

## Conference Paper

# The Effect of Procedural Justice on Managerial Performance Through Budget Participation at Pt. Perkebunan Nusantara (PERSERO) in North Sumatera

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### Abstract

The budget participation is a budget arranged by involving the center manager responsibility. The role of the center manager responsibility is very closely related with the justice procedural because if all the center manager responsibility have taken part in conducting its duty and responsibility effectively and efficiently, thus will have conducted a fair procedure. This descriptive research approach is aimed to obtain an empirical evidence about the participation role of the different strata of the center manager responsibility in arranging the budget in relation with the procedural justice and managerial performance. Data were collected on a sample of 135 respondents by using a five item questionnaire. A multivariate analysis was carried out. The research findings show a positive correlation and significant between justice procedural and managerial performance through budget participation. It is suggested to the wider research sample by including foreign capital plantation company, domestic capital company, private enterprise, and industry and service company.

**Keywords:** justice procedural - managerial performance - budget participation

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## 1. Introduction

Today's increasingly tough business competition requires companies to operate as effectively and efficiently as possible. The realization of efficiency for the company depends on the ability of managers in implementing management functions.

A tool that a manager can use to carry out its function is budget. In budget preparation top managers need to include the center manager responsibility. Budgets that are organized by involving the center manager responsibility are called budgetary participation (Govindarajan, 1986 in [3]). With the inclusion of MPP in budgeting, it will motivate MPP to achieve the budget objectives, because the budget generated in this

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way will be more realistic. Budgets are more realistic because they are based on top managers' negotiations with MPP. Budgeting is divided into two: participatory budgeting and top-down budgeting [1]. In participatory budgeting the budgeting process involves subordinates significantly in budget formation. This is very useful in order to capture the aspirations of subordinates so that the budget is made more perfect and subordinates have a high sense of responsibility and have moral consequences in improving their performance in accordance with the targeted in the budget. In top-down budgeting the budgeting process does not involve subordinates significantly.

Budget participation in PTPN is implemented by involving the center manager responsibility in the budgeting process, from Assistant Affairs to Technical Director [5]. The role of center accountability manager participation is closely related to procedural justice, because if all MPP has played its duties and responsibilities effectively and efficiently, then the procedure will be implemented fairly. With the implementation of the procedure fairly will improve the managerial performance in each MPP. It shows a positive and significant correlation between procedural fairness and managerial performance through budgetary participation.

According to Mahoney et.al. (1963) in Arief and Sholihin (2004) managerial performance is the ability of managers in performing management functions that include planning, coordination, evaluation, investigation, supervision, staff selection, negotiation and representation. Managerial performance is applied to control business through key performance indicators, enforcing SOPs (Standard Operating Procedures) that support the new paradigm of the company, managing business on a gradual basis and cultivating innovation in order to increase productivity significantly.

Based on the background of the problem that has been described, the problem formulation is "Is the relationship between procedural fairness and managerial performance affected by budgetary participation?"

The purpose of this study was to obtain:

1. empirical evidence of a positive and significant correlation between procedural fairness with managerial performance.
2. empirical evidence on the role of participation of various MPP strata in budget preparation in the relationship between procedural justice and managerial performance.

## 2. Literature Review

## 2.1. Definition budget and budgetary participation

A budget is a formal statement made by management of future plans in a given period, which will be used as a guideline for the implementation of activities during that period (Hanson, 1996 in [3]). Budget is not only a financial planning of corporate responsibility centers but also a means of coordination and communication control (Kenis, 1979 in [2]).

According to Kenis (1979) in Arief and Sholihin (2004) budgetary participation is the level of participation of managers in preparing the budget and influential in determining the achievement of budget objectives at the center of responsibility. Subordinates who feel their aspirations are respected and have an impact on the budget being drafted will have more responsibility and moral consequences to improve performance as targeted in the budget (Soepomo, 1998 in [3]). This shows that the individuals involved in budgeting will be more accountable for their work than the individuals who are not involved in budgeting.

## 2.2. Definition of procedural justice

According to Mcfarlin and Sweeny (1992) in Arief and Sholihin (2004) procedural justice is the perception of subordinates in evaluating their performance, communicating performance feedback and determining rewards for them such as promotion or salary increases. Research has shown that procedural justice has a significant impact on the selection of procedures. Research conducted by Friedland, Thibaut and Walker (1973) in Arief and Sholihin (2004) have all indicated that procedural justice perceptions are one of the important determinants in the preferences and selection of procedures.

