

## The Influence of Islamic Management Practices in Budget Participation

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### ABSTRACT

**Purpose** - The influence of Islamic management practices on managers' performance such as organizational commitment involves the development of an individual's abilities and attitudes contribute towards organizational interests. Therefore, this paper examined the effect of motivational role of budget participation among Muslim managers in Malaysian Local Authorities. In particular, this study aims to indentify the mediating effects of organizational commitment as motivational role in budget participation and managerial performance relationship.

**Design/ Methodology/Approach** - A Structural equation modeling was utilised to examine the direct and indirect effects of motivational role of budget participation among Muslim managers through path analysis.

**Findings** - The result indicate that the mediating effect of organizational commitment strengthened the budget participation and managerial performance relationship.

**Research Limitations** - This research survey only conducted in local governments organization. Thus, result may not be generalized to other public organizations.

**Originality/Value** - The findings from this study can have practical relevance in the Islamic current management setting in Malaysian government organization. The results provide insights on the role

*of Islamic organization commitment as management approach by Muslim managers in evaluating their performance.*

**Keywords:** *organizational commitment, Muslim Managers, managerial performance, structural equation modeling.*

## INTRODUCTION

Most of the literature examining the relationship between organizational commitment and budget participation with respect to applications from Western viewpoints (Nouri & Parker, 1998; Milani, 1975; Kenis, 1979; Chenhall & Brownell, 1988; Wentzel 2002). With the establishment of Islamic management, there has been an increase in calls for investigations into the extent practice or application of Islamic principles and guidelines at the workplace would impact employee attitudes and behaviors. Muslim scholars have long advocated that effective adherence and application of Islamic principles of management would positively reinforce the workforce and create a synergy of commitment, quality, and productivity at workplaces (Altalib & Aiyah, 1991). Islam is said to focus on the pragmatic aspects of life, while asserting the humanistic and spiritual needs. Although, Islamic management practices seem similar to the Western management practices, however, an important difference exists. All requirements in Islamic management practices are based on the Quran and the sayings of Prophet Muhammad S.A.W. This promise is specially vital for organizations working in accordance with the Islamic Shariah. Islamic management practices are important but are rarely highlighted in the literature (Hashim, 2009). It is an obligation for Muslim managers in Islamic organization to not only know but also to apply the Islamic approach in managing employees. The influence of Islamic management practices on managers' performance such as organizational commitment involves the development of an individual's abilities and attitudes contribute towards organizational interests (Guest, 1989; Kinicki et al., 1992; Storey et al., 1992). As the area of ideology of the Islamic concept of organization management it reflects in the Islamic culture as a whole. Religious behavior play an important influence in real life and gradually progress of the times beneficial to social as well as organizational development and a powerful driving force for thus

becoming the ideological and moral spiritual quality of organic components. Employees with full of commitment will make them stay and loyal to their job and organization. Yousef (2001) also considers the organizational commitment as a process which includes loyalty to the employer, endeavoring for the sake of organization's benefaction and success.

Meanwhile, in budgeting aspect, the organizational commitment plays as the motivational role of budget participation in enhancing the managers' performance. The importance of budget participation as a means of improving performance has been studied extensively in the behavioural accounting literature (e.g., Brownell, 1981, 1982; Brownell & McInnes 1986; Chenhall & Brownell 1988; Mia, 1988, 1989; Kren 1992; Magner et al. 1996; Nouri & Parker 1998). Most organizations preferred to use budget as a management control tool for coordinating the allocation of resources, managing and controlling their operations and evaluating performance. Acceptance of a budget would be enhanced, if individuals participate in setting of the budget (Drury, 2002). Therefore, participation in budget setting process is very important element to gather the information, which in turn to enhance the government service performance to become more efficiently and effectively. This is because greater staff involvement and information sharing that characterises higher budget participation (Parker & Kyj, 2006) allows for information to be provided that reduces role ambiguity, which consequently makes a budget more relevant (Chenhall & Brownell, 1988).

In addition, Eker (2009) indicates that budget participation as a participation of top managers and subordinates to determination process of resources using in their own activities and operations. Indeed, the basic significance of the subject stems from increasing importance of determining dimensions of budget participation's effects on subordinates' performance in the present competitive conditions. There are two basic benefits of subordinates' participation in budget setting process. Firstly, owing to identification and ego-involvement with budget goals, participation is related to performance and so, leads to enhanced motivation and commitment to the budget (Murray, 1990; Chow *et al.*, 1988; Lau & Buckland, 2001). Secondly, by improving flow of information between superiors and subordinates, budget participation leads to higher quality decision-making (Eker, 2009). From this perspective, budget participation leads to, higher

value attainment, higher innovation, higher commitment, higher motivation, higher quality decisions and hence higher performance.

