

# **The Impact of Budgetary Participation on Budgetary Slack: Mediating Effect of Procedural Justice Perceptions and Organizational Commitment**

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## **ABSTRACT**

Based on the behavioral aspect of budgeting systems, and the motivation theory of participation, this study examines perceptions of budgeting procedural justice and organizational commitment as mediating variables to explore the effect of budgetary participation on budgetary slack. This study uses structural equation models as the analytical method and LISREL as the analytical tool. Based upon a mail questionnaire survey of 133 department managers who were randomly drawn from selected manufacturing companies listed in the Taiwan Stock Exchange, the results indicate that budgetary participation is not directly associated with budgetary slack, but is indirectly related to mediating effect of perceived procedural justice and organizational commitment. However, perceived procedural justice is not related to budgetary slack. This study investigate why budgeting procedural justice do not affect slack, and point out some important management implications that emerge from the research findings.

Keywords: budgetary participation, budgetary slack, procedural justice,  
organizational commitment

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## INTRODUCTION

In most organizations, a budgeting system serves as a good management control system, not only must the system itself be complete, but also the behavior of the individual managers involved in preparing the budget must be carefully scrutinized for they profoundly influence the outcomes of the system. In fact, since the successful planning and implementation of a budget are highly dependent on the managers, their individual behavior usually outweighs the system itself. One of the most disputed issues in discussing behavioral budgeting system is the effect of budgetary participation on budgetary slack. Budgetary participation is the extent to which subordinate managers are involved in and have influence on setting a budgetary goal (Brownell & Dunk, 1991). The outcome variable — budgetary slack — is defined as the extent to which subordinate managers tend to underestimate revenues and productivity and/or overestimate costs and resources for easier attainment of a budget goal (Merchant, 1985). Agency theory has demonstrated that budgetary slack induces organizational resources to be misallocated and that it results in suboptimal performance; it can, therefore, be viewed as dysfunctional behavior (Van der Stede, 2000) or even unethical behavior (Douglas & Wier, 2005).

To date, theoretical and empirical evidence of the effect of budgetary participation on budgetary slack is equivocal. Several studies note that budgetary participation results in a reduction in managers' propensity to create slack in large part because of their closer communication with their superiors and peer managers (Arnold & Sutton, 1997; Dunk, 1993). In contrast, some studies contend that a high degree of budgetary participation provides managers with an opportunity to directly take part in the creation of budgetary slack (Douglas & Wier, 2000; Lukka, 1988). As the conflicting results between budgetary participation and slack, it is imperative that research should be focused on indirect effects of budgetary participation (Wentzel, 2002). Therefore, we introduce the perceptions of budgeting procedural justice and organizational commitment as two intervening variables.

In participative budgeting, allocating resource is an important process to determine the distribution of organizational resources among subunits. If subordinate managers perceive the procedure of resource allocation being fair, the perceptions of budgeting procedural justice that emerge can affect their attitude and behavior to create budgetary slack (Ambrose, Hess, & Ganesan, 2007; Huang & Chen, 2009). In addition, the managers participating in making budget decisions perceive themselves with more job information and knowledge, which results in job satisfaction (Chenhall & Brownell, 1988). Job satisfaction would enhance organizational commitment (Yousef, 2000), which prompts managers' efforts toward

organizational interest even sacrifice their own (Nouri, 1994). Therefore, perceptions of budgeting procedural justice and organizational commitment classified as individual level variables (Dunk & Nouri, 1998) are chosen to be key motivating variables that can transmit the influential effect of budgetary participation into budgetary slack as proposed in our research model (Figure 1).

