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## DISTRIBUTIVE FAIRNESS AND MOTIVATION IN PARTICIPATIVE BUDGETING SETTING

*The purpose of this study is to examine the mediating role of distributive fairness in the relationship between budget participation and motivation. Based on the questionnaire survey, the data were analyzed using partial least squares technique, the results are as expected. Distributive fairness is a significant mediator in participative budgeting setting that increases employees' motivation.*

*Keywords: distributive fairness; motivation; budget participation; partial least squares; fairness perceptions.*

Сурия Заїнуддін

## СПРАВЕДЛИВІСТЬ І МОТИВАЦІЯ ПРИ ФОРМУВАННІ БЮДЖЕТУ ЗА УЧАСТЮ КЕРІВНИКІВ ВСІХ РІВНІВ

*У статті вивчено посередницьку роль справедливого розподілу прибутків у стосунках між участю в бюджетних процесах і мотивацією. Дані, отримані шляхом анкетування, проаналізовано за допомогою методу часткових найменших квадратів, результати відповідають очікуванням. Доведено, що справедливість при поділі прибутків є значущою пов'язувальною ланкою між формуванням бюджету за участю керівників та мотивацією персоналу.*

*Ключові слова: справедливість при розподілі прибутків; мотивація; участь у бюджетних процесах; часткові найменші квадрати; сприйняття справедливості.*

Сурия Заїнуддін

## СПРАВЕДЛИВОСТЬ И МОТИВАЦИЯ ПРИ ФОРМИРОВАНИИ БЮДЖЕТА С УЧАСТИЕМ РУКОВОДИТЕЛЕЙ ВСЕХ УРОВНЕЙ

*В статье изучено посредническую роль справедливости при распределении прибыли в отношениях между участием в бюджетных процессах и мотивацией. Данные, полученные путём анкетирования, проанализированы с помощью метода частичных наименьших квадратов, результаты отвечают ожиданиям. Доказано, что справедливость при распределении прибыли является значимым связующим звеном между формированием бюджета с участием руководителей всех уровней и повышением мотивации персонала.*

*Ключевые слова: справедливость при распределении прибыли; мотивация; участие в бюджетных процессах; частичные наименьшие квадраты; восприятие справедливости.*

**Introduction.** The purpose of this study is to examine the role of distributive fairness in mediating the relationship between budget participation and motivation. Specifically, this study suggests that budget participation improves employees' motivation through the perception of distributive fairness. Previous studies have found conflicting findings on this relationship. While many studies show the positive effect of participation and motivation (Becker and Green, 1962; Hofstede, 1968; Searfoss

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and Monczka, 1973; Kenis, 1979; Merchant, 1981), the favourable effect is not found in Brownell and McInnes (1986). Mia (1989) also did not find evidence on the interaction of budget participation and job difficulty in affecting motivation. These conflicting findings led researchers to suggest that it is possible that budget participation has an indirect effect on motivation (Searfoss and Monczka, 1973; Murray, 1990; Brownell and McInnes, 1986). Shields and Shields (1998) further supported this notion by suggesting that budget participation has an indirect effect on motivation and is "conditional on moderating, other independent and intervening variables" (p. 65).

In participative budgeting context, fairness consideration plays a role as an important factor for increasing the motivation of subordinates. Fairness perceptions are recognized to have very much influenced in the organizational outcome variable (Alexander and Ruderman, 1987), thus maintaining fairness can promote more favourable effects of employee reaction, such as increases employees' satisfaction (Folger and Konovsky, 1989), trust (Maiga and Jacobs, 2007; Lau et al., 2008), enhances goal commitment (Wentzel, 2002; Maiga and Jacobs, 2007) and improves job involvement (Tang and Sarsfield-Baldwin, 1996). This recognition of the fairness of goals shows the importance of fairness perceptions of the goals or budgets that have been set. While there is an increasing interests among researchers in examining fairness perceptions of employees (Byrne and Damon, 2008; Lau and Lim, 2002; Lau and Tan, 2006; Lau et al, 2008; Libby, 2001; Maiga and Jacobs, 2007; Wentzel, 2002), only a few studies that examined the effect of fairness perceptions in the relationship between budget participation and motivation (Zainuddin and Isa, 2011). The latter examined the role of procedural fairness in the relationship between budget participation and motivation. As such, this study aims to extend the previous study by examining the role of distributive fairness in the relationship between budget participation and motivation. This study contributes to the existing literature by examining the role played by distributive fairness in enhancing employees' motivation. Specifically this study attempts to demonstrate that the relationship between budget participation and motivation is not significant when distributive fairness is considered. It is expected that participation increases perceptions of distributive fairness and in turn increases the employees motivation.