Subsequently, many issues of budgetary participation in the budget setting process had occupied much attention of researchers in management accounting, perhaps to an extent greater than for any other budget-related variable (Merchant, 1981). The findings from this line of research have been very fruitful in the area of innovation, value-attainment, performance, cognitive, motivation, information and consequences of budget participation (Brownell, 1981; Kren, 1992; Chow et al., 1999, Chong & Chong, 2002, 2005, Murwaningsari, 2008; Eker, 2009; Leach-Lo'pez, 2009). Instead of the study of direct effect between budget participation and managerial performance, recently, many studies were done on the indirect effect of budget participation on managerial performance via the mediating variables, for example, study by Eker (2009) has involved management accounting system, Leach-Lo'pez, *et al.* (2008) used job satisfaction, Murwaningsari (2008) involved organizational commitment, Mohd Nor, *et al.* (2008) used organizational commitment, Chong (2005) merged job relevant information and job satisfaction and Chong *et al.* (2006) merged role ambiguity and job satisfaction. To date, a few research has examined the motivational effect of budget participation towards managerial performance (Murwaningsari, 2008; Mohd Nor et al., 2008). In this light, this study explicitly examine the mediating effects of organizational commitment in budget participation and managerial performance relationship by structural equation modeling technique.

According to Nouri and Parker (1998), the motivational effect of budget participation will enhance the organizational commitment; which in turn, lead to improve managerial performance. The motivational effect of budget participation increases organizational commitment because the opportunity to participate in the budget setting process enhances their sense of control, trust and identification, ego involvement with the organization, which jointly cause less resistance to change and more acceptance of, and commitment to, the budget decision, in turn causing improved performance (Nouri & Parker, 1998; Shield & Shield, 1998).

Therefore, our studies relies on goal setting-theory for the hypothesized structural model to estimate the motivational effect of budget participation (see Kren & Liao, 1988; Murray, 1990; Chow, 1983, Chong & Chong, 2002; Lau & Tan, 2003; Chong, et

al. 2006, Chong & Johnson, 2007). Consequently, in explaining the hypothesized structural model, our study used a structural equation modeling technique to estimate the parameters of every construct variables. Indeed, the structural equation modeling technique allows us to simultaneously test the linkages in the budget participation-managerial performance structural model. This technique also allows the specification of more complex models and takes into account measurement errors.

The remainder of the paper is structured as follows. In next section, the research objective and the hypothesized structural model underlying the study is developed, which linked the interaction between the motivation role of budget participation on managerial performance. Subsequent section presents path analysis, research method, results, hypotheses testing and conclusions.

## **RESEARCH OBJECTIVE**

The objective of this study is to examine the effect of motivational role of budget participation on the managerial performance among Muslim managers in Malaysian local governments. This study also attempt to examine and measure whether organizational commitment have mediating effects as well as direct effects on their managerial performance.

## **GOAL-SETTING THEORY AND HYPOTHESIZED STRUCTURAL MODEL**

### ***Goal-Setting Theory***

Goal-setting theory as a motivation theory based on the preposition that human conscious intentions are projected as goals and their behaviors or actions are subsequently regulated by those goals (Lock & Latham, 1990). Prior accounting literature (e.g., Becker & Green, 1962; Kren & Liao, 1988; Murray, 1990; Hofstede, 1968; Chong & Chong, 2002; Lau & Tan, 2003; Chong et al., 2006; Chong & Johnson, 2007) demonstrated that setting specific and difficult but attainable budget goals led to higher performance. Becker and Green (1962) suggested that goals are more readily accepted if employees

are allowed to participate in the budget-setting process. Goal-setting theory suggests that clear and specific goals affect the intensity, duration and direction of effort (Lock & Latham, 1990). This means that managers with clear and have a specific goal are likely to have more effort, more persistence, and more focused on what they have targeted to achieve.

This study relies on goal-setting theory to examine the effect of motivational role of budget participation on managerial performance (see Becker & Green, 1962; Kren & Liao, 1988; Murray, 1990; Hofstede, 1968; Chong & Chong, 2002; Lau & Tan, 2003; Chong, *et al.*, 2006; Chong & Johnson, 2007). Goal-setting theory argues that individual's goal can be viewed as a performance level that an individual seeks to attain. If an individual becomes committed to a given goal, then it will influence the individual's subsequent action, and consequently individual's performance level in term of achieving their budget goal levels (Murray, 1990).

