

The Influence of Budgeting Participation on Managerial Performance in Service Companies: An Evidence from Indonesia

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As the world is entering the globalization era, service industry is experiencing dynamic changes and growth. As a result, companies within the service industries become more and more competitive. Therefore, in order to be able to survive and expand, the companies should seek for appropriate management methods and techniques. One of the management techniques that can be utilized by the companies is budgeting. In the budgeting process, the involved parties are given certain roles to achieve the target set during budgeting process. Therefore, the managerial performance is closely related to its participation in the budgeting process. First, this research aims to study how budgeting participation influences managerial performance and job relevant information; then the influence of job-relevant information on managerial performance, and finally the influence of budgeting participation on managerial performance through job-relevant information as the intervening variable. The valid sample used in this research is 200 managers who work in various service companies in Surabaya. The analysis technique applied is Partial Least Square (PLS). The research results indicate that budgeting participation has a positive influence on both managerial performance and job-relevant information. Secondly, job-relevant information also positively influences managerial performance. Lastly, the research also shows that budgeting participation also has a positive influence on managerial performance through job-relevant information as the intervening variable.

INTRODUCTION

As the world is entering the globalization era, service industry is experiencing dynamic changes and growth. As a result, companies within the service industries become more and more competitive. Therefore, in order to be able to survive and expand, the companies should seek for appropriate management methods and techniques. One of the management techniques that can be utilized by the companies is budgeting. According to Hansen and Mowen (2004), budgeting is defined as a financial planning which identifies the aim and actions required to achieve its targets/goals. Budgeting has a very important role in the process of planning, controlling, and decision making (Hansen and Mowen, 2004). Moreover, Mulyadi (1997) defined budgeting as the role defining process, where involved parties are given roles to perform the necessary actions to achieve the targets set during the budgeting process.

In a company, managerial performance is closely related to its participation in budgeting process. Participation in budgeting process shows the level of a manager's involvement and influence in the

process of budgeting, both periodically and annually (Brownell, 1982a). Participation in budgeting process will cause a manager to respect his job and the company (Milani, 1975). However, researches on the influence of budgeting participation on managerial performance are still being debated. Several researches of the influence of budgeting on managerial performance show inconsistent results. Brownell (1982a); Brownell and Mc. Innes (1986); Frucot and Shearon (1991); Kren (1992); and Eker (2008) find out that there is a positive and significant relationship between budgeting participation and managerial performance. This result is different from the research result of Milani (1975) which shows a weak positive relationship between budgeting participation and managerial performance.

The inconsistent results motivate the researcher to perform a further research to find out whether there are variables which relate budgeting performance with managerial performance. In a previous research, Kren (1992) states that the relationship between budgeting participation and managerial performance is influenced by a situational aspect, namely job-relevant information as an intervening variable. Budgeting participation gives opportunities to a manager to gather, exchange, and spread information during the decision making process, which can improve performance (Chong and Chong: 2002). This view is also confirmed by Eker (2008) who states that a manager with a high performance tends to participate in the budgeting process, compared to a manager with a low performance. Therefore, the aim of this research is to find out whether budgeting participation has an influence on managerial performance in the service companies in city of Surabaya.

LITERATURE REVIEW

Budgeting Participation

Budgeting participation is an important concept in accounting management (Eker, 2008). Participation in the process of budgeting is a process in which a manager is involved in and influences the budgeting process, whose performance will be evaluated later (Brownell, 1982b). The process of budgeting participation is a bottom-up approach in which all members of the company who are affected by the budget are involved in the budgeting process (Bloucher, Stout, and Cokins, 2010). Milani (1975) proposes that the level of involvement and influence of an individual in the budgeting process is a factor which indicates the existence of budgeting participation in a company. This can be seen from:

1. How far the budget that is being set is influenced by the involvement of company members.
2. The willingness of company members to participate in the budgeting process without being asked by the top management or the directors.
3. The discussion between top management and company members during the budgeting process.

