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BUDGET PARTICIPATION, INTRINSIC MOTIVATION AND EXTRINSIC MOTIVATION

This study examines the effect of budget participation on two types of motivation — intrinsic motivation and extrinsic one. Intrinsic motivation involves the development of self-satisfaction and accomplishment upon achieving the budget objective. Extrinsic motivation deals with the external rewards such as recognition, job security and salary increment. The survey results on Malaysian managers suggest that budget participation significantly increase intrinsic motivation but not extrinsic one.

Keywords: budget participation; intrinsic motivation; extrinsic motivation

Сурья Заїнуддін

УЧАСТЬ У РОЗРОБЦІ БЮДЖЕТУ ОРГАНІЗАЦІЇ ТА ВНУТРІШНЯ І ЗОВНІШНЯ МОТИВАЦІЯ СПІВРОБІТНИКІВ

У статті досліджено вплив участі в розробці бюджету на внутрішню і зовнішню мотивацію співробітників. Внутрішня мотивація включає підвищення рівня задоволеності своєю роботою і досягненням бюджетних цілей. Зовнішня мотивація передбачає зовнішні атрибути, такі як визнання заслуг, впевненість у збереженні робочого місця і підвищення зарплати. Результати дослідження серед малайзійських менеджерів показали, що участь у розробці бюджету значно підвищує внутрішню мотивацію і не впливає на зовнішню.

Ключові слова: участь у розробці бюджету, внутрішня мотивація, зовнішня мотивація.

Табл. 3, Рис. 2.

Сурья Заїнуддін

УЧАСТИЕ В РАЗРАБОТКЕ БЮДЖЕТА ОРГАНИЗАЦИИ И ВНУТРЕННЯЯ И ВНЕШНЯЯ МОТИВАЦИЯ СОТРУДНИКОВ

В статье исследовано влияние участия в разработке бюджета на внутреннюю и внешнюю мотивацию сотрудников. Внутренняя мотивация включает повышение уровня удовлетворенности своей работой и достижением бюджетных целей. Внешняя мотивация предполагает внешние атрибуты, такие как признание заслуг, уверенность в сохранении рабочего места и повышение зарплат. Результаты исследования среди малайзийских менеджеров показали, что участие в разработке бюджета значительно повышает внутреннюю мотивацию и не влияет на внешнюю.

Ключевые слова: участие в разработке бюджета, внутренняя мотивация, внешняя мотивация.

Introduction. Budget is used to allocate resources for a specified period of time. It provides goal clarity that gives more motivation to managers than goals that are set as "do your best" (Locke and Latham, 1984; Kenis, 1979). Managers are motivated with a budget which is tight but attainable (Kenis, 1979). If a budget is too difficult to achieve, it will demotivate managers as they perceive the task as unreachable (Latham and Locke, 1979).

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Motivation can be differentiated into two parts: intrinsic and extrinsic one (Brownell, 1983; Dermer, 1975; Wong-On-Wing et al., 2010). While intrinsic motivation is referred to as higher order need of personal satisfaction upon achieving good budget performance, extrinsic motivation is referred to as additional rewards that could be achieved upon satisfying the budgeted goal (Dermer, 1975). Intrinsic motivation also relates to the performing of certain activities as an end in itself, while extrinsic motivation is more related to performing of certain activities as a means to an end (Wong-On-Wing, 2010).

While participation in setting budget motivates managers to realize the budget, questions arise of the factors that drive this motivation level. The issues is whether these managers place more efforts to achieve the budget because of external factors such as rewards, appreciation and promotion that they would get upon achieving the budget, or they strive to achieve it due to internal factors such as self-accomplishment and self-satisfaction, or both. Previous studies that examine the effect of budget participation on motivation do not highlight the types of motivation that are affected. Thus this study aims to bridge this gap. The objective of this study is to examine the effect of budget participation on two kinds of motivation: intrinsic motivation and extrinsic motivation. Specifically, this study aims to examine whether participation in budget preparation process increase both types of motivation, or it increases either intrinsic or extrinsic motivation of managers.

The remainder of this paper is organized as follows. The following section presents the development of hypotheses. The research method is then presented, followed by the results, discussion and conclusion of the study.

Hypotheses Development. Budget participation is a process in which manager is involved and has control over the determination of budget (Shields and Shields, 1998). It is a practice where different levels of managers communicate and share information with one another as different levels of managers hold different information. Since subordinates are familiar with their working condition, allowing them to participate ensures the budget prepared is attainable and realistic, rather than the one imposed from above. Thus, participative budgeting enables designing a better budget-goal, which increase manager's motivation to achieve budget (Shields and Shields, 1998).

Motivation is defined as "internal factors that impel action and to external factors that can act as inducements to action" (Locke and Latham, 2004, p.388). It is related to individuals' engagement in certain behavior for the purpose to attain a desired goal. In workforce situation, employees who are motivated, show more favorable attitudes and increase their performance (Bryan and Locke, 1967).

