget participation on job performance was based on Sekaran (2003), as described in Figure 1. Based on this model, the following hypotheses were proposed:

HYPOTHESES

Main hypothesis: Budget participation has both direct and indirect effects on job performance

Brownell (1982) considered that budget participation had something to do with subordinates' influence and their involvement in determining the budget. Some previous studies in the 1950s and 1960s, showed that there was an inconsistent relationship between budget participation and performance (Argyris, 1952; Becker and Green, 1962). The current research re-examined the effect

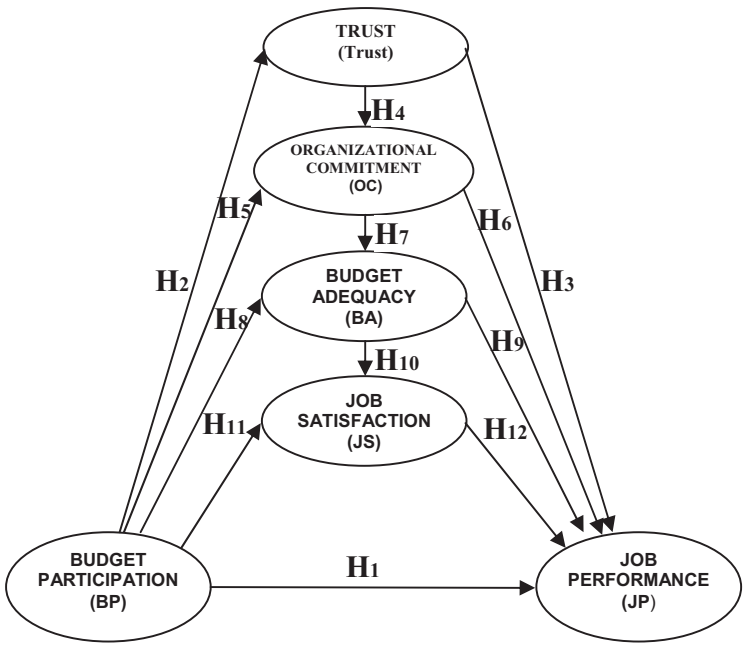


Figure 1 Theoretical model of the effect of budget participation on job Performance

of budget participation on job performance. Brownell's proposition that budget participation had a positive and significant impact on job performance was considered to be correct and relevant to the current study.

H_1: Budget participation has a positive and significant impact on job performance.

Hypothesis: Mediating variables

Different results were produced from research on contingent variables and their impact on budget participation and job performance were caused by a contingent variable (Sekaran, 2003). A contingent variable refers to the mediating variable between budget participation and performance. Govindarajan (1986) stated that a mediating variable would need to be identified and investigated between the budget participation and performance. Interest in this statement resulted in the current research investigating mediating variables, such as trust that affected job performance.

Does trust mediate the relationship between budget participation and job Performance?

Milani (1975) differentiated between budget participation and non-budget participation. Much research on trust has been done in a psychological setting. Research results showed that trust had a positive and significant impact on behaviors that would improve job performance (Meyer *et al.*, 1993). As shown by Meyer *et al.* (1993), In the current study, it was argued that trust was positive and significant since it mediated the relationship between budget participation and job performance. In other words, budget participation can create trust among the members of an organization. It could, therefore, be concluded that budget participation influences job performance through the development of trust. Based on the research results and the above conclusion, the following hypothesis was proposed:

H_2: Budget participation has a positive and significant impact on trust.

Meanwhile, the effect that trust had on the job performance of university executives was hypothesized as follows:

H_3: Trust has a positive and significant impact on job performance of university executives.

According to the model developed by Meyer *et al.* (1990), individuals who had the ability, kindness, and integrity would be willing to take any risk and to show differing type of behaviors compare to previous study. In their research on employees in England, Cook and Wall (1980) found that trust correlated positively and significantly with organizational commitment. Trust in organizational management influenced the work attitude and behavior of low level managers (Brockner *et al.*, 1997). Employees commitment of their time to management and the institution can be represented by the management's ability to meet goals. This result supported the hypothesis that trust influences organizational commitment. Therefore, the following hypothesis was proposed:

H_4: Trust has a positive and significant impact on organizational commitment, which mediates the relationship between budget participation and job performance.

Organizational commitment shown by individuals and their organization (Mathieu and Zajac, 1990) could be expressed as a sense of belonging towards the organization. As stated by Mathieu and Zajac (1990), organizational commitment can be seen from various perspectives. Kalbers and Fogarty (2005) differentiated two organizational commitments: (1) affective commitment, and (2) continuance commitment. Affective commitment was characterized by: (1) strong trust and acceptance of the organization's goals and values, and (2) willingness to do the best and to be beneficial to the organization's stakeholders (Angle and Perry, 1985). Continuance commitment began with the perception related to the cost of leaving organization (Becker, 1960). Affective commitment would have a stronger relationship with performance than continuance commitment (Mathieu and Zajac, 1990; Randall, 1990). The present study used the affective commitment concept. From this, it could be concluded that the organizational commitment of lecturers was affective. From its potential to influence the relationship between budget participation and job performance, many researchers have mainly conducted their studies mainly on organizational commitment as a moderating variable (Shields and Shields, 1998).