Budgeting participation in a company is a process of involvement, influence, and contribution in the budgeting process (Kren, 1992; Magner, Welker and Campbell, 1996, and Chong and Johnson, 2007). Involvement is viewed through the portion of manager's involvement in budgeting process. Influence is the percentage of manager's influence on the final budget. Finally, contribution is the manager's contribution in the budgeting process. Through budgeting participation, a manager has opportunities to interact, communicate, and influence the company's goals or targets (Lau and Tan, 2003), which will arouse a manager's respect towards his job and the company. It is because the standards and goals set are the result of joint decisions, which stimulates the manager's feeling of responsibility to achieve the company's standards and goals because they are involved in setting them (Milani, 1975). Besides, budgeting participation is a good communication tool in a company (Blocher, Stout, and Cokins, 2010). It is because budgeting participation communicates a sense of responsibility to managers which incite their creativity to achieve the budget's goals or targets. The communicated sense of responsibility emerges from the managers' direct involvement in the budgeting process in order to achieve optimal budget's targets (Hansen and Mowen, 2004).

Job-Relevant Information

Job-relevant information (JRI) is an information which facilitates the jobs that are related to decision making (Kren, 1992). Locke, Schweiger, and Latham (1986) propose that job-relevant information gives better insights for decision making. Through job-relevant information, a manager obtains the knowledge or information required for decision making or taking important actions in order to achieve the company's goals (Kren, 1992). Besides, job-relevant information enables a manager to develop effective strategies which will help him achieve the company's goals (Chong and Johnson, 2007).

Nouri and Parker (1998) show that a manager's involvement in the budgeting process will expose the information which will result in a more realistic and accurate budget. This is confirmed by Shields and Shields (1998) who propose that job-relevant information is utilized in the process of budgeting participation in order to make better decisions concerning budget and to achieve better work performance. Job-relevant information helps a manager to achieve the targets set for a budget by developing strategies to perform his duties effectively and efficiently (Lau and Tan, 2003). Kren (1992) states that job-relevant information can improve performance since it gives a more accurate information of environment's situation, which will enable a manager to select more effective actions.

Managerial Performance

Management is a series of activities which includes planning, organizing, leading, and controlling, which is aimed towards a company's human resources, financial resources, and information resources, in order to achieve the company's goal effectively and efficiently (Griffin, 1990). Mahoney, Jerdee, and Carroll (1963) define performance as a manager's capability to perform a series of managerial activities. The series of the managerial activities itself includes planning, organizing, leading, and controlling (Griffin, 1990; Dessler, 2001; Schermerhorn, 2002; Bateman and Snell, 2009).

The Influence of Budgeting Participation on Managerial Performance

Budgeting participation is a process where a manager is involved in and influences the budgeting process, whose performance will be evaluated through his achievement (Brownell, 1982b). Through budgeting participation, a manager gets the opportunities to interact, communicate, and influence company's goals (Lau and Tan, 2003). According to Brownell and McInnes (1986), budgeting participation enables a manager to make negotiations on achievable budget targets. This will arouse a manager's respect towards his job and the company. It is because the standards and goals set are the result of joint decisions, which stimulates the manager's feeling of responsibility to achieve the company's standards and goals because they are involved in setting them.

When a manager is involved in the budgeting process, he will understand the budget better, which will make it easier for him to achieve the budget targets (Anthony and Govindarajan, 2007). Managerial performance is measured by how effective and efficient the manager works to achieve company's goals. When the decision made by the manager achieves the company's goals effectively and efficiently, we can consider the managerial performance as good. When budget targets are achieved, managerial performance will improve and can be regarded as good (Stoner, 1992). Therefore, the hypothesis can be elaborated as the following:

H₁: Budgeting participation has a positive influence on managerial performance.

The Influence of Budgeting Participation on Job-Relevant Information

Budgeting participation can create a work environment which facilitates the acquisition and utilization of job-relevant information (Kren, 1992). Through budgeting participation, a manager is given the opportunities to gather, exchange, and spread job-relevant information in order to achieve budget target (Chong and Chong, 2002). Job-relevant information enables a manager to develop effective strategies which will help him achieve set goals (Chong and Johnson, 2007). Besides, budgeting participation enables a manager to interact with his superiors to explain strategic goals, situation of the work environment, and other issues which have important impacts on his job (Magner, Welker, and

Campbell, 1996). Job-relevant information is used in the budgeting participation process to develop decisions which concern better budgeting, and help a manager to perform better (Shields and Shields, 1998). Therefore, the hypothesis for H₂ can be elaborated as the following:

H₂ : Budgeting participation has a positive influence on job-relevant information.