Participation in decision making offers the basis for management to evaluate the performance of employees, and consequently to be rewarded or otherwise (Kenis, 1979). Managers, who are motivated extrinsically, perform an action for the purpose of receiving potential external incentives and rewards. Among the outcomes of extrinsic rewards used in Brownell's (1983) empirical study are pay raise, high pay, respect from boss and other employees, special rewards or recognition and promotion.

However, studies also show that better performance can be achieved for the specific, difficult but attainable goals, even without the rewards and recognition offered (Latham and Locke, 1979; Locke and Latham, 1984, 1990). Budget participation

encourages higher motivation to achieve as the managers feel they owned the budget and become part of it. Those managers with intrinsic motivation perform certain activities for personal achievement and accomplish personal satisfaction. Intrinsic motivation includes personal growth and development, feelings of security and accomplishment, giving help to others and setting higher standards for oneself (Brownell, 1983).

Based on the discussion above, the related hypotheses are stated as follows:

H1: There is a positive relationship between budget participation and intrinsic motivation.

H2: There is a positive relationship between budget participation and extrinsic motivation.

The research model of the hypothesis is presented in Figure 1.

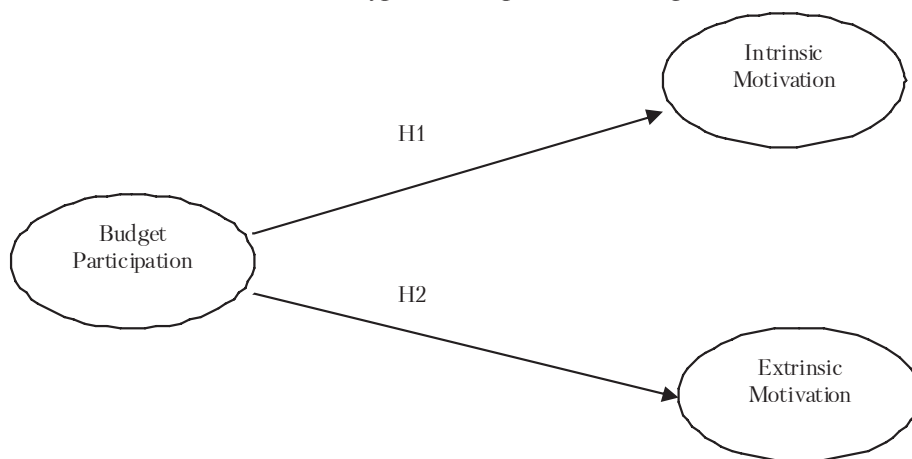


Figure 1. Research Model

Research Methodology. The data were collected using a survey questionnaire sent to large organizations, across a variety of functional areas. The respondents were the managers in manufacturing and service sectors who have budget responsibilities. 1000 questionnaires were distributed but only 108 valid responses were obtained.

The questions used to measure the variables in this study are designed based on the established measurements, developed in previous studies. All the variables were measured by a 5-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree).

To measure budget participation, the instrument consists of a 6-item scale developed by Milani (1975). It aims to assess the degree of involvement and influence manager has in budget setting process. 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), Lau and Tan (2006) and Nouri and Parker (1998).

Intrinsic motivation was measured using the three-item scale used in Dermer (1975). It comprises of personal growth and development, a feeling of accomplish-

ment and the sense of personal satisfaction. This measurement has also been applied in Merchant (1981) and Kenis (1979).

Extrinsic motivation was measured using the instrument adapted from the procedure developed by Lawler and Suttle (1973), and follows Brownell's (1983) and Brownell and McInnes's (1986) categorization of extrinsic motivation. It comprises of security, recognition, and respect from boss, amongst others and measured using a seven-item scale.

Research Findings.

Table 1 presents the descriptive statistics of the variables used in this study. The highest mean value was recorded for intrinsic motivation while the lowest value was recorded for extrinsic motivation.

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

Variable	Mean	Std. Deviation	Actual Range		Theoretical Range	
			Min	Max	Min	Max
BP	3.59	0.82	1.00	5.00	1	5
IM	4.24	0.89	1.00	5.00	1	5
EM	3.22	0.79	1.00	5.00	1	5

BP – Budget Participation; IM – Intrinsic Motivation; EM – Extrinsic Motivation.

To test the hypotheses, the partial least squares (PLS) technique was used. It enables the computation of all the paths including the measurement and structural model simultaneously (Hsu et al., 2006). The measurement model of the data is assessed by examining its internal consistency reliability, convergent validity and discriminant validity (Henseler et al., 2009). Table 2 shows that most of the items were loaded more than 0.7 to the respective construct. According to Hulland (1999), if the loading is less than 0.5, that indicator should be omitted from the analysis. The value of Cronbach's α and composite reliability signify that all the constructs have internal consistency reliability (Fornell and Larcker, 1981) (Table 3). Average variance extracted (AVE) shown in Table 3 further revealed that all the constructs satisfy convergent validity requirement with the values above 0.5 (Fornell and Larcker, 1981). In examining discriminant validity, the loadings of each indicator to their corresponding construct were higher than the cross-loading of other construct as portrayed in Table 2 (Chin, 1998). Additionally, Table 3 also demonstrates that the square root of AVE were more than the correlations among different construct which indicates that more variances were shared between each latent variables and its manifest variables than it shares with other latent variables in the same model (Chin, 1998; Fornell and Larcker, 1981). Thus, the measurement model shows 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 (β estimates) and its significance value (p-values), as appears in Figure 2. Budget participation explains 14% of the variances in intrinsic motivation, rather than only 5% in extrinsic motivation.