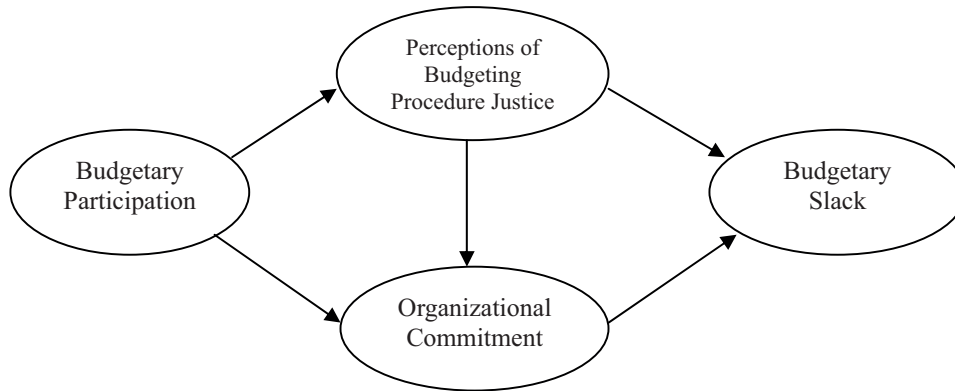


Figure 1 Theoretical model

## LITERATURE REVIEW AND RESEARCH HYPOTHESIS

### Mediating role of perceptions of budgeting procedural justice between budgetary participation-budgetary slack relationship

The results of previous studies provide strong support for the proposition that giving individuals opportunities to express their views in the communication process enhances their perceptions of procedural justice (Renn, 1998). Similarly, allowing employees to express their preferences when setting their performance goals enhances their procedural justice perceptions of the goal-setting process (Earley, 1984). Empirically, examining three types of participation (choice plus voice, choice alone, and no input), Earley and Lind (1987) found that procedural justice perceptions of task assignment procedures are significantly greater under choice and choice plus voice conditions. Hence, we contend that allowing departmental managers to participate in setting their budget goals could generate perceptions of budgeting procedural justice.

The relationship between perceptions of budgeting procedural justice and budgetary slack has been discussed in previous studies. Dunk (1993) noted that if managers regard their superiors as having “got it right” in the performance evaluation process, they tend to create a lower level of slack in the budget. In their empirical experimental study, Fisher, Maines, Peffer, and Sprinkle (2002) argued that managers are concerned about the fairness of procedures of resource allocation. If managers perceive procedural justice in resource allocation, they are inclined to increase their budget proposals; otherwise, they tend to shrink them. Hence,

perceptions of budgeting procedural justice could be negatively related to budgetary slack. In sum, this study posits that budgetary participation could motivate departmental managers' perceptions of budgeting procedural justice, and this effect in turn could reduce their intent to create slack in budgeting. That is, there is an indirect and negative relationship between budgetary participation and budgetary slack via perceptions of budgeting procedural justice. This comes up with the following hypotheses:

*H<sub>1</sub>*: Perceptions of budgeting procedural justice could mediate the budgetary participation-budgetary slack relationship.

*H<sub>1a</sub>*: Budgetary participation is positively associated with perceptions of budgeting procedural justice.

*H<sub>1b</sub>*: Perceptions of budgeting procedural justice is negatively associated with budgetary slack.

#### **Mediating role of organizational commitment between budgetary participation-budgetary slack relationship**

Several management studies have reported that employees' participation in decision-making in organizational affairs increases their commitment to organization (Boshoff & Mels, 1995). Along similar lines, in the budgeting setting, participation increases individuals' feelings of influence on the final budget and prompts them to perceive personal salience and relevance, thereby increases their binding with the organization leading to organizational commitment (Parker & Kyj, 2006). This study, therefore, postulates that budgetary participation is positively related to organizational commitment.

As concerns the relationship between organizational commitment and budgetary slack, Fisher et al., (2002) argued that subordinates, who are given adequate resource and information, trust their superiors with higher organizational commitment, and they tend to provide more accurate budgets. Therefore, managers who are highly committed to organizational goals and values will not propensity to create budgetary slack (Nouri, 1994). Hence, it is hypothesized that manager's organizational commitment could be negatively related to budgetary slack.

In sum, managers who participate in setting their budgetary goals are expected to experience enhanced feelings of personal influence and be better able to identify organizational goals, not just budgetary goals, and this could decrease their intention to create slack in budgeting. Conversely, managers not taking part in setting budgetary goals may have directed their thoughts and efforts toward self-interest that would encourage the creation of slack. Hence, this study posits that budgetary participation could trigger departmental managers' organizational commitment, and this in turn could reduce their intention to create slack. That is, there is an indirect

and negative relationship between budgetary participation and budgetary slack acting through organizational commitment. This leads to the following hypotheses:

*H<sub>2</sub>*: Organizational commitment could mediate the budgetary participation-budgetary slack relationship.

*H<sub>2a</sub>*: Budgetary participation is positively associated with organizational commitment.

