

The Roles of Organizational Politics and Procedural Fairness in the Relationship between Performance Evaluation Systems and Budget Gaming Behavior

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Abstract: This study investigates the relationship between performance evaluation systems and budget gaming behavior. Specifically, it examines the mediating role of organizational politics and procedural fairness. Data collection was conducted by a questionnaire survey of managers of go-public manufacturing companies in Indonesia. Based on a sample of 128 responses, the partial least squares results indicate that general political behavior, the politics of pay and promotion policies, and procedural fairness significantly mediate the non-financial measures and budget gaming relationship. In contrast, the results indicate that the mediating effects of organizational politics and procedural fairness on the relationship between relative performance measures and budget gaming behavior are generally insignificant. This study supports the goal setting theory and the organizational justice theory, and contributes to the management control system literature by recognizing the importance of performance evaluation systems, the importance of understanding political behavior and the perception of fairness to overcome budget gaming behavior. This study provides assurance that organizations can reduce budget gaming behavior through using non-financial measures or incentives.

Keywords: performance evaluation, budget gaming, politics, fairness

JEL Classification: M2, M40, M41

Introduction

There are many terms that refer to budget gaming behavior, such as budgetary slack, devious games, budgeting manipulation, playing games and others (e.g., Huang and Chen 2010; Bart 1989). This behavior is routinely adopted by managers during the budgeting process (Collins et al. 1987). The budget process is a process that has a risk of budget gaming (Libby and Lindsay 2010). Several studies show that managers commit budget gaming in various ways and for various purposes (e.g., Hartmann and Maas 2010; Collins et al. 1987). The main cause of the problem is that traditional budgeting is still being practiced widely (Sandgaard and Bukh 2014) and it has not been abandoned by companies (Cardos 2014). Therefore, budget gaming behavior remains unsolved and it requires serious handling (Chong and Strauss 2017; Baerdemaeker and Bruggeman 2015; Libby and Lindsay 2010).

In order to provide a solution toward the budget gaming behavior, the variables related to the budgeting system have become the focus of research (e.g., budget emphasis, budget participation), but the results are inconclusive and have brought up the need to identify the other variables (Baerdemaeker and Bruggeman 2015). The inconclusive findings also strengthen Jensen's (2003) argument that the budgeting system is not the source of the problem but rather performance evaluation systems are. Those performance evaluation systems which are clear have the possibility to minimize budget gaming behavior (Onsy 1973).

The performance evaluation system has developed rapidly, from a focus on the financial measures (before the 1980s) to non-financial measures (1980s) and rel-

ative performance measures (2000s). Previous studies stopped at the relationship between a performance evaluation system that used financial measures with budget gaming (slack) and the results have caused debates about the accuracy of the performance evaluation system. The research that could connect the non-financial measures and the relative performance measures with the budget gaming behavior has not been found. In the previous research, non-financial measures were associated with employee outcomes and performance (e.g., Lau and Scully 2015; Chia et al. 2014; Agritansia and Sholihin 2011) and relative performance measures were associated with incentive contracts and executive compensation (e.g., Chen et al. 2012; Gong et al. 2011).

Hence, it is still being questioned whether these control systems are related to managerial behavior (Nguyen et al. 2018). This gap strengthens the argument of Daumosier et al. (2018) who states that although budget gaming topics are considered to be well established, they still need some further research to provide an understanding and solutions to this dysfunctional behavior. With reference to the goal setting theory (Locke and Latham, 1990), the absence of a specific goal causes ambiguity, confusion and a lack of direction for subordinates. Furthermore, goal congruence between individual and organizational goals can influence behavior. This study highlights an appropriate performance evaluation system in an effort to align individual goals with organizational goals, in order to reduce the budget gaming behavior played by managers.

