

**THE MODERATING EFFECT OF PERCEIVED
ORGANIZATIONAL CULTURE ON THE
RELATIONSHIP BETWEEN BUDGET-RELATED
BEHAVIOUR AND PROPENSITY TO CREATE
SLACK FOR YEMENI MANAGERS**

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UNIVERSITI SAINS MALAYSIA

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By

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**KESAN PENYEDERHANAAN DARIPADA TANGGAPAN BUDAYA KERJA
ORGANISASI TERHADAP HUBUNGAN ANTARA PERILAKU
BERKAITAN BAJET DAN KECENDERUNGAN MENCIPTA SLAK UNTUK
PENGURUS DI YEMEN**

Abstrak

Para penyelidik perakaunan mencadangkan bahawa kecenderungan mencipta slak boleh mendorong kepada penggunaan sumber organisasi secara tidak efisien, yang dikawal organisasi tersebut. Mereka juga mencadangkan bahawa slak boleh bertambah atau berkurang berdasarkan beberapa faktor, termasuklah perilaku berkaitan bajet. Walau bagaimanapun, dapatan kajian terdahulu yang mengkaji perkaitan di antara perilaku berkaitan bajet (seperti penyertaan, pengukuran dan pemantauan, serta penilaian bajet) dan kecenderungan mencipta slak adalah tidak begitu jelas dan sering bercanggah. Akibatnya, ramai penyelidik telah menyelesaikan isu ini melalui pendekatan kontingensi. Justeru, kajian ini bertujuan meluaskan bidang penyelidikan ini dengan meneliti pemboleh ubah kontingen yang lain, iaitu persepsi pengurus terhadap budaya organisasi. Pemboleh ubah ini merupakan faktor penting yang berpotensi menyederhanakan hubungan di antara perilaku berkaitan bajet dengan kecenderungan mencipta slak serta berkemungkinan mempengaruhi mengurangkan tahap seseorang pengurus mencipta slak. Permasalahan atau isu ini masih samar-samar dalam literatur. Justeru, penyelidikan ini berusaha merapatkan jurang tersebut. Kajian ini dijalankan di Yemen, sebuah negara yang sedang membangun. Penyelidikan ini merupakan suatu penyelidikan tinjauan: satu data rentas silang berdasarkan soal selidik yang diedarkan terus kepada 300 orang pengurus daripada

organisasi berskala besar yang beroperasi di Yemen. Kebanyakan mereka terlibat secara aktif dalam penyediaan bajet. Walau bagaimanapun, keputusan analisis faktor menunjukkan dua komponen wujud daripada persepsi pengurus terhadap budaya organisasi, iaitu managerialis dan humanis. Keputusan bagi dimensi perilaku berkaitan bajet kekal tiga komponen, iaitu penyertaan, pengukuran dan pemantauan, serta penilaian bajet. Bagi kecenderungan mencipta slak, analisis faktor menunjukkan dua dimensi wujud, iaitu keselamatan dan kepermudahan. Kajian ini memberikan bukti, bahawa untuk pemboleh ubah perilaku berkaitan bajet, dapatan menunjukkan bahawa penyertaan dan penilaian bajet mempunyai perkaitan yang positif dan signifikan dengan keselamatan. Pengukuran dan pemantauan hanya mempunyai perkaitan yang positif dan signifikan dengan kepermudahan. Walau bagaimanapun, keputusan kajian ini menunjukkan bahawa tanggapan yang tinggi terhadap budaya humanis, pengukuran dan pemantauan dikaitkan dengan tahap kepermudahan dan keselamatan yang rendah. Budaya humanis menyederhanakan perkaitan di antara pengukuran dan pemantauan dan kedua-dua dimensi kecenderungan mencipta slak. Sementara itu, interaksi di antara budaya managerialis dan pengukuran dan pemantauan memberi kesan terhadap kecenderungan mencipta slak, hanya pada kepermudahan bukannya pada keselamatan. Keputusan menunjukkan bahawa cara yang lebih efektif untuk mengawal slak bagi pengurus di Yemen adalah dengan meningkatkan kemampuan pemantauan termasuk; tahap penelitian atau analisis bagi varians bajet dan meningkatkan persepsi pengurus terhadap budaya organisasi, dalam usaha mengurangkan kecenderungan mencipta slak.

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Abstract

The accounting researchers proposed that the propensity to create slack could lead to inefficient use of the resources that the organization controls. They also suggested that slack can be increased or decreased by several factors, including the budget-related behaviour. However, the results of prior studies examining the relationship between budget-related behaviour (such as participation, measure and monitor and evaluation by budget) and propensity to create slack is not clear and have often been found to be contradictory. As a result, many researchers have reconciled the inconsistent results by using the contingency approach. The present study aims to extend this line of research by examining another contingent variable, namely the managers' perceptions of the organizational culture. This variable is an important factor that could potentially moderate the relationship between budget-related behaviour and propensity to create slack and may influence the extent to which managers create slack. This issue is still unclear in literature. Therefore, this research attempts to bridge that gap. This study was conducted in a developing country, specifically Yemen. The research design for this study was a survey research; a cross-sectional data based on questionnaires which were distributed by hand to 300 middle managers drawn from large-scale organizations operating in Yemen. These managers are actively involved in budgeting. However, the results from factor

