



**Determinants of Subordinates' Participation in Budget Planning: A Study from Nigeria**

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Budgeting, Participation, Attitude, Goal Clarity, Commitment.

**Jel Classification**

M49, G31, G38.

**Abstract**

Participation of subordinates in organization is not a new phenomenon. Workers have been participating in industry by virtue of their producing goods and services. But, the involvement of subordinates in budget planning is the focus of this study. The data for this research were collected from primary source through questionnaire. The participants had been in their job position for an average of three years. Each has also been working for their organization for an average of seven years. All statistical analyses were carried out with the aid of the SPSS software (version 21). The hypotheses tested were supported, the study established that subordinate participate in budget planning and that such participation leads to goal clarity and budget goal acceptance.

## 1. Introduction

Budget is a detailed plan for the acquisition and use of financial and other resources over a specified period, while budgeting is the act of preparing the budget. Therefore, the budget is a plan prepared in advance and derived from the organization's strategies. It should be used to serve the traditional purposes of evaluating performances and outcomes for particular organizational functions or members. Rewards such as bonus payments and promotions for high performance, or penalties for underperforming, might be given to individuals or groups according to this evaluation.

All workers participate in industry by virtue of producing the substance of man's material existence. But in the advent of industrial revolution, majority of the workers have been consistently denied an effective voice both in the management of the firms in which they are employed and, even at a higher level. More so, in terms of framing of policies on the allocation of resources, the employees are sometimes confine within a given social order. Therefore, the concept of participation is not synonymous to democratic control of the business by its employees or what some people termed as "co-partnership". Rather, it is the motivation of employees through appropriate media so that they can express their ideas to the betterment of the business (Batty, 1972)

Participation is a process of involving sub-ordinate in the decision making, thus participation should form the core of planning to achieve the organization's objectives. Participation of sub-ordinates in budget planning came into focus because of the complexities, risks, and uncertainty associated with modern business. Because resources are limited and there is uncertainty as to which alternative use of resources is best, each organization is required to involve in budget planning.

In order to evaluate managerial performance, it is necessary to have some form of standards against which measures of performance can be assessed. According to Otley (1978), this involves considerations of both effectiveness (i. e whether the manager is doing the right thing) and efficiency (i. e whether he is doing what he does with minimum expenditure of resources). Thus for this type of activity, the most that can be done is to set standards for outputs (i. e goals, objectives and targets) and to determine appropriate schedules for the inputs that are deemed necessary for task performance.

Budgetary data may play an important role in this process, for a budget that can be used to represent standard of both effectiveness and efficiency. Basically, the importance of budget planning as in an organization cannot be underplayed, since it is one of the

powerful tools at the disposal of management to achieve the organization's objectives. It is therefore, important to know whether or not the sub-ordinate participates in budget planning and determine the effect of such participation on his performance and productivity.

The purpose of this study is to investigate participation of subordinate in budget planning in ten selected companies in Lagos State Nigeria and determine at what level do they participate and whether such participation improves budget goal clarity and budget goal acceptance. The selection of Lagos State as a base for the study revolves on the belief that it is the nerve center of economic activities in Nigeria.

## **2. Literature Review**

The budget could be one of the most important tools for decision-making in organizations (Edwards et al., 2000; Covaleski et al., 2006). According to several authors, the budget is a product of negotiation. Thus, budget setting through negotiation has been investigated (Hopwood, 1972; Kenis, 1979; Fisher et al., 2000; and Chong et al, 2006). Fisher et al. (2000) express that there has been little research in budget-based negotiation, examining how the budget-setting process differs when budgets are set through negotiation rather than being set unilaterally.

Participative budgeting has been defined as a means of communicating and influencing managers in the budgetary process, and as the extent of subordinate influence over setting budgetary targets (Brownell, 1982; Lau & Lim, 2002; Covaleski et al., 2003; and Mah'd, 2010). Several studies define budget participation as allowing subordinates to exchange information with supervisors to influence their budget target (Lau & Lim, 2002), to seek information for task completion (Brownell & Hirst, 1986), and to ensure budget adequacy (Nouri & Parker, 1998). Drury (1998) thinks that implementing budget participation implies that the budget should originate at the lowest levels of management and that managers should submit their budget to their superiors. Shields & Shields (1998) define budget participation as a process in which the manager is involved with, and has influence on, the determination of his or her budget.