This paper is organized as follows. In the subsequent section, a review of the literatures together with the formulation of hypotheses is presented. It is followed by the research method used and the research findings, the discussion on the results and finally the suggestions for future research.

#### **Literature Review and Hypotheses Formulation.**

**Budget Participation and Distributive Fairness.** Budget participation is viewed as a concept in which managers participate in budgetary process and influence the outcomes (Milani, 1975; Magner et al., 1995). Not only does it give more value, it also serves as a motivation device for subordinates to meet the goals prescribed by management. Through participation in setting up the budget, lower level managers are expected to provide information regarding their day-to-day operations, since they are directly involved in the activities. Thus, by allowing them to participate can ensure the inclusion of private information (Nouri and Parker, 1998) and the budget pre-

pared is more likely to be attainable and realistic, rather than if it is imposed from above.

Distributive fairness refers to the fairness of budget target assigned or budget that is allocated to employees. It is also viewed as the actual outcome employee received (Gilliland, 1993) and it "deals with the ends achieved (what the decisions are) or the content of fairness" (Tang and Sarsfield-Baldwin, 1996, p. 25). Cropanzano et al. (2007) added that distributive justice is concerned in the workplace since in reality members in any organization are not treated alike in terms of outcomes distribution.

Equity theory suggests that individuals perceive distributive fairness as the ratio of their output to the input (Adams, 1965). Distributive fairness occurs when the output and the input are balanced. Output is viewed as the outcome of one's process (compensation in terms of money or comfort) and input is viewed as something that individuals contribute (efforts or training) (Lindquist, 1995). In the participatory budgeting context, while budgeted outcome is viewed as the output, managers' effort is viewed as input (Lindquist, 1995). Thus, distributive fairness exists when there is a balance between efforts and outcomes. Otherwise, unfairness perceptions will be created.

Moreover, according to the instrumental theory, when employees or subordinates are given the chances to express their opinions, there is a high chance for subordinates to influence the budget. When they have some influence over the budget, their distributive fairness will be increased. Thus, it is proposed that by allowing participation in budgeting process, participants can affect the decision process and have control over the output (Wentzel, 2002). Maiga and Jacobs (2007) and Wentzel (2002) provided empirical evidence for the positive impact of participation on distributive fairness. Thus, the following hypothesis is further suggested:

H1: There is a positive relationship between budget participation and perception of distributive fairness.

**Distributive Fairness and Motivation.** Distributive fairness is related to the fairness of the final budget prepared by management. If employees have some influence on the budget that was set, the perception of distributive fairness is enhanced. Based on the goal setting theory, when employees view budget as fair, they will commit to the budget as the level of goal acceptance is increased (Locke and Latham, 1990; Locke et al., 1988). Similarly, when the budget is viewed as fair, it increases the motivation to accomplish it. Motivation is defined as "a psychological construct which is used to account for the factors that arouse, maintain and direct behavior toward a goal" (Searfoss and Monczka, 1973, p. 544). Within the goal setting theory, motivation is based on effort expended employees have towards achieving organizational goals (Locke and Latham, 1990). In the workplace situation, employees who are motivated, show more favorable attitudes and increase their performance.

Positive feelings of the fairness in organizational affairs affect employees' attitudes and behavior. It promotes the feeling of trust between subordinates-superior relationships (Alexander and Ruderman, 1987; Folger and Konovsky, 1989; Lau and Tan, 2006; Maiga and Jacobs, 2007; Lau et al., 2008) and strengthens the relationship between individual and the organization itself (Folger and Konovsky, 1989; Wentzel, 2002; Maiga and Jacobs, 2007). In addition employees with better perception of the

firm they work, will behave in the organizations' best interest (Cropanzano et al., 2007), show less absenteeism (McFarlin and Sweeney, 1992) and increase their work efficiency (Libby, 2001). Thus this study also proposes that distributive fairness plays a role in enhancing employee motivation. The following hypothesis is formulated:

H2: There is a positive relationship between perception of distributive fairness and motivation.

**Budget Participation and Motivation.** The purpose of this study is to demonstrate that the relationship between budget participation and motivation is not significant when distributive fairness is considered.