The current research also aimed at examining whether organizational commitment was one of the mediating variables influencing the relationship between budget participation and job performance. The role of this mediating variable was shown by the interaction between budget participation and organizational commitment and the interaction between organizational commitment and job performance. Therefore, the hypothesis proposed for this was as follows:

H_5: Budget participation has a positive and significant impact on organizational commitment.

The impact that organizational commitment has on job performance was hypothesized as:

H_6: Organizational commitment has a positive and significant impact on the job performance of university executives.

Furthermore, the hypothesis proposed to explain the relationship between organizational commitment and budget adequacy was:

H_7: Organizational commitment has a positive and significant impact on budget adequacy.

Does budget adequacy mediate the relationship between budget participation and job performance?

The impact of budget participation on job performance may have been influenced by the perception of each university executive concerning budget adequacy. If achieving the organization's goals depended on budget adequacy, then, based on trust and organizational commitment, university executives would have tried to obtain an adequate budget for their units. Therefore, budget adequacy influences the participation of university executives in determining the budget.

The current research also examined whether

budget adequacy was one of the mediating variables with regard to the relationship between budget participation and job performance. The current research approach was consistent with Nouri and Parker (1998), who concluded that budget adequacy was one of the mediating variables that influences the relationship between budget participation and job performance. Based on these findings, the following hypothesis was proposed:

H_8: Budget participation has a positive and significant impact on budget adequacy.

Meanwhile, the impact of budget adequacy on job performance could be hypothesized as follows:

H_9: Budget adequacy has a positive and significant impact on job performance of university executives.

In addition, the current research predicted that budget adequacy in realizing the programs would influence job satisfaction. This was hypothesized as follows:

H_{10}: Budget adequacy had a positive and significant impact on job satisfaction.

Does job satisfaction mediate the relationship between budget participation and job performance

Job satisfaction was considered by Robbins (2005) to be the general attitude of every employee to their job (Robbins, 2005). Job satisfaction was related to employees' feelings concerning their expectations from the company for which they worked. It was concerned with budget adequacy, service, organizational commitment and the like (Moorhead and Griffin, 1992). Some previous studies demonstrated that organizational commitment influenced job satisfaction (Bateman and Strasser, 1984). Therefore, it could be concluded that organizational commitment indirectly influenced job satisfaction through budget adequacy (Hoque, 1995). Based on the above-mentioned research and the theoretical framework, the following hypothesis was proposed:

H_{11}: Budget participation has a positive and significant impact on job satisfaction.

Furthermore, the relationship between job satisfaction and job performance was hypothesized as:

H_{12}: Job satisfaction has a positive and significant impact on job performance of university executives.

RESEARCH METHOD

The population of the current research comprised 850 university executives from APTIK-member universities (i.e., 16 universities). Data for the research were gathered through a mail survey. The author sent 20 to 75 envelopes containing the questionnaire to each university whose executives had been chosen as respondents, amounting to 850 envelopes in total. Each respondent was required to complete the questionnaire. The respondents included chairs and vice chairs of the departments, the deans, the graduate-school directors, the assistant deans, heads of units and departments, and secretaries of the departments. The returning rate of questionnaire responses was 46.94 percent, which was equivalent to 399 envelopes; 52 envelopes were not complete. As many as 399 envelopes were not returned by the respondents.

Variable measurement

Variables in the current research included (a) budget participation, measured by using the questionnaire developed by Milani (1975), (b) trust, measured by using the questionnaire developed by Rich (1997, cited in Mas'ud, 2004), (c) organizational commitment, measured by using the questionnaire developed by Mowdway and Porter (1979), (d) budget adequacy, measured by using the questionnaire developed by Nouri and Parker (1998), (e) job satisfaction, measured by using the questionnaire developed by Weiss *et al.* (1967) known as *The Minnesota Satisfaction Questionnaire (MSQ)*, and (f) job performance, measured by using the questionnaire developed by Govindarajan and Gupta (1985).

Respondents were required to do self-rate concerning their performance using eight criteria. The questionnaires, after modification, include: (1) Graduate quality, (2) graduate quantity, (3) graduate timeliness, (4) degree-program development, (5) personnel development, (6) budget attainment, (7) cost-reduction program (resulting in income increase), and (8) public affairs.

Responses to the questionnaires were designed using the Likert scale from 1 to 7 (1= do not agree, 7= agree with the questions).

FINDINGS AND DISCUSSION

Findings

A summary of the results of the structural equation analysis used to address the first hypothesis (H_1) to the twelfth hypothesis (H_{12}) is shown in Figure 2.

This research identified the budget adequacy problem as the most critical variable because budget adequacy had direct or indirect impact on other mediating variables like trust, organizational commitment, and the job satisfaction of university executives in APTIK-member universities.