H1 hypothesizes the positive relationship between budget participation and intrinsic motivation. Figure 2 shows significant evidence to support the relationship ($\beta = 0.376$, $p < 0.01$). However, for H2 that examines the positive relationship between budget participation and motivation, no support was found ($\beta = 0.215$, $p > 0.1$).

Table 2. Factor Loadings from PLS Measurement Model

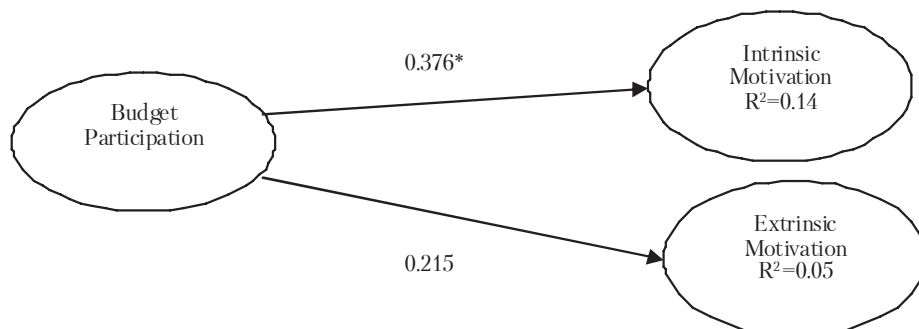
	BP	IM	EM
BP1	0.719	0.135	0.055
BP2	0.827	0.349	0.184
BP3	0.796	0.254	0.150
BP4	0.754	0.226	0.216
BP5	0.792	0.329	0.106
BP6	0.701	0.329	0.212
IM1	0.308	0.866	0.355
IM2	0.366	0.962	0.509
IM3	0.365	0.939	0.535
EM1	0.279	0.498	0.809
EM2	0.106	0.331	0.678
EM3	0.066	0.206	0.670
EM4	0.103	0.387	0.770
EM5	0.078	0.355	0.804
EM6	0.127	0.315	0.648
EM7	0.054	0.204	0.622

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

	AVE	Composite Reliability	Cronbach Alpha	Correlations		
				BP	IM	EM
BP	0.587	0.895	0.862	0.766		
IM	0.853	0.946	0.913	0.376	0.924	
EM	0.516	0.881	0.864	0.215	0.511	0.718

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

BP: Budget Participation; IM: Intrinsic Motivation; EM: Extrinsic Motivation.



*p < 0.01; BP: Budget participation; OF: Organizational fairness; MOTIV: Motivation; MPERF: Managerial performance

Figure 2. Main Effect Model

Discussion and Conclusion. The objective of this study is to examine the effect of budget participation on two kinds of motivation: intrinsic motivation and extrinsic motivation. It is aimed to investigate whether budget participation positively influences intrinsic, extrinsic, or both types of motivation of managers. The results of this study contributes to the existing literature by providing empirical evidence that while budget participation significantly increase intrinsic motivation, surprisingly no support was found for the relationship between budget participation and extrinsic motivation.

The results suggest the practice of managers' participation in setting budgeted goal directly increase their internal motivation to accomplish the budget. These man-

agers perform certain activities to achieve the budget mainly for their own self-satisfaction and personal growth and development, rather than for receiving appreciation or potential incentives or rewards. When the goals are clear and specific, it will lead to goal commitment and goal acceptance, which consequently fosters the motivation to accomplish the goals. As such the motivation of employees to accomplish goals are not because of the rewards or external factors such as bonus, pay rise or recognition, but it is more on personal satisfaction.

This study may also suggest the indirect relationship that budget participation may have in increasing extrinsic motivation. The relationship between participation and extrinsic motivation may be indirect through other variables, rather than direct.

The results of this study, however, are subject to several limitations. First, since the respondents of this study were only 10.8% of the distributed questionnaire, generalization must be made with precautions. Thus, further investigation examining the effect of budget participation on motivation in other setting need to be conducted to strengthen the findings. Next, the relationship between budget participation and motivation may be far more complex than the one that have been investigated in this study. The relationship may be influenced by other moderating or mediating variables.

Despite its limitations, this study has provided empirical evidence for the effect of budget participation in increasing intrinsic motivation of managers. Managers are motivated to achieve the budgeted goal not because of the external factors but it is more on the self satisfaction upon fulfilling the goals.

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