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Relationships between Budgetary Participation and Organizational Commitment: Mediated by Reinforcement Contingency

Evidence from the Service Sector Industries

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ABSTRACT

The purpose of this study is to examine the relationship, mediated through reinforcement contingency, between (a) participation in budgeting, and (b) organizational commitment, of those organizations in the service industry, listed in the Indonesian Stock Exchange and also having their branch offices in Bandar Lampung. We develop a new construct of reinforcement contingency, through focus group discussion and several pilot studies, and use it in the main survey. We analyse data from 42 respondents, using SmartPLS. We find that reinforcement contingency as the mediation variable affects the relation between participation in budgeting and organizational commitment. This study suggests the "no reward and no punishment" system as the appropriate reinforcement contingency for employees, in order to enhance their commitment to their organization.

INTRODUCTION

Budgetary participation attracts attention from scholars in management accounting over several decades (Bryer, 2014; Dakhli, 2009; Derfuss, 2009; Kohlmeyer III, Mahenthiran, Parker, & Sincich, 2014). Budgetary participation improves individual performance and job satisfaction because employees feel that their contribution is valued by decision-makers (Wong-On-Wing, Lan, & Lui, 2010). increasing employees' morale, motivation and commitment (Jermias & Yigit, 2013). Wong-On-Wing et al., (2010) Employees will understand their responsibility to achieve the organisational goals (Jermias & Yigit, 2013). In addition, higher level employees can recognize up-to-date information from lower level employees during budgeting. Hence, any plan that has been agreed between them is more likely to be feasible.

Participation enhances the individual's resolve to achieve the organisation's objectives (Bryer, 2014). In addition, Ebdon & Franklin (2006) indicate that budgetary participation creates trust and a sense of community and encourages decision making. Self-efficacy, trust and a sense of belonging among employees lead to organisational commitment (Cohen, 2007). Organisational commitment means that employees willingly accept responsibility for achieving a corporate goal (Cohen, 2007), so they will be more enthusiastic and willing to serve the organization. Employees with organizational commitment benefit personally, and organizations with committed employees benefit financially. Other factors affect budgetary participation (Ni, Su, Chung, & Cheng, 2009). The organization must consider long-term behavior of employees because commitment is formed by behavior over time (Cohen, 2007).

Participation depends on culture and on employees' attitude. Cherrington & Cherrington (1973) in a study of budgetary participation found another moderator variable: the structure of intangible rewards, that is, the relationship between budgetary participation and work satisfaction. Reward can be used as a strategy to increase motivation (Chenhall & Langfield-Smith, 2003). Rewarding employees who have achieved the company's goal can motivate them (Balliet, Mulder, & Van Lange, 2011; Kreps, 1997), because rewards enhance the sense of accomplishment, value attainment, and satisfaction of employees.

On the other hand, employees will avoid negative behavior when they are afraid of punishment that will, of course, reduce their sense of accomplishment. Even though this scenario is interesting, as far as we know, the role of punishment in employee management has not been previously studied.

According to current psychological theory, individuals will be willing to do something if there is motivation, either motivation from autonomy or motivation from an external contingency (Deci & Ryan, 2008; Ryan & Deci, 2000a; Wong-On-Wing et al., 2010). Wong-On-Wing et al (2010) in their study find that both intrinsic and extrinsic motivations affect budgetary participants. (Jermias & Yigit, 2013) say that it is necessary to develop a model of budgetary participation that has an intervening variable.

Based on the analysis above, we use reinforcement contingency as the mediating variable. We predict that reinforcement contingency can be antecedent because reward increases motivation, focus, and enthusiasm of employees (Eisenberger & Aselage, 2009). Rewards increase commitment, emotional attachment and the sense of belonging to the company where they work (Ni et al., 2009). Punishment stimulates employees to act following the company's goal. Therefore, we hypothesis that budgetary participation can increase organizational commitment through reinforcement contingency.

To the extent of our knowledge, there has been no study of organizational commitment to budgetary participation increased through reinforcement. Thus, we aim to investigate the extent to which budgetary participation leverages organizational commitment through reinforcement. In order to answer the research objectives, we study service sector companies listed in the Indonesian Stock Exchange, the biggest service companies in Indonesia (Lau & Sholihin, 2005).