While a number of studies have found the positive relationship between participation and motivation (Hofstede, 1968; Kenis, 1979; Merchant, 1981; Searfoss and Monczka, 1973), Brownell and McInnes (1986) and Mia (1989) found otherwise. It is further suggested that the relationship between budget participation and motivation may not be direct. It may be indirect through distributive fairness. It is argued that when employees participate in decision-making, the possibility to influence the final budget is increased, thus enhance the fairness perceptions of the budget. This in turn increases employees' motivation to perform their tasks.

Previous studies have provided evidence that budget participation has a significant effect on distributive fairness (Maiga and Jacobs, 2007; Wentzel, 2002). While Zainuddin and Isa (2011) provided empirical evidence for the significant effect of procedural fairness on motivation, no study thus far has examined the effect of distributive fairness on motivation. Thus it is proposed that distributive fairness perceptions may increase employees' motivation. In other words, it is expected that budget participation indirectly increase motivation through the perceptions of distributive fairness. The following hypothesis is formulated:

H3: The direct relationship between budget participation and motivation is insignificant when distributive fairness is considered.

The theoretical model is presented in Figure 1.

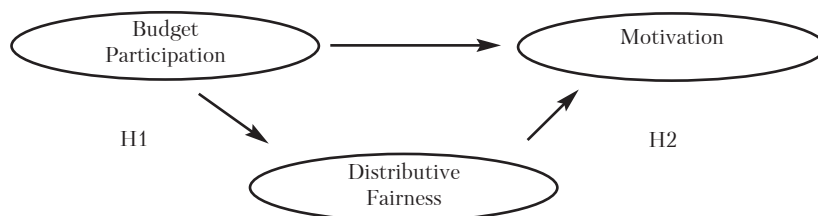


Figure 1. Theoretical Framework

**Research Methodology.** The data were collected using a questionnaire survey sent to managers that have budget responsibilities. The use of individual managers in this study is consistent with prior literature including Agbejule and Saarikoski (2006), Chong and Chong (2002), Nouri and Parker (1998) and Parker and Kyj (2006). The firms were randomly selected from Bursa Malaysia, across a variety of functional areas, to ensure the generalizability of the result in different functions (Brownell, 1982; Lau and Lim, 2002). To increase the response rate, the anonymity of the respondents was guaranteed. The distributed questionnaires also were accompanied

with a cover letter, instructions for completing the survey and postage-paid return envelope to minimize the response bias. 1000 questionnaires were distributed and a total of 108 (11%) useable responses were used for the data analysis.

Equal responses were received from male and female respondents. On average, the respondents were 36 years old and had worked for a firm for over 5 years. More than 90% of the respondents are educated at the tertiary level and they are attached in several functional areas including finance, human resource and production. More than 50% of the firms have more than 200 employees with total assets worth more than RM50 mln.

**Variable Measures.** The questionnaires are designed based on the established measurements, which are developed by previous studies. All the variables were measured on a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree).

**Budget Participation.** Budget participation is defined as the degree of involvement and the influence managers has in budget setting process. The instrument is developed by Milani (1975) and consists of a six-item scale. This instrument has been used extensively and tested in management accounting studies of budget participation with high Cronbach alpha values. Studies that have adopted this instrument include Brownell and McInnes (1986), Chong and Chong (2002), Lau and Lim (2002) and Lau and Tan (2006).

**Distributive Fairness.** Distributive fairness relates to fairness of final outcome of the budget allocated. Following Wentzel (2002) and Maiga and Jacobs (2007), distributive fairness is measured using five-item scale. Four-items are adapted from Magner and Johnson's (1995) which deal with the distributive fairness judgment that include deserved budget, budget needs, expected budget and fair budget. Another one-item is developed by Greenberg (1993) focusing on interpersonal aspect of distributive fairness.

**Motivation.** Motivation is related to engagement in a particular behavior for a purpose to achieve a desired goal. Consistent with Kenis (1979) and Merchant (1981), intrinsic motivation was tested in this study, as it is related to internal factors of individual self-satisfaction for personal goals, growth, achievement and the feeling of accomplishment. The three-item intrinsic motivation applied in Dermer (1975) is used in this study.

**Research Findings.** Descriptive statistics for the research variables appear in Table 1. It shows the respondents' perceptions on all the variables were moderately high, with the highest mean was recorded for the motivation variable.