The Influence of Job-Relevant Information on Managerial Performance

Kren (1992), Chong and Chong (2002) propose that job-relevant information has a positive influence on managerial performance. The research performed by Kren (1992) concludes that a manager with ample job-relevant information has a sufficient information for completing his job and evaluating alternatives of important decisions. It helps a manager to reflect on his actions with the help of available information, which will improve his performance. Besides, a high use of job-relevant information in decision making can enhance managerial performance in a situation of task uncertainty (Chong, 2004).

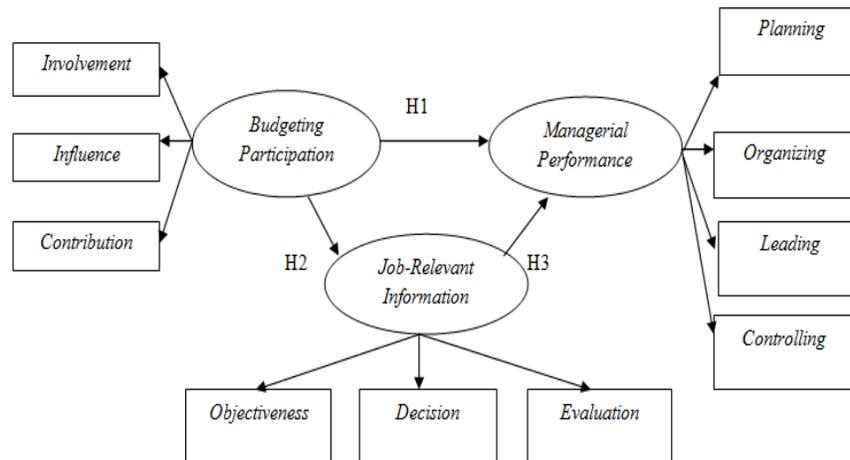
Job-relevant information helps a manager to understand the important things needed in order to perform better (Kren, 1992), and to achieve the budget target by developing strategies to do his job effectively and efficiently (Lau and Tan, 2003). A high use of job-relevant information enables a manager to improve his performance by selecting actions with the help of good information (Chong, 2004). Therefore, the hypothesis for H₃ can be elaborated as the following:

H₃: Job-relevant information (JRI) has a positive influence on managerial performance.

DATA AND METHODOLOGY

This research observes the influence of budgeting participation on managerial performance in service companies in Surabaya, with the analysis model as shown in Figure 1.

**FIGURE 1
THE ANALYSIS MODEL OF THE HYPOTHESES**



The population of this research is managers of service companies in Surabaya who participate in budgeting process. The sampling technique used in this research is judgement sampling, also known as purposive sampling. In judgement sampling, the sample selection is based on the researcher's own judgement (Malhotra and Birks, 2006). The criteria set by the researcher are as following: (1) Managers of service companies in Surabaya, and (2) service companies who set budget routinely. The measurement

scale used in this research is interval measurement scale, where the respondents are asked to select from a set of of answers the ones that suit their perception. The research scale used is the five-likert-scale. For data analysis, the researcher uses Partial Least Square (PLS) with the calculation by the SmartPLS program. The PLS analysis is used because it can make a complete analysis of the influences between the variables of this research.

EMPIRICAL RESULTS

Researcher analyzes 200 valid questionnaires from managers of service companies in Surabaya which set a budget. Description of respondents' profile is as follows: the respondents are managers who have worked for more than 1 year and mostly have undergraduate education. Description of respondents' position can be seen in Table 1.