According to Bognaes (2009), seeing budget participation as playing a crucial role in goal commitment which will impact positively on employees' performance can be problematic because budget participation can be seen as waste of time, achieving no results since employees do not show interest in assignments to which they were not employed for. If employees have well detailed job description, they tend to pay much attention to those

job descriptions and ignore those that fall outside their job description. This means that if budget preparation is not part of their job descriptions, it will be very difficult for them to be committed in helping to achieve the goal of the budget.

Another theory that explains the work motivation relation is the goal theory (Locke et al. 1986):

Assuming the individual is committed to his/her goal; more difficult goals stimulate the subordinate to exert more effort, resulting in higher performance than easier goals. So in the goal-setting framework, goal level has direct impact on motivation (Locke et al. 1986). Goal commitment also moderates the relationship between goal level and motivation (Murray 1990), in the way that a non-committed subordinate is not motivated to achieve a given goal. However, a committed individual will increase his/her level of effort to attain even the most difficult goals.

Looking at the goal theory by Locke (1981), Lin & Chang (2005) supported the idea that paying much attention to certain behavioral elements in budgeting such as allowing employees' participation allows employees to be committed to the budget goal which will in turn have significant influence on the employees' action positively. Jones (2001) having a contrast view was of the opinion that even when employees are involved in budget participation, it does not automatically lead to commitment on the part of the employee achieving the budget goal since sometimes employees do not show interest in participation and they have to be coerced to participate in the budgeting process, believing that budget participation is meant for cost reduction and does not lead to value creation for their departments.

Participative budgeting stimulates cognitive mechanisms (Locke et al. 1981). The cognitive mechanism assumes that subordinates' participation in the budget-setting process provides them with the opportunity to gather, exchange and distribute job-relevant information for decision-making, which will result in improved employee performance (Shields & Shields 1998, Chong et al. 2006). Locke et al. (1986) explain that cognitive mechanisms include more upward communication, better utilization of information (particularly when the superior does not have adequate information to make high-quality decisions), and comprehension of job requirements and the rationale underlying decisions by employees.

On one hand, the process of participation enables the superior to gain information about the subordinates' interdependent tasks, since the subordinates have more job-relevant

information. This will reduce information asymmetry (Shields & Shields 1998). The superior can use the knowledge to design and offer the subordinate a more efficient, goal-congruent incentive contract, which increases the subordinates' drive to realize the budget (Shields & shields 1998). In addition, more correct budget levels may result in a better measure of performance, even as the superior may be able to develop better strategies with the local information of the subordinates, which accordingly enhance performance (Murray 1990).

On the other hand, participation provides an opportunity for the subordinate to have task discussions with and ask task related questions from the superior (Murray 1990). In this way, the subordinate gains information about his/her task and solution strategies, which can help to clarify their work expectations, methods of fulfilling their role expectations and performance (Shields and Shields 1998). This interaction is expected to decrease the subordinate's level of role ambiguity (Chong et al. 2006).

Participative budgeting has a role in the value attainment of subordinates (Chong et al. 2006, Shields and Shields 1998). The value attainment role of budgetary participation proposes that the opportunity to participate in the budget-setting process will increase the subordinates' feelings of equality and self respect, and the satisfaction with their values. Therefore, participative budgeting helps to enhance the subordinate's self-esteem and will ultimately improve their job satisfaction.

Participative budgeting can encourage subordinates in building slack into their targets to achieve increased compensation after the implementation of the incentive plan. Slack is defined as "the amount by which a subordinate overstates his/her needs for resources to complete a task or understates his/her productive capability when given the opportunity to influence the standard against which his/her performance will be evaluated" (Walker and Johnson 1999). Overstating expected costs and understating expected revenues are ways to build in slack into the budget. Participation in the budgeting process provides the employee the opportunity to incorporate slack in his/her budget to attain a higher performance evaluation, leading to increased monetary rewards.