analysis shows two components of managers' perceptions of organizational culture emerged namely, managerialist and humanist. The results for budget-related behaviour dimensions remains three components namely, participation, measure and monitor, and evaluation by the budget. For propensity to create slack, factor analysis shows two dimensions emerged namely, safety and easiness. This study present evidence, that for the Budget-related behaviour variables; the finding shows that participation and evaluation by the budget have positive and significant relationship with safety. Measure and monitor only has positive and significant relationship with easiness. However, the results present that for high perceived of humanist culture, measure and monitor is associated with lower levels of Easiness and safety. Humanist culture moderates the relationship between measure and monitor and both dimensions of propensity to create slack. While, the interaction between managerialist culture and measure and monitor affect propensity to create slack only on easiness but not on safety. The result demonstrate that a more effective way to control slack for Yemeni managers is by enhancing monitoring abilities including, the level of investigations or analysis on the budget variances and increasing managers' perceptions of organizational culture, in order to decrease propensity to create slack.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The budgeting system is an extremely important component of an overall management control system package. It is an important tool in organizations for directing activities and employees' efforts toward the organization's common goals (Covaleski, Evans, Luft, & Shields, 2003). Budget not only a financial plan that sets forth cost and revenue goals for organization, but also a device for control, coordination, communication, performance evaluation, and motivation (Joshi, Al-Mudhaki, & Bresmsr, 2003). All of these aspects suggest that budgets potentially may be a useful managerial tool. This effective budget requires reliable estimates of future conditions. When subordinates submit biased estimates to their superiors, budgetary slack is created (Nouri & Parket, 1996). These biased estimates potentially could reduce the effectiveness of budgeting in organizational planning and control (Magner, Johnson, Little, Staley, & Welker, 2006; Waller & William, 1988). Several studies and discussions suggested that the managers' propensity to create slack into these budgets isolates organizational members from the motivational effects of budgets, limits the effort that these people exert, and leads to inefficient use of the resources that the organization controls (Davila & Wouters, 2005; Douglas & Wier, 2000; Dunk, 1995; Fisher, Frederickson, & Peffer, 2002; Nouri, 1994; Young & Mark, 1985).

The accounting researchers proposed that the propensity to create slack can be increased or decreased by several factors including the budget-related behaviour

(Merchant, 1985). The results of prior studies examining the relationship between budget-related behaviour (such as participation, measure and monitor, and evaluation by budget) and propensity to create slack is not clear and have often been found to be contradictory. As a result, many researchers have reconciled the results by using the contingency theory (Chenhall, 2003; Chong & Ian, 2003; Davila & Wouters, 2005; Dunk & Nouri, 1998; Govindarajan, 1986; Lau & Eggleton, 2004; Merchant, 1985; Nouri & Parket, 1996; Soobaroyen, 2007; VanderStede, 2000, 2001).

The objective of this study is to extend this line of research by examining another contingent variable, namely the managers' perceptions of the organizational culture, which is an important factor that could potentially affect the relationship between budget-related behaviour and propensity to create slack and may influence the extent to which managers create slack (Chenhall, 2003; Dunk & Nouri, 1998).

The managers perceptions of the organizational culture serve as a basis for interpreting the budgeting situations, and act as a source of influence for shaping budgeter's behaviour (Ihantola, 2006; Moran & Volkwein, 1992). Hence, a fit between the budget-related behaviour (BRB) and the manager's perception of organizational culture, leads to decrease in propensity to create slack (Ahmed, 2005; Chenhall, 2003; Dunk & Nouri, 1998). In this light, this study seeks to contribute to the literature by studying the moderating effects of manager's perception of organizational culture on the relationship between budget-related behaviour and propensity to create slack in Yemen.

1.2 The Context of the Study

In early 1995, Yemen began comprehensive economic reform to address the economic difficulties. The attention was paid to see how efficiently capital resources were being used. This led the government to institute financial management reforms to resolve such problems and improve public sector efficiency, economy and overall effectiveness. Starting from 2005, Yemen embarked upon a financial and administrative reform program (EFARP) which was supported by the World Bank and the International Monetary Fund (IMF), as well international donors (World Bank, 2007).

The focus of this study is on those reforms that pertained to the financial management that were designed to impact on budgetary behaviour. There has been substantial progress in this reform including budget preparation, execution, and implementation, particularly in the areas of budget classification and reporting, information systems, bidding and procurement, financial accountability, and budget decentralization implemented through public financial management reform and action plans (World Bank, 2007).

The goal for this reform is for effective use of budget resources which is of growing significance for country in achieving the goals and priorities of the public policy, as citizens demand better quality and more accessible public services and greater effectiveness, efficiency of the resource utilization (Jensen, 2003). Developing countries, in their pursuit of these goals, confront the realities of poverty, namely severe limitations on resources (Robert & Lee, 1992). However, budgeting is one of the fundamental decision-making processes in organizations. During budget

formulation, officials determine the portion of the organization's resources that the manager of each unit will be authorized to spend, so that the goals of the organization are efficiently achieved (Joshi et al., 2003; Weetman, 2006).