This study provides several contributions. Firstly, budgetary participation has been widely studied, but its links to reinforcement are hardly to be found. Secondly, this study develops a new modus operandi and a new questionnaire. Therefore, we expect this study to be useful in the present and to become a reference for academicians for further study in the future.

Theoretical Framework and Hypothesis Development

Reinforcement Contingency

Reinforcement theory explains that reinforcement can control behaviour (Purnamasari & Chrismastuti, 2006). Reinforcement Contingency is a control system designed to strengthen an organization's ability to control individual behaviour through three basic principles: 1) rewards to improve behaviour, 2) punishment to reduce behaviour, and 3) null consequences -- without reward or punishment – to extinguish behaviour (Purnamasari & Chrismastuti, 2006, p. 7). The basic principle of reinforcement is to develop a stimulus response (SR). Generally, positive stimuli act as a reward, and negative stimuli act as a punishment. In other words, the individual feels satisfaction when achieving a good result and feels dissatisfaction when performing below standard (Ryan & Deci, 2000b; Wong-On-Wing et al., 2010). Ryan & Deci (2000b) note that people tend to live positively. In addition, they are motivated to work if their behavior is controlled by their upper level manager with both rewards and punishment (Deci & Ryan, 2000; Deci, Vallerand, Pelletier, & Ryan, 1991; Ryan & Deci, 2000b).

Hypothesis Development

We propose that budgetary participation leverages reinforcement. In the organization, in general, people base their work on what they planned originally. When employees get involved in decision making and budgeting, they have a higher responsibility to succeed at what has been agreed. To achieve positive consequences and to avoid negative consequences, they must reach their organizational target. Cognitive theory suggests that people can best be motivated to work if they have clear goals (Hall, 2008, 2011). Since they know what they have to do in their work including rewards and punishment, eager employees are motivated to achieve their target (Deci & Ryan, 2000; Deci et al., 1991; Sholihin & Pike, 2010; Sholihin, Pike, & Mangena, 2010). These predictable and clear consequences – a 'game' – enhance their organizational commitment. We propose the research framework in Figure 1.

To clarify the research framework, we explain each hypothesis.

The Effect of Budgetary Participation and Reinforcement Contingency

It is postulated that budgetary participation can affect reinforcement contingency. An indicator of reinforcement is the individual's motivation to do their job. The individual can be extrinsically or intrinsically motivated (Deci & Ryan, 2000; Wong-On-Wing et al., 2010). Furthermore, Wong-On-Wing et al. (2010, p. 135) note specifically that both intrinsic motivation and autonomous (that is, internalized) extrinsic motivation are positively correlated with budgetary participation.

Dunk (1990) claimed that individuals can be stimulated when they are involved in the budgetary decision making process. This motivation is built through the budgetary decision-making process as people understand the budget and recognize problems in achieving the organization's goals. Brownell and McInnes (1986) found that budgetary participation enables employees to achieve targets.

Budgetary participation makes budgeting more realistic (Jermias & Yigit, 2013), so employees

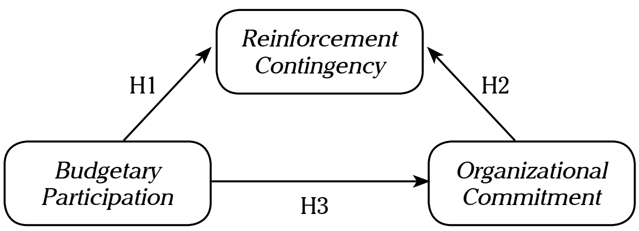

Figure 1. Research Framework

know the immediate goal of the company. Managers in Turkey not only share information, but clarify the company's direction towards future conduct (Jermias & Yigit, 2013). The pressure and anxiety that emerge for not participating is the trigger for future cooperation to avoid punishment or ignorance.

Hypothesis 1 : There is a positive effect between budgetary participation and reinforcement contingency.