*H<sub>2b</sub>*: Organizational commitment is negatively associated with budgetary slack.

### **Mediating role of perceptions of budgeting procedural justice between budgetary participation-organizational commitment relationship**

Studies in justice have demonstrated that the perceived fairness of procedures is important in that it affects people's positive attitudes and behaviors (Ambrose et al., 2007). Kim and Mauborgne (1993) found that a subsidiary manager's perception of head office procedural justice results in a greater willingness to comply with head office requests. In the budgeting setting, a fair resource allocation process implies that managers are viewed as ends rather than means, thereby enhancing their dignity and self-esteem, and thus gaining their commitment to organization (Magner & Welker, 1994). Therefore, the perceptions of budgeting procedural justice will make a positive contribution to a manager's organizational commitment. Connecting the positive associated relationship between budgetary participation and perceptions of budgeting procedural justice and the positive effect of perceptions of budgeting procedural justice on organizational commitment, this study posits that budgetary participation could motivate departmental managers to perceive the budgeting procedure to be fair, and this effect in turn could inspire their commitment to organization. That is, there is an indirect and positive relationship between budgetary participation and organizational commitment acting through perceptions of budgeting procedural justice. This is hypothesized as below:

*H<sub>3</sub>*: Perceptions of budgeting procedural justice could mediate the budgetary participation-organizational commitment relationship.

*H<sub>3a</sub>*: Perceptions of budgeting procedural justice is positively associated with organizational commitment.

## **METHOD**

### **SAMPLE AND PROCEDURE**

This study conducts a mail questionnaire survey to collect empirical data from a sample of 516 departmental managers of 169 randomly selected companies, all listed in the Taiwan Stock Exchange and representative of 15-20% of the companies

of various manufacturing industries, including electronics information, chemicals, textiles, food products, steel, electrical engineering, plastics and automobile. No industry is represented by more than 10% of the total respondents. The departmental managers are positioned in different functional areas, including marketing, R & D and production.

## DATA COLLECTION

Questionnaires are received from 136 respondents, with three removed due to incomplete responses. Therefore, 133 responses are available for data analysis, yielding an effective response rate of 25.8%. The average age of the respondents is 41, and the average time spent in their present organization and current position is 13 and 5 years, respectively. The main functional employment areas represented are marketing (41%), production (30%), R & D (22%) and others (7%). 78% of the respondents are male and 92% of them have at least a bachelor's degree.

## MEASURES

***Budgetary Participation*** To measure budgetary participation, we adopt Milani's (1975) six-item questionnaire. The questionnaire assessing the respondent's involvement in and influence on setting a budget has satisfactory validity and reliability (Brownell & Dunk, 1991). Sample items include: "You are invited in setting all portions of your budget" and "The amount of reasoning is provided to you by a superior when the budget is revised". The response format is a 7-point Likert-type scale ranging from one (strongly disagree) to seven (strongly agree). The Cronbach's alpha coefficient in this study is 0.833, which is judged acceptable based on Nunnally's (1978) criteria of a minimum value of 0.7.

***Perceptions of Budgeting Procedural Justice*** To measure perceptions of budgeting procedural justice, we revise the wording of the questionnaire for perceptions of procedural justice developed by Renn (1998), adapting it to the budgeting setting. These items are "The procedures of budgetary goal setting program", "The budgetary goal appeal procedures" and "Your budgeting performance goal". The response format is also a 7-point Likert-type scale ranging from one (extremely unfair) to seven (extremely fair). In this study, the Cronbach's alpha coefficient is 0.930.

***Organizational Commitment*** We measure organizational commitment using a nine-item questionnaire adopted from Mowday, Steers, and Porter (1979), which has acceptable validity and reliability (Blau, 1987). Sample items include: "You are willing to put in a great deal of effort beyond that normally expected in order to help this organization be successful" and "You talk about this organization to your friends



as a great organization to work for”. Again, the response format is a 7-point Likert-type scale ranging from one (strongly disagree) to seven (strongly agree). The Cronbach’s alpha coefficient in this study is 0.922.