Given that a primary prediction of goal-setting theory is that setting specific and difficult but attainable goals led to higher levels of performance, it is argued that performance is mainly a function of goal attainment with organizational commitment, as its predictors (e.g. Taylor *et al.*, 2008; Yahya *et al.*, 2008; Eker, 2009)

### ***Hypothesized Structural Model***

The budget participation and managerial performance relationship explained through path analysis. An important benefit of such technique is that it calculates a number of indices of fit of the model. A fitted path model allows for the calculation, from the various path coefficients and estimated variances, covariances, and residual covariances, of a model-implied variance/covariance matrix of the original variables—that is, a covariance matrix that is consistent with the fitted model. The fit of the model is an assessment of how well the model, with its estimated coefficients, implies a covariance matrix that matches the original matrix from the data. If there is no significant discrepancy, as measured by a chi-squared statistic, then it may be concluded that the path model is consistent with the data. Note that this does not necessarily indicate that the model is an accurate depiction of causation in reality, but only that it is not inconsistent with reality as indicated by the covariance matrix. Path analysis captures both the direct and indirect effects of budget participation

on performance by including budget participation as the exogenous variable, managerial performance as the endogenous variable, and organizational commitment as mediating variables. Figure 1 demonstrates three paths which includes path A, path B, and path C to explain the direct, and indirect effects in the budget participation and managerial performance relationship.

### **1. Path A**

Path A is specified for a direct relationship between budget participation and organizational commitment. Prior management accounting literatures insist that budgetary participation has been identified as a key element in an organization's management control system that can affect managerial performance (e.g., Brownell, 1982; Lau et al., 1995). Previous researchers suggested manager's participation in budgeting process will enhance their organizational commitment (Yu Ni et al., 2009; Parker & Kyj, 2006; Nouri & Parker, 1998; Magner et al., 1995). Murwaningsari (2008) exerts that budget participation has a direct effect on organizational commitment. Subramaniam and Mia (2001) indicate that budgetary participation has a positive and significant relationship with organizational commitment. Yahya et al. (2008) assert that the result from path analysis showed a direct relationship between budgetary participation and organizational commitment. While, Nouri and Parker (1998) suggest, when managers are involved in the budgetary process, it will lead them to be better able to accept the budgetary objectives and the organization goals, thus enhancing their organizational commitment. Hence, this study proposed the budget participation will enhance managers' organizational commitment. Based on the review of the literature, the following hypothesis is suggested:

H1. Budget participation positively influence organizational commitment.

### **2 Path B**

Path B specified a direct relationship between organizational commitment and managerial performance. Organizational commitment is a dimension of a positive employee attitude, which has been linked to performance. Yahya et al. (2008), found the influence of organizational commitment is significant to managerial performance. Based on the path B, the following hypothesis is proposed:

H2. Organizational commitment is positively influence managerial performance.

### **3. Path C**

Path C corresponds to a direct relationship between budget participation and managerial performance. Study by Milani (1975), revealed that budget participation was positively associated with performance. Derfuss (2009) found that budget participation and managerial performance are positive and significant linked. Murwaningsari (2008) indicates that budget participation is positively influence managerial performance. Path C represents the regression between the budget participation and managerial performance with regard no mediating effects. It represents the residual direct effect that do not flow through organizational commitment. In Leach Lopez et al. (2008) study, found that budget participation and job performance have a direct relationship. Based on the review of literature for path C, the following hypothesis is recommended:

H3. Budget participation positively influences managerial performance.

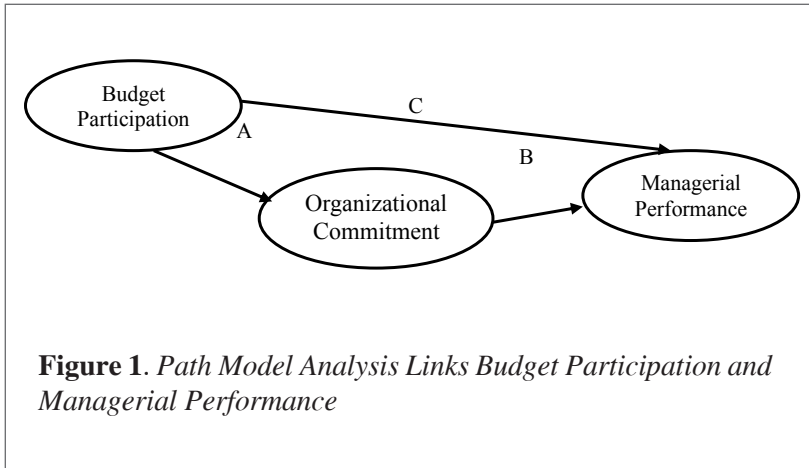
The paths below involved mediating variables:

### **4. Path: (A+B)**

This path demonstrates the organizational commitment as a mediating variable between budget participation and managerial performance relationship. Nouri and Parker (1998) proposed that budgetary participation affects job performance through organizational commitment. The result indicates that managers who are allowed to participate in the budgeting process, will have higher organizational commitment specifically on the affective perspective, which in turn, led to enhance job performance. In Yu Ni et al. (2009) study found the mediating effect of organizational commitment in budget participation and managerial outcomes relationship. Based on the review of literature on the combination of path A and path B, the following hypothesis is proposed:

H4. The greater the budget participation, the higher is their organizational commitment which, in turn, leads to higher managerial performance.





## METHOD

### *Sample*

There are 99 local authorities in Peninsular Malaysia which include 8 city councils, 34 municipal councils, and 57 district councils having a total of 792 head of departments. A proportionate stratified random sample consisting of 260 Muslim head of departments were chosen (Krejcie & Morgan, 1970). The number of elements chosen from each strata is proportionate to the size of a particular strata relative to the overall sample size. The data were collected through a questionnaire survey with a total of 131 Muslim head of departments in Malaysian local authorities, fully participated in the survey which accounted for 50.4% of the selected sample. A structural equation modeling technique was utilised to examine the direct, and indirect effects of budgetary participation on managerial performance through a path analysis. The mediating effect of organizational commitment also estimate by structural equation modeling technique.

### *Measurement of Variables*

A survey technique was employed to collect the data for this study. The data for this study were collected through a survey technique,

using an adapted instrument from the previous study to measure variables or constructs specified within the suggested framework: budgetary participation, organizational commitment, and managerial performance. The survey instrument includes, budgetary participation by Milani's (1975), organizational commitment by Mowday et al. (1979), and managerial performance by Mahoney et al. (1965).

The questionnaire for this study, was divided into four sections. The first section comprised questions relating to demographics. The remaining sections were adapted from prior studies to measure the budget participation, organizational commitment, and managerial performance. In the present study, respondents were asked to rate their responses on five-point Semantic Differential scale, range from "1" (strongly disagree) to "5" (strongly agree). The Cronbach's alpha of 0.895 for budget participation, 0.933 for organizational commitment, and 0.911 for managerial performance were observed in our study which indicates a satisfactory level of internal reliability.

## **RESULTS**

### ***Respondent Profile***

After data screening, one outlier was eliminated, leaving the final data set of 130 respondents (N=130). The respondents in the present study comprises of 53 % (n=69) male and 47% (n=61) female. In term of age, there were more than 60% (n=80) of respondents were between 30 to 49 years old. About 25% (n=33) of respondents age between 20 to 29, and only 13% (n=17) age 50 and above. It is also observed that most of the respondents have been employed at the local government for more than 5 years are 64.7% (n=87). Therefore, they can be considered to be familiar with the goals of their organization. This study includes all of head departments which involved in budget setting process. Out of 130 respondents, there were about 35% of respondents that have less than 5 years in budget experience, 29% have 6 to ten years in budget experience and 36% of respondents have more than 10 years experience in budgeting. Majority of respondents, 42% had a degree, only 10% with post graduate, 32% with diploma and 17% with certificate. Majority of the respondents in this study

covered 62% (n=80) from district councils, 11% (n=14) from city councils, 28% (n=36) from municipal councils.

## **HYPOTHESES TESTING**

To test our hypothesized theoretical model, we used a software Analysis of Moment Structures AMOS version 16.0. We adopted an approach recommended by Hair et al., (2006), which involved structural equation modeling, through six stages decision process, which involved the defining of individual constructs, developing the overall measurement model, designing a study to produce empirical results, assessing the measurement model validity, specifying the structural model and assessing structural model validity. In the present study, the construct variables are budgetary participation, organizational commitment, and managerial performance. According to Anderson and Gerbing (1988), to analyse the data, every item in exogenous variables and endogenous variables in measurement model was restricted to load on their priory specified factor and the factors were allowed to correlate to each other. Then, the measurement model was evaluated through assessing overall model fit indices to identify the degree to which the specified indicators represent the hypothesized constructs in the confirmatory factor analysis (CFA). Finally, in the measures of validation in measurement constructs involved calculation of construct reliability and average variance extracted (AVE) for each item to determine the internal consistency of measurement scale, using formula by Fornell and Larker (1981). The finalised measurement model then used for further analysis of hypotheses testing in the final structural model.

