



The effects of organizational politics on employee motivations to participate in target setting and employee budgetary participation

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ABSTRACT

This research investigates *if* and *how* organizational politics affects budgetary participation. It also ascertains if different forms of organizational politics have different effects on budgetary participation. Three forms of organizational politics (going along to get ahead; pay and promotion policies; and general political behavior) are examined. Based on a survey sample of subordinates with managerial responsibilities, the PLS results indicate as follows. As general political behavior is engaged in by the superiors and not the subordinates, its effects on budgetary participation are *direct* and *not* attributable to the subordinates' motivations to participate in target setting. In contrast, as the politics of going along to get ahead is engaged in by the subordinates themselves, its effects on budgetary participation are *indirect* and via the subordinates' motivations to participate in target setting. The effects of the politics of pay and promotion policies on budgetary participation are unclear. These results highlight not only the relevance of organizational politics in budgeting, but they also direct attention to where the management of such politics is needed to influence the extent of budgetary participation.

1. Introduction

Budgeting is important in organizations. Horngren, Datar, Foster, Rajan, and Ittner (2008, p. 181) consider budgets “a staple in the corporate world” and budgeting “a common accounting tool companies use for implementing strategy.” The participation of individual employees in budget setting (budgetary participation) is a key aspect of budgeting. Brownell (1982, p. 124) defines participative budgeting as a process whereby individuals “are involved in, and have influence on” the determination of their budgets. It is therefore unsurprising that participative budgeting is one of the most researched topics in management accounting and the focus of many past reviews and meta-analyses (e.g., Covaleski, Evans, Luft, & Shields, 2003; Derfuss, 2009; Kyj & Parker, 2008; Mahlendorf, Schaffer, & Skiba, 2015; Shields & Shields, 1998; Shields & Young, 1993). These reviews uncover important gaps in the budgeting literature.

Based on an analysis of published studies over 40 years, Shields and Shields (1998) find that a large majority of the studies have focused primarily on the *effects* of participative budgeting. With the exception of just four of the 47 studies reviewed, the *antecedents* of participative budget have largely been overlooked. The issue of *why participative budgeting exists* therefore seems a much neglected area despite the abundance of research attention on budgeting. Shields and Shields (1998, p. 66) consider this oversight a significant hindrance to our

understanding of and to the development of a general theory on budgeting. They also contend that “direction for future research is to expand the scope of investigation by including other variables in the nomological network.”

A recent follow-up study by Mahlendorf et al. (2015) to ascertain “which antecedents of participative budgeting have been analysed so far,” find that factors related to subordinates' personality, including their *motivation*, were significant antecedents of budgetary participation (Chong & Johnson, 2007; Mia, 1987; Subramaniam, McManus, & Mia, 2002; Wong-On-Wing, Guo, & Lui, 2010; Yuen, 2007). While subordinates' motivation was included in prior research on budgeting, it had been studied as a *consequence* of participative budgeting, and conceptualized as *motivation to perform well in tasks* (Brownell & McInnes, 1986). In contrast, Wong-On-Wing et al. (2010) examine subordinates' motivation as an *antecedent* of participative budgeting, and conceptualize it as *motivation to participate in target setting* (instead of motivation to perform well in tasks). These differences are important. First, examining motivation as an *antecedent* of participative budgeting addresses the dearth of research on the antecedents of participative budgeting (Mahlendorf et al., 2015; Shields & Shields, 1998). Second, conceptualizing motivation as *motivation to participate in target setting* addresses the issue that a more appropriate concept of motivation should be used in research on participative budgeting. The use of different forms of motivation in different research is important because

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different motivations are associated with different consequences (Lau & Roopnarian, 2014; Vallerand, 1997). Vallerand (1997, pp. 327, 329) explains as follows: “Motivation is particularly important ... because it leads to important consequences. Such consequences can ... take place at three levels of generality *in line with the motivation that produces them* ... Thus, outcomes experienced in one specific context should generally result from motivation in that particular context and not from another context. For instance, satisfaction toward *school* should be a function of *school* motivation and not leisure or interpersonal motivation” [emphasis added].

Based on the discussion above and the budgeting literature, additional research on the antecedents of participative budgeting remains beneficial (Covaleski et al., 2003; Hartmann, 2000; Libby & Lindsay, 2010). According to Mahlendorf et al. (2015, p. 19), while there have been some studies to address the dearth of such research, they find that such research has not only stalled, but also only very few variables (e.g., locus of control, need for achievement) have been identified and studied so far. They call for further studies to develop “propositions about the underlying causalities of participative budgeting *not previously addressed*” [emphasis added]. Wong-On-Wing et al. (2010) make important contributions in this regard, particularly in identifying subordinates' motivation to participate in target setting as a crucial antecedent of participative budgeting. However, their study has left unanswered the issues of what are the variables that engender subordinate's motivation, particularly in respect to the motivation to participate in target setting in the first place, and whether such antecedent variables must necessarily affect budgetary participation indirectly via subordinates' motivation, or can such variables affect budgetary participation directly without going through subordinates' motivation? An important research question to address is therefore *what factors* and *how* these factors influence a subordinate's motivation to participate in target setting and a subordinate's budgetary participation.

