Participative Budgeting and Managerial Performance in the Nigerian Food Products Sector

Matthew A. Abata,
Department of Accounting,
Lagos State University, Nigeria,
Email: princeresearch@yahoo.com

Abstract

Ensuring performance in an organization is a determinant of many variables but participative budgeting enhances more managerial performance both in the private and public sectors. The objective of this study is to measure the effect of participative budgeting on managerial performance. The study adopted a survey research design and a well structured questionnaire was used to gather data from the different level managers of Honeywell Superfine Foods Limited in Lagos State. Three hypotheses were formulated and tested using regression statistical tool to test for the relationship between the variables in the hypotheses (Managerial Performance and Participatory Budgeting). A total number of 50 questionnaires were conveniently (Judgmental sampling) distributed and 40 were returned and found usable for the study making 80% response rate. The findings revealed that there is a significant relationship exists between managerial performance and participatory budgeting. The degree of relationship between them is a weak positive and the extent of their relationship between is 12.3%. The study therefore recommends among others that all those presently involved in the implementation of budgets should be educated on the purpose and objectives of budgetary control and that lower level managers and staffs who are directly involved in the implementation of the budget should be co-opted into the budget setting process.

Keywords: Participative; Budgeting; Managerial Performance
1. Introduction

Budgets are financial plans that set out anticipated revenues and estimated expenditures over a certain period of time. Since their inception in the 1920’s, every serious company has made them the central part of their planning and control system. Their ability to coordinate the allocation of resources through internal communication while at the same time serving as a means of expenditure authorization and evaluation base has made them the most important tool that is at manager’s disposal today when running a company. Budgets are prepared for departments, such as production, personnel and marketing or for financial and resource items.

It has however been observed over time that the dysfunctional effects of budgeting often arise from the non-inclusion of the operating managers in the budget setting process. There has been an underestimation of the behavioural aspects of budgeting which affects the preparation, implementation and the success of the budgetary system of an organization. The general lack of participation of employees in budget setting process and training or knowledge to all individuals that are involved in the budgeting process are borne out of the fact that they are not granted participation. This practice has adversely affected the performance of the managers in different organization. This gap in literature therefore calls for an urgent research in the relationship between participatory budgeting and managerial performance.

Previous Studies (Chalos and Haka, 2007; Chenhall and Brownell 2011; Chong, Eggleton and Leong, 2006 ) report that a well organized budgeting system which encourages the genuine participation and involvement of operating management in the preparation of budget and the establishment of agreed performance levels have been found to have a positive and motivating effect. Hence, the adoption of participative budgeting by an organization in the preparation of its budgets will most likely generate a high level of managerial performance. This is a recognition of the fact that budget participation will ensure only attainable standards are set and pursued.

On the other hand, other studies (Noor and Othman, 2012; Suharman, 2011) report a negative association between participative budgeting and public sector performance. This inconsistent finding provides the basis for this study as it focus on determining the extent of influence of participative budgeting on managerial performance. In a participative budgeting process, both superiors and subordinates are involved. A bottom-approach is participative since it involves lower-level employees. Top management may initiate the budget process and provide general guidelines but it is lower-level employees who develop the budget for their own units. The employees normally comprise representatives from each unit or segment who are able to provide valuable insights on their segments’ activities or operations. The final
resource allocation is based on their input and it is thus critical that they are involved throughout the budget setting process.

Wisegeek (2012) define Participative Budgeting as a type of financial planning strategy that involves the active participation of a wider range of employees in the process of creating a workable budget for a department or even an entire company. Employees throughout the company structure are invited to provide input into the assessment of the company’s needs for an upcoming budgetary period. Participation in the budgetary process yields benefits such as increasing employee motivation and commitment to the budget fostering creativity among all levels of employees, increasing a sense of responsibility, increasing job satisfaction and also performance. Hence, participation is an essential part of effective budgetary planning and control and is the primary tool for reducing the dysfunctional effects of budgeting. However, budget goals should be negotiated through budget participation and be set at a tight but attainable level. Only this kind of budget goals can cause motivational effects that will increase the level of budget performance.