To test our hypotheses, we rely on standardised parameter estimates for our theoretical model (refer Figure 2). The results for testing direct effects of hypotheses H1 to H3 and the results for H4 for testing indirect effects are summarized in Table 1 and 2 respectively. In our final model, in the re-specified model shown in Figure 2, having deleted 3 items in the latent construct which include 1 item in organizational commitment, 2 items in managerial performance and budget participation remains with six items. The results indicate a good model fit with three paths (path A, B, and C) are significant at

$p < 0.01$ . The insignificant Chi-square for the model of 1.55 ( $p = 0.000$ ), RMSEA=0.065 shows a good fit (Byrne, 2001) and CFI=0.917, is presently recognised as indicative of good fit (Bentler, 1990).

### ***Direct Effect***

Consistent with our theoretical expectations, the standardised parameter estimate between budget participation and organizational commitment was positive and statistically significant (path coefficient = 0.530,  $p < 0.05$ ). Thus, H1 which states that budget participation is positively influencing the organizational commitment is supported. Consistent with Nouri and Parker (1998) study, which indicate that when managers are involved in the budgetary process, it will lead them to be better able to accept the budgetary objectives and the organization goals, thus enhancing their organizational commitment. This finding also corroborates with Ahmad (2003) explains the presence of an ethical and morally valued Islamic financial society where wellbeing of the society, equitable justice and balanced relationship are at the core of beliefs.

Furthermore, the standardised parameter estimate between budget participation and organizational commitment was positive and statistically significant (path coefficient = 0.341,  $p < 0.05$ ). Thus, the second hypothesis, H2 suggest that organizational commitment is positively influencing the managerial performance is asserted. This finding is generally consistent with the study by Eker (2009), which revealed that subordinates with high level of organizational commitment appear to have high performance.

Our hypothesis H3, expected that budget participation has a positive influence on the managerial performance. After the relationship between budget participation and managerial performance was controlled by mediator, finding indicates that budget participation has insignificantly influence the managerial performance (Table 1), thus, hypothesis 3 is rejected. This insignificant result shows that the fully mediating effects of organizational commitment occurs in the budget participation and managerial performance relationship. This finding was consistent with several previous studies (for examples; Milani, 1975; Kenis, 1979; Chenhall & Brownell, 1988; and Wentzel, 2002).

**Table 1**

*Standardized Regression Weight*

			<b>Path Coefficient</b>	<b>S.E.</b>	<b>C.R.</b>	<b>P</b>
OC	<---	BP	.530	.111	4.785	***
MP	<---	BP	-.179	.112	-1.603	.109
MP	<---	OC	.341	.073	4.700	***

Notes: \*\*\* significant at the 0.01 level.

**Table 2**

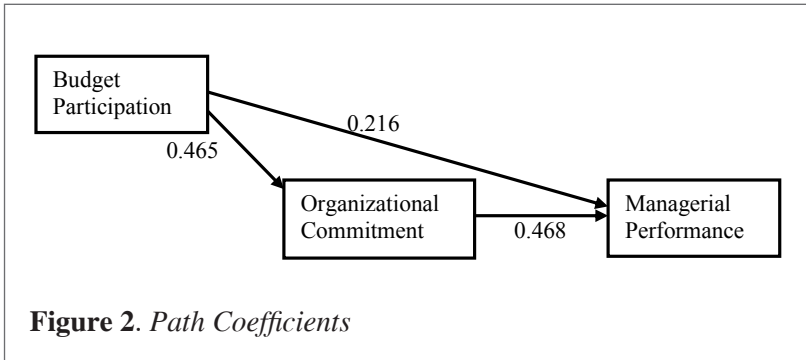
*Direct Effect of Variables Interaction*

<b>Exogenous</b>	<b>Endogenous</b>	<b>Path</b>	<b>Factor Loading</b>	<b>Hypotheses Testing</b>
BP	OC	A	0.465	Asserted
OC	MP	B	0.468	Asserted
BP	MP	C	0.216	Rejected

***Indirect Effect of Budget Participation on Managerial Performance***

The present study also investigates and measures the linkage of budget participation and managerial performance relationship through the mediating variables of organizational commitment to enhance managerial performance in the Malaysian local governments. The results of this study, indicates that budget participation has indirectly positive influence on managerial performance. To test for hypotheses H4, a path analysis technique was used. The indirect effects of budget participation on managerial performance were calculated by combination paths of A and B (Table 3).