For the reasons discussed above, this study identifies non-financial measures and relative performance measures as the an-

tecedents of budget gaming behavior, with the argument that budget gaming is related to performance evaluation systems (Jensen 2003; Onsy 1973). Performance evaluation systems with non-financial performance measures and relative performance measures that are not focused on achieving budget targets are seen as more adaptive (Morlidge and Player 2010) and may reduce budget gaming behavior (Hansen et al. 2003). The focus of this study is to examine the use of non-financial and relative performance measures for performance evaluations which are related to budget gaming behavior.

This study focuses on managerial behavior. It considers the suggestion by Covalleski's et al. (2003) that, in order to understand managerial behavior, the points of view from the psychological theory are needed. The organizational justice theory (Greenberg 1987) assumes that individuals in organizations are concerned with justice or fairness, and perception of fairness can influence behavior. This study investigates the performance evaluation system that is seen as part of the procedures used by companies. It is important to examine whether the performance evaluation system, as an effort to align individual goals with organizational goals, is perceived as fair by managers and how it impacts budget gaming behavior. This study uses mediating variables from the field of psychology. Organizational politics and procedural fairness were chosen as mediating variables to broaden the understanding of the relationship between the performance evaluation systems and budget gaming.

Because the existence of organizational politics is endemic and global in its organizational settings, it is very important to un-

derstand the individual perceptions of organizational politics (Lau and Scully 2015). The perceptions of organizational politics are employees' perceptions of political behavior in the organization. Understanding individual perceptions of organizational politics is very important because the perceptions of organizational politics have an impact on employee outcomes (Lau et al. 2018; Kaya et al. 2016) and relate to attitudes and behavior (Lau and Scully 2015). Therefore, this study predicts that the perceptions of organizational politics have an effect on behavior. Due to the lack of organizational political studies in the context of management accounting, although its existence is global in organizations and related to behavior (Lau and Scully 2015), this study fills the literature gap by examining the organizational political constructs in the context of management accounting.

Apart from examining employees' perceptions of organizational politics, this study also examines employees' perceptions of procedural fairness. Organizational politics is considered as the antithesis of fairness so it is very relevant in relation to procedural fairness (Kaya et al. 2016). This study relates these two variables with the argument that individuals perceive it is unfair if there is organizational politics.

In the context of management accounting, Lau and Scully (2015) have found a significant relationship between performance evaluations and organizational politics. Organizational politics are most likely related to procedural fairness (Beugre and Liverpool 2006) and procedural fairness has implications for behavior (Kaya et al. 2016). Hence, this study hypothesizes that organizational politics and procedural fairness may be the important intervening variables

which mediate the relationship between performance evaluation systems and budget gaming behavior.

Previous studies have connected procedural fairness with budget gaming behavior in the context of budgetary fairness, for example slack (Ozer and Yilmaz 2011; Magner et al. 2006) and no research has been found that links these two variables in the context of performance evaluation systems. Previous studies connected performance evaluation systems with perceptions of fairness, but they are associated with employee outcomes, such as trust (Lau and Scully 2015) and turnover (Jones and Skarlicki 2003). Based on previous studies, this study offers novelty by examining the relationship between procedural fairness and budget gaming in the context of performance evaluation systems. Specifically, this study explains whether, or not, and how the performance evaluation systems are related with budget gaming behavior through the mediating roles of organizational politics and procedural fairness.

This study provides a number of contributions; first, it enriches the management control systems' literature by explaining the relationship between the mechanism of performance evaluation systems and budget dysfunctional behavior. This study shows that the control system, through an appropriate performance evaluation, has an impact on reducing budget gaming behavior. Second, it introduces organizational politics into the study of performance evaluation systems and budgeting. Third, it enriches the research topic of relative performance measures. Fourth, it improves the understanding of how budgeting interacts with performance evaluation systems and the role of organizational politics in management accounting settings.

Literature Review and Hypotheses Development

The goal setting theory and the organizational justice theory are used to explain the relationship between the performance evaluation system and budget gaming behavior, which is mediated by organizational politics and procedural fairness. Specific and clear goals in the performance evaluation system can increase individuals' understanding and belief about how they will be evaluated, and this can have an impact on their behavior (Locke and Latham, 1990), which in this case is budget gaming. This is also supported by the views of Jensen (2003) and Onsy (1973) that budget gaming is related to performance evaluation systems.