The objective of the paper is to establish the relationship between participatory budgeting and managerial performance. Section two examined the literature reviewed. Three examined the methods adopted and section four discussed the data analyzed and section five gave the conclusions and recommendation.

2. Literature Review

2.1 Budgeting and Budgetary Control

According to the Institute of Cost and Management Accountants’ terminology, a budget is “A financial and /or quantitative statement prepared and approved prior to a defined period of time of the policy to be pursued during the period for the purpose of attaining a given objective. It may include income, expenditure and the employment of capital”. It is a detailed commitment to a plan of action and in this respect differs from a “forecast” which is merely an assessment of future events which are likely to occur if no positive planning action is taken.

Budgeting may be defined quite simply as the process of compiling budgets and subsequently adhering to them as closely as possible (Maitland, 2000). It is a process that turns managers’ perspective forward. By looking to the future and planning, managers are able to anticipate and correct potential problems before they arise. This system allows managers to focus on exploiting opportunities instead of, figuratively speaking fighting fires. In this way, the system provides sustainability to business processes within the company. It is a process of utmost importance to management. In the words of one observer; “few businesses plan to fail but many of those that collapse failed to plan” (Horngren, Foster, & Datar, 2000).
The purpose of budgeting is that it gives management an idea of how well a company is meeting its income goals; whether or not expenses are in line with predicted levels and how well controls are working. If properly used, budgeting can and should increase profits, reduce unnecessary spending and clearly define how immediate steps can be taken to expand markets (Suherman, 2011). In order to achieve this, Viscione (1984) recommended that management needs to build a budgeting system which would set acceptable targets for revenue and expenses, increase the likelihood that targets will be reached and provide time and opportunity to formulate and evaluate options should obstacles arise.

Budgetary control on the other hand is a system where budgets are prepared for the various activities of a firm and actual performance regularly compared with budget. Chalos and Haka (2007) defined budgetary control as “A system where budgets are prepared for various activities of a firm and actual performance is regularly compared with budget”. Houlton (1982) in his book Cost and Management Accounting; An introduction, 1982 defined it as “The establishment of targets relating to the responsibilities of executive to the requirements of a policy and continuous comparison of actual with budgeted result either to secure by individual action the objective of that policy on to prove a basis for its revision”. The main objectives of budgetary control among others are to combine the ideas of all levels of management in the preparation of the budget, to act as a guide for management decision when unforeseen conditions affects the budget and to plan and control income and expenditure so that maximum profitability is achieved.

2.1 Categories of Budget

Budget may be classified in diverse ways but for a typical manufacturing organization, they could be categorized as follows:-

- Budget in The Sales Area:- This entails sales budget and those budgets that are functionally related to the sales budgets and to some extent the advertisement and promotion budgets.
- Budget in the Production Area: This includes the production budget and the related production inputs budgets (i.e. labour, materials etc).
- Budget for services:-These are the budget relating to the general service of the organization e.g. administration, personnel, welfare etc.
- Budgets determined by Policy: These are budgets which are less directly connected to routine activities and are usually determined by top management. Monies and resources would be allocated for these budgets usually on a longer term basis than normal operating budgets in order that the long term objectives can be achieved. Major instances of this category of budget are the capital expenditure budget, research and development budget etc. The activities covered by these budgets are of course related to current operations but...
their major emphasis is far more reaching and is to ensure that the organization is able to meet future challenges by developing new products and techniques, increasing productivity and preparing for markets. These types of budgets tend to cover periods of more than one year.

- The summary budgets: These are budgets which combine all the budgets outlined above and provide valuable summaries of the impact of the organization’s plans. This category of budget basically includes the master budget and cash flow budget.

