



Reconsidering the participative budgeting–performance relation: A meta-analysis regarding the impact of level of analysis, sample selection, measurement, and industry influences



Klaus Derfuss

University of Hagen, Faculty of Business Administration and Economics, Department of Management Accounting, Universitaetsstrasse 41, D-58097, Hagen, Germany

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ABSTRACT

The relationship of participative budgeting with performance presents a much debated but still unsettled issue in management accounting research. In this paper, meta-analysis is used to explore, whether methodological concerns, such as the level of analysis, sample selection, and variations in the measurement of performance, and theoretical concerns, such as industry differences, help explain observed inconsistencies in prior results. In line with theoretical predictions, the overall participative budgeting–performance relation is positive and significant. Moreover, this relation and the positive, significant ones of participative budgeting with departmental, budgetary, and managerial performance generalize across settings. In addition, for the relation with managerial performance, moderating influences of objective versus subjective and relative versus absolute self-rating measures of performance as well as private versus public sector samples emerge, which thus are important boundary conditions for future theory development. In contrast to theoretical predictions, the relation of participative budgeting with organizational performance is heterogeneous and does not generalize across settings.

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1. Introduction

Whether participative budgeting is positively related to performance, is a debated but still unsettled issue (e.g. Agbejule & Saarikoski, 2006; Chong, Eggleton, & Leong, 2005b; Jermias & Yigit, 2013; Leach-López, Stammerjohan, & McNair, 2007; Parker & Kyj, 2006), which is disconcerting, because understanding this relationship is highly important. First, participative budgeting continues to be an important element of budgetary control, although it currently is criticised by researchers and practitioners alike. Several criticisms of budgetary control, such as that setting budget goals is time-consuming, expensive, and subject to considerable manipulations (e.g. Hansen, Otley, & Van der Stede, 2003; Sivabalan, Booth, Malmi, & Brown, 2009), are directly linked to the defining elements of participative budgeting, managers' involvement in, and

E-mail address: klaus.derfuss@fernuni-hagen.de.

influence on, the setting of their units' budgets (e.g. Shields & Shields, 1998). Apparently, many companies are aware of these problems, but instead of going beyond budgeting (e.g. Boumistrov & Kaarbøe, 2013), the majority rather adapt their budgeting systems (Dugdale & Lyne, 2010; Libby & Lindsay, 2010; de With & Dijkman, 2008). That is, for these firms, budgets add value, because they are clearly associated with strategy implementation, updated more frequently and in line with firms' requirements, and, overall, their use (e.g. for performance evaluation) is more flexible than the criticisms suggest (Libby & Lindsay, 2010). In this context, participative budgeting is of on-going or even increasing importance as an element of budgeting (Dugdale & Lyne, 2010; Shastri & Stout, 2008) and incentive (Anderson, Dekker, & Sedatole, 2010; de With & Dijkman, 2008) systems. For example, Libby and Lindsay (2010, p. 60) report that to change their budgeting systems some firms planned to 'incorporate a bottom-up orientation and gather more information from front-line managers'.

Second, performance likely is the essential outcome in management (Hamann, Schiemann, Bellora, & Guenther, 2013; Miller, Washburn, & Glick, 2013), organizational behaviour (O'Neill, Goffin, & Gellatly, 2012; Viswesvaran, Schmidt, & Ones, 2002, 2005), and budgeting (Briers & Hirst, 1990; Hartmann, 2000) research in general and in participative budgeting research in particular (Greenberg, Greenberg, & Nouri, 1994; Shields & Shields, 1998). Despite the many criticisms, research into the participative budgeting–performance relation thus is timely and important, as recent theoretical (Heinle, Ross, & Saouma, 2014) and empirical (Jarrar & Smith, 2014; Jermias & Yigit, 2013; Kramer & Hartmann, 2014; Lau & Ropnarain, 2014; Macinati & Rizzo, 2014) studies show.

But apart from criticisms of participative budgeting practices, researchers also criticise the current state of the related research (e.g. Hansen et al., 2003). For example, despite strong economic and psychological arguments in support of a positive participative budgeting–performance relation (Covaleski, Evans, Luft, & Shields, 2003; Shields & Shields, 1998), findings of survey studies at different levels of analysis conflict. Positive, non-significant and sometimes even negative relations are reported for managerial (Kenis, 1979; Lau & Lim, 2002b; Lau, Low, & Eggleton, 1995), departmental (Jermias & Setiawan, 2008; Merchant, 1984; Swieringa & Moncur, 1972), and organizational performance (Jarrar & Smith, 2014; Shields & Young, 1993).

Instead of solving these inconsistencies, the results of prior meta-analyses also diverge. On the one hand, Greenberg et al. (1994), who summarize correlations across different levels of analysis, find a significant positive mean correlation that generalizes across settings. On the other hand, Derfuss (2009) only integrates individual-level studies of private sector organizations and finds positive mean correlations of participative budgeting with budgetary and managerial performance, of which the former generalizes across studies, whereas the latter is marked by significant between-study heterogeneity. This variation is partially explained by single-versus multi-source measurements of performance, but not by random versus non-random sampling or industry differences. The discrepancies between these two meta-analyses suggest several methodological and theoretical influences that no study into the participative budgeting–performance relation has covered systematically. Moreover, further potential influences are not covered by both studies, but also might inflate the between-study variation of correlations.

First, neither Greenberg et al. (1994) nor Derfuss (2009) compare all different levels of analysis of the performance variable (organizational, departmental, budgetary, or managerial). But between-level discrepancies in the strength of the participative budgeting–performance relation might help explain systematic between-study variation of correlations (Ostroff & Harrison, 1999).

Second, Derfuss (2009) finds no significant difference between random and non-random samples, although their statistical properties differ (Birnberg, Shields, & Young, 1990). Yet, as Ostroff and Harrison (1999) point out, this might be due to omitting the difference between correlations from multi- and single-organization samples, because only the former allow estimating the population correlation, whereas the latter yield estimates of within-organization correlations. Considering random versus non-random and single-versus multi-organization sampling together though, might explain Derfuss' (2009) failure to detect a moderating influence.

Third, in contrast to Greenberg et al. (1994), Derfuss (2009) finds systematic variation between single- and multi-source datasets: The correlations of participative budgeting with subjective (self-rating) measures of managerial performance are stronger than those with objective (superiors' ratings or quantitative) measures, either because these measures capture different dimensions of performance (Bommer, Johnson, Rich, Podsakoff, & MacKenzie, 1995; Van der Stede, Young, & Chen, 2005), or because any difference between the correlations pertaining to these measures results from common method effects (Greenberg et al., 1994; Wagner and Gooding, 1987b). However, which of these reasons actually drives this discrepancy still is an open question.

Fourth, neither Derfuss (2009) nor Greenberg et al. (1994) cover two further likely sources of variation in the participative budgeting–performance relation: In line with Kihn's (2010) review, correlations pertaining to self-rating instruments that measure performance relative to a standard, such as peer performance, might differ from correlations that are estimated from measures requesting absolute self-ratings, because unmeasured influences, such as industry effects, might impact the latter more strongly than the former (Govindarajan, 1986; Kihn, 2010). The use of single- versus multi-item instruments for measuring performance also might cause variation, because single-item scales might not adequately capture the multi-dimensional nature of performance (e.g. Bergkvist & Rossiter, 2007; Gardner, Cummings, Dunham, & Pierce, 1998).

Finally, Greenberg et al. (1994) and Derfuss (2009) do not include public sector studies. But public and private sector organizations differ due to political influences (Hoque & Hopper, 1994) and differences in reward structures (ter

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