To test the hypotheses developed, partial least squares (PLS) technique was used. PLS was chosen because it enables the analysis of all the paths including the measurement and structural model simultaneously (Hsu et al., 2006). The measurement model is assessed by examining its internal consistency reliability, convergent validity and discriminant validity (Henseler et al., 2009). Examining each item's loading on its respective construct assess the reliability of items. Table 2 shows that almost all the items were loaded more than 0.7. If the loading is less than 0.5, that indicator should be omitted from the analysis (Hulland, 1999).

**Table 1. Descriptive Statistics for Variables (N=108)**

| Variable              | Mean  | Std. Deviation | Actual Range |      | Theoretical Range |     |
|-----------------------|-------|----------------|--------------|------|-------------------|-----|
|                       |       |                | Min          | Max  | Min               | Max |
| Budget Participation  | 3.588 | 0.821          | 1.00         | 5.00 | 1                 | 5   |
| Distributive Fairness | 3.517 | 0.838          | 1.60         | 5.00 | 1                 | 5   |
| Motivation            | 4.235 | 0.893          | 1.00         | 5.00 | 1                 | 5   |

**Table 2. Factor Loadings from PLS Measurement Model**

|      | BP    | DF    | MOTIV |
|------|-------|-------|-------|
| BP1  | 0.752 | 0.395 | 0.106 |
| BP2  | 0.814 | 0.561 | 0.339 |
| BP3  | 0.785 | 0.497 | 0.243 |
| BP4  | 0.765 | 0.443 | 0.215 |
| BP5  | 0.811 | 0.547 | 0.309 |
| BP6  | 0.633 | 0.374 | 0.312 |
| DF1  | 0.568 | 0.878 | 0.327 |
| DF2  | 0.527 | 0.876 | 0.342 |
| DF3  | 0.447 | 0.897 | 0.327 |
| DF4  | 0.535 | 0.886 | 0.436 |
| DF5  | 0.549 | 0.660 | 0.266 |
| MOT1 | 0.272 | 0.374 | 0.868 |
| MOT2 | 0.328 | 0.379 | 0.958 |
| MOT3 | 0.352 | 0.371 | 0.934 |

BP: Budget Participation; DF: Distributive Fairness; MOTIV: Motivation.

**Table 3. Reliability, Average Variance Extracted (AVE) and Correlations**

|       | AVE          | Composite Reliability | Cronbach Alpha | Correlations |       |       |
|-------|--------------|-----------------------|----------------|--------------|-------|-------|
|       |              |                       |                | BP           | DF    | MOTIV |
| BP    | <b>0.581</b> | <b>0.892</b>          | <b>0.855</b>   | 0.762        |       |       |
| DF    | <b>0.713</b> | <b>0.925</b>          | <b>0.895</b>   | 0.627        | 0.844 |       |
| MOTIV | <b>0.848</b> | <b>0.943</b>          | <b>0.909</b>   | 0.346        | 0.407 | 0.921 |

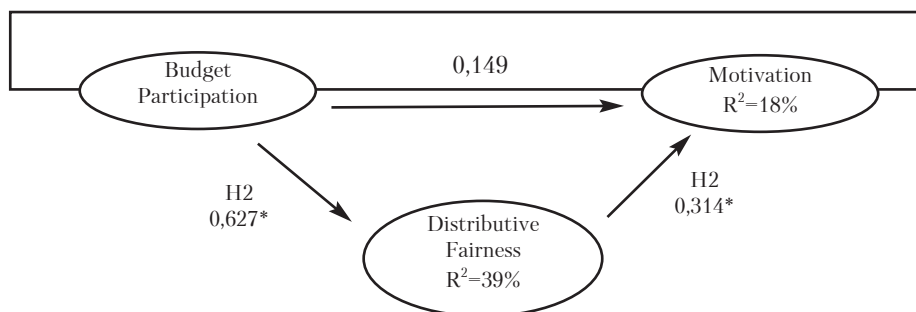
Diagonal elements are the square roots of the AVE (bold).

BP: Budget Participation; DF: Distributive Fairness; MOTIV: Motivation.

Convergent validity is assessed through the composite reliability of the constructs. Table 3 shows that all the construct were more than 0.8 (Fornell and Larcker, 1981). Similarly, the value of Cronbach's  $\alpha$  shows that all the constructs were satisfactory reliable with Cronbach's  $\alpha$  more than 0.8, which signifies that all the constructs have internal consistency reliability. An examination of average variance extracted (AVE) (Table 3), further revealed that all the constructs satisfy convergent validity requirement with values above 0.5 (Fornell and Larcker, 1981). For the discriminant validity, all of the measurement items load highly on their own constructs than the cross-loading on other constructs, as shown in Table 2 (Chin, 1998). Additionally, Table 3 also shows the square root of AVE were more than the correlations among different construct which indicates that more variances are shared between the construct and its indicators than it shares with other constructs in the same model (Chin, 1998; Fornell and Larcker, 1981). Table 2 and 3 demonstrate that all the constructs have met the requirement of internal reliability and validity.