Besides being directed by goals, individual behavior in organizations also depends on each individual's perception of reality (Kacmar and Carlson 1997). This study highlights the reality of the existence of organizational politics, because organizational politics is endemic and exists globally in organizations and is related to attitudes and behavior (Lau and Scully 2015). Perceptions of organizational politics are most likely related to perceptions of fairness (Beugre and Liverpool 2006). The organizational justice theory assumes that individuals are concerned with fairness in the procedures used to determine outcomes (Greenberg, 1987).

Therefore, this study uses the mediating variables of organizational politics and procedural fairness with the argument that the performance evaluation system can influence individual perceptions of the existence of politics in the organization. This study also postulates that the existence of politics in the organization will affect the perception of fairness, and the perception of fairness will

have an impact on the dysfunctional behavior in budget gaming. The next section discusses theory development and the formulation of the hypotheses.

Performance evaluation systems refer to the performance measures which are used by the managers' superiors in evaluating their performance. This study limits the performance evaluation systems to non-financial measures and relative performance measures. Non-financial measures refer to the three balanced scorecard perspectives developed by Kaplan and Norton (1996), namely customer perspective, the internal business process, and the learning and growth perspective. It is common for employees to be evaluated and rewarded not only based on their individual performance, but also as relatively measured by peer performance (Gibbons and Murphy 1990). In the relative performance measure, employees' performance is evaluated by comparing it directly with peer performance (O'Grady and Akroyd's 2016).

Organizational politics refer to three dimensions of political behavior (Kacmar and Carlson 1997) that are: First, general political behavior, this political behavior refers to the self-serving behavior of individuals when rules and regulations are not available, by them trying to get influence and distort information. This behavior occurs when information is ambiguous so that individuals rely on their own interpretation of the data or information. Second, politics of going along to get ahead, this politic only works if there are others who also act politically and agree with those who are stronger and intentionally remain silent for personal interests. Third, the politics of pay and promotion policies, this is related to avoidance or a tendency to reject the establishment of pay and promotion policies for personal interests. Conditions that create the perceptions of organizational politics are an increment in ambiguity due to unclear goals, roles and procedures, and how close the effectiveness of organizational political behavior is to achieving personal goals.