2.2 Principal Budget Factor

This is otherwise referred to as limiting factor or budget key factor. Before any detailed budgeting plan can be made, it is necessary to first of all identify the principal budget factor i.e. the factor which prevents an enterprise from immediately expanding to infinity.

According to the institute of Cost and Management Accountants’ terminology (2003), a limiting factor “is a factor which at every time or even a period may limit the activity of an entity often where there is shortage or difficulty of supply”. The limiting factor may change from time to time for the same entity or products. In addition, restrictions imposed on demand, on the volume of production or on any other aspect of which affects the profit maximization are known as limiting factor (Chong, Eggleton and Leong, 2006). Obviously, the principal budget factor dictates the whole course of planning short term operations. Indeed part of the art of management is to make plans so that this factor is fully exploited (Chenhall and Brownell, 2011). Limitations may be imposed market demand for a company’s products or services, the number of skilled employees available, the availability of material supplies, the space available either as a working area or for the storage of goods and the amount of each or credit facilities available to finance the business.

Additionally, not all limiting factors can be eliminated or avoided by the management decision. There are some which at least in the short run have to be accommodated. Many management decisions to eliminate or cut short the effect of such limiting factor will result only in long term benefits rather than short term benefits. For example, a decision to increase production capacity may not materialize for about two or three years. This means that the next two or three budget periods will not benefit from the increase in production which will result from expansion.

2.3 The Budgeting Process

Step 1: A budget committee meets at regular intervals and would be serviced by a budget officer, usually the accountant.

Step 2: The task of the committee is to co-ordinate and reviews the budget programme, establish procedures and timetables, produce and update the budget manual.
Step 3: It is a cardinal feature of budgeting that managers are personally involved with the development of their own budgets and accept responsibility for them. This is a key element in motivating managers and encouraging goal congruence.

Step 4: It is unrealistic to expect a manager to accept responsibility for an externally prepared budget, which is imposed on him.

2.4 Behavioural / Human Aspects of Budgeting

Until the early 1950s, accounting literature and practice had largely treated budgeting as a technical phenomenon only. Practitioners increasingly noticed however that organizations with good technical budgeting sometimes had undesirable social-psychological events related to budgeting. In response, the controllership foundation sponsored a study by Argyris (1952, 1953) to increase understanding of budgeting’s psychological effects. The most important findings of his study were (1952).

- First, budget pressure tends to unite the employees against management and tends to place the factory supervisors under tension.
- Second, the finance staff can obtain feeling of success only by finding fault with factory people.
- Third, the use of budgets as “needlers” by top management tends to make the factory supervisors see only the problems of their own departments.
- Fourth, supervisors use budgets as a way of expressing their own patterns of leadership.

In order to avoid these problems with budgets, Ashill and Rod (2011) suggested three simple business principles. The first principle is that good attributes are the key to successful budgeting where management must explain to its staff that budgets are the most effective way of corporate planning and control. The second principle is that budgets must not be used as pressure devices- “they should be tools placed in foremen’s hands and not clubs to be held over their heads” Thirdly, only active participation and support from top management can assure the highest possible level of budget motivation and instill a “let’s do it together” attitude instead of a short sighted “you do it or else” attitude.

The human subjective elements cannot be over emphasized, budgeting is not a mechanistic, technical procedure. Its success is totally dependent upon goodwill and cooperation of participants without which budgeting will become merely a paper exercise with no real impact on the operations of the organization except perhaps negatively.

2.5 Budgets as Targets

Numerous researchers (for instance Argyris Hofstede, French, Kay and Meyer) have found that clearly defined quantitative targets can improve motivation and thus produce better performance than if no targets existed. This raises the problem of the level of performance to
be incorporated as the target. Should the budgets reflect senior management’s expectations or employee aspirations (i.e. the level of performance the employee hopes to attain).

