

The effect of budget participation on the management performance through management commitment as an intervening variable

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ABSTRACT

This study conducted a test to see the influence of budgeting participation on working performance through managers' commitment as an intervening variable of managers manufacturing companies listed on Indonesia Stock Exchange (IDX). This study used descriptive analysis and statistical method Structural Equation Modeling (SEM)-Lisrel. The data was collected by using questionnaires given to 124 managers from 108 manufacturing companies listed on Indonesia Stock Exchange. The result showed that budgeting participation has a positive and significant influence on the managers' performance through managers' commitment as an intervening variable. The findings of this study added to the limitations of the research literature on the elaboration of variables that determine managers' commitment and manager's performance in manufacturing companies.

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1. Introduction

Mohammad Faisal in Hana (2019) stated that the performance of the national industry in the first five years of President Joko Widodo's leadership was considered still not optimal. The average performance of the manufacturing industry over the last 5 years has only reached 4%, supported by the still dominant market share from within the country. The performance of manufacturing companies which is the trigger for macroeconomic value added is largely determined by the performance of managers in it and has attracted the attention of many researchers, such as Boynton et al., (1993) who examined the relationship between managerial activities and uncertainty and threats. Then Low, (1995) investigated the measurement of accounting performance, work pressure and managerial performance. Hung & Wang, (2012) examined the managerial performance of 367 manufacturing companies including 199 high-tech companies and 168 older companies in Taiwan. (Tsuruta, 2020) examines the performance of manufacturing managers in Japan who are in the process of succession from older to younger managers. The dominant factor as a determinant of manager performance is organizational commitment. Commitment is often expressed as an expression in connection with a promise both written and unwritten. Meanwhile, commitment to budget goals is defined here as a determination that seeks to achieve budget targets with persistence or a strong will in pursuing these achievements from time to time (Maiga & Jacobs, 2007). Many studies show that people perform better when they accept and are committed to achieving goals. (Chong & Johnson, 2007) revealed that several previous researchers using Goal Setting Theory (Shields & Shields, 1998) showed that subordinates who have influence and are involved in setting the budget will have more sense of responsibility for its achievements. Goal Setting Theory emphasizes the role of motivation in setting goals. Thus, it can be concluded that budget negotiations generally lead to a higher level of goals by accepting and realizing and committing to budget goals. Focusing on management commitment, (Oropesa-Vento et al., 2015) examined organization of work teams on the benefits of Kaizen performance in Mexico and found that management commitment is significantly related to performance. Gong et al in Christine et al., (2019) also

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examined the relationship between HRM, commitment and performance. With respondents in China. The results showed that the commitment of the management is very influential on the performance of management. The role of organizational commitment intervention in the pattern of the relationship between budget participation and performance was found by (Mohd Noor & Othman, 2012) by providing empirical evidence about the effect of budget participation on managerial performance through the role of organizational commitment.

2. Literature Review

2.1 Budgeting Participation

Participatory budgeting is an opportunity for superiors to subordinates to be involved in the company's budgeting process and provide information to each other. Usually, lower-level managers have more and better information about the condition of the business unit or division, such as information about costs and production capabilities, than upper-level managers at headquarters (Rosdini, et al, 2017). Participatory budgeting by providing opportunities to exchange information between superiors and subordinates is rooted in economic theory, psychology and sociology. Contracts that occur between superiors and subordinates in participatory budgeting are economic, psychological and sociological (Shields & Shields, 1998). Budget participation in this study is adopted from (Nouri & Parker, 1998) and measured its involvement in budgeting and its effect on budgeting.

2.2 Management Commitment

Commitment is related to employee turnover, committed employees are difficult to leave or harm the organization. Commitment depends on psychological aspects that affect such as employment conditions and behaviour (Allen & Meyer, 1990). Sheldon, (1971) defines commitment as a positive evaluation of the bond between employees and managers. Commitment is the key to superior performance and the development of strategies for building an organization. (Soleha & Tamsil, n.d.) (Locke et al., 1988) describe commitment as a determination to achieve budget goals and persistence in pursuing targets over time. With commitment, the greater the opportunity to be involved and influence the budgeting process, increasing control and involvement of subordinates on the budget. Budget commitment is an individual's drive to do something in support of organizational success through internalizing budget goals (Wentzel, 2002). According to (Allen and Meyer, 1991: 6) management commitment is measured by affective, ongoing and normative levels.

2.3 Manager Performance

Managerial performance is a manager's personal ability to be able to achieve a certain level of effectiveness, by using an appropriate set of managerial competencies in form of knowledge, skills, behavior, and attitudes, so that they can contribute optimally to organizational performance (Atiase et al., 2022). According to (Mahoney, 1965) managerial activity is measured by Planning in work units; Coordination of activities; Evaluation of subordinate activities; Investigation in recording facts; Supervision in setting measures performance; Selection of outstanding staff to get good performance; Negotiation to complete different objectives; and Representative of the group.