In the indirect effect test between budget participation on managerial performance via organizational commitment, hypothesis 4 proposed, the greater the budget participation, the higher is their organizational commitment which, in turn, leads to higher managerial performance. The standardised parameter estimate between budget participation and organizational commitment was positive and statistically significant (path coefficient = 0.530,  $p < 0.05$ ) and the standardised parameter estimate between organizational commitment



and managerial performance was positive and statistically significant (path coefficient = 0.341,  $p < 0.05$ ). Thus, (path coefficient = 0.341,  $p < 0.05$ ). Thus, hypothesis 4 was asserted. This finding consistent with Eker (2009), which indicates that interaction between budget participation and organizational commitment is associated with high performance. Yahya (2008) found a significant relationship between budget participation and managerial performance via organizational commitment. While, Muwarningsari (2008) stated the subsequent test, finds that organizational commitment can strengthen the relation between budget participation and managerial performance.

## CONCLUSION

This paper examined the effect of motivational role of budget participation on managerial performance among Islamic managers in Malaysian local governments. Path analysis provides an empirical evidence to explain the direct and indirect effect of budget participation on managerial performance. The results of the study demonstrate the importance of motivational role of organizational commitment in enhancing managerial performance. It shows that the organizational commitment was significantly interact as the mediating between budget participation and managerial performance relationship. The committed managers considers it morally right to stay in the company, regardless of how much status enhancement or satisfaction the firm gives him or her over the years (Marsh & Mannari, 1977). In Islamic phenomenon there is no separation between worldly and religious aspects of life (Tayeb, 1997). The Quran instructs the faithful that

**Table 3**

*Indirect Effect Of Variables Interaction*

Exogenous	Mediated	Endogenous	Path	Factor Loading	Mediating Effect
BP	OC	MP	BP OC MP 0.216+(0.465 X 0.468)	0.434	Fully Mediating Effect

The finding of this study revealed the motivational effect of budget participation enhance the managerial performance. Eventually, the result of this empirical study was consistent with the previous studies (Nouri & Parker, 1998; Shield & Shield, 1998) involvement and commitment to work and not allow unethical work behavior (Yousef, 2000; Geh & Tan, 2009). The Prophet S.A.W asserted four issues as a complete departure of the thinking at that time. The first issue is he presented work as the highest form of worshipping God. Secondly, he understood that work is not sanctioned if it is not performed to the best ability. Third, work has social dimension and meaning and can provide benefit to peoples. Fourth, it is through trade and active involvement in business. Gaertner and Nollen (1992) find that participants with perceptions that their organization is committed to employment security, internal mobility, training, and development reported more organizational commitment than those who have a negative perception of their organization's allegiance to employees. The organization too can affect influence employees behavior as well as human resource management. One of the key sources of organizational influence is the degree of commitment to the organization toward the Islamic human resource management (Beekun & Badawi, 1997).

The theoretical contribution of this study is to extent the earlier literature by addressing effect in which, budgetary participation, organization commitment, can be inter-related in providing explanations of Islamic managerial performance. In the methodological perspective, the validated instruments can be used in future research. The practical contribution for this study is that its finding can have practical relevance in the Islamic current management setting in Malaysian government organization. The results provide insights on the role of Islamic organization commitment as management approach by muslim managers in evaluating their performance.

Several limitations may be noted in this study. Firstly, in this study, survey technique was conducted in Malaysian local governments. Thus, the results may not be generalized to other public organizations. Secondly, this study only involved mediating variables which include the organizational commitment to explain the relationship between budgetary participation and managerial performance. Thirdly, the use of a self-reported questionnaire to collect data for all constructs is a limitation to the study. The use of respondents' perceptions to measure the constructs may be subjected to the respondent bias.



In future research this study can be replicated with a larger sample size, which can represent the population of head departments in local governments in the whole country. This replication will then enable the findings to be generalized to the whole of Malaysian local governments included Sabah and Sarawak. Furthermore, finding of such replication study can also strengthen the validation of the instruments used in the present research. Future research in the area of budget and performance can be extended in a number of directions. Firstly, it can investigate other factors that may affect the managerial performance in other government sectors and other countries as well. Secondly, it can investigate the direct impact of budget participation on organizations' performance in both financial and non-financial, in the context of government sector.

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