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Research Note

The impact of market competition and budgetary participation on performance and job satisfaction: a research note

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Abstract

This paper examines the impact of the intensity of market competition and budgetary participation on performance and job satisfaction. The responses of 77 senior managers, drawn from a cross-section of the Australian financial services sector, to a questionnaire survey were analysed using a multiple regression technique. The results of our *global* analysis, which was based on the *composite* score of budgetary participation as the independent variable, showed that the higher the intensity of market competition, the more positive is the relationship between budgetary participation and performance and job satisfaction. In addition, the results of our *dimensional* analysis, which was based on the *involvement* and *influence* dimensions of budgetary participation as the independent variables, revealed that it was the involvement dimension of budgetary participation, which was principally responsible for the results of our global analysis. More specifically, our results revealed that the higher the intensity of market competition, the more positive is the relationship between the involvement dimension of budgetary participation and performance and job satisfaction. Our results, however, suggested that the influence dimension of budgetary participation and the intensity of market competition do not interact to affect performance and job satisfaction.

Keywords: Market competition; Budgetary participation; Performance; Job satisfaction

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1. Introduction

The effect of budgetary participation on the performance of subordinates and their job satisfaction has been the subject of considerable research in management accounting. Early empirical studies used a universalistic approach to examine the effect of budgetary participation on performance and job satisfaction. However, the results have been mixed (see Kren and Liao, 1988; Murray, 1990 for a comprehensive discussion).[1] Subsequent studies have attempted to reconcile the conflicting results by adopting a contingency approach (e.g. Brownell, 1981, 1982a, 1985; Govindarajan, 1986; Gul et al., 1995; Chong and Bateman, 2000). The empirical evidence generated by these studies suggests that contingency factors such as locus of control (Brownell, 1981, 1982a), perceived environmental uncertainty (Brownell, 1985; Govindarajan, 1986), leadership style (Brownell, 1983), decentralization (Gul et al., 1995), role ambiguity and role conflict (Chong and Bateman, 2000), and feedback (Chong and Chong, 2002a) have an impact on budgetary participation-performance and job satisfaction relationships.

The present study aims to extend this line of research by examining another contingent variable, namely intensity of market competition, which is an important *external* environmental factor. Intensity of market competition has been identified as a major reason for *service* organizations, such as those in the financial services sector, to choose a customer-focused strategy for gaining a competitive edge (see Porter, 1979; Schlesinger and Heskett, 1991). It has been suggested that managers will always be confronted with problems associated with market conditions in their day-to-day planning and controlling activities. A typical problem faced by managers in the service industries is summed up by Banker et al. (1996, p. 925) as follows:

> "…Service organizations *such as those in the financial services sector need to* differentiate themselves from one another through different levels of customer service. If a service organization located in a highly competitive geographical area offers a low level of customer service, it risks customers' 'walking away' to a nearby competitor. Conversely, a service organization enhancing the level of its customer service stands to win customers away from its competitors" (italics added).

Prior studies (e.g. Rolfe, 1992; Mia and Clarke, 1999) have argued that firms faced with increasing product ranges often experience decreasing product life cycles, and increased market sensitivity as market competition intensifies. It is further argued that managers in firms facing intense market competition are more likely to make greater use of multiple performance measures in their "attempt to trace the various market factors and achieve competitive advantage" (Hoque et al., 2001, p. 28; Lynch and Cross, 1991).

[1] For example, some studies (e.g. Bass and Leavitt, 1963; Brownell, 1982a) have found a strong positive relationship between budgetary participation and performance, while other studies (e.g. Stedry, 1960; Bryan and Locke, 1967) have found a negative relationship. With respect to job satisfaction, some studies (e.g. Cherrington and Cherrington, 1973; Milani, 1975; Kenis, 1979; Chenhall, 1986) have found that budgetary participation improves job satisfaction, while other studies (e.g. Brownell, 1981, 1982a) have found that budgetary participation does not improve job satisfaction. Several studies (Milani, 1975; Kenis, 1979) have found no relationship.