The structural model is evaluated by examining the  $R^2$  of dependent variables, the path coefficients ( $\beta$  estimates) and its significance value (p-values), as appears in Figure 2.  $R^2$  of motivation variable shows a value of 18%. It means that only 18% of

the variances in motivation were explained by budget participation and distributive fairness, while 39% of the variances in distributive fairness were explained by budget participation.



\*significant at 0.01

Figure 2. Path Coefficients of Theoretical Model

H1 and H2 hypothesize the direct relationship between budget participation and perceptions of distributive fairness, and the relationship between distributive fairness and motivation, respectively. Figure 2 shows significant evidence to support the relationships for H1 ( $\beta = 0.627$ ,  $p < 0.01$ ) and H2 ( $\beta = 0.314$ ,  $p < 0.01$ ). Figure 2 also demonstrates that the relationship between budget participation and motivation is insignificant when distributive fairness is considered, which provide support for H3 ( $\beta = 0.149$ ,  $p > 0.1$ ). It indicates that the relationship between budget participation and motivation is indirect through distributive fairness.

PLS output also provides the results of the direct and total effects of the path coefficients. Following Lau et al. (2008) and Lau and Tan (2006), the decomposition of the direct and indirect effects from the total effects can be analyzed to further confirm the mediating role of distributive fairness in the relationship between budget participation and motivation, as appears in Table 4.

Table 4. Analysis of Direct, Indirect and Total Effects

| Independent Variable | Dependent Variable | Direct Effects | Indirect Effects | Total Effects |
|----------------------|--------------------|----------------|------------------|---------------|
| BP                   | MOTIV              | 0.149          | 0.197            | 0.346         |
| BP                   | DF                 | 0.627          | -                | 0.627         |
| DF                   | MOTIV              | 0.314          | -                | 0.314         |

BP: Budget Participation; DF: Distributive Fairness; MOTIV: Motivation.

Table 4 shows that the total indirect effect in budget participation-motivation is 0.197 out of the total effect of 0.346. According to Barthol (1983) and Pedhazur (1982), if the absolute amount of the indirect effect is more than 0.05, the effect may be significant. Since the indirect effect is more than 0.05, it can be concluded that the perception of fairness plays a role as mediating variable in the relationship between budget participation and motivation, hence providing support for H3.

**Discussion and Conclusion.** The primary objective of this study is to examine the role played by distributive fairness in the relationship between budget participation and motivation. This study contributes to the existing literature by providing empiri-

cal evidence that the relationship between budget participation and motivation is not significant when distributive fairness is considered. Participation in budget setting process increases the perceptions of distributive fairness, and in turn enhances the employees' motivation. Specifically, distributive fairness is found to be an important mediating variable in the relationship between budget participation and motivation.

This result suggests the importance of maintaining fairness perception in management control system in organization. As budget serves as one of the accounting control systems in organization, allowing employees to participate in budgeting makes them perceive that their needs and achievable target are taken into consideration. This may make employees feel that they are appreciated (Lau and Tan, 2006) and can enhance their self-esteem. Lindquist (1995) also suggested that the more individuals participate in the budgetary process, the level of fairness is perceived to be higher, which ultimately increase individuals' satisfaction, performance and motivation.

As other studies, this study also is subject to several limitations. Firstly, cross-sectional survey usually does not provide evidence of the causal relationships between variables. Next, this study only examined the mediating role of distributive fairness, one of the many dimensions of organizational fairness, in the relationship between budget participation and motivation. Finally, the relationship between budget participation and motivation may be far more complex than the one that have been investigated in this study.

Future research may consider the other dimensions of organizational fairness as mediating variable such as interactional fairness and informational fairness, which may provide further evidence of the prominent effect of the fairness perception in organization. The other variables such as budget adequacy, goal commitment and role ambiguity may also be considered.

Despite its limitations, this study has provided empirical evidence for the importance of distributive fairness in a workplace. Maintaining fairness can lead to positive effects of employee reaction that can promote higher motivation in a participative budgeting setting.

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