Reinforcement Contingency and Organizational commitment

Reinforcement Contingency predicates an individual's actions in an organization (Purnamasari & Chrismastuti, 2006). Positive reinforcement encourages an individual to work better (Ryan & Deci, 2000a, b; Wong-On-Wing et al., 2010). Employees work harder because there are rewards for good performance and achievement. On the other hand, employees also work harder to avoid punishment. With the existence of clear rules, employees then compete to give their best for the company. If company is able to fulfill needs and satisfy employees, the commitment of employees towards the company will grow. Therefore, the hypothesis proposed is:

Hypothesis 2 : There is a positive effect between reinforcement contingency and organizational commitment.

Budgetary participation and Organisational commitment

Budgetary participation improves communication and fosters understanding of goals and procedures (Ebdon & Franklin, 2006; Jermias & Yigit, 2013; Ni et al., 2009). It reduces information asymmetry between superiors and subordinates (Jermias & Yigit, 2013). Furthermore, employees feel valued and involved in decision making. "The more participation by subordinates in making policy decisions, the stronger the tendency of subordinates to identify with the organization" (Nouri & Parker, 1998). The opportunity to discuss ideas and opinions can increase employees' sense of belonging and their performance (Brown, Squire, & Blackmon, 2007). Therefore, we propose the following hypothesis,

H3 : There is a positive effect between budgetary participation and organizational commitment.

METHODS

Sample of Study

The population used in this study is employees working in service industries listed on the Indonesian Stock Exchange and having an office in Bandar Lampung. We are interested in service industries because their intangible product takes the form of invisible "goods" but the companies must still satisfy customers, so employees with congenial personality are needed. Moreover, service industries listed on the Indonesian Stock Exchange are developed and large industries (Lau & Sholihin, 2005; Yuliansyah & Khan, 2015; Yuliansyah, Rammal, & Rose, 2016; Yuliansyah, Saputra, & Alvia, 2016).

This study uses purposive sampling, which is a selection of sample members based on certain criteria or characteristics of the sample. Our criteria are:

1. Employees of service industries listed on the Indonesian Stock Exchange and having a branch in Bandar Lampung.
2. Employees in middle to upper manager levels in those industries.
3. Employees who have participated in a process of budget-making.

Data based in this study are primary data. Primary data collecting uses the questionnaire survey method. Questionnaires ask a set of questions arranged systematically, so each respondent gets similar questions. The answers from the questionnaire comprise our data.

To create our entirely new questionnaire on reinforcement contingency, we employ focused group discussion, a pilot study, a pilot test, and a test of data quality, because this approach is not used in any other study. Our Questionnaire is distributed directly to the sample by asking one of the employees personally to distribute and collect the questionnaire. Before distributing it, we confirm that there is budgetary participation, so the questionnaire is addressed to the right person and the data is useful for the study.

Study Variables

Budgetary Participation

Measurement of budgetary participation uses a 7-point Likert Scale. This variable measurement uses 6 questions from an instrument developed by (Milani, 1975). This questionnaire is often used, especially in management accounting (Brownell, 1981; Brownell & Dunk, 1991; Brownell & McInnes, 1986; Chenhall & Brownell, 1988; Kren, 1992; Mia, 1989; Shields & Young, 1993; Subramaniam, McManus, & Mia, 2002; Winata & Mia, 2005). On the scale, number 1 is *Strongly agree* and 7 is *Strongly disagree*.

Reinforcement Contingency

We developed our reinforcement contingency questionnaire through a focus group discussion for several reasons: 1) Economically to tap the views of a number of people, simply because respondents are interviewed in groups rather than one by one; 2) To observe the dynamics of interaction between participants, in contrast to the rather static way in which these phenomena are portrayed in questionnaire studies; 3) To encourage spontaneity in the expression of views; 4)To provide a safe forum for the expression of views; 5) To support and empower group cohesiveness [...]' (Sim, 1998, p. 346).

As suggested by (Robinson, 1999, p. 905), and Cherrington & Cherrington (1973), we invited 6 academics to discuss reward and punishment (or, no reward no punishment) in the business world is takes around one hour.

After this focus group discussion, we made a tentative list of questions to be distributed to respondents. This draft went through a process of peer review, asking opinions from academics and practitioners about the questions to be distributed.