Hofstede research indicated that:

(a) Very easy targets will be achieved but do not motivate managers to achieve their full potentials
(b) Very difficult targets will not be accepted and cause managers to give up trying so that their performance will be lower than if realistic target had been set.
(c) The best performance levels are likely to be achieved by setting the toughest target that will be accepted by the manager as his own personal goal i.e. equivalent to the manager’s aspiration level.

Research has shown that budgets do not necessarily lead to improved performance and that the budget level which leads to the best performance is unlikely to be set on the on the majority of occasions. If budgets are set as the level which will achieve maximum performance then adverse variable are likely. These must be treated sympathetically; if they are used as a pressure device, budget holders will try to obtain the future by underperforming. Thus easier budgets will produce fewer adverse variances but overall performance will be lower.

Aspiration levels are not constant and are affected by the budget holder’s previous performance compared with the budget level. Becker and Green found that

(i) Where performance is well below the budget then the budget should be revised downward sufficiently for it to be perceived as attainable. If this is not done, the budget holders will become discouraged and his aspiration level and future performance will fall.
(ii) Where performance is just below the budget level (resulting in an adverse variance) sympathetic and non punitive feedback of result will normally lead to an increase in aspiration level and performance.
(iii) Where performance meets or slightly exceeds the level in the budgets it is likely that the aspiration level will increase and the budget holder’s potential performance will be greater.

2.6 Budgeting and Motivation

Motivation is the need to achieve or select target or objective and resulting drive and determination that influences action directed towards the selected targets. It is clearly desirable that managers and supervisors are motivated by the budgeting system and there are some evidences that clearly defined targets and objectives can influence motivation in a positive manner.

The relationship between budgets and employee motivation has also been one of the important topics that receive substantial interest in accounting research.
Hofstede (1968) found that:

- Loose budgets are poor motivators
- The motivating effects of budgets become stronger when they become tighter.
- Over a certain limit of budget tightness, motivation is poor again.
- This limits and in general the extent to and the way in which people internalize standards depend on factors in the situation, in management and in the personalities of the budgeteers.

2.7 Budget Participation

Accounting literature indicates the importance of participation in budget setting. It states that the participation of middle and lower level managers in the budgeting process can have beneficial effects in at least two ways. First, the process of participation reduces information asymmetry in the organization thereby enabling top management to gain insight into issues about which lower level managers have specialized knowledge.

Moreover, the process of participation may bring about greater commitment by lower level managers to carry out the budget plan and meet the budget (Welsch, Hilton, & Gordon, 2002). Participation is a process that can be used for planning and goal setting when there is environmental uncertainty, or motivating subordinates when there is task uncertainty and for co-ordinating interdependence when there is task interdependence (Shields, Shields, 1998). Some authors even claim that participation is the main solution to the dysfunctional effects of budgeting (Argyris, 1952). Nevertheless, there are also dangers inherent in participative budgeting. Some managers may use the opportunity given by participation to reduce the standards demanded of them and to create bias in the estimates they submit (Young, 1985).

In many companies, pseudo participation where a superior lets a subordinate be involved with but have no influence on setting the subordinate’s budget instead of proper participation where a superior lets a subordinate be involved with and influence budget setting is used (Becker, Green, 1962). Thus participation is no universal solution. It is an essential part of effective budgetary control but needs to be used with care and understanding (Emmanuel, Otley, Merchant, 1990).

Studies related to the topic of budget participation can in general be divided into two major groups. One set of researchers tried to investigate and determine the optimal conditions of budget participation while others were more interested in depicting the links between participation and variables like performance and job satisfaction. The first group of authors like Bruns and Waterhouse (1975) discovered in their studies that managers in highly structured organizations tend to perceive themselves as having more influence and therefore participate more in budget planning and appear more satisfied with budget-related activities. Managers in organizations where authority is concentrated are generally held accountable for
fewer financial variables, experience superior-related pressure and budgets together with participation as less useful. Also, similar to this are the findings of Hofstede (1968) who observed that those who do not usually participate in budget setting mostly do not desire it and that participation usually becomes attractive only after it has been experienced.