Based on the above, the study refer to Open Budget Survey (developed by the International Budget Partnership (IBP) which provides an overview of budgeting practices in different countries in the world including Yemen to examine the extent of success of these reforms. Open Budget Survey showed that Yemen's score on the Open Budget Index (OBI) improved more than doubled from 10 points in the 2008 Survey to 25 points in the 2010 Survey (International Budget Partnership, 2010). This improvement and access to information would lead to improvements in the quality of decisions made on spending priorities in the budget, leading to more effective and balanced use of public funds (International Budget Partnership, 2010). However, more improvement is needed since the IBP survey provides general recommendations to the international donor community and International Financial Institutions (IFI) on how they can support better budget transparency practices in countries to which they provide assistance (International Budget Partnership, 2010).

In addition, to get overview on the budgeting practice in the private sector, the study conducted by Mohammed (2006) in food manufacturing industry in Yemen, provide evidence that respondent companies prepared annual budget as part of their planning and control mechanisms and performance evaluation (Mohammed, 2006). This study paid the attentions and highlighting the importance of budgets as a tool for planning, control and performance evaluation to achieve rational use of resources that could increase the effectiveness of budgeting system of these companies and the capacity

to compete efficiently and to adapt to different conditions in the surrounding environment of the food industry in Yemen.

In Yemen the contribution of sectors to GDP shows that the service sector is the largest in Yemen, with 46% of GDP, dominated by government services. Services cover government activities, communications, transportation, finance, and all other private economic activities that do not produce material goods. Furthermore, the industrial sector accounts for 42% of GDP. Industry includes mining, manufacturing, oil and gas production, and construction. The agriculture includes farming, fishing, and forestry represents 12 % of GDP. In Yemen, public organizations play an important role and provide main services and products to the people in Yemen and reveals that it is vital in economic development of the country.

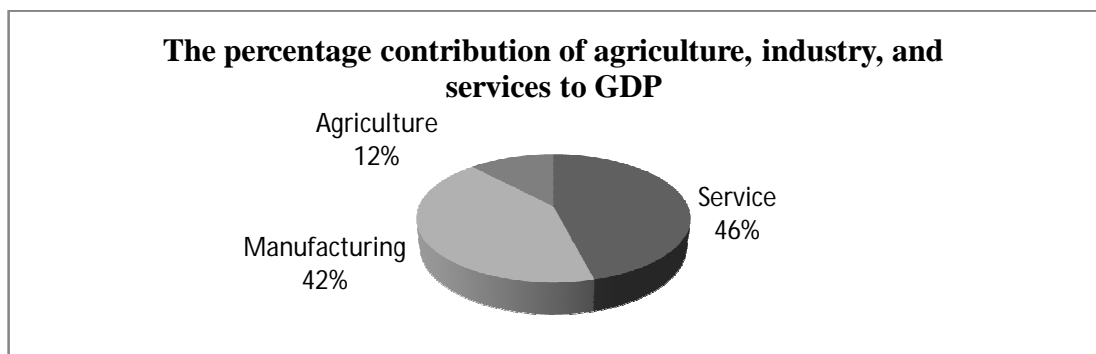


Figure 1.1: The Contributions of Economic Sectors to GDP

Such large-scale organizations, including manufacturing companies and service companies manifest formal budgeting systems. They provide main services and products to the people in this country and for their centrality to the economic development of Yemen. Furthermore, the diversity serves to enhance the generalizability of the results. These sectors have been studied in the previous budget-related behaviour research. For example, Bruns and Waterhouse (1975)

studied manufacturing and service organizations. Moreover studies such as (Little, 2002; Douglas, 2005; Van der Sted, 2000; Gary Linn, 2001; Douglas, 2007; Kyj, L., & Parker, R. J., 2008) selected manufacturing and service organizations in their studies.

However, research at this area is needed to improve budgeting practices in Yemen. When the organization uses budgets to allocate resources, managers may use resources over that which is necessary (Merchant, 1985). The effectiveness and efficiency use of budget resources is of growing significance for developing countries including Yemen in achieving development goals. Although, Ahmed (2005) claim that involving in budgeting system in developing countries offers opportunities and encourage propensity to create slack to protect the managers against unforeseen contingencies. As noted earlier, the budgetary system has been assumed to affect a manager's propensity to create slack, in this sense that this propensity can be increased or decreased by the way in which the budgetary system is designed or complemented (Merchant, 1985).

Thus, a better match between the budget-related behaviour and the contextual contingency variable is hypothesized to result in decreasing the propensity to create slack concerning the developing countries. Grindle (1997) indicates the importance of further research for considering organizational culture perceptions as an important contingent variable in understanding how organizations function in developing countries including Yemen. He stated that, throughout the developing world, there are organizations that perform relatively well, despite unfavourable contexts. Furthermore, other researchers have suggested that in designing a management

control system, attention should be paid to the contextual factors within which the organization operates (Ahmed, 2005; Tsamenyi & Mills, 2002). They reinforce organizational culture perceptions as an important contingent variable in understanding organizational practices in developing countries.

For this study; goal clarity, decision making, integration, and management style are the focal dimensions that used to provide the basis for understanding managers' perceptions of organizational culture because they are more relevant to the budgeting system and managerial outcome such as propensity to create slack.