**TABLE 1
DATA ANALYSIS**

Profile	Category	Number of respondents	Percentage
Position	Branch Manager	1	0.5%
	Accounting Manager	85	42.5%
	Production Manager	28	14%
	HRD Manager	25	12.5%
	Marketing Manager	25	12.5%
	Operational Manager	35	17.5%
	Planning Manager	1	0.5%
	Total	200	100%

Budgeting participation in a company is the process of involvement, influence, and contribution in the budgeting process (Kren, 1992; Magner, Welker and Campbell, 1996; and Chong, Eggleton and Leong, 2005). From Table 2 we can see that on the whole, the respondents state that they agree to be involved in budgeting process, which is shown by the average value of respondents' answers, namely 3.98. This shows that budgeting participation has been practiced in the companies, and all company members who are affected by the budget are involved in budgeting process (Bloucher, Stout, and Cokins, 2001).

**TABLE 2
THE AVERAGE OF RESPONDENTS' PERCEPTION**

Variable	Mean	Description
Budgeting Participation	3.98	Agree
Job-Relevant Information	3.9	Agree
Managerial Performance	3.94	Agree

Job-relevant information (JRI) is estimated through three indicators, namely objective, decision, and evaluation (Kren, 1992). On the whole, the respondents state that they have information which facilitate the jobs related to decision making, which is shown by the average value of respondents' answers, namely 3.9. Thus, the managers who become the respondents have job-relevant information which gives them knowledge or information needed to make important decisions or take important actions in order to achieve the company's goals (Kren, 1992).

Managerial performance is a manager's capability in performing managerial activities (Mahoney, Jerdee, and Carroll, 1963). The managerial activities include planning, organizing, leading, and controlling (Griffin, 1990; Dessler, 2001; Schermerhorn, 2002; Bateman and Snell, 2009). On the whole, the respondents agree that managerial activities have taken place in their companies finely, which is shown by the average value of the respondents' answers, namely 3.94. This means that the managers who become the respondents have good managerial performance.

Outer model estimation is performed to find out data validity and reliability. Data validity includes convergent validity and discriminant validity, while data reliability is determined through composite reliability.

Convergent Validity

An indicator fulfils the convergent validity if it has a loading value larger than 0.5. The convergent validity for the budgeting participation, job-relevant information, and managerial performance variables in the service companies in Surabaya can be seen in Table 3.

**TABLE 3
OUTER LOADING VALUE**

	Budgeting Participation	Job Relevant Information	Managerial Performance
P1	0.945		
P2	0.715		
P3	0.900		
P4		0.848	
P5		0.768	
P6		0.886	
P7a			0.859
P7b			0.779
P8			0.727
P9			0.829
P10			0.707

From this table we can see that all the indicators of budgeting participation, namely involvement, influence, and contribution have the outer loading values that are larger than 0.5. Thus, each of the indicator that measures budgeting participation has fulfilled convergent validity. The job-relevant information indicators developed by Kren (1992), namely objective, decision, and evaluation in this research also have outer loading values larger than 0.5. Thus, the indicators that measure job-relevant information have fulfilled convergent validity. According to Mahoney, Jerdee, and Carroll (1963), managerial performance is measured through a manager's capability to perform managerial activities. The managerial activities performed by a manager includes planning, organizing, leading, and controlling (Griffin, 1990; Dessler, 2001; Schermerhorn, 2002; Bateman and Snell, 2009). In this research, each indicator of the managerial activities has an outer loading larger than 0.5, thus the

indicators measure the variables finely, so they fulfil convergent validity, and no indicator needs to be eliminated from the model.

Discriminant Validity

Discriminant validity is measured according to cross loading measurement of the construct. The table 4 shows that the correlation between budgeting participation construct and its indicator (P1, P2, P3) is larger than the correlation between budgeting participation indicator with other constructs (job-relevant information and managerial performance). Besides, the correlation between job-relevant information construct and its indicator (P4, P5, P6) is also larger than the correlation between job-relevant information indicator and budgeting participation construct and managerial performance construct. This also applies to the correlation between managerial performance construct with its indicator (P7a, P7b, P8, P9, P10) which is larger than the correlation between managerial performance indicator and budgeting participation construct and job-relevant information construct.