The leadership evaluative style affects the behavior, attitudes and performance of the participants (Kenis 1979). It refers to the degree to which superiors emphasize achieving the budget goals in evaluating subordinate's performance (Murray 1990). When monetary incentives or rewards are linked to performance evaluation based on attaining the budget, subordinates are more likely to show undesired behavior, like building in

budgetary slack. Thus, leadership evaluative style moderates the relation between participation and goal level (Murray 1990).

Moderating variables may influence the relationship between participative budgeting and employee performance (Murray 1990). Researchers, like Hopwood (1976) and Brownell (1982) have suggested that the effect of participation on performance may be conditioned by various moderating variables, including organizational commitment, goal commitment, goal level, goal clarity, role ambiguity, job related information and job difficulty.

On the basis of the discussion in the foregoing, we have put forward the following hypotheses (stated in the null form):

H<sub>1</sub>: - Goal clarity does not significantly impact on budgetary participation

H<sub>2</sub>: - Goal acceptance does not significantly impact on budgetary participation

H<sub>3</sub>: - Budget-based management style does not significantly impact on budgetary participation

H<sub>4</sub>: - Employees' attitude to budgeting does not significantly impact on budgetary participation

H<sub>5</sub>: - Job tension does not significantly impact on budgetary participation

### **3. Research Method**

#### **3.1 Data collection**

The data for this research were collected from primary source through questionnaire. The participants had been in their job position for an average of three years. Each had also been working for their organization for an average of seven years. The copies of the questionnaire were sent to each of the ten participating organizations, and it contained statements assuring the participants that their responses would be treated with absolute confidentiality.

#### **3.2 Measure and Scale of variables**

Subordinate's Participation in budget decisions (BP) was measured using six items. Goal clarity (GLC) was measured using three items. Goal acceptance (GLA) was measured using

five items. Budget-based management style (BBMS), which refers to the extent of integrating budgeting information in managing subordinates and performance evaluation of subordinates, was measured using six items. Attitude to budgeting (ATT) was measured using five items. Factor analysis technique was used to select the best combination of items that most appropriately measures attitudes. Job tension (JBT) was measured using three items.

Respondents were requested to provide rating to items in the research instrument on a 7-point calibrated scale, '1' representing Strongly Disagree/ Very unfavourable, and '7' representing Strongly agree/Very favourable. Appendix 1 shows breakdown of items used to measure each variable.

### 3.3 Model specification

The model specified in equation 1 was used to express the relationship among variables:

$$BPI = \beta_0 + \beta_1GLC + \beta_2GLA + \beta_3BBMS + \beta_4ATT - \beta_5JBT + \beta_{et} \quad (1)$$

Variable definition:

BPI- Budget participation index

GLC, GLA, BBMS, ATT, JBT- are the independent variables.

$\beta_{0-5}$  - Regressor coefficients

$\beta_{et}$  - the stochastic error term

### 3.4 Method of Data analysis

The descriptive properties of study variables were explored using statistics such as Minimum, Maximum, Mean (M), and standard Deviation (SD). Factor analysis, using the Principal Component Analysis (PCA) extraction method, was used to reduce the number of variables, in order to select the best set of variables measuring Attitude to budget. The rotation method used for data reduction was Varimax with Kaiser Normalization. We explored the nature of relationship among variables using the Pearson Correlation and ordinary Least Square (OLS) regression techniques.

All statistical analyses were carried out with the aid of the SPSS software (version 21).

#### 4. Analysis and Presentation of Results

In this section, we presented the results of the various statistical analyses. We first used factor analysis to select the variables that best measure attitude. We thereafter presented the descriptive properties of the variables, correlation results and the regression results.

##### 4.1 Factor Analysis – Attitude

Attitude was measured using five variables— Attitude to Budgeting System of organization, Attitude to the Budgeting staff, Attitude to Budget goals/tasks of my unit, Attitude to boss, and Attitude to organization. We employed factor analysis to select the set of variables that best measures attitude, using a cut-off of 0.5 for factor loading. Kaiser (1974) specifies a minimum of 0.3.