2.4 Budget Participation and Management Commitment

Participation in budgeting leads to greater organizational commitment (Chong, 2002). Nguyen & Evangelista, (2019) found a positive relationship between budget participation and budget goal commitment. (Locke et al., 1988) found that budgetary participation will increase the commitment of all members of the organization so budgetary participation will lead to an increase and clarity of organizational commitment.

2.5 Budget Participation and Management Performance

Nguyen and Evangelista (2019) with study from 556 low to middle level managers of business organizations in Vietnam found a strong relationship between participation in the budgeting process and work performance. The same result was also found by (Surya & Devie, 2013) and Sugiyanto & Subagiyo, (2005) that budget participation affects the performance of managers. Further Tarigan & Christian, (2015) also found that budget participation affects managerial performance.

2.6 Management commitment and Management performance

Oropesa-Vento et al., (2015) found that management commitment is significantly related to performance. Gong et al & Haseeb in Christine et al., (2019) also examine the relationship between manager commitment and performance with respondents in China. The results of the study show that the commitment of the manager is very influential on the performance of the manager. Christine et al. (2019) also found consistent results that an effective environmental management strategy and management commitment will help companies improve financial performance and environmental performance.

2.7 Budget Participation, Management commitment and Management performance

Chong and Johnson (2007) found that subordinates who had influence, negotiated the budget and were involved in the preparation of the final budget, generally increased commitment to budget objectives and in turn also improved performance. A study by Chong and Chong (2002) found the relationship between budget participation to manager performance, through a commitment to subordinates. Based on the above, the theoretical framework of this research is:

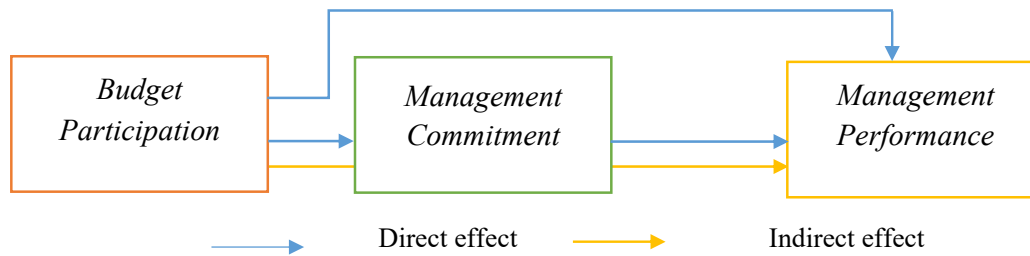


Fig. 1. Schematic Framework

2.8 Hypothesis

Hypothesis 1: Budget Participation has a positive and significant effect on management commitment.

Hypothesis 2: Budget Participation has a positive and significant effect on management performance.

Hypothesis 3: Management commitment has a positive and significant effect on management performance.

Hypothesis 4: Budget Participation has a positive and significant effect on management performance through management commitment.

3. Research Method

3.1 Population and Sample

The population is managers from 183 manufacturing companies listed on the IDX until December 31, 2021. From this population, a sample of 108 managers is obtained from each manufacturing company listed on the IDX.

3.2 Operationalization of Research Variables

The operationalization of research variables can be described in the following:

Table 1
Operationalization of Variables

Variable(s)	Dimension(s)	Indicator(s)
Budget Participation (Nouri & Parker, 1998)	Authority involved in drafting	The portion of participation in budget preparation
		Number of involvement in budget revisions by superiors
	Authority in decision	Frequency of budget discussions with seniors initiated
		Amount of final budget that can be affected
Management commitment (Sheldon, 1971)	Affective/emotional attachment	Contribution to budgeting
		The intensity of the discussion when the budget is set
		Belief and acceptance of budget values and goals
	Sustainable	Willingness to focus on achieving goals
		Willingness to give the best for the organization
		Benefits of achieving budget goals for yourself
	Normative/responsibility	Possible budget goals need to be revised
		Reasons to ignore budget goals
		The rationality of achieving a budget
Management performance (Mahoney, 1965)	Planning	The seriousness in achieving budget goals
		The goodness of budget objectives to implement
	Coordination	Planning in work units
	Evaluation	Activity coordination
	Investigation	Evaluation of subordinate activities
	Supervision	Investigation in recording facts
	Staff selection	Supervision in determining performance measures
	Negotiation	Selection of outstanding staff for good performance
Representative	Negotiation to complete different goals	
		Representative of the group

Source: Research Data (2022)

4. Result and Discussion

4.1 Descriptive Analysis

The following are the results of calculating the average score, realization and gap of each variable.