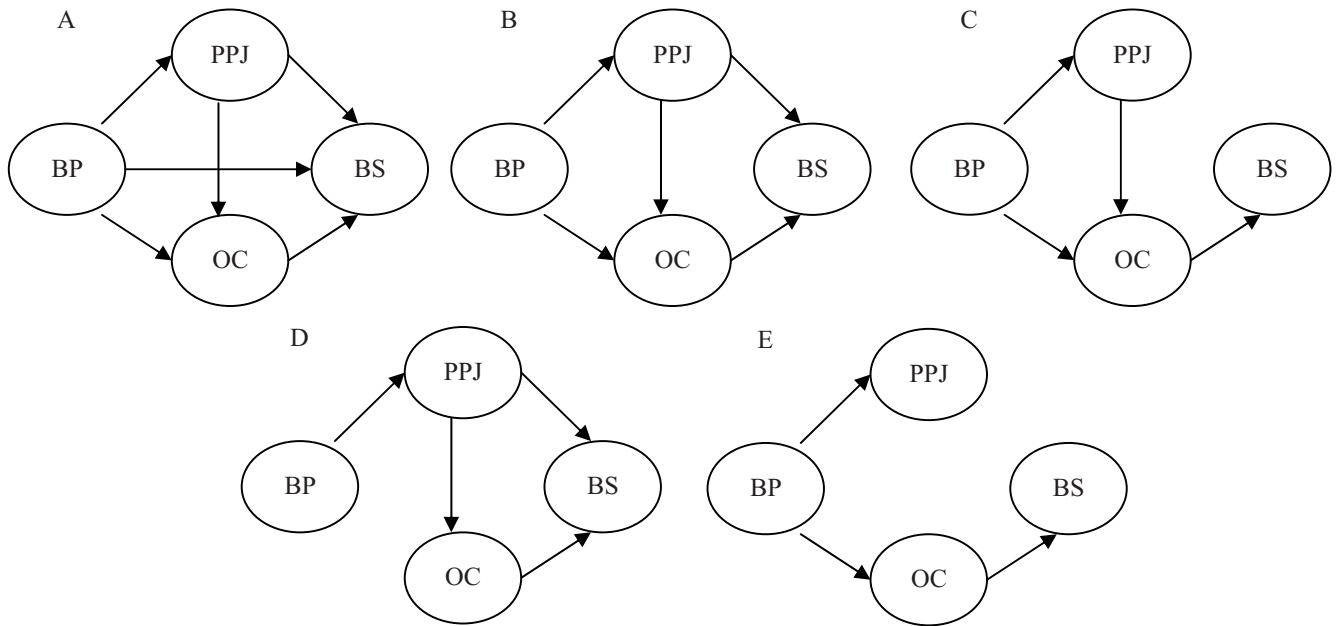
**Budgetary Slack** Budgetary slack is measured using a four-item questionnaire, adopted from Onsi (1973), which is widely employed and has acceptable validity and reliability (Nouri & Parker, 1998). Sample items include: “To protect himself/herself, a departmental manager submits a budget that can safely be attained” and “The departmental manager sets two levels of standards: One between himself/herself and other departmental managers, and another standard between himself/herself and top management, to be safe”. Again, we use a 7-point Likert-type scale ranging from one (strongly disagree) to seven (strongly agree) to rate the level of respondents’ propensity to create budgetary slack. The Cronbach’s alpha coefficient in this study is 0.850.

#### MODEL DEVELOPMENT AND ANALYSIS

Hypotheses were tested by comparing the goodness-of-fit of sequential nested structural equation models and by examining the significance and sign of the parameter estimates associated with the best and most parsimonious fitting model (Hair, Anderson, Tatham, & Black, 1998).

Figure 2 depicts the models examined in the nested model analysis. Several steps are involved in the analysis. First, model A estimates all unidirectional paths among the study variables (i.e., a saturated model). Second, a null model (not shown) that restricts all paths to zero among the study variables is estimated. Model A and the null model provide the best and worst fitting reference points, respectively, and are used for comparison with the theoretical models. Third, after the saturated and null models are estimated and before the mediating factors are estimated, model B is evaluated. Model B restricts the path to zero directly from budgetary participation to budgetary slack. Although no formal hypothesis regarding this path is proposed in this study, a comparison of model B with model A provides a test of whether budgetary participation is directly related to budgetary slack. A significant  $\chi^2$  difference between models B and A indicates a significant loss of fit due to restricting the path parameter to zero. This provides general support for the direct path from participation to slack. Fourth, with the same method, models C, D and E are designed to test the mediating roles of perceptions of budgeting procedural justice ( $H_1$ ,  $H_3$ ) and organizational commitment ( $H_2$ ). Models C and D are each compared with model B. In addition, model E is compared with model C. A significant difference in  $\chi^2$  indicates the less restricted model should be accepted. After the best and most parsimonious fitting structural model is identified, the

individual parameter estimates are then evaluated to determine the significance and sign of the individual path. The significance of the individual parameter estimates is determined by *t*-values provided by the LISREL 8.52 output.