Our research attempts to address these important issues and the call of Mahlendorf et al. (2015) to seek and study antecedents of participative budgeting that have not been studied before. It introduces a previously unexplored variable, namely, *organizational politics*, as an antecedent of budgetary participation. Specifically, it investigates if organizational politics affects budgetary participation; if organizational politics affects budgetary participation directly or indirectly via a subordinate's motivation to participate in target setting; and if different forms of organizational politics affect a subordinate's budgetary participation in different ways.

Parker, Dipboye, and Jackson (1995) suggest that perceptions of organizational politics are an important dimension of how employees perceive their work environment. Kacmar and Baron (1999, p. 4) define organizational politics as “actions by individuals which are directed toward the goal of furthering their own self-interests without regard for the well-being of others or their organization.” Kacmar and Carlson (1997, p. 629) define it as “social influence attempts directed at those who can provide rewards that will help promote or protect the self-interests of the actor.” As organizational politics is generally regarded as political acts and behaviors undertaken by some individuals to achieve self-interests by *influencing* the behaviors of others, it is operationalized as the *subordinate's* (rather than as the superior's) perception of how politicized is their workplace.

An investigation on the relationship between organizational politics and budgetary participation is important for the following reasons. First, budgeting (including participative budgeting) and organizational politics are both important and ubiquitous phenomena in organizations. Budgeting is a key organizational function for many purposes, and budgetary participation is a key aspect of budgeting. Organizational politics is also endemic and ubiquitous. Hochwarter, Kolodinsky, Witt, Hall, Ferris, and Kacmar (2006, p. 271) observe that “organizational politics is simply a fact of life. Whether the behavior is taking credit for the accomplishments of others or influencing important decision makers, politics is largely inescapable.” Prior research has also found that

it influences employee attitudes, behaviors, and performance (Lau & Scully, 2015). Kacmar and Carlson (1997, p. 627) observe as follows: “The perceptions individuals hold about the political nature of their work environment influence the way they do their jobs. These perceptions affect how employees feel about their company, boss, and co-workers, and they impact the productivity, satisfaction, and intent to turnover of the workers.” As political acts and behaviors are generally undertaken to promote self-interests rather than the organization's interests, they may also be detrimental to organizational goals. Research on the influence of organizational politics is therefore a useful contribution to the budgeting literature.

An investigation into organizational politics in the budgeting context is also particularly relevant, as the *root* cause of politics is competition for scarce organizational resources. Kacmar and Carlson (1997, p. 630) state that “scarcity of valued resources generates competition ... organizations with limited resources will have political behavior.” Budgeting, including motivation to participate and budgetary participation, involves the planning of scarce resources and is the function where most resource allocation decisions are made. Organizational politics is therefore likely to be prevalent here. The proper management of politics is therefore particularly relevant because the prevalence of politics may lead to costly distortions in budget and resource allocation.

From a theoretical perspective, researchers have suggested that organizational politics may be significantly related to strategic management, which includes budgeting and participative budgeting. With respect to budgeting, Jones (1985, pp. 34–35) observes that “a primary vehicle for carrying out ... games of internal politics is the business plan ... Managers ... manipulate and distort the business plan ... by providing distorted rationales for additional equipment, personnel or expenditures.” With respect to budgetary participation, he suggests that it can be “a mechanism used by the most vocal managers to push through their demands.” He also describes the relationship between organizational politics and budgeting as follows: “By overstating budget estimates and/or by overspending allocations, a manager may be able to obtain an unwarranted share of the organization's total resources. This manoeuvre, too, can be used to increase managerial power and control.” With respect to the relationship between organizational politics and strategic business planning and management (budgeting), both Baum (1989) and Zanzi and O'Neill (2001) find that organizational politics has negative effects on the strategic management processes. Zahra (1987) similarly finds that organizational politics has significant direct effects on the strategic management process including effective selection of strategy, resource allocation, and strategy implementation. The results of Eisenhardt and Bourgeois (1988) indicate that organizational politics is negatively associated with strategic decision making because of time wasted in politics, restricted information flow, and distortion of people's perceptions. Voyer (1994) finds that organizational politics has an indirect negative impact on the strategic planning process via the quality of management. Additionally, researchers have also developed frameworks for strategic planning and management from an organizational politics perspective. Thus, Narayanan and Fahey (1982) develop a framework for strategic decision making that includes power distribution within and across coalitions. Gunn and Chen (2006, p. 220) challenge the assumption that organizational politics can be ignored in strategic planning. Instead, they propose a framework whereby “strategic management accounts for politics and seeks to incorporate positive aspects of it within the management processes.” These prior studies provide and support the theoretical justification for a systematic empirical study of the relationship between organizational politics and budgetary participation.

Despite of the practical and theoretical justification discussed above, no prior study has investigated in a systematic manner the relationship between organizational politics and participative budgeting. Prior research have examined the relationships between budgetary participation and other variables including performance evaluative style (Brownell, 1982), role ambiguity (Chenhall & Brownell, 1988),

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