Discussion

1. Research objective summary

This research aimed to gather empirical evidence concerning how far the implementation of budget participation in a higher-education setting affected job performance by examining some mediating variables.

2. Hypothesis test conclusion

Based on the data, proposed hypotheses, and interviews, the current research demonstrated the following: (1) budget participation had a positive and significant impact on job performance; (2) structural equation tests showed that trust, organizational commitment, budget adequacy, and job satisfaction variables positively and significantly mediated the relationship between budget participation and the job

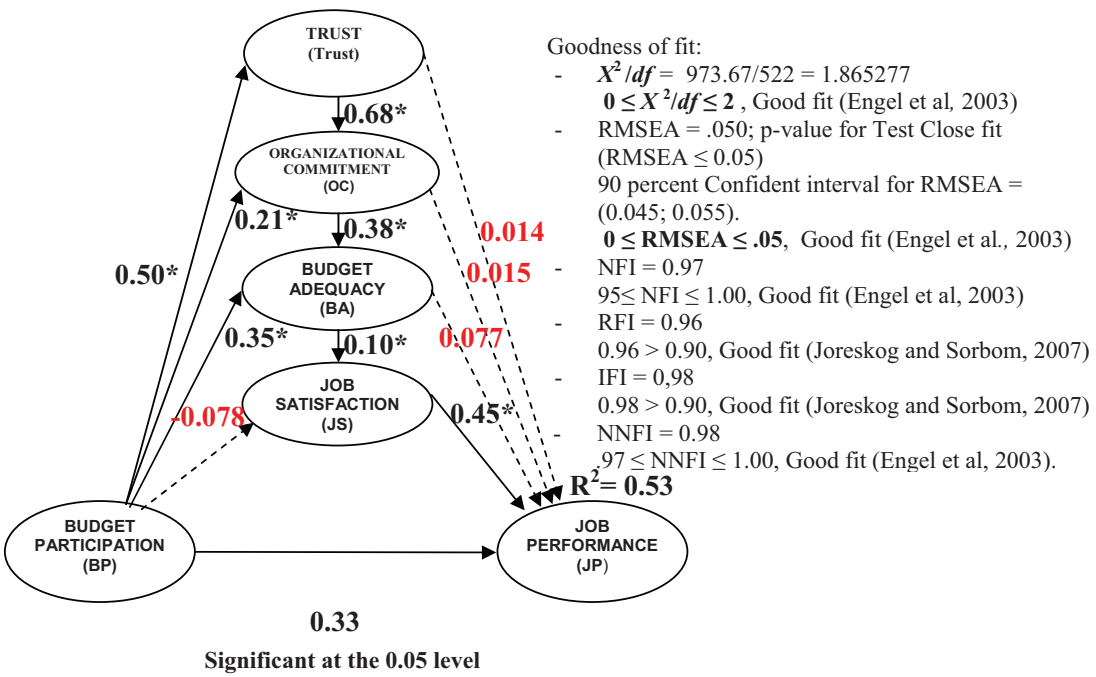


Figure 2 Standardized coefficient and least squared for the effect of budget participation on job performance

performance of university executives (except for job satisfaction which was negative and significant). To further explore the job satisfaction variable, interviews were conducted with selected deans. It was possible to identify the reason why the job satisfaction mediating variable had a negative and significant impact on the relationship between budget participation and job performance. Firstly, the implementation of budget participation did not reflect "the real process of negotiation among higher-ranked executives, departments' chairs and vice chairs for finance and administration, and the foundation board." The university executives only understood the budget participation process as a task of generating surplus. Secondly, the budget participation process raised a "*self-censorship mechanism*" phenomenon on university executives, which led to negative job satisfaction.

3. Contribution and Implication

The results of this research are expected to contribute in the following areas:

1) Management of the foundations and universities

Specifically, this research provided feedback concerning the budgeting process used by the foundation and university executives that benefitted each university. In the broader context, it is hoped that the results of this research will inspire many parties to find an optimal solution to the problems of balancing "academic prestige" and "financial health" as well as the problem between "academic values" and "management rationality." An educational institution should required to benefit from the implementation of modern management principles without reducing the role of educational institutions to merely managerial institutions.[1]

2) Future research

Any researcher can use the results of the current research as a basis for replicating the future research. Replication is needed so that the findings of the research can be generalized and therefore can contribute to the research in budget management that have broader, and a variety of scopes.

4. Limitations

Based on the findings and analysis results, the current research had three limitations: First, the survey approach had the following limitations: (1) the different levels of university executives as respondents, (2) parameter choice, (3) whether the questionnaires sent were completed by the respondents themselves or completed with their superiors' interference. Second, the owners of the universities and the foundation boards may have influenced the leadership style and decision making or policy making. Third, for future research, the differentiation between units that generate surplus and those that suffer deficit should be explicitly maintained from the very beginning so that the managerial perception of the units could be analyzed more thorough

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[1] An exploration on this can be found in Marginson and Considine (2000) and Kirp (2003). In general, however, the goal of higher education is to synergize between entrepreneurial cap acity, organizational coherence, and strong academic culture.

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