Table 2
Research Variable Score Analysis

No	Variable(s)	Real Score	Max Score	Avg Score	% Realization	%GAP	Criteria
1	Budget Participation	2753	3720	3.70	74.01%	25,99%	Good
2	Management commitment	4477	5580	4.01	80.23%	19,77%	Good
3	Management performance	3979	4960	4.01	80.22%	19,78%	Good

Source: Results of data processing (2022)

4.2 Full Model Testing and Structural Model Fit

All indicators have been declared valid and reliable to measure the research variables. The estimation results of the full structural model are described:

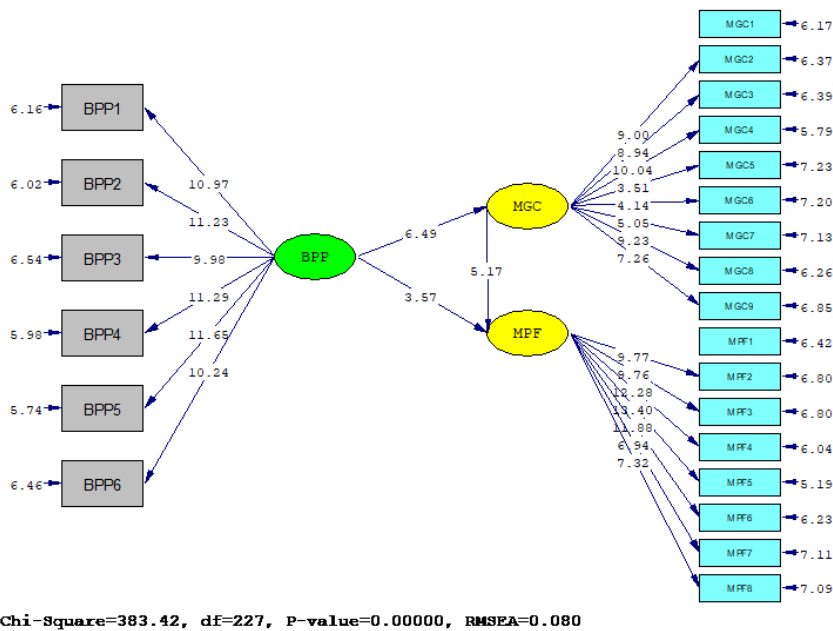


Fig. 2. Comprehensive Solution Structural Model Diagram
Source: Processed Data (2022)

Evaluation of the suitability of the model is carried out by comparing the results of the model estimation with the recommended fit value index values as presented in the following table:

Table 3
Model Fit Test

No	Match Criteria	Target Model Fit Rate	Model Estimation Results	Model Fit Rate
1	RMSEA	RMSEA ≤ 0.08	0.080	Good
2	NFI	NFI ≥ 0.90	0.94	Good
3	NNFI	NNFI ≥ 0.90	0.97	Good
4	CFI	CFI ≥ 0.90	0.97	Good
5	IFI	IFI ≥ 0.90	0.97	Good
6	RFI	RFI ≥ 0.90	0.93	Good
7	SRMR	SRMR ≤ 0.05	0.010	Good

Source: Results of data processing (2022)

Based on the table above, it can be seen that the results of the overall model fit test are sufficient to meet the required fit index rules. The results of statistical tests on the measurement of the structural model in this study are made in a mathematical equation:

$$\eta_1 = 0.67 * \xi_1 + 0.55$$

$$\eta_2 = 0.71 * \xi_1 + 0.50$$

$$\eta_2 = 0.54 * \xi_1 + 0.34 * \eta_1 + 0.33$$

Notes:

ξ_1 = Budget participation variable

η_1 = Management commitment variable

η_2 = Management performance variable

Table 4
Summary of Hypothesis Testing Results

Alternative Hypothesis (Ha)	Path (Relationship)	t count score (≥ 1.64)	Effect			Conclusion Hypothesis alternative (H1)
			Direct	Indirect	Total	
H1	BPP→MGC	6.49	0.67		0.67	Accepted
H2	MGC→MPF	5.17	0.54		0.54	Accepted
H3	BPP →MPF	3.57	0.34	-	0.34	Accepted
H4	BPP→MGC→MPF		0.34	$(0.54 \times 0.34) = 0.1836$	0.5236	Accepted

Source: Result of data processing (2022)

4.3 Hypothesis 1

Hypothesis testing shows that budget participation has a positive and significant effect on management commitment. All the surveyed manufacturing companies stated that budgeting participation has been carried out in a participatory manner. The budgeting process has been supported with an application or software with higher involvement accompanied by a monitoring dashboard so that the manager's commitment system is pushed to a higher level in implementing the budget. Budgets carried out in a participatory manner in manufacturing companies have made managers more motivated and provide a sense of personal responsibility to achieve them because they participate or are involved in budgeting which is carried out systematically and measurably. This result supports the findings by Chong and Chong (2002) that state participation in budgeting increases organization commitment. The same results were also found by Shields and Shields (1998) that employees' participation in decision-making will reduce the resistance towards changes and increase commitment to organizational decisions.