The goal clarity is considered to be the predominant dimension that determines the effectiveness of control systems (Fang, Evans, & Zou, 2005). Without such goal clarity, managers may develop ineffective action plans which, in turn, may result in misdirected effort and subsequently, lower performance (Yetton & Hirst, 1999). It can be argued, that the budgeting effectiveness will decrease as managers are unclear about organization goal and the future of their organization. In Yemen, the clarity of the goal helps managers particularly in the case of uncertainty surrounding their strategy not to create slack. With regard to decision making, for example; one reason for low perception in this dimension might lie in uncertain organizational structure. Therefore, when structures are low perceived; clear and appropriate information is not available for managers for decision making, as a result, the propensity to create slack tend to be increased (Hartmann, 2007).

Concerning the integration dimension, budgets aid the coordination of activities by ensuring different parts of the organization are working towards the same objectives

(Poon, Pike, & Tjosvold, 2001). The departments within an organization depend on each other for the materials, resources, knowledge, and advice needed to accomplish their task (Williams, Macintosh, & Moore, 1990). As interrelation unclear and a lack of understanding each other's goals, needs and problems. Managers tend to hedge against uncertainty from another department by building slack (Clement, Chen, Keith, & Jones, 2004). Pertaining to management style dimension, Grindle (1997) in a study of organizational culture in developing countries concluded that, management style appeared to be a factor in distinguishing good and poor performers. Budgetary decision makers should give sincere consideration to the opinions that managers have voiced regarding their unit's budget (Abernethy, Bouwens, & Lent, 2010; Sharma, 2002). Ahmed (2005) found that one of the reasons for the managers to create slack in developing countries is to avoid interventions by upper management.

1.3 Problem Statement

Budgets are the management tool most widely used in organizations. An important variable that has traditionally been perceived as limiting the effectiveness of budgets is budgetary slack (Davila & Wouters, 2005; Dunk & Nouri, 1998; Maiga & Jacobs, 2008; Merchant, 1985; Walker & Johnson, 1999; Webb & Alan, 2001). However, the ineffectiveness of budgets and inefficient use of resource caused by budgetary slack is due to the propensity to create slack one of the common reasons for this is to hide the manager's ineffectiveness in their performance (Davis, DeZoort, & Kopp, 2006).

Accounting researchers have shown that manager' budget-related behaviours, such as participation, measure and monitor, and evaluation by budget are related to

managers' propensity to create slack (Dunk & Nouri, 1998). However, most of the earlier studies have reported their main effects, often with conflicting results (e.g. Cammann, 1976; Collins & Frank, 1978; Govindarajan, 1986; Lukka, 1988; Merchant, 1985; Onsi, 1973; Young & Mark, 1985). For instance, with respect to budgetary participation, some studies found that participation was positively associated with propensity for slack (Douglas & Wier, 2000; Lukka, 1988; Young & Mark, 1985). Other studies found the effects to be negative (Fisher, Fredrickson, & Pfeffer, 2000; Govindarajan, 1986; Lal, Dunk, & Smith, 1996; Merchant, 1985; Onsi, 1973). With respect to the effects of measure and monitor on slack, Merchant (1985) results are contrary to those of Lal et al. (1996). Similarly, with respect to the effects of evaluation by the budget on propensity to create slack, there were also contrary arguments that evaluation by the budget may increase slack (Onsi, 1973; Walker & Johnson, 1999) and that slack is reduced (Linn, Casey, Johnson, & Ellis, 2001; Merchant, 1985; VanderStede, 2000; Webb & Alan, 2001).

The inconsistent results of prior research led to conclude that there could be other contingency factor act as a moderating variable in this relationship, such as technologies (Merchant, 1985), environmental uncertainty (Govindarajan, 1986), commitment and job involvement (Nouri & Parket, 1996), competitive strategy (VanderStede, 2000), demanding conditions (Davila & Wouters, 2005) and task uncertainty (Soobaroyen, 2007). A comprehensive study of (Chenhall, 2003) suggested that there are other variables such as perception of organizational culture that remains to be evaluated. However, in the literature so far, still little research has directly addressed the issue of the influence of culture on propensity to create slack context. Though, none of these studies directly and specifically examines the impact

of perceived organizational culture on the relationship between budget-related behaviour and propensity to create slack. The examination of moderating role of this variable not only facilitates the development of more comprehensive models but also improve our understanding of the working of budgetary relationships in organizations (Govindarajan, 1986). Particularly if we know that slack is a key concept in the budgeting literature and one of the primary unsolved issues in budgetary control (Davila & Wouters, 2005; Dunk & Nouri, 1998). Furthermore, decreasing the propensity to create slack is important in context of Yemen, as the effective use of budgetary resources is of growing significance of Yemen in achieving development goals (Ahmed, 2005; Grindle, 1997; Tsamenyi & Mills, 2002).

1.4 Research Questions

Based on the review of the literature and identification of the study problem, research questions have been developed, and the ultimate purpose of this research is to answer these questions, which are as follows:

- 1- What is the relationship between budget-related behaviour and propensity to create slack?
- 2- Does the managers' perception of organizational culture moderate the relationship between budget-related behaviour and propensity to create slack?