## 2.3. Definition of managerial performance

According to Mahoney et.al. (1963) in Arief and Sholihin (2004) managerial performance is the ability of managers in performing management functions that include planning, coordination, evaluation, investigation, supervision, staff selection, negotiation and representation

### 3. Framework

A conceptual framework or model often called a theoretical framework is a model shown in the form of a diagram showing the structure and nature of the logical relationship between research variables that have been identified from the theory and findings of an article review will be used in analyzing the research problem [6]. In this study, the data obtained from the Questioner in the intention to know whether there is a significant data difference between data received early time with data received late time.

In the research of Tang and Sarfield - Baldwin (1996) in Arief and Sholihin (2004) it was argued that if managers can apply the rules fairly and consistently to all employees and reward them based on their performance and advantages without personal bias, then employees will have a positive perception of procedural fairness, which can improve performance, commitment, and engagement.

Greenberg and Folger (1983) in Arief and Sholihin (2004) argue that participation can improve performance because (1) participation allows subordinates to communicate what they need to their bosses and (2) participation can enable subordinates to vote, and the act of choosing can build commitment and be held responsible for what has been chosen.

The image below is a conceptual framework for testing these relationships:

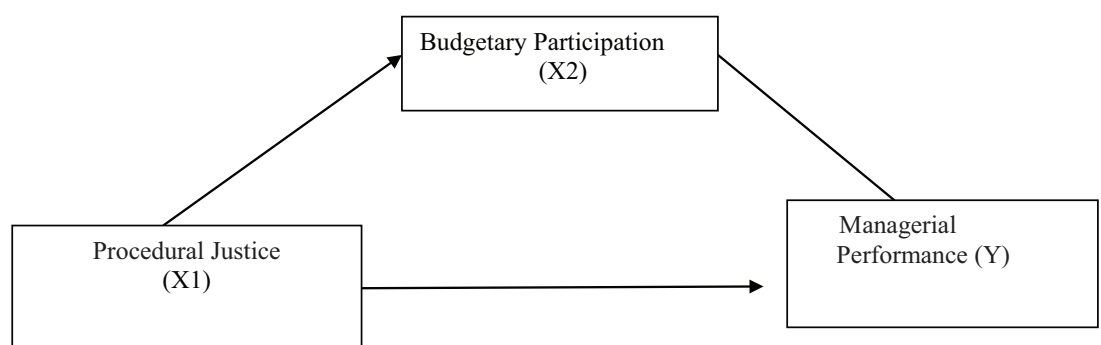


Figure 1: Conceptual Research Framework.

### 4. Methodology

This research is a descriptive research. Data collection was done by filling out questionnaires. One shot data measurement is a one-time measurement of independent variables and dependent on respondents. The population in this study is the Central

Manager of Accountability (MPP) at Perkebunan Nusantara (Persero). The sample in this research is MPP at Perkebunan Nusantara (Persero) in North Sumatera. The reason for selecting this sample is because all MPP is directly involved in preparing the required budget for the PTPN. Based on the existing organizational structure in PTPN there are 135 managers consisting of:

Technical Director: 12 people

Head of Section: 27 people

Head of Affairs: 96 people

Number of Managers: 135 people [5]

All Center Manager of Accountability (MPP) is sampled and not in stratakan because all MPP have equal role, duty and responsibility in budgeting.

Multivariate data were analyzed consisting of non response bias test, reliability test, validity test, normality data test, linearity test and heteroscedasticity test.

## 5. Findings

Results of data collection in this research for 3 weeks as many as 35 questionnaires (26%) and one questionnaire incomplete. Two weeks later the questionnaire returned as many as 13 questionnaires (10%), three of which were not complete, the total number of questionnaires returned was 48 questionnaires (36%), so that respondents' answers can be entered in the data analysis of 44 questionnaires (33%).

### 5.1. Non response test bias

Non Response Test Bias is intended to find out if there is significant data difference between data received on time (early response) with data received through time (late response).

Non Response Testing The bias is done by dividing the 2 groups of respondents ie respondents who send answers on time (early response) as many as 34 respondents, who entered in this category of respondents are respondents who returned the questionnaire in a period not more than 3 weeks and respondents who sent the answer is not on time (late response) as many as 10 respondents, who entered in this category of respondents are respondents who returned the questionnaire in a period of more than 3 weeks. This test is done by T-test at a significant level of 5% and the probability value is  $p > 0.05$ . The results of this test has a probability of 0.26 means  $p > 0.05$ , it

shows no significant difference between respondents who responded on time with respondents who answered not on time against the instrument used.

TABLE 1: Non Response Test Bias.