4.4 Hypothesis 2

Hypothesis testing shows that management commitment has a positive and significant effect on management performance. Based on the interview conducted with the managers, management commitment is not only a value but it has become a real action that must be shown by managers in their daily activities. The manufacturing industry always requires standardization and always works based on SOPs, so management is required to always provide an example (role model) of fulfilling commitments to what is already in the standard. The actions taken by management, namely fully supporting the achievement of the budget, trying the best for the organization, seriousness, and focus have affected the performance results of these managers. This result supports the empirical finding by Oropesa-Vento et al. (2015) who studied the monetary performance in Mexico, found that management commitment is significantly related to performance. Gong et al and Haseeb in Christine et al., (2019) also studied the relation between HRM, commitment and performance. The finding shows that commitment from management is very influential on management performance. Christine et al. (2019) also found that effective environmental management strategies and management commitment will help companies improve financial performance and also improve environmental performance. Magner et al. (1996) also state that managers who have a high commitment to budget goals strive to interact with people who can give an outlook on their working environment, performance goals, task strategies, and other issues that have an important impact on their performance.

4.5 Hypothesis 3

Budget Participation has a positive and significant effect on management performance. Budget participation in manufacturing companies has made managers better understand budget objectives because they were involved in the formulation process and it also affected maximum efforts to achieve the budget targets. With budget participation, employees have the same opportunities in expressing their opinion during decision-making to increase morale. Superiors also gain trust from their subordinates and it reduces resistance towards final decisions to improve employee performance. The higher the degree of involvement in the budgeting process, the higher the managerial performance produced. The same result was also found by Surya and Devie, (2013) and Sugiyanto and Subagiyo, (2005) who state that budget participation affects managerial performance. Further, Tarigan and Christian, (2015) also found that budget participation affects managerial performance and is relevant to the information in the implementation of budget realization.

4.6 Hypothesis 4

Hypothesis testing shows that budget participation has a positive and significant effect on management performance through management commitment. This is because the participatory budgeting process has created a great sense of responsibility for the managers of manufacturing companies listed on the IDX to achieve what has been mutually agreed upon. The budgeting process requires the participation of all levels of managers so that it has an impact on improving the performance of these managers in their respective work units. This result supports the study by Chong and Johnson (2007) who found that influential subordinates, negotiating budgets and being involved in final budget preparation, generally increase commitment to budget goals and in turn improve performance. The study by Chong and Chong (2002) regarding the commitment to budget goals between the relationship budget participation and manager performance. The results of this study also strengthen the results of the study of Mohd Noor and Othman (2012) that there is a relationship from participation in budgeting to managerial performance and commitment to the organization can mediate this relationship. A finding by Maiga and Jacobs (2007) state on the relationship between participation, performance and budget goal commitment which is related to the role of the trust variable, indicates that participation has a significant positive effect on manager trust and this manager trust variable also has a significant effect on budgeting goal commitment, which in turn will also have a positive influence towards improving managerial performance.

5. Conclusion and Recommendation

5.1 Conclusion

The manufacturing industry has a very important role in the national economy. The manufacturing industry is the main support for economic growth or a source of Gross Domestic Product, employment, increasing export value, and increasing investment flows. The elaboration of the variables that affect the performance of managers in manufacturing companies listed on the Stock Exchange is a matter of concern for both researchers and practitioners in the manufacturing industry. The result showed that budgeting participation has a positive and significant influence on managers' commitment and managers' performance. The study also proved that managers' commitment influences the managers' performance. Finally budgeting participation affects the managers' performance through managers' commitment.

5.2 Suggestions

1. Encouraging increased manager commitment and performance of managers of manufacturing companies listed on the IDX through:

- a. Active involvement of managers in the budgeting process.
- b. Provision of adequate budget allocations and human resources in the collaboration process.
- c. Providing continuous motivation, coaching, counselling and mentoring to sub-managers and other employees.

2. Research results must meet the characteristics of scientific research including replicability and generality, so it is recommended for future researchers to re-examine this research model with the same research method, in different units of analysis and samples, for example in the financial industry, services or other sectors. The goal is that if it shows the same results, it will add confidence to the research that has been done so that the research results can be widely accepted.

6.3 Limitation

1. Managerial performance is also affected by other factors which are not examined in this study such as psychological capital, competency, and effectivity of vertical information sharing.

2. The research sample is only represents 59% of industry players of manufacturing companies listed on the IDX, thus allowing some insights that have not been explored in this research.

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