Before carrying out a factor analysis, the KMO and Bartlett’s test was utilized to test the suitability of the data for a factor analysis. The Kaiser-Meyer-Olkin Measure of Sampling Adequacy has a coefficient of .506 and the Bartlett's Test of Sphericity has p value  $\leq .05$ , meaning the data is suitable for factor analysis. Results are presented in table 1.

**Table 1:KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.506
Bartlett's Test of Sphericity	Approx. Chi-Square	32.070
	df	10
	Sig.	.000

The result in table 2 shows the total variance explained, by each component.

**Table 2:Total Variance Explained**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.016	40.314	40.314	2.016	40.314	40.314	1.633	32.663	32.663
2	1.202	24.046	64.359	1.202	24.046	64.359	1.585	31.696	64.359
3	.811	16.222	80.581						
4	.642	12.832	93.413						
5	.329	6.587	100.000						

Extraction Method: Principal Component Analysis.

In table 2, 40.314% of the variance is explained in component 1, and 24.046% of the variance is explained in component 2. In total, 64.359% of the variances are explained.

**Table 3:Rotated Component Matrix<sup>a</sup>**

	Component	
	1	2
Attitude to Budgeting System of organisation	.713	.351
Attitude to the Budgeting staff	.669	-.044
Attitude to Budget goals/tasks of my unit	.806	.066
Attitude to boss	-.002	.888
Attitude to organisation	.164	.816

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 3 iterations.

In table 3, the results of the loading of variables on components 1 and 2 respectively are presented.

Three variables loaded on component 1 above the minimum threshold of 0.5, including Attitude to Budgeting System of organisation (.713), Attitude to the Budgeting staff (.669), and Attitude to Budget goals/tasks of unit (.806). Two variables also loaded on component 2 above the minimum threshold of 0.5, including Attitude to boss (.888) and Attitude to organization (.816). We selected variables that loaded on the component with the highest level of variance explained, and with the highest number of variables loading.

Since component 1 has the highest level of variance explained (40.314%) and the highest number of factor loading (three), we therefore selected the three variables loading above the threshold of 0.5 in component 1. We computed the variable Attitude (ATT) by aggregating the three variables — Attitude to Budgeting System of organisation (.713), Attitude to the Budgeting staff (.669), and Attitude to Budget goals/tasks of unit (.806). The descriptive statistics of study variables is furnished in table 4.

**Table 4: Descriptive statistics of study variables**

	Minimum	Maximum	Mean	Std. Deviation
Budget Participation	17	40	28.13	7.050
Goal Clarity	13	21	18.30	1.742
Goal Acceptance	19	34	30.38	2.488
Budget-based management Style	1	7	4.74	1.902
Attitude to budgeting	11.00	19.00	15.67	2.36846
Job tension	5	17	8.23	3.724
Valid N (listwise)			50	

In table 4, Budget Participation has a minimum of 17, maximum of 40 and a mean of 28.13. We can therefore conclude that, the level of participation in budget is above average (equivalent to 70.3% on a maximum scale of 40).

The mean score for goal clarity is 18.30 (equivalent to 87.1% on a scale with a maximum of 21). The dispersion of 1.742 from the mean implies that on the average, respondents agree that the goal their organisations set to achieve is clear to them. The mean of goal acceptance is high (Mean of 30.38, from a maximum of 34, with minimal dispersion of SD by 2.488); respondents consider that the goals of the organisation is acceptable to them to a large extent.

Respondents consider the extent of integrating budgeting information in performance evaluation to be moderate (Mean= 4.74, SD=1.902). The maximum score for this item is 7; the mean is equivalent to 67.7% on the 7-point calibrated measurement scale for this variable. The attitude to budgetary participation is considered high, going by the mean score of 15.67 from the maximum of 19, with a low level of dispersion (SD=2.37) from the mean.