1.5 Research Objectives

By answering the research questions, the study seeks to achieve two principal research objectives, these are:

- 1- To investigate the relationship between budget-related behaviour and propensity to create slack.
- 2- To investigate the moderating effect of managers' perceptions of organizational culture on the relationship between budget-related behaviour and propensity to create slack. In other word, to investigate whether the managers' perceptions of organizational culture moderate the relationship between budget-related behaviour and propensity to create slack.

1.6 Significance of the Study

This study is expected to contribute to the present body of knowledge on the perceptions of organization culture, budget-related behaviour and Propensity to create slack literature, as well as, to management practices. In terms of theoretical significance, this study intends to improve upon existing literature by addressing the following:

Chenhall (2003) and Goddard (1997) identified managers' perceptions of organizational culture as an important contingent variable. This study provides empirical evidence in support of a contingency theory and extend it by focusing on manager's outcome such as propensity to create slack and study how perceptions of organizational culture are interacted with choice of organizational control strategies such as budgeting, and how different choice in budget system

design and use are related to managerial outcome such as propensity to create slack, a topic that has not been examined.

Particularly if we know that, Literature in propensity to create slack has shown that perceptions of organizational culture has not been considered as an influencing factor on a propensity to create slack so far (Dunk & Nouri, 1998, p.72). They noted that culture could influence the degree to which slack is created in firms and suggested culture as a potential moderator between budget-related behaviour and propensity to create slack. Since, no attempt has been made to investigate this relationship and has gone largely unexamined. The examination of the moderating roles of these variables not only facilitates the development of more comprehensive models but also improves our understanding of the workings of budgetary relationships in organizations (Govindarajan, 1986).

Furthermore, this study is one of few in management accounting that examine the impact of perceptions of organizational culture on the relationship of budget-related behaviour with propensity to create slack in the context of developing countries as prior studies have been largely confined to developed countries (Ahmed, 2005; Grindle, 1997; Tsamenyi & Mills, 2002).

From a practical point of view, this study is important for at least three reasons:

First, it can be used as a tool to identify how people perceive the organisation and how their strategy understood. It gives the leaders the knowledge and insight they need to align an organization's culture with strategy. It enables the top management to make evaluations, identify the areas for improvement and then focus on the

needed changes. This diagnostic tool provides a great deal of critical information on the values held by managers, their perception of their organization's current values and their aspiration. This information is crucial to gaining managers engagement with an organization's strategy, and facilitates the executive of effective change within an organization.

Second, understanding the effect of these culture dimensions perceptions make superior to influence the development of these culture perceptions and thereby the behaviour of the budgeters by moulding the dimensions of organizational culture perceptions in particular to impact budget-related behaviour. The designers of budgeting systems ought not to give for example high budgetary participation indiscriminately to managers. Better results can be achieved, in fact, by varying budgetary participation to match variation in organizational culture perception. Individual managers' perceptions of the different organizational culture dimensions provide a basis for their judgement on the appropriateness of decision-making structures and processes when carrying out their tasks (Harris, 1994). For managers perceiving an organizational culture that is in a favourable perception budgeting will help, for example, in defining the organization's goals and in allocating resources. Superior is in a position to shape budgeters behaviour positively and creates preconditions for achieving the organization's goals. Top management should be aware of the culture perception of managers on which their organization relies before trying to use BRB in a specific way or adapting organizational processes to foster specific use.

Third, more specifically the contribution of this study is to understand which perceptions of organizational culture dimensions affect the relationship between BRB and propensity to create slack. This has practical implication for management to be able to decrease the propensity to create slack as it lead to misallocation of resources. Effective use of budget resources is of growing significance for organizations achieving the goals and greater effectiveness, efficiency of the resource utilization. For developing economies such as Yemen in particular, progress in implementing this strategic task is a precondition for achieving the development goals and improving productivity as an important source of growth (Robert & Lee, 1992). It is hoped that the findings from the present study will contribute to further understanding of the effect of budget-related behaviour on propensity to create slack and assist practitioners in forming appropriate control system.

1.7 Scope of the Study

This study focuses on large-scale organizations in Yemen, including manufacturing companies, and service companies. These organizations were selected because of their centrality to the economic development of Yemen. In addition to, their high contribution to gross domestic product (GDP), they play an important role and provide main services and products to the people in this country.

Since the study intends to look at the effect of budget related behaviour on propensity to create slack, the organizations with more than 100 employees is appropriate as the use of budgets in these organizations is common (Dunk, 1993; Lau & Eggleton, 2004; Lau & Tan, 2006). Lau and Tan (2006) stated that the

organizations with such numbers of employees are likely to rely more on formal rather than on informal budgetary control systems. The focus is on the managers involving in budgets process in the organizations operating in Yemen. These managers would be likely to be more actively involved in budgeting with budget responsibilities, active responsibility in negotiating resources in the budget allocation.

This is consistent with studies conducted in budgeting research and budgetary slack (see e.g. Abernethy et al., 2010; Bruns & Waterhouse, 1975; Hartmann, 2007; Kren, 2003; Little, Magner, & Welker, 2002; Mia, 1989; Ross, 1995). This also is consistent with many studies done in management accounting and budgeting research in the developing world (see e.g. Douglas, Elnaby, Normance, & Wier, 2007; Frucot & Shearon, 1991; Joshi et al., 2003; Tsamenyi & Mills, 2002).