Keterangan	Quesioner Tidak Lengkap	Quesioner Lengkap	Total	% Quesioner Yang Dapat Diolah	t-value	p-value
Early Response	1	34	35			
Late Response	3	10	13			
Total	4	44	48	33 %	- 2,45	0,26

### 5.2. Reliability test

Test Reliability is intended to determine the extent to which a measurement results are relatively consistent. This study uses One Shot or one measurement only. Test Reliability is done by looking at the value of Cronbach Alpha  $\alpha > 0.60$  (Nunnally, 1967 in [4]). From the results of Test Reliability obtained procedural justice instruments have value Cronbach Alpha 0.623, managerial performance has value Cronbach Alpha 0,713 and budget participation have value Cronbach Alpha 0,698. From the results of this test can be said that all instruments used are reliable because it is larger than 0.60 as criticized by Nunnally (1967).

### 5.3. Test validity

Test Validity is used to measure the validity or invalidity of a Quesioner. From the SPSS output shown below, the correlation between each variable to the total score of the variables at a significant level of 5% shows significant results, since the Pearson Correlation (PC) value is less than 0.05. So it can be concluded that each of the variables namely procedural fairness, managerial performance and budget participation is valid.

### 5.4. Normality test

The normality test is intended to test whether the regression model of the annoying or residual variable has a normal distribution. The

compares the cumulative distribution of the normal distribution. In principle normality is detected by looking at the spread of data (dots) on the diagonal axis of the graph. It shows a normal distributed pattern, then the regression model meets the assumption of normality.

TABLE 2: Test Validity.

	Procedural Justice	Managerial performance	Budgetary Participation
Procedural Justice			
PC	1	0,307	0,415
Sig	-	0,043	0,005
N	44	44	44
Managerial performance			
PC	0,347	0,164	0,164
Sig	0,043	0,043	0,043
N	44	44	44
Budgetary Participation			
PC	0,415	1	1
Sig	0,005	-	-
N	44	44	44

### 5.5. Test linieritas

Test Linieritas intended to see whether the model specifications used are correct or not. Tests conducted to determine the presence of linearity is to use the test Durbin - Watson (DW test). This test is done to see whether there is autocorrelation in a regression model.

TABLE 3: Model Summary.

Model	R	R Square	Adjusted R Square	Std.Error of the Estimate	DurbinWatson
1	0,309	0,096	0,052	3,297	1,301

From the test results seen that the value of Durbin Watson has a value of 1.301. If the Watbin durbin value is compared with the Durbin Watson Statistic value ie  $d_l = 1.336$  with  $n = 44$  and  $k = 4$ , then it is in the positive autocorrelation area with a significant level of 5% (Durbin Watson Statistics Table).

### 5.6. Heteroscedasticity test

Heteroscedasticity test aims to test whether the regression model of variance inequality occurs from one observation to another fixed observation, hence it is called

Homoscedasticity, and if the different variance is called Heteroscedasticity. Heteroscedasticity test is done by looking at whether or not there is a particular pattern on the scatter plot chart between SRESID and ZPRED.

## 5.7. Hypothesis test

Hypothesis testing is done by Pearson Product Moment and Path Analysis (path analysis). Pearson Product Moment is intended to test the relationship between variables to be studied consisting of one independent variable and one dependent variable [7].

Path analysis is intended to examine the effect of intervening variables and to estimate the causality relationships among predefined variables based on theory [4].

The Equation of Path Analysis is as follows:

$$Y = b_0 + b_1X_1 + b_2X_2$$

where:

Y = Managerial performance

$b_0$  = Intersep

b = Koefisian regresi

$X_1$  = Managerial performance

$X_2$  = Budgetary Participation

## 6. Conclusion

The role of participation of Center Manager of Accountability (MPP) is very closely related to procedural justice, because if all MPP has role in carrying out its duties and responsibilities effectively and efficiently it will implement the procedure fairly. With the implementation of the procedure fairly will improve the managerial performance in each MPP. It shows a positive and significant correlation between procedural fairness and managerial performance through budgetary participation. It can be concluded that this research with research of Arief and Sholihin (2004) have same research result that is significant and have positive relation.



## 7. Limitations

Researchers are aware that this study has limitations. Delivery of Questioner through the directors office without directly dealing with the respondents, is one of the limitations in this study, where the respondent may misinterpret the questions in the questionnaire even though it has already been explained how to fill it. The test equipment in this study only use Pearson Product Moment and Path Analysis. However other statistical tools need to be used such as Spearman Rank, because this test tool can know clearly which rank is more dominant chosen by the respondents in filling the data that has been given by the researcher.

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