**Figure 2** Nested models. BP: budgetary participation; PPJ: perceptions of budgeting procedural justice; OC: organizational commitment; BS: budgetary slack.

## RESULTS

### MEASUREMENT MODELS

Table 1 presents the overall fits between the measurement models and the observed data. Based on the fit indices, the measurement model that includes all indicators purely for the four latent variables (i.e., “Full” model) does not provide an adequate fit. LISREL’s modification indices indicate that a significant loss of fit is due to the highly correlated error terms of two indicators (items 1 and 2) in budgetary participation and three pairs of indicators (items 1 and 2; items 1 and 9; items 4 and 5) in organizational commitment. To improve the fit of the measurement model, the parameters representing the correlations between the error terms of these paired items are free to be estimated. Following the respecification of these indicators, the measurement model is re-estimated, as shown in Table 1, the “Modified” model provides an adequate fit.



TABLE 1  
OVERALL FITS FOR MEASUREMENT MODELS

Model	$\chi^2$	d.f.	GFI	AGFI	NNFI	CFI	RMSEA
Full	580.15	203	0.82	0.77	0.88	0.89	0.12
Modified	250.67	199	0.94	0.92	0.98	0.98	0.04
Null	3903.27	231	-	-	-	-	-

Table 2 presents the descriptive statistics of research variables, including mean, standard deviation, score range, and Pearson correlations.

TABLE 2  
DESCRIPTIVE STATISTICS AND CORRELATIONS

Variables	Mean	S. D.	Theoretical	Observed	1	2	3
			Range	Range			
1. Budgetary Participation	30.01	4.55	6~42	12~42			
2. Perceptions of Budgeting Procedural Justice	14.02	2.57	3~21	3~21	0.363**		
3. Organizational Commitment	44.98	7.78	9~63	13~63	0.345**	0.487**	
4. Budgetary Slack	16.00	4.13	4~28	4~24	0.057	-0.037	-0.190*

Note: n=133, \*p < 0.05, \*\*p < 0.01 (two tails).

### NESTED MODEL ANALYSIS AND HYPOTHESIS TESTING

Table 3 shows the results of the nested model analysis. Model B is evaluated to test the direct relationship between budgetary participation and budgetary slack. As shown, the  $\chi^2$  difference ( $\Delta\chi^2$ ) between models A and B for one degree of freedom is not significant (compare models B and A,  $\Delta\chi^2 = 3.26$ , n.s.), a clear indication that the parameter representing the path directly from budgetary participation to budgetary slack is not significant. Model C is examined to test H<sub>1</sub>, mediating effect of perceptions of budgeting procedural justice in the relationship between budgetary participation and budgetary slack. As seen in Table 3, restricting the path from perceptions of budgeting procedural justice to budgetary slack to zero produces an insignificant change in  $\chi^2$  for one degree of freedom (compare models C and B,  $\Delta\chi^2 = 2.02$ , n.s.). The result indicates that perceptions of budgeting procedural justice do not significantly impact on budgetary slack, which does not support H<sub>1b</sub>. Therefore, the hypothesis H<sub>1</sub> is also rejected. Model D, which predicts that organizational commitment mediates the relationship between budgetary participation and budgetary slack, is evaluated to test H<sub>2</sub>. Also seen in Table 3, restricting the path from budgetary participation to organizational commitment to zero produces a significant change in  $\chi^2$  (compare models D and B,  $\Delta\chi^2 = 6.44$ , p < 0.05). This

result provides general support for H<sub>2</sub>. Model E is examined to test H<sub>3</sub>, which predicts that perceptions of budgeting procedural justice mediate the relationship between budgetary participation and organizational commitment. As shown again in Table 3, restricting the path from perceptions of budgeting procedural justice to organizational commitment to zero produces a significant change in  $\chi^2$  (compare models E and C,  $\Delta\chi^2 = 21.60$ ,  $p < 0.01$ ). This result supports H<sub>3</sub>.