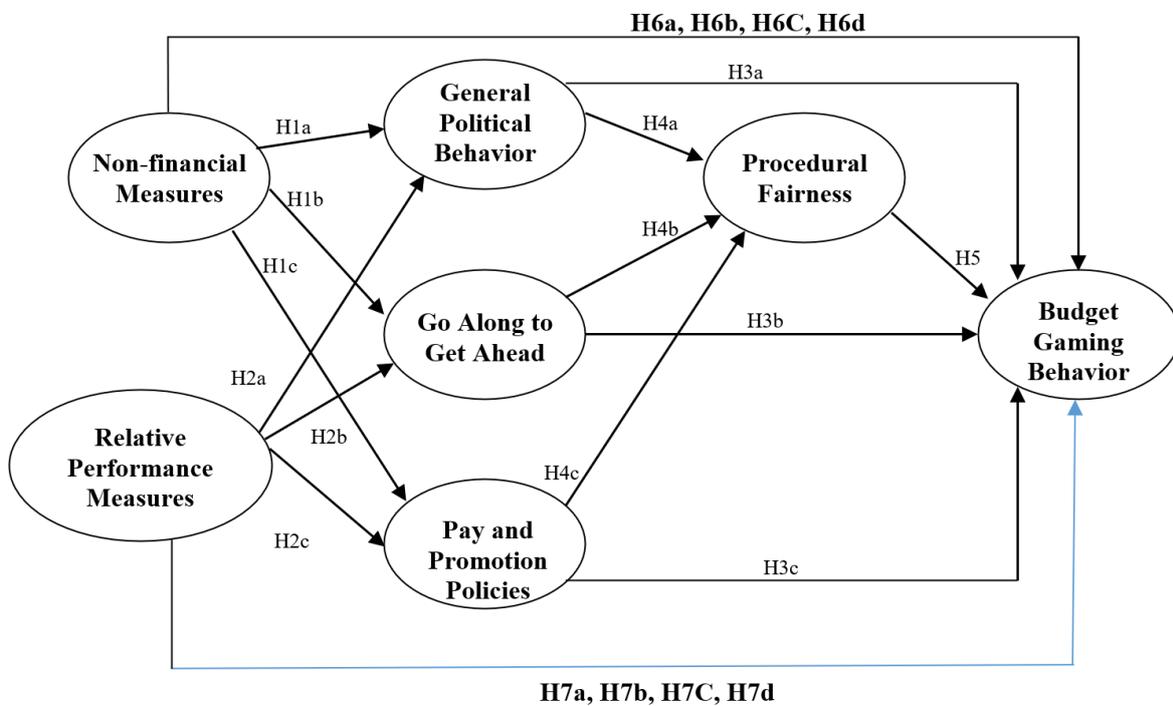


Figure 1. Conceptual Model and Hypotheses

Procedural fairness is an evaluation of how fair the procedures are which are used to evaluate managers' performance (He and Lau 2012; Sholihin and Pike 2010) with six criteria of fairness according to Leventhal, (1980). Budget gaming refers to the intentional and planned behavior of managers who manipulate current sales, costs, estimated profits and other manipulations in the budgeting process (Bart 1989). Some budget gaming practices, for example are: delaying the needed expenses, spending unused budgets at the end of the period, budget negotiations which are easily achieved, intentionally estimating low income and increasing the costs to reduce risk (Libby and Lindsay 2010).

Non-financial Measures and Organizational Politics

The use of non-financial measures in performance evaluations serves as a platform to formalize and to communicate the performance evaluation procedures (Lau and Scully 2015). The use of non-financial measures provides clear guidance for superiors and employees about how the performance of employees should be evaluated. If the employees know the non-financial measures which should be used by their superiors to evaluate their performance, it can reduce the opportunity to misuse, manipulate and distort information for their own purposes.

The use of non-financial measures in performance evaluations can be expanded and completed for a long time-horizon in the future (Lau and Scully 2015). Opportunities for superiors to increase the completeness of the non-financial measures will reduce the chance of employees manipulating information for their personal interests (Parker et al. 1995). Information manipulation reflects general political behavior.

The politics of going along to get ahead is incompatible with openness and kindness, and tends to be dishonest (Kacmar and Carlson 1997). The use of non-financial measures reflects the openness and clarity of the performance evaluation system. Job clarity increases understanding, openness and reduces the perception of organizational politics (Hochwarter et al. 2006).

Non-financial measures can also be designed as much as possible according to individual's working situations (Lau and Scully 2015). For example, launching new products, increasing cost efficiency, providing training, reducing turnover and more. Performance evaluations which are more directly related to an individual's work will reduce ambiguity and be more accurate and complete (Kaplan and Norton 1996). The level of understanding of employees about their working situation can reduce an individual's perceptions of organizational politics (Hochwarter et al. 2006).

The use of non-financial measures in a performance evaluation, which acts as a formal platform, allow employees to know whether the evaluation process is in accordance with the established criteria. In this condition, superiors may find it more difficult to deviate from the established criteria and more difficult to avoid pay and promotion policies.

For the reasons discussed above, non-financial measures are relatively more formal, procedural, clearer, more complete, increase openness and honesty, provide fewer opportunities for general political behavior, or the politics of going along to get ahead and the politics of pay and promotion policies.

H1a. Performance evaluation using non-financial measures is negatively related to

employees' perceptions of general political behavior.

H1b. Performance evaluation using non-financial measures is negatively related to employees' perceptions of the politics of going along to get ahead.

H1c. Performance evaluation using non-financial measures is negatively related to employees' perceptions of the politics of pay and promotion policies.

Relative Performance Measures and Organizational Politics.

There are four forms of