**TABLE 4
CROSS LOADING**

	BP	JRI	MP
P1	0.945	0.296	0.380
P2	0.715	0.105	0.103
P3	0.900	0.218	0.280
P4	0.235	0.848	0.427
P5	0.226	0.768	0.315
P6	0.215	0.886	0.528
P7a	0.244	0.482	0.859
P7b	0.091	0.338	0.779
P8	0.245	0.246	0.727
P9	0.385	0.544	0.829
P10	0.281	0.296	0.707

Thus, the latent constructs (BP, JRI, and MP) can predict the indicators in their block better than the indicators of other blocks. Discriminant validity can also be measured by finding the square root of average variance extracted (AVE) value for each construct and compare it with the correlation between constructs.

**TABLE 5
CORRELATION BETWEEN CONSTRUCT AND AVERAGE VARIANCE EXTRACTED**

	BP	JRI	MP	AVE	AVE SQUARE ROOT
Budgeting Participation	1			0.697	0.835
Job Relevant Information	0.267	1		0.901	0.949
Managerial Performance	0.338	0.462	1	0.612	0.782

From Table 5 we find that the AVE square root value of budgeting participation is 0.835, which is larger than the correlation between budgeting participation construct and job-relevant information

construct, which is 0.267. And the AVE square root value of job-relevant information is 0.949, which is larger than the correlation between budgeting participation construct and job-relevant information construct, which is 0.267. The correlation between budgeting participation construct and managerial performance construct is 0.338. When compared to the AVE square root value of budgeting participation which is 0.835 and to the AVE square root value of managerial performance which is 0.782, we find that the AVE square root value of budgeting performance and of managerial performance are larger than the correlation between the two constructs.

The correlation between job-relevant information construct and managerial performance construct is 0.462. When compared to the AVE square root value of job-relevant information which is 0.949 and the AVE square root value of managerial performance which is 0.782, we find that the AVE square root value of job-relevant information and of managerial performance are larger than the correlation between the two constructs. The model is considered to have a better discriminant validity if the AVE square root value of each construct is larger than the correlation between the constructs, therefore from the results mentioned above we can conclude that the model of this research has a good discriminant validity because it has fulfilled the required criteria.

Composite Reliability

Composite reliability tests the reliability value of indicator block from the construct that forms it. Composite reliability is good when its value is larger than 0.60. Table 6 shows that the composite reliability value for budgeting participation variable: 0.893, for job-relevant information variable: 0.873, for managerial performance variable: 0.887. These three values are larger than 0.60. Thus, the model of this research can be considered reliable.

**TABLE 6
COMPOSITE RELIABILITY**

	Composite Reliability
Budgeting Participation	0.893
Job-Relevant Information	0.873
Managerial Performance	0.887

Then, we perform the inner model or structural model by observing the explained variance percentage, through finding out R^2 for dependent latent construct, Stone-Geisser Q-square test and the parameter coefficient of the structural path. From data processing with PLS, we obtain the determinant coefficient value (R-square value) as given in the following table.

**TABLE 7
THE MODEL'S THE R-SQUARE VALUE**

	R-square
Job Relevant Information	0.071
Managerial Performance	0.312

The goodness of fit in PLS can be obtained from Q^2 value. Q^2 value has the same significance as determinant coefficient ($R\text{-square}/R^2$) in regression analysis. The larger the R^2 value, the more fit the model is with the data. In the model of this research, the R-square value of the job-relevant information equation is 0.071, which means that the influence of budgeting participation on job-relevant information is 7.1 %. The R-square value obtained in the managerial performance equation is 0.312, which means that the influence of budgeting participation and job-relevant information on managerial performance is

31.2%. Referring to the R^2 data in Table 8, we can find the Q^2 value by using the Stone-Geisser Q square test formula is 36.1%, thus the model used in this research can explain 36.1% of the information contained in the data. Then the estimation of the inner model is done by observing the path coefficient given in the following table.