Although, a positive relationship between budget participation and employee performance has never really been in doubt, how exactly this functions in reality has remained an open question to this day.

Some authors claim that this link is simple but not direct where various elements can play the role of an intervening variable. So for example, Noor and Othman (2012) found that the link between participation and performance was dependent upon the personality of the manager involved. Managers who felt they had a significant degree of control over their destiny exhibited the expected relationship but for those who felt their destiny was controlled by luck, chance or fate, budgetary participation resulted in poorer performance. The same results were also confirmed when he repeated his research a field study (1982a). Other intervening variables that were often used to explain the effects of budget participation on managerial performance were:- budget adequacy and organizational commitment (Nouri, Parker, 1998), cultural background of the managers (Tsui, 2001), fairness perceptions and goal commitment (Wentzel 2002).

On the other hand, authors like Shields and Young (1993) claim that this link is much more complex. The relationship that they discovered was where the extent of information asymmetry affects budget participation which affects the use of budget-based incentives which then positively affects performance. Similarly, the results that Kren (1992) and Chong and chong (2002) obtained, proved to be consistent with the proposition that budgetary participation facilitates job relevant information acquisition by managers budget goal commitment and that job-relevant information in turn is associated with improved performance.

2.8 Participatory Budgeting Benefits

Participation in the budget setting process can improve the budget holder’s attitude to the budget system and make it more likely that he will accept the targets contained in the budget system.

The following are the various factors that help the organization to decide whether or not participation is worthwhile and if so how it can be made most effective:-

(1) The cultural setting of the organization
(2) The work situation
(3) The management style of the organization
(4) The relationship between supervisors and the supervised
(5) The extent of decentralization
(6) The type of structure etc.

Moreso, the use of a participative budgeting approach in the preparation and implementation of organizational budget will generate the following benefits:

- Employee involvement and motivation
- Enhances communication amongst and within the various units/ departments within the organization
- Increased budget accuracy and more relevant variance analysis.

However, it is apparent from this research that participation must not be completely concentrated in the lower level management. Budgets set by the lower level management should be subject to review and approval by the top level management in order to ensure that slacks are not built into the budget.

In summary, if maximum objective is to be achieved due consideration must be given to the behavioral aspects of budgetary control. To achieve organizational goal, staff and management participation and co-operation should be sought. Therefore budget is used as an instrument of control and actual need will be compared with the budget performance in order to ascertain variance.

3. Research Methods

This research study adopted a descriptive survey research. It attempts to assess the impact of participative budgeting on the performance of managers within an organization. It tries to correlate the two variables of interest, that is, “participative budgeting” and “managerial performance” to determine if the two (2) variables are significantly interlinked. The study population involves all the staff of Honeywell Superfine Foods Limited engaged in the various activities of the company under their respective departments- Production, Marketing, and Personnel, Accounting and Purchasing. The questionnaire was constructed and adopted by the researcher with the assistance of scholars who are versed in this field of study. Questions asked on the variables (managerial performance and participatory budgeting) in the questionnaires were adopted from the work of the 2004 Urban Management Programme (Harvard university centre for Urban Development Studies) on Participatory budgeting. The questionnaires were given to experts in research studies who made structural corrections and suggestions were incorporated into the questionnaires. The research instrument was subjected to reliability test using Cronbach Alpha’s reliability method. The instrument was found to be useful and consistent for purpose of the research work. Fifty questionnaires were distributed using Judgmental Sampling. This sampling technique was adopted in order to select authorities that can be more representative sample that can bring more accurate results. This was done by handpicking individuals who have managerial experience and have involved in...
one budget committee or the order. This was known through available information gotten as regards budget committee at various levels of the organization. We discovered that limited number of employees possess the knowledge relating to budgeting planning and control and managerial responsibilities. Ten were distributed to the top level management, thirty-two to middle level management and five to supervisors. The researcher administered the questionnaires personally in each of the departments that form the sample. Necessary explanations were given for clarifications on the questionnaires. The choice of questionnaire arose because of the need to research evidence and also to be provided a strong basis for documentation and objectivity in data analysis. The data obtained from these questionnaires were analyzed and interpreted using descriptive statistics and regression analysis through SPSS software.