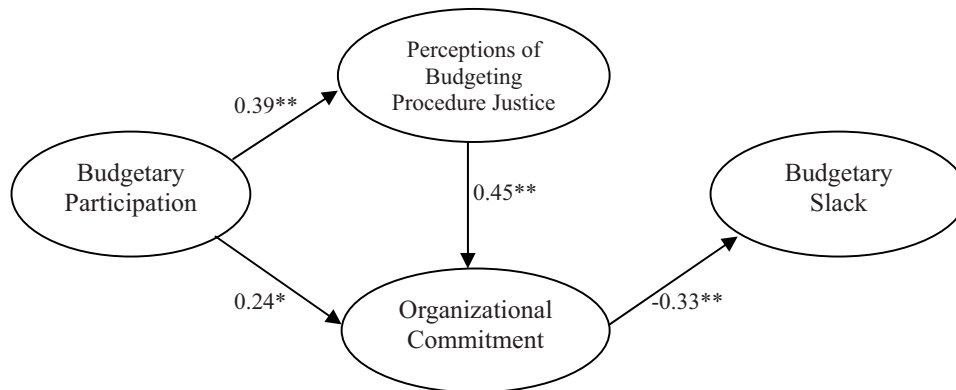
TABLE 3  
RESULTS OF NESTED MODEL ANALYSIS

Model	$\chi^2$	df	$\Delta\chi^2$	GFI	AGFI	NNFI	CFI	IFI	PNFI	RMSEA
A:	250.67	199	-	0.94	0.92	0.98	0.98	0.98	0.80	0.04
Saturated										
B: BP-BS	253.93	200	3.26	0.94	0.92	0.98	0.98	0.98	0.80	0.04
C: PPJ-BS	255.95	201	2.02	0.94	0.92	0.98	0.98	0.98	0.82	0.04
D: BP-OC	260.37	201	6.44*	0.91	0.89	0.97	0.98	0.98	0.82	0.05
E: PPJ-OC	277.55	202	21.60**	0.90	0.87	0.97	0.97	0.97	0.82	0.05
Null	3903.27	231	-	-	-	-	-	-	-	-

Note: \* $p < 0.05$ , \*\* $p < 0.01$ .

### INDIVIDUAL PARAMETER ESTIMATES AND HYPOTHESIS TESTING

The goodness-of-fit indices in Table 3 appear model C is the best and most parsimonious fitting model. As shown in Figure 3, the maximum likelihood parameter estimates of model C indicate a significant positive relationship between budgetary participation and perceptions of budgeting procedural justice ( $\gamma = 0.39$ ,  $p < 0.01$ ), this supports H<sub>1a</sub>. In addition, the parameter estimates reveal a significant positive relationship between budgetary participation and organizational commitment ( $\gamma = 0.24$ ,  $p < 0.05$ ), while a significant negative relationship between organizational commitment and budgetary slack ( $\beta = -0.33$ ,  $p < 0.01$ ), which lead to support H<sub>2a</sub> and H<sub>2b</sub>, respectively. The estimates also display that there is a significant positive relationship between perceptions of budgeting procedural justice and organizational commitment ( $\beta = 0.45$ ,  $p < 0.01$ ), thus supporting H<sub>3a</sub>.



**Figure 3** Final structural model and standardized parameter estimates. \* $p < 0.05$ , \*\* $p < 0.01$ .

## CONCLUSIONS

In the vein of Wagner (1994) and Wentzel's (2002) suggestion that research on participation should steer away from examining direct effects and focus instead on examining the indirect effect through which participation influences work-related outcomes. The present study uncovers a negative relationship between budgetary participation and budgetary slack that would have gone undetected had only the direct effect of budgetary participation been examined. In addition, in line with past studies, in the present study, budgetary participation is found to have no significant direct effect on budgetary slack.