After the input from academicians and practitioners, we conducted a pilot test by distributing questionnaires to 18 respondents in five companies. Several, but not all, respondents received instructions on how to fill the questionnaires, and all were asked to report any difficulties in completing the questionnaire. We obtained valuable inputs on layout, design, and wording of the questionnaires. Data from the pilot test was tested for quality. We established that the data obtained are valid and reliable, so it is appropriate to continue with the main survey.

Organizational commitment

Questions in this questionnaire refer to the application of reward, punishment, and no-reward-no-punishment to employees. Respondents are asked to match their opinion to a 1-7 Likert Scale. Number 1 is Very much agree to number 7 for Very much disagree. This study uses nine questions from Mowday, Steers, & Porter (1979). the questionnaire most often used in management accounting (Subramaniam et al., 2002; Subramaniam & Mia, 2001).

RESULTS AND DISCUSSION

Descriptive Analysis of Data and Respondent

From 124 questionnaires distributed to 39 service companies listed on the Indonesian Stock Exchange and having a branch in Bandar Lampung, 92 questionnaires come back. Forty-two questionnaires contain valid data and the other 50 questionnaires do not. Therefore, our response rate is 42/124 or nearly 34%.

Table 1 illustrates the description of respondent from this study.

Table 1. Respondent Description

		N	Cumulation	%	Cumulation %
Sex	Male	34	34	81%	81%
	Female	8	42	19%	100%
Age	< 30	21	21	50%	50%
	31-40	15	36	36%	86%
	41-50	6	42	14%	100%
Last education	High School/Diploma	15	15	36%	37%
	Bachelor/S1	23	38	55%	92%
	Graduate/Postgraduate	3	42	7%	99%
Position	Middle Manager	28	28	67%	67%
	Upper Manager	13	42	31%	98%
Work Division	Accounting	13	13	31%	31%
	Marketing	7	20	17%	48%
	Personnel	3	23	7%	55%
	Production	10	33	24%	79%
	Others	9	42	21%	100%
Length of Employment	<= 3 years	10	10	24%	24%
	> 3 years	32	42	76%	100%

Table 2. Factor Loadings, Composite Reliability, Cronbach's Alpha and AVE

Constructs	Items	Factor Loadings	Composite Reliability	Cronbach's Alpha	AVE
Budgetary Participation	BP 1	0.848	0.837	0.794	0.568
	BP 3	0.744			
	BP 4	0.868			
	BP 5	0.897			
	BP 6	0.789			
Reinforcement Contingency 1	RC 1	0.807	0.924	0.893	0.804
	RC 2	0.867			
	RC 3	0.759			
	RC 4	0.805			
	RC 5	0.923			
	RC 6	0.805			
Reinforcement Contingency 2	RC 7	0.795	0.807	0.623	0.676
	RC 8	0.802			
Organizational Commitment	OC 1	0.586	0.931	0.912	0.635
	OC 2	0.686			
	OC 3	0.645			
	OC 5	0.806			
	OC 6	0.902			
	OC 7	0.919			
	OC 8	0.883			
	OC 9	0.902			

Factor Analysis

Budgetary Participant

Based on the next matrix component, variables of budgetary participation are grouped into one factor.

Based on the next matrix component, variable of organizational commitment is grouped into one factor, and each factor loading is above 0.5.

Data Analysis

Data analysis in this study uses Structural Equation Modeling (SEM), especially SmartPLS. The reasons for using PLS are 1) Data processed in this study number at least 42, and 2) this study uses a prediction model, not an estimation model, because it predicts the effect of budgetary participation and reinforcement contingency on organizational commitment.

Measurement Model

The measurement model for reliability and validity can be seen in Table 2, from Cronbach's Alpha and Composite reliability. Reliability should exceed 0.6 to be accepted (Birkinshaw, Morrison, & Hulland, 1995). In Table 2, all indicators of variables show that reliability is higher than 0.6 for all data.

Measurement validity can be tested by evaluating AVE (average variance extracted) (convergent validity) and cross loading and Fornell-Larcker (discriminant validity). AVE scores higher than 0.5 are acceptable. Table 2 indicates acceptable AVE scores.