Hypothesis Formulated

H<sub>1</sub>: There is no significant positive relationship between participative budgeting and managerial performance.

H<sub>2</sub>: There is no degree of relationship between participative budgeting and managerial performance.

H<sub>3</sub>: The extent to which participative budgeting relates to managerial performance cannot be justified.

4. Data Analysis

The empirical findings resulting from the analysis of the data gathered in order to address the research questions and hypotheses are being presented. A total number of 50 questionnaires were distributed but 40 were returned and analyzed. The information obtained therefore is presented below.

Table 1: Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participatory Budgeting</td>
<td>40</td>
<td>2</td>
<td>5</td>
<td>3.5708</td>
<td>.38756</td>
</tr>
<tr>
<td>Managerial Performance</td>
<td>40</td>
<td>3</td>
<td>5</td>
<td>3.7250</td>
<td>.57591</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>40</td>
<td></td>
<td></td>
<td>3.7250</td>
<td>.57591</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2013

Mean

This is a measure of central tendency that helps to determine the average of a set of observations. It is noteworthy to maintain that the greater the weight (mean) of any variable relative to other variables, the greater the importance of such variable.

The Means of the variables; participatory budgeting and managerial performance is valid as their respective means are greater than 3.0 (5.0+ 1.0)/2. Participatory budgeting has a mean value of 3.5708 while managerial performance has 3.7250. Therefore both variables are of
high importance to the respondents and that the question asked on the variables are valid to the respondents and reliable for the study.

**Standard Deviation**

This is a measure of dispersion that helps to ascertain the extent of spread of data from the mean. This also helps to measure the level at which the mean value of a distribution is valid.

Participatory budgeting is very valid when compared to managerial performance because it has the lowest standard deviation of 0.38756. This means that respondents’ opinions are more concentrated at a value. The extent at which the values of the questions in the questionnaire dispersed from the average mean is low and connoting that most of the respondents have the same opinions on the questions.

In determining the degree of relationship between two or more variables, coefficient of correlation denoted as R would be used. From the table R is given as 0.351 which means that a weak relationship exists between participatory budgeting and managerial performance because the value tends below 0.50. This means that the extent to which participatory budgeting is adopted in the organization is low and this would account for a constant 35.1% overall managerial performance. This result therefore tests the first hypothesis that a relationship exist between participatory budgeting and managerial performance. It can therefore be concluded that the degree of relationship between performance (Y) and scope of project (X1) is a strong negative relationship.

---

### Table 2: Correlations

<table>
<thead>
<tr>
<th></th>
<th>Participatory Budgeting</th>
<th>Managerial Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participatory Budgeting</td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>40</td>
</tr>
<tr>
<td>Managerial Performance</td>
<td>Pearson Correlation</td>
<td>.351*</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.026</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>40</td>
</tr>
</tbody>
</table>

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

Source: Field Survey, 2012
From the linear graph, it can be established that the relationship between the managerial performance and participatory budgeting is positive as the linear line depicts a supply curve (a supply curve is positively sloped). This also justify the answer in correlation table above that a positive relationship exists between managerial performance and participatory budgeting. This means the more the adoption of the practice of participatory budgeting, the more the results that would be attained by the organization’s managers (the more the managerial performance).

Table 3: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.351</td>
<td>.123</td>
<td>.100</td>
<td>.54627</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Participatory Budgeting

Source: Field Survey, 2013

In measuring the extent to which a variable is related to another variable, the coefficient of determination (R²) is used. This would be used to test for the third hypothesis to establish the extent of the relationship between participatory budgeting and managerial performance. From the model summary table, the coefficient of determination of managerial performance and participatory budgeting is 0.123. This means that 12.3% of the variance that occurred in the dependent variable (managerial performance) is traceable to the independent variable.
(participatory budgeting) i.e. 12.3% variation in managerial performance was explained by participatory budgeting.