The empirical findings witness that even though budgetary participation does not directly lead to a decrease in budgetary slack, it should definitively be encouraged because it can mitigate slack through its influential impact on certain mediating variables as of organizational commitment. Departmental managers who are allowed greater participation in establishing their budgetary goals report a greater commitment to their organizations than those who are only permitted minimal participation. Furthermore, managers who report greater organizational commitment tend to increase their budget proposals. The findings of a positive relationship between budgetary participation and organizational commitment, and a negative relationship between organizational commitment and budgetary slack are in consistent with those of Chenhall and Brownell (1988), Nouri (1994), and Nouri and Parker (1998).

Based on the theory of procedural justice and the effect of fair procedure, it is predicted that perceptions of budgeting procedural justice could mediate the relationship between budgetary participation and budgetary slack as well as that between budgetary participation and organizational commitment. It is evident in the

present study that budgetary participation is positively related to perceptions of budgeting procedural justice that in turn are positively associated with organizational commitment. These findings are in agreement with the theoretical argument that budgetary participation enhances perceptions of procedural justice (Lau & Tan, 2006; Libby, 1999; Wentzel, 2002) and justice perceptions improve employees' organizational commitment (Ambrose et al., 2007; Manger & Welker, 1994).

However, perceptions of budgeting procedural justice are not evident to be directly related to budgetary slack. One possible explanation for this could be the interactive effects of procedural justice and distributive justice (Tepper, 2001), in which distributive justice perceptions mitigate procedural justice's negative association with perceived psychological outcome variables (Konovsky, 2000), like budgetary slack adopted in the present study. We found indicator number 3 of our applied budgeting procedural justice scale is likely to measure distributive justice<sup>1</sup>.

All in all, although the effect of budgetary participation on budgetary slack has long remained complex and ambiguous, the results of the present study at least suggest that budgetary participation is an effective means to enhance judgments about the fairness of the budget-setting process and to decrease budgetary slack through organizational commitment. We can further draw a fine-grained inference from these results. As shown in Figure 3, moving through the structural paths, one noteworthy influential flow emerges from budgetary participation, through perceptions of budgeting procedural justice, and then organizational commitment to budgetary slack. This demonstrates that budgetary participation mainly strengthens departmental managers' perceptions of budgeting procedural justice, which in turn reinforces their commitment to their organization and finally discourages their propensity to create slack.

There are some limitations. Since wide varieties of manufacturing companies are examined and respondents come from different functional departments and positions, etc. who may have different perceptions of budgets. Caution should be taken when it comes generalizing the results to any specific industry-types, functions and positions. The measurement of procedural justice partially includes distributive justice could be a limitation of our present study. In addition, the relationship between budgetary participation and budgetary slack may be more sophisticated than the model developed in this study. Future research incorporates other potential mediating

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<sup>1</sup> Distributive justice is related to outcome favorability (Tepper, 2001). The more the favorable outcome is, the high the perceived distributive justice is. It may imply that the measurement of "Your budgeting performance goal" is seem to measure distribute justice (Renn, 1998). In terms of this concept, we conducted a post hoc analysis that reveals 56% of managers reported their budgeting performance goals are above fair level.

variables such as goal acceptance, and moderators as of organizational culture and risk preference may enhance both theoretical and practical implications in this research domain.

As with all self-reported data, there is a potential for the occurrence of common method variance (CMV). Results from Harman's single-factor test, an unrotated factor analysis of the research variables generates a four-factor solution that accounts for 67.5% of the total variance; and the first factor accounts for 25.9%, which does not explain most of the variance, indicating that common method effects are not a likely contaminant of the results observed in this survey. Nevertheless, in future research, supervisory rating should be used as well as self-reports, so that the CMV can be overcome.

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# 預算參與對預算寬列之影響：程序正義認知與組織承諾之 中介效果

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## 摘要

基於預算制度的行為面以及參與的激勵理論，本研究以認知預算程序正義和組織承諾為中介變數，探討預算參與對於預算寬列的影響。使用巢式結構方程模式為分析方法及 LISREL 為分析工具，以台灣地區上市櫃製造業公司 133 位部門經理人為研究對象，採用問卷調查法進行資料蒐集。研究結果發現，預算參與並非直接影響預算寬列，而是透過程序正義認知及組織承諾的中介效果所影響。然而，程序正義認知並無影響預算寬列的效果。最後，本研究探討程序正義認知沒有影響預算寬列的原因，並針對研究發現提出重要的管理意涵。

關鍵詞：預算參與、預算寬列、程序正義、組織承諾

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