1.8 Definition of Variables

The definitions and descriptions of terminologies used in this study have been provided as the following:

1.8.1 Moderating Variable (Perceptions of Organizational Culture)

Perceptions of organizational culture is the perception of individuals about how their organization operates which reflect the beliefs, values or culture of their organization and have a direct impact on how managers and employees behave in their organization (Gordon, 1985; Gordon & Cummins, 1979; Gordon & Ditomaso, 1992; Sulaiman, Ching, & Ishak, 2007). In this study the perception of organizational culture was conceptualize in four dimensions as following.

1.8.1. (a) Goal Clarity

Goal clarity exists when managers perceive the missions, objectives, processes, and activities of the company as purposeful, rational, and fully communicated. In other words it is the degree to which the goals and plans of the organization are clearly perceived by its members (Chow, 2003; Gordon & Cummins, 1979; Grey & Gelfond, 1990).

1.8.1(b) Decision Making

It is the perceptions of the extent to which decisions are based on appropriate informational input and are effectively implemented and systematically evaluated (Chow, 2003; Gordon & Cummins, 1979).

1.8.1(c) Integration

Perceptions of the extent to which various subunits cooperate and communicate effectively toward the achievement of overall organizational objectives (Chow, 2003; Gordon & Cummins, 1979; Grey & Gelfond, 1990).

1.8.1(d) Management Style

Perceptions of the extent to which people perceive encouragement to use their own initiative in performing their job, feel free to question constraints, and sense support when needed from higher levels of management (Chow, 2003; Gordon & Cummins, 1979; Grey & Gelfond, 1990).

1.8.2 Independent Variables (Budget-Related Behaviour)

For the purpose of this study, budget-related behaviour (BRB) adopted Williams, Macintosh and Moore (1990) definition which is “budget-related behaviour is those activities, actions, attitudes and interactions among managers and their tasks that occur on a regular basis and which are related to the system of budgetary controls”. This variables used by many other studies (see e.g. Abernethy & Stoelwinder, 1991; Abernethy & Vagnoni, 2004; Dunk & Perera, 1997; Goddard, 1997; Hoque, Zahirul, Brosnan, & Peter, 2007; Hoque & Hopper, 1997; Seaman, Landry, & Williams, 2000; Yuen, 2004). In this study, the focus will be on participation, measure and monitor and evaluation by the budget.

1.8.2 (a) Budget Participation

Describes the extent managers’ perceived working and discussion with subordinates, other departments and consulted and seek for advice from superiors in matter regarding budget. It also refers to extent of managers’ perceptions of impact on final budget plans and involvement in detailed budgeting activities (Merchant, 1981, 1984).

1.8.2 (b) Evaluation by Budget

Reflects the extent managers perceived budgets as being used to evaluate them upon their ability to meet the budget and they are aware of the importance of meeting this budget for managerial performance evaluation and their monetary rewards. It also refer to the extent that superior lets them know how well they performed by explaining, discussing and providing comparisons with other department (Hoque & Hopper, 1997).

1.8.2 (c) Measure and Monitor

Measure refer to the level of investigations or analysis that taken to the budget variances. Monitor refers to trace the causes of budget variances to group or individuals within their departments and submitting explanations about these causes in writing or reporting the action that taken to correct the causes of these variances. It also, refers to charge, transfer to other account or stopping spending to reduce the budget variance (Merchant, 1981, 1984).

1.8.3 Dependent Variable (Propensity to Create Slack)

Propensity to create slack defined as the intentional incorporation of budget amounts that make it easier for managers to attain and to be safe by strategies that understate revenues and overstate cost and resources to complete a budgeted task. In addition, the term “propensity to create slack was used by many studies (see e.g. Chong & Ian, 2003; Govindarajan, 1986; Lal et al., 1996; Little et al., 2002; Maiga & Jacobs, 2008; Merchant, 1985; Nouri, 1994; Nouri & Parket, 1996; Yuen, 2004). In this study the propensity to create slack was conceptualize in three dimensions as following.

1.8.3 (a) Safety

It reflects the security the manager look for and the intention for managers to use slack to protect their interest or to be in the safe side. The security is the main concerns for them to build slack (Onsi, 1973).

1.8.3(b) Easiness

Defined as a manager have intentionally set their budget targets lower than their best guess forecast about the future so that the budget becomes easier to achieve (Dunk, 1993; Lukka, 1988; VanderStede, 2000).

1.8.3(c) Strategic

It reflects the intention of manager to create slack as a mechanism to obtaining excessive amount of resource. The consideration is that the managers who have uncertainty surrounding their strategy also require a higher degree of flexibility to respond effectively to changes in the environment (Bourgeois, 1981; Cyert & March, 1963; Merchant & Manzoni, 1989).