With a mean score of 8.23 from the maximum of 17, Job tension is below average. In essence, though respondents consider that negative circumstances such as inadequate supply of resources, breaking of rules and unreasonable pressure for better performance abound in performance of their job, overall, the circumstances are not too pronounced. The consensus on this is also strong, judging from the low level of dispersion from the mean (SD=3.72)

## 4.2 Correlation analysis

The results of the correlation analyses of study variables are presented in table 5.

**Table 5: Correlation matrix of study variables**

		Budget Participation	Goal Clarity	Goal Acceptance	Budget- based management Style	ATTIT UDE	Job tension
Budget Participation	Pearson Correlation	1	.400*	.306	.255	.346*	-.479**
	Sig. (2-tailed)		.011	.055	.117	.029	.002
	N	60	60	60	60	60	60
Goal Clarity	Pearson Correlation	.400*	1	.033	.055	.192	-.143
	Sig. (2-tailed)	.011		.842	.737	.235	.384
	N	60	60	60	60	60	60
Goal Acceptance	Pearson Correlation	.306	.033	1	-.104	.409**	-.431**
	Sig. (2-tailed)	.055	.842		.530	.009	.006
	N	60	60	60	60	60	60
Budget-based management Style	Pearson Correlation	.255	.055	-.104	1	.109	-.266
	Sig. (2-tailed)	.117	.737	.530		.508	.101
	N	39	39	39	39	39	39
Attitude to budgeting	Pearson Correlation	.346*	.192	.409**	.109	1	-.467**
	Sig. (2-tailed)	.029	.235	.009	.508		.003
	N	60	60	60	60	60	60
Job tension	Pearson Correlation	-.479**	-.143	-.431**	-.266	-.467**	1
	Sig. (2-tailed)	.002	.384	.006	.101	.003	
	N	60	60	60	60	60	60

\*. Correlation is significant at the 0.05 level (2-tailed).

\*\*.. Correlation is significant at the 0.01 level (2-tailed).

Budget Participation has a positive, semi-strong and statistically significant relationship with goal clarity ( $r=.400, p \leq .05$ ). Goal clarity is expected to engender the participation of employees in the budgetary process of the organization. Budget Participation has a positive, semi-strong and statistically significant relationship with goal acceptance ( $r=.306, p \leq .10$ ). Goal acceptance is expected to spur employees to participate in budgeting.

Budget Participation has a positive, weak but statistically insignificant relationship with Budget-based management Style ( $r=.255, p=.117$ ), implying that to some extent, the budgeting management style positively affects the decision to participate in budgets. Budget participation has a positive, semi-strong, and statistically significant relationship with Attitude ( $r=.346, p \leq .05$ ). Budget Participation has an inverse, semi-strong and statistically significant relationship with job tension style ( $r=-.479, p \leq .01$ ); if employees feel pressured to achieve results, it is highly unlikely for them to participate in organizational budgeting.

The correlations analysis in table 5 shows the interconnectedness between the independent variables. For example, goal clarity is expected to reinforce goal acceptance, because employees/managers will want to be clear about results to be achieved before accepting to achieve the goals set through budgets.

Also, if employees feel pressured to achieve results without requisite resources or support (Job tension), they may have a negative perception about the goal which the organisation desires to achieve clarity (goal clarity), and as such, the goals will not be acceptable to them; these explain the inverse relationship between job tension and goal clarity ( $r=-.143$ ) on one hand, and job tension and goal acceptance on the other ( $r=-.431, p \leq .01$ ). Job tension is also negatively correlated with Budget-based management Style ( $r= -.266$ ), attitude ( $r= -.467, p \leq .01$ ). The acceptance of organizational goal is expected to bring about a positive attitude or disposition towards budget participation ( $r=.409, p \leq .01$ ).

### **4.3 Regression Analysis**

Budgetary participation has a significant relationship with most of the variables; we carried out a regression analysis to further assess the extent of the relationship (results in tables 6, 7 and 8).