Table 4: ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>1.595</td>
<td>1</td>
<td>5.346</td>
<td>.026</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>11.340</td>
<td>38</td>
<td>.298</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>12.935</td>
<td>39</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Participatory Budgeting
b. Dependent Variable: Managerial Performance

This table helps to ascertain the significance of the relationship between participatory budgeting and managerial performance. From the table, the F-value is given as 5.346 and since the Asymptotic significance is given as 0.26 and since is less than the decision criterion value of 0.50, this means the relationship between participatory budgeting and managerial performance can be established.

Table 5: Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td>T</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>1.862</td>
<td>.811</td>
<td>2.297</td>
</tr>
<tr>
<td></td>
<td>Participatory Budgeting</td>
<td>.522</td>
<td>.226</td>
<td>.351</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Managerial Performance
Source: Field Survey, 2012

This table establishes the test of significance of the independent variable (participatory budgeting) and the model connecting the dependent and independent variables.

Ho: parameter = 0, for the independent variable. This is given as standard error is lesser than B/2

For participatory budgeting, 0.811 < 1.862

0.811 < 0.931 (meaning that the variable; participatory budgeting is significant to managerial performance). This can also be justified by its respective asymptotic significant as it gave a value of 0.026 which is less than the decision criterion of 0.050. Hence, the linear connection of Y = a + bX is given as Y = 1.862 + 0.522X (Managerial Performance = 1.862 + 0.522Participatory Budgeting).

From the results and analysis, it was therefore reviewed that a relationship exists between managerial performance and participatory budgeting. The degree of relationship between them is a weak positive and the extent of their relationship between is 12.3%. The extent to
which participatory budgeting was able to explain the variations in managerial performance is 12.3%.

4.1 Discussion on findings

The findings revealed that there is a positive relationship between participatory budgeting and managerial performance. Participatory budgeting is significantly related to managerial performance but a weak relationship. This finding is line with previous empirical findings (Chenhall & Brownell, 1988; Dunk, 1995; Chalos & Haka, 2007; Kewo, 2014; Syahputra, 2014). Syahputra (2014) found that participative budget does not significantly influence managerial performance. However, he noted that participative budget increases the managerial performance through the increase of commitment, which has a significant, positive effect on motivation. Chenhall and Brownell (1988) did studies into the effects of participative budgeting have been equivocal. Chenhall and Brownell (1988) revealed that budgetary participation acts indirectly, via role ambiguity, to influence job satisfaction and performance. Chalos and Haka (2007) examined the impact on firm returns of managerial participation, private state information and relative skill. Their results indicate a significant improvement in firm and managerial welfare across favorable and unfavorable private state information with budgetary participation. Finally, relative skill signals are shown to lead to improved managerial performance. Kewo (2014) also contributed to estimate empirically the influence of participative budgeting, budget goal clarity, and internal control implementation simultaneously or partially on managerial performance apparatus on local government in North Sulawesi Province Area-Republic Indonesia. The result shows that there are the influence of participative budgeting, budget goal clarity and implementation of internal control simultaneously on managerial performance. Partially the participative budgeting, budget goal clarity and implementation of internal control each has a positive influence on managerial performance. Dunk (1995) found and revealed that participation and performance are positively related when subordinate interest in innovation is high, but they are not associated when interest in innovation is low.