1.9 Organization of the Remaining Chapters

This study is organized into six chapters including the introduction. In Chapters two, a literature review will be conducted covering research on the effect of organization culture perception on the relationship between budget-related behaviour and propensity to create slack. In chapter three, the model and hypotheses to be tested in this study are being introduced. In Chapter four, the research design and the approaches selected to collect and analyze the data are reviewed. In Chapter five, the results obtained during the empirical investigation of the effect of organizational culture perception on the relationship between budget-related behaviour and propensity to create slack are being presented. In Chapter six, lastly, the findings shall be examined and the study's theoretical and practical implications will be addressed and limitations as well as recommendations for further research will be discussed.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter divided to four sections, the first section is about budget-related behaviour (BRB), and the second section is about propensity to create slack, while the third section is about the managers' perceptions of organizational culture. Finally, in the last section the summary of chapter is presented.

2.2 Budget-Related Behaviour (BRB)

Budgeting has become an important part of the organizational management, and it is the cornerstone of the management control process in nearly all organizations (Siriyama & Indrani, 2007). It assists in the effectiveness and implementation of management functions. Weetman (2006) described that budgetary process contributes to the planning, control, communication, and performance evaluation. Weetman (2006) outlined the preparation of the budget impose management for doing formal planning procedures, which make all departments to participate in the formation of the overall budget. This planning will encourage departments to work according to the expectations, and attention can be given to those who did not achieve their goals. Budgeting is an essential tool in organizations for directing activities and employees' efforts toward the organization's common objectives (Covaleski et al., 2003). It provides better resources allocation to various departments and centres (see Magner, Welker, & Campbell, 1995; Weetman, 2006).

Budgeting system provides formal patterns of information flows combined with administrative processes and procedures (Merchant, 1981). As such, they give rise to budget related behaviours which “refers to the ongoing, recurring actions and interactions of firm personnel brought about by the firm’s use of budgets to allocate resources and to measure and evaluate performance” (Swieringa, Robert, Robert, & Moncur, 1972, p. 196).

These actions and interactions arise as a result of organization operating a budget system. In the formulation and preparation of budgets, for example, a manager may spend considerable time with his superiors, his subordinates, and his fellow managers. In addition, he may work closely with accounting and budget officers on matters regarding budget. Similarly, in administering the budget and using it to evaluate unit performance, the manager may receive inquiries from his superiors and others about his unit’s performance. He may make personal investigations of variances in his unit, and he may work closely with his subordinates and others in taking corrective action. Moreover, he may express his opinions on budget matters, offer suggestions for improving the budget system, and discuss specific budget items in informal conversations with superiors, subordinates, other managers, and accounting and budget personnel (as explained by Hoque & Hopper, 1997; Merchant, 1981, 1984; Swieringa et al., 1972).

Bruns and Waterhouse (1975, p. 181) on the other hand, defined budget-related behaviour (BRB) In a more encompassing manner: “it is the activities, actions and interactions of managers with each other and their tasks that relate either directly or indirectly to budget systems.” Macintosh and Williams (1992) and Williams et al.

(1990) defined budget-related behavior (BRB) similarly. This definition subsequently adopted by many other studies (see e.g. Abernethy & Stoelwinder, 1991; Abernethy & Vagnoni, 2004; Dunk & Perera, 1997; Goddard, 1997; Hoque et al., 2007; Hoque & Hopper, 1997; Seaman et al., 2000; Yuen, 2004).

This study adopted Williams et al. (1990) definition, which is “budget-related behaviour (BRB) are those activities, actions, attitudes and interactions among managers and their tasks that occur on a regular basis and which are related to the system of budgetary controls” (Williams et al., 1990, p. 222). In this study, the focus will be on participation, measure and monitor and evaluation by the budget.

2.2.1 Dimensions of Budget-Related Behaviour (BRB)

Since the pioneering studies on budgeting by Argyris (1952) and the original framework on control systems by Anthony (1965), a great deal of empirical research has been conducted on the relationships between budget-related behaviour variables and managerial outcomes such as propensity to create slack (Chenhall, 2003; Chong & Ian, 2003; Davila & Wouters, 2005; Dunk & Nouri, 1998; Govindarajan, 1986; Lau & Eggleton, 2004; Merchant, 1985; Nouri & Parket, 1996; Onsi, 1973; Soobaroyen, 2007; VanderStede, 2000, 2001).

The literature of budget-related behaviour derived from DeCoster and Fertakis (1968) who developed questionnaire that contained 97 items taken from published sources and interviews. The item are related to “supervisory activities, action, events, and inter-relationships which occur on a regular basis and which the supervisor could relate to the system of budgetary controls used in his department” (p. 240).

Swieringa et al. (1972) modified and reduced this set to 65 items. Later, they added 14 new ones, and on the basis of field testing and personal interviews derived 44 items which described managers' use of budgeting in performing management functions and how budgeting activities related to different forms and amounts of participation. These items were factor analyzed and yielding the following dimensions:

- 1- Active participant behaviour (indicated behaviour that was active in budgeting process).
- 2- Involved exponent behaviour (revealed behaviour induced by the need to explain and correct budget variances).
- 3- Reluctant victim behaviour (reflected behaviour which distracted managers from activities they view as more important activities).
- 4- Unconcerned recipient behaviour (this dimension suggested behaviour that was essentially passive and indifferent to the use of the budget as an evaluative tool).