In addition, cross loading for discriminant validity measurements assumes that cross loading should score higher than other variables. Table 3 shows that this is so.

Then, the other discriminant validity, the Fornel-Larcker criterion, assumes validity if the score of PA construct correlation is higher than other construct correlation scores. It means that each construct has good discriminant validity. Table 4 shows that the Fornell-Larcker criterion is met.

Table 3. Cross Loading

	BP	RC1	RC2	OC
BP 2	**0.878**	0.175	0.328	0.240
BP 3	**0.735**	0.112	0.161	-0.003
BP 5	**0.580**	0.064	0.022	-0.071
BP 6	**0.788**	0.272	0.125	0.029
RC 4	0.260	**0.962**	0.033	-0.083
RC 5	0.196	**0.947**	0.126	0.020
RC 6	0.070	**0.766**	0.241	0.095
RC 7	0.180	0.149	**0.834**	0.591
RC 8	0.280	0.007	**0.810**	0.510
OC 1	0.262	0.136	0.384	**0.553**
OC 2	0.085	-0.003	0.415	**0.682**
OC 3	0.046	-0.129	0.515	**0.628**
OC 5	0.269	-0.019	0.595	**0.817**
OC 6	0.139	0.019	0.609	**0.907**
OC 7	0.102	-0.038	0.600	**0.916**
OC 8	0.051	-0.018	0.550	**0.883**
OC 9	0.050	-0.066	0.537	**0.896**

Table 4. Latent Variable Correlation

	BP	RC1	RC2	OC
BP	**0.754**			
RC1	0.230	**0.897**		
RC2	0.278	0.097	**0.823**	
OC	0.148	-0.027	0.67	**0.797**

Thus, these data have good discriminant validity.

Measurement of Structural Model.

The structural model is measured by looking at r^2 of the Dependent Variable and Path Coefficient Test. Relationship among constructs is deemed strong when the path coefficient is greater than 0.100, and relationship among variables is deemed quite significant when it is more than 0.050 (Urbach & Ahlemann, 2010). Path coefficient testing is done by using a bootstrap procedure with 500 substitutes.

Hypothesis Test and Discussion

The first hypothesis posits a positive relationship between budgetary participation and reinforcement contingency. Table 5 indicates that there is indeed a positive effect:

1. reward and punishment scores a very significantly (β= 0,23, t=6,001, p < 0,01) because *t* statistic is far above the critical value which is 2.576. The table shows a positive and significant effect between budgetary participation and reinforcement contingency.

2. no reward no punishment scores (β= 0,278, t=7,963, p < 0,01) and *t* is above the critical 2.576 .

Therefore, H1 is supported.

Employees participating in budget-making are eager to get rewards and avoid punishment. Because they know more about the purpose of budgeting, they are more spirited and keen.

Table 5. Measurement of Structural Model

Dependent Variable	Independent Variable			R^2
	BP	RC1	RC2	
RC 1 (reward and punishment)	0.226 (6.001)***			0.053
RC 2 (no reward and no punishment)	0.278 (7.963)***			0.077
Organisational commitment	-0.023 0.621	-0.089 (2.063)**	0.686 (35.80)**	0.458

Information:
*** Significant at 1 %
** Significant at 5 %
* Significant at 10 %

Even without reward and punishment, the company still must evaluate employees' participation in budget-making, both in performance and target attainment. From this study, no-reward-no-punishment is more significant than reward and punishment, meaning that a lot of employees do not rely on reward and punishment, but tend to be oriented on evaluation results.

Hypothesis 2 says "There is positive effect between reinforcement contingency and organizational commitment". H2 has one dependent variable which is organizational commitment and one independent variable, reinforcement contingency, that consists of two dimensions: reinforcement contingency 1 (reward and punishment) and RC2 (no reward and no punishment). Table 5 shows that RC1 negatively affects organizational commitment with significant values (β= -0.089; t=2.063, $p < 0.05$), because the t-statistic score is above the index score which is 1.960.

RC2 positively affects organizational commitment with very significant values (β=0.68, t= 35.80, $p < 0.01$), because the t-statistic score is greatly different from above critical score which is 2.576. From the result above, H2 is partly supported.

