

**BUDGETARY FAIRNESS AND MANAGERS' PERFORMANCE IN DEFENCE  
BUDGETING**

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## ABSTRACT

Prior studies in budgetary setting have suggested that budgetary fairness has positively affected manager's performance, both directly and indirectly. This study proposed that the indirect relation between fairness and performance is mediated by intervening variables of budgetary participation, organisational commitment, budget satisfaction and budget performance. The study explored tripartite theories of organisational justice, goal setting and contingency theories to examine budgetary fairness and performance relationship in defence setting, a classic exemplary of mechanistic organisation. The study proposed three main modelling approaches in examining the relationship that are direct effect model, mediating effect model and interaction effect model.

In the direct effect model, the study proposed three dimensions of fairness that are procedural, distributive and interactional fairness to have a positive and significant effect on managerial performance, budgetary participation, organisational commitment, budget satisfaction and budget performance. In the indirect effect model, the study hypothesized that the relationship between budgetary fairness and managerial performance are mediated by budgetary participation, organisational commitment, budget satisfaction and budget performance. In the interaction effect model, the study suggest three way interaction effect of fairness, budgetary participation, organisational commitment and between budgetary fairness, budget satisfaction and budget performance to influence managerial performance.

Data were collected from a sample of 128 defence budget managers selected based on purposive sampling from Ministry of Defence. The hypotheses were analysed using Structural Equation Modelling by Smart PLS and SPSS statistical tool. The results revealed positive and significant influences of fairness on performance directly and both indirectly and interactively through organisational commitment, budget satisfaction and budget performance. Nonetheless, the influence of budgetary participation as mediator and as well as in interaction effect model linking fairness to managerial performance was not supported. These findings were not expected, thus suggest further research on its role in budgetary setting. The result revealed that fairness, commitment and satisfaction roles in budget setting in mechanistic organisation positively related to the Modified Budgeting System concept of let the manager manage in public sector. The study proposed new model development known as a 'Justice- Contingency- Outcome' model as a guidance for future research in this domain.

## ABSTRAK

Kajian terdahulu dalam penyediaan bajet menyatakan keadilan dalam bajet mempunyai kesan positif terhadap prestasi pengurus samaada secara langsung atau tidak langsung. Kajian ini mencadangkan bahawa hubungan tidak langsung antara keadilan dan prestasi disebabkan oleh pemboleh ubah mencelah yang terdiri dari penglibatan dalam bajet, komitmen organisasi, kepuasan bajet dan prestasi bajet. Kajian ini akan meneroka tiga teori berkaitan iaitu teori keadilan organisasi, *goal setting theory* dan teori kontinjen untuk menyiasat keadilan bajet dan hubungannya dengan prestasi dalam penyediaan bajet pertahanan, iaitu satu contoh klasik sebuah organisasi yang bersifat mekanistik. Kajian mencadangkan tiga model utama dalam pemeriksaan ini iaitu model kesan langsung, model kesan tidak langsung dan model kesan interaksi.

Model kesan langsung mencadangkan tiga dimensi keadilan iaitu keadilan prosedur, keadilan pengagihan dan keadilan interaksi mempunyai kesan yang positif dan signifikan ke atas prestasi pengurus, penglibatan bajet, komitmen organisasi, kepuasan bajet dan prestasi bajet. Dalam model kesan tidak langsung, kajian ini mencadangkan bahawa hubungan antara keadilan bajet dan prestasi pengurus dipengaruhi oleh pemboleh ubah mencelah penglibatan bajet, komitmen organisasi, kepuasan bajet dan prestasi bajet. Untuk model kesan interaksi, kajian mencadangkan terdapat interaksi tiga arah antara keadilan bajet, penglibatan bajet, komitmen organisasi dan antara keadilan bajet, kepuasan bajet, prestasi bajet yang akan mempengaruhi prestasi pengurus.

Data diperolehi dari sampel 128 pengurus bajet pertahanan di Kementerian Pertahanan yang dipilih mengikut tujuan kajian. Hipotesis telah dianalisis melalui model persamaan berstruktur dalam perisian SMART PLS dan perisian statistik SPSS. Hasil kajian menunjukkan keadilan bajet ke atas prestasi pengurus adalah secara langsung dan secara tidak langsung dan interaksi melalui komitmen organisasi, kepuasan bajet dan prestasi bajet. Walaubagaimanapun, pengaruh penglibatan sebagai pembolehubah mencelah dan juga dalam interaksi perkaitan antara keadilan bajet dan prestasi pengurus tidak disokong. Dapatan ini tidak diduga dan dengan itu membuka ruang untuk kajian lanjut mengenai peranannya dalam penyediaan bajet . Dapatan kajian juga mendapati peranan keadilan, komitmen dan kepuasan dalam penyediaan bajet di organisasi mekanistik mempunyai hubungan yang signifikan dengan konsep pengurusan 'biar pengurus mengurus' iaitu doktrin asas pelaksanaan sistem bajet diubahsuai dalam organisasi awam. Dapatan kajian telah disusuli dengan pembentukan model 'Justice-Contingency- Outcome untuk dijadikan sebagai panduan bagi kajian dalam bidang ini di masa depan.