Searfoss and Monczka (1973) used the same items developed by DeCoster and Fertakis (1968) and reported only the factors that reflected the variables to be measured perceived participation in the budget process, and effort expended by superiors. However, the factor solution yielded two distinctly different dimensions of the superior's effort. These dimensions were labeled "goal-directing effort" and "evaluative effort" the former emphasizes the superior's effort to guide his subordinates toward achievement of the budget, and latter reflects the superior's effort to use budget performance outcomes as an evaluative tool.

Swieringa et al. (1975) used the same questionnaire to measure managers' budget-related behaviour that derived from previous works by Fertakis (1967). The items were factor analyzed, yielding thirteen independent dimensions. These dimensions are associated by the degree to which managers tended:

- 1- to use the budget as an evaluative tool,
- 2- to perform various required activities because of budget variances,
- 3- to engage in budget-related interactions,
- 4- to be personally involved in budgeting.

Merchant (1981) and (1984) used the instrument developed by Swieringa and Moncure (1975). The data were factor analyzed, yielding six factors which used as the primary budget-related behaviour variables as following:

- 1- Required explanation of variance (Extent of requirement to explain variances and to report actions taken to correct the causes of variances)
- 2- Influence on budget plans (Extent of impact on final budget plans)
- 3- Interactions with subordinates (Extent of interpersonal interactions with subordinates in preparing the budget and analyzing variances)
- 4- Reactions to expected budget overruns (Frequency of shifting funds from another account or stopping activities when faced with budget overruns)
- 5- Interactions with superiors (Extent of interpersonal interaction with superiors in preparing the budget or deciding how to achieve it)
- 6- Personal involvement in budgeting (Extent of personal involvement in detailed budgeting activities)

Govindarajan, (1986) used factor analysis which revealed six dimensions. Of the six factors of separable dimensions of budget-related behaviour identified, dimensions two and three were selected. The criterion for the number of factors extracted is not indicated. Dimension two was labeled “personal attention to budgeting” and dimension three was labeled “participation in the budgeting process”.

Macintosh and Williams (1992), and Williams et al. (1990) measured managers’ perceptions of budget-related activities based on the questionnaire originally developed by DeCoster and Fertakis (1968) and modified by (Swieringa et al., 1972), and subsequently used by (Merchant, 1981, 1984). Those data were factor-analyzed to uncover underlying patterns and reduce the dimensionality of the items. Factors with eigenvalues greater than 1.0 were extracted in Williams et al. (1990) study, accounting for 88.4 percent of the total variance. Macintosh and Williams (1992), and Williams et al. (1990) aggregated those items loading higher than 0.40 within each factor as the following:

- 1- Enabling change
- 2- Required explanation of variances
- 3- Influence on budgeting plan
- 4- Involvement in budgeting process
- 5- Participation in feedback
- 6- Evaluation by the budget
- 7- Budget analysis
- 8- Reactions to expected budget over-runs
- 9- Infrequent interactions with subordinates
- 10- Infrequent interactions with superiors

They found that there is a high degree of consistency between these items underlying their BRB variables and those derived in previous BRB studies. The BRB variables were then arbitrarily grouped the items into four categories in order to facilitate the analysis and presentation of results.

- 1- Measure and monitor
- 2- Participation
- 3- Formality of communications
- 4- Enabling change

The present study adapted items used by (Williams et al., 1990) loading higher than 0.40 within each factor and categories them into three dimensions to facilitate the analysis as shown in the table 2.1.

Table 2.1: Budget-Related Behaviour Dimensions

Dimensions	Factors
Participation	Infrequent interactions with subordinates
	Infrequent interactions with superiors
	Involvement in budgeting process
	Influence on budgeting plan
Measure and Monitor	Required explanation of variances
	Budget analysis
	Reactions to expected budget over-runs
Evaluation by the budget	Evaluation
	Feedback

As shown from the previous studies in budget-related behaviour, the most dimensions used are participation, measure and monitor and evaluative by budget. They have been used extensively in previous studies. In addition, Chenhall (2003) in his comprehensive study in the management control systems found that contingency-based research has focused on a variety aspect of the management control systems, and this includes dimensions of budgeting such as participation, formality of communications, importance of meeting budgets (measure and monitor) and links to reward systems. Furthermore, Covaleski et al. (2003) in his study that reviewed budgeting research stated that the budget-related behaviour literature establishes many aspects worthy of study, including participative budgeting, budget-based performance evaluation, budget importance and the use of operating budgets for management control (measure and monitor). Therefore, there is a high degree of consistency between these dimensions adapted in this study and those derived in previous BRB studies. The present study incorporate a wide range of behaviour associated with budgeting systems.

Budget-related behaviour (BRB) attempted to summarise all the control aspects of the budget. It covers all aspects of the budgeting process, starting from preparing the budget between subordinates and superiors until investigating the budget variances and finally with getting feedback of the budget performance. This is important, particularly in the context of this study, which is Yemen, where there is lacking and little research has been published in this particular area. Budget-related behaviour in this study reflects individual perceptions. This variable developed based on (see e.g. Lal, Dunk, & Smith, 1996; Goddard, 1997; Hoque & Hopper, 1997; Yuen, 2004; Kyj & Parker, 2008). Who conceptualized it as an individual behavioural construct. They