The result shows that reward and punishment negatively affects organizational commitment because reward and punishment can make employees depressed as they have to attain targets and meet the goals determined by the company. Employees have to achieve rewards in order to fulfill their needs, while if they do not get them, they will get negative stimulus in the form of disappointment and inconvenience. Disappointment and inconvenience reduce organizational commitment because the feeling of belonging is less, let alone any willingness to make sacrifices for the organization!

No reward and no punishment very significantly affect organizational commitment. Because most of people tend to be too lazy to put more effort in order to get reward, an evaluation done by the company recognizes the value of employees' goodwill and support so that they feel appreciated and create loyalty and willingness to make sacrifices.

Cohen (2007) argues that a company needs to prevent employees from resigning from the company. However, strategies to increase fairness, supportive working environments, and a reward system in the organization will pay dividends.

Hypothesis 3 states "There is positive effect between budgetary participation and organization commitment". Based on the result of hypothesis testing, budgetary participation negatively affects organizational commitment, and the value resulted is not significant (β= -0.022; t=0.621 $p < 0.1$), Table 5 shows that t-statistic is below lower limit which is 1.645 so that H3 is not supported. This study shows that there is no direct effect between budgetary participation and organizational commitment.

We find during the data collecting process that many respondents say that although they participate in budget-making, the final decision to ratify budgeting for a period is solely in the hand of the company. Several companies even state that ratification is done at headquarters so that the role of employees in decision making is not important. Consequently, in this study, budgetary participation does not affect commitment of those employees toward their organization where they work.

Moreover, employees who participate in budgeting making are employees who have important positions in their company, and are already committed.

Based on the explanation above, the result from all hypotheses are in the table 6.

MANAGERIAL IMPLICATIONS

Table 6. Summary of Hypothesis Result

Hypothesis	Description	Results
1	There is a positive effect between budgetary participation and reinforcement contingency	Supported
2	There is a positive effect between reinforcement contingency and organizational commitment.	Partly supported
3	There is a positive effect between budgetary participation and organizational commitment.	Rejected

The study implies that a company should involve employees in budgetary participation as the means to obtain information, express ideas, and share opinions because employees usually know more about conditions in the field. Furthermore, the study shows that a company should apply reinforcement contingency appropriate to employees who participate in budgeting making because employees who have budgetary participation are more motivated to see their performance evaluation results. Reinforcement contingency should be applied with no reward and no punishment so as not to make employees feel burdened and depressed, but so that they feel comfortable with their jobs, and their commitment to where they work.

CONCLUSION

This study aims to investigate the effect of budgetary participation on organizational commitment through reinforcement contingency as a mediating variable. We conduct a questionnaire survey on service companies listed on the Indonesian Stock Exchange in Bandar Lampung. We analyze the data from 42 managers using Structural Equation Modeling (SEM), especially SmartPLS. We find that budgetary participation positively affects and statistically is significant towards reinforcement contingency so that the hypothesis H1 is supported. Reinforcement contingency 1 (reward and punishment) negatively affects and is significant towards organizational commitment, and reinforcement contingency 2 (no reward no punishment) positively affects and is significant towards organizational commitment. Therefore, hypothesis H2 is partly supported. Budgetary participation negatively affects and statistically is not significant towards organizational commitment. It shows that there is no direct effect of budgetary participation on organizational commitment so that hypothesis H3 is not supported.

From the analysis result above, reinforcement contingency is fully mediated because reinforcement contingency can mediate the effect between budgetary participation and reinforcement contingency, while the direct effect between budgetary participation and organizational commitment is not supported.

Limitation and future research

This study has several limitations, one being the small sample. Regrettably, not many service companies listed on the Indonesian Stock Exchange and having a branch in Bandar Lampung also do their own budgeting independent of their head office. Budgets are made at their head office and the branch office only runs the budgeting. Moreover, this research sample is only in the service sector, and cannot be generalized.

We suggest that the next study widens the sector studied so that the sample can be larger. In this study, we develop a new construct which is reinforcement contingency. Another study could develop this construct further. ■

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