5. Conclusions and Recommendations

The full participatory budgetary process involves liaison and discussion between all levels of management. It is an important formal avenue of communication between top and lower level management regarding the organization’s long term objectives and the practical problems of implementing these objectives. When the master budget and supporting budgets are agreed and finalized, they provide the formal means of communicating agreed plans embodied in the budget to all personnel involved. By publishing a budget, management explicitly informs its subordinates as to what exactly they must be doing and what other parts of the organization will be doing.
A budget is where all the financial components of an organization (individual units, divisions and departments) are assembled into a coherent master picture that expresses the organization’s overall operational objectives and strategic goals. Therefore, co-ordination is necessary to avoid sub-optimality. A well coordinated budgeting system enhances the skills of operating managers not only by educating them about how the company functions but also by giving them the opportunity to manage their subordinates in a more professional manner. This is because budgets delegate responsibility to the manager who assumes authority for a specified set of resources and activities. In this way budget emphasize even more the existing organizational structure within the company.

Participation in the budget setting process can improve the budget holder’s attitude to the budget system and make it more likely that he will accept the targets contained in the budget system. Participation is a process that can be used for planning and goal setting, for motivating subordinates and for coordinating interdependence. It is thus said to be an essential part of effective budgetary control. The following recommendations are therefore proffered.

- All those presently involved in the implementation of budgets should be educated on the purpose and objectives of budgetary control. This will change their negative perception of control and enhance their performance. The educating effect of a budget is perhaps most evident when the process is introduced in a company. Operating managers learn not only the technical aspects of budgeting but also how the company and how their business units interact with others.

- Lower level managers and staffs who are directly involved in the implementation of the budget should be co-opted into the budget setting process. This will reduce cases of resentment to budgetary planning and control and will enhance the achievement of plans as well as motivate the workers in the company. The involvement of all levels of management in setting budgets, the acceptance of defined targets, the two-way flow of information and other features of a properly organized budgeting system all help to promote a coalition of interest and to increase motivation.

- A top-down/bottom-up approach which combines and balances the best element of the top-down and bottom-up approach should be adopted. The top-down/bottom-up approach allows input from both lower and upper level management into the model. The budget process becomes collaboration between top and lower management rather than a one-way exercise. The exercise of budget preparation is therefore decentralized, allowing for the participation of a wide range of staff.

References


Operationalization of Variables

Managerial Performance

MP1: There is intern steering of organizational units on objectives and results

MP2: Manager develop internal reporting and evaluation system to enable board to assess results

MP3: There is long range planning of goals-activities

MP4: Services provided are of a good quality

MP5: Goals and objectives are attained and performance are appreciated

Participatory Budgeting

PB1: Workers have the power to deliberate and decide in the budget itself

PB2: All workers have the right to participate directly in discussions and decision making

PB3: Delegate(s) from each department is/are chosen from the workers to make up the participatory budget council of the organization

PB4: Delegates chosen ‘dialogue’ with board/management for the demands of workers for improvement in working conditions or a good wage system

PB5: It permits a greater participation of women, low level managers, machine operators and workers with special needs and other discriminate groups

PB6: All departmental workers are involved in monitoring the transparency of the process of execution of budgets for works and services

PB7: Workers do not participate in budget process when there is lack of information sharing which generates mistrust on the part of the workers

PB8: Erosion of trust on the part of the workers towards the participatory budget process can be irreparable when the degree of completion of projects viable is low

PB9: Involvement of departmental/units managers/heads is a strong distinguishing factor for effective participatory budgeting

PB10: About 2% to 10% of departmental budgets are debated by departmental heads for consideration in the total budget of the organization

PB11: Special resources (budgetary allocation) are allocated for internal communication and attendance of workers in the participatory budgeting process

PB12: Tax issues affecting the cost unit of each department of the organization are deliberated in the participatory budget process

PB13: The degree of institutionalization in the participatory budget process varies from one department to the other

PB14: Participatory budgets allow workers participation to improve a department administration
PB15: The biggest challenges that Participatory Budgets face is their relationship with the long-term planning of departmental activities

PB16: Participatory budgeting processes are highly linked to a dual process: the decentralization of departmental services and the decentralization of departmental power

PB17: Operational workers are recognized for department development process through budget participation

PB18: Participatory budgeting process permits ‘inversion of priorities’ (gap between top level managers and low level managers)