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## APPROVAL

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## LIST OF ABBREVIATIONS

ANOVA	:	Analysis Of Variance
APMF	:	Activity Performance Measurement Framework
AVE	:	Average Variance Extracted
BP	:	Budgetary Participation
BPerf	:	Budget Performance
BS	:	Budget Satisfaction
DBM	:	Defence Budget Managers
DF	:	Distributive Fairness
ET	:	Expenditure Target
IF	:	Interactional Fairness
MAF	:	Malaysian Armed Forces
MBS	:	Modified Budgeting System
MES	:	Ministry Executives Summary
MoD	:	Ministry of Defence
MP	:	Managerial Performance
MRF	:	Ministerial Result Framework
NKRA	:	National Key Result Area
NPFM	:	New Public Financial Management
NPM	:	New Public Management
NRF	:	National Result Framework
OBB	:	Outcome Based Budgeting
OC	:	Organisational Commitment
PA	:	Programmed Agreement
PF	:	Procedural Fairness
PLS	:	Partial Least Square
PPBS	:	Programmed Performance Budgeting System
PPBES	:	Programmed Performance Budgeting and Execution System
PPMF	:	Programmed Performance Measurement Framework
RAPM	:	Reliance on Accounting Performance Measure
RC	:	Responsibility Center
SEM	:	Structural Equation Modelling
SPSS	:	Statistical Package For Social Science
VAF	:	Variance Accounted For

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Extensive research examines the effect of budgetary fairness on managerial performance produced inconclusive finding which reflected inconsistency or unclear direction of its relationship, and is more complex than what scholars theoretically thought and proposed. (Wentzel, 2002; Maiga, 2006, Magner and Kinnersley, 2008; Rachman, 2014). Prior empirical evidences found the relationship between the two were not only direct, but also influenced by indirect effect via multiple intervening and moderating variables (Wentzel, 2002; Lau and Lim, 2002; Maiga, 2006). Early study recognized and suggested that further works are needed to examine causal analysis of the budgetary fairness and managerial performance relationship as it is unclear whether budgetary fairness leads to managerial performance directly or through some intervening or moderating variables (Libby,1999).In the quest to ascertain the complex role of fairness in budget setting, recent studies expansively extended the role of budgetary fairness dimension from predictor to mediator (Lau and Tan, 2012; Rachman, 2012; Rachman, 2014; Kohimeyer et al, 2014).The inconclusive findings is in contrary to what Cropanzano (2007) viewed that fairness builds trust and commitment which in turn will lead to higher work performance. The perceived fairness of budgeting process is associated with positive attitudes and behavior as the manager feels that the proper execution of fairness may serve fair treatment of budget allocation which in turn will



affect managers' work outcomes, especially managers' performance dimension (Magner and Kinersley, 2008). On the direct influence of fairness, earlier studies by Lindquist (1995), Lau and Lim (2002) and recent research by Aryani and Rahmawati (2010) found that perceived fairness were positively associated with managerial performance. However, a study by Maiga (2006) found indirect influence of fairness in managers' performance via mediating variable of budget satisfaction. Maiga (2006) asserted that the ability of the manager to exercise perceive budgetary fairness, to a certain degree influenced the budget satisfaction which later lead to budget performance.

Moreover, earlier budgetary fairness studies emphasized budget setting in manufacturing and service unit, which were conducted in piecemeal combination with other variables such as a predictor to performance in direct relationship (Lau and Lim, 2002; Rachman, 2014), mediator to motivation, budgetary slack, goal commitment (Sholihin et al 2011; Zainuddin and Isa, 2011b; Lau and Tan, 2012; Rachman, 2012; Rachman, 2014, Kohimeyer et al, 2014), mediator to managerial performance (Aryani and Rahmawati, 2010), and predictor to participative budgeting (Rachman, 2014). Fairness has been linked to have interaction effect in budgetary participation and motivation relationship (Zainuddin and Isa, 2011a), budget satisfaction and budget performance (Maiga, 2006), as a predictor in relation to turnover intention (Magner and Staley, 2008), and as a predictor to work performance (Wang et al, 2010). Despite its links to motivation, satisfaction and performance, some studies show evidence its role on budget slack (Maiga and Jacobs, 2007; Oktorina and Soenarno, 2013), and organisational commitment (Kohimeyer et al, 2014). Most of the previous research utilise structural