**Table 6: ANOVA<sup>a</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	705.219	5	141.044	4.055	.006 <sup>b</sup>
	Residual	1147.755	33	34.780		
	Total	1852.974	38			

a. Dependent Variable: Budget Participation

b. Predictors: (Constant), Job tension , Goal Clarity , Budget-based management Style , ATTITUDE, Goal Acceptance

The model has F statistics of 4.055 and a p value = .006  $\leq$  .01, meaning the model is statistically significant at 1% level of significance (table 6). The coefficient of determination (R square) of .381 in table 7 implies that the extent of employees' participation in budgeting is 38.1% determined by the combination of the regressors or independent variables. The remaining 61.9% (designated as the stochastic error term in the model) is attributable to other variables affecting budget participation not included in the model.

**Table7: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.617 <sup>a</sup>	.381	.287	5.897

a. Predictors: (Constant), Job tension , Goal Clarity , Budget-based management Style , ATTITUDE, Goal Acceptance

The effect of each regressors on budgetary participation is disaggregated in the results contained in table 8.

Table 8: Regression Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-8.713	19.261		-.452	.654
Goal Clarity	1.322	.555	.334	2.382	.023
Goal Acceptance	.374	.457	.134	.819	.419
1 Budget-based management Style	.599	.540	.163	1.110	.275
ATTITUDE	.204	.473	.070	.432	.669
Job tension	-.557	.321	-.297	-1.735	.092

a. Dependent Variable: Budget Participation

The coefficients of the regressors in table 8 corroborate the nature of relationship between budgetary participation and each of the independent variables. The coefficient of the constant is negative ( $\beta_0 = -8.713$ ,  $p = .654$ ). This could refer to the inherent tendency of employees not to naturally participate, or feel reluctant in participating in budgeting in the absence of any factor or motivator that will spur them to participate.

Budgetary Participation is positively correlated with goal clarity ( $\beta_1 = 1.322$ ,  $p \leq .05$ ), goal acceptance ( $\beta_2 = .374$ ,  $p = .419$ ), budget-based management style ( $\beta_3 = 1.322$ ,  $p = .275$ ), and attitude ( $\beta_4 = 1.322$ ,  $p = .669$ ); but negatively correlated with Job tension ( $\beta_5 = 1.322$ ,  $p \leq .10$ )

By substituting the unstandardized beta coefficients in the model, we derive the Budget Participation index (BPI) which yields the following:

$$\text{BPI} = -8.713 + 1.322\text{GLC} + .374\text{GLA} + .599\text{BBMS} + .204\text{ATT} - .557\text{JBT}$$

#### 4.4 Hypotheses Testing

The results in table 5 were used for testing of hypotheses.

The p value of correlation coefficient between budgetary participation and goal clarity is statistically significant at 5% ( $r = .400$ ,  $p = .011$ ). We do not accept  $H_0^1$  but the alternate that goal clarity significantly impact on budgetary participation.

The p value of correlation coefficient between budgetary participation and goal acceptance is statistically significant at 10% ( $r = .306$ ,  $p = .055$ ). We do not accept  $H_0^2$  but the alternate that goal acceptance significantly impact on budgetary participation.

The p value of correlation coefficient between budgetary participation and Budget-based management is not statistically significant at 1%, 5% or 10% ( $r = .255$ ,  $p = .117$ ). We therefore retain  $H_0^3$  that budget-based management style does not significantly impact budgetary participation.

The p value of correlation coefficient between budgetary participation and attitude is statistically significant at 5% ( $r = .346$ ,  $p = .029$ ). We do not accept  $H_0^4$ , but the alternate that employees' attitude to budgeting significantly impact budgetary participation.

The p value of correlation coefficient between budgetary participation and job tension is statistically significant at 1% ( $r = -.479$ ,  $p = .002$ ). We do not accept  $H_0^5$  but the alternate that job tension significantly impact budgetary participation.

## **5. Conclusion**

It must be reiterated that business practice is subject to the pervading social environment and that accordingly, future changes in that social environment may necessitate re-interpretation of the evidence presented in this study. The hypothesis tested were supported, the study established that subordinates participate in budget planning, and that such participation leads to goal clarity and budget goal acceptance.

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