TABLE 8
THE RESULT OF THE PATH COEFFICIENT

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (O/STERR)
BP -> JRI	0.267	0.274	0.053	0.053	5.076
BP -> MP	0.215	0.226	0.055	0.055	3.875
JRI -> MP	0.462	0.455	0.058	0.058	8.016

The path coefficient from budgeting participation to job-relevant information is 0.267. This value is positive, thus it confirms that budgeting participation has a positive influence on job-relevant information in service companies in Surabaya. This is because budgeting participation can create a work environment which provide facilities to obtain and utilize job-relevant information (Kren, 1992). Through budgeting participation a manager is given the opportunities to gather, exchange, and spread job-relevant information to achieve budget target (Chong and Chong, 2002). Besides, the influence of budgeting participation on job-relevant information shows a statistic-t of 5.076 which is larger than 1.96. This shows that budgeting participation has a significant influence on job-relevant information in service companies in Surabaya. Thus, the hypothesis of the research which states that budgeting participation has a positive influence on job-relevant information in service companies in Surabaya is confirmed (H_2 is accepted and valid).

From the path coefficient table we find that the path coefficient from budgeting participation to managerial performance is 0.215. The value is positive, which means that budgeting participation has a positive influence on managerial performance in service companies in Surabaya. This is because budgeting participation is a process where a manager is involved in and influences the budgeting process, whose performance will be evaluated through his achievement (Brownell, 1982b). Involving a manager in the budgeting process will motivate the manager to try to understand the budget and the budget target will be achieved more easily (Anthony and Govindarajan, 2007). If the budget target is achieved, then we can conclude that managerial performance is improved or is good (Stoner, 1992). Besides, the influence of budgeting participation on managerial performance has the statistic-t value of 3.875 which is larger than 1.96. This shows that budgeting participation has a significant influence on managerial performance in service companies in Surabaya. Thus, the hypothesis of this research which states that budgeting participation has a positive influence on managerial performance in service companies in Surabaya is confirmed (H_1 is accepted and valid).

Job-relevant information has a positive influence on managerial performance (Kren, 1992 and Chong and Chong, 2002). This statement is proved in this research, which can be seen in the path coefficient from job-relevant information to managerial performance which is 0.462. This value is positive. Thus, job-relevant information has a positive influence on managerial performance in service companies in Surabaya. A high use of job-relevant information enables a manager to improve his performance by making selections with the help of good information (Chong, 2004). Besides, the influence of job-relevant information on managerial performance has a statistic-t of 8.016 which is larger than 1.96. This shows that Job-relevant information has a positive influence on managerial performance in service companies in Surabaya. Thus, the hypothesis of this research which states that job-relevant information has a positive

influence on managerial performance in service companies in Surabaya is confirmed (H_3 is accepted and valid).

Finally, the research also shows that budgeting participation also has a positive influence on managerial performance through job-relevant information as the intervening variable. However, the direct influence of budgeting participation into managerial performance is stronger (0,215) compare to through job-relevant information as the intervening variable (0,213). Therefore, the gap is not really big for the difference influence whether direct or indirect.

CONCLUSIONS AND RECOMMENDATION

From data collection and data processes, the researcher finds out that each hypothesis of this research is valid and accepted. Based on the calculation results and hypotheses test results, we can draw the following conclusions and implication:

1. Budgeting participation in a company can improve managerial performance of the company.
2. Budgeting participation in a company will enhance the job-relevant information of the company.
3. Job-relevant information in a company can improve the managerial performance of the company.

Therefore, based on the results, researcher would like to give the following suggestions:

1. The results of this research show that the lowest indicator in budgeting participation variable is influence indicator. Thus, the company should provide for the manager opportunities to give his influence in the budgeting process, which will enable the manager to achieve the budget target.
2. The research results also show that the lowest indicator in job-relevant information variable is decision indicator. Thus, the company should provide the required information for making optimal decisions, so that the decisions made in order to achieve good performance are optimal.
3. The research results show that the lowest indicator in managerial performance variable is controlling indicator. Thus, the company should compare actual performance and expected performance, so that the managerial activities needed to achieve the company's goals are performed effectively and efficiently.
4. The researcher suggests that future researches study companies other than service companies. This is necessary to expand the generalization of similar research topic.
5. The researcher also suggests that future researches use intervening variables other than job-relevant information to measure the influence of budgeting participation on managerial performance. The researcher also hopes that future researches on the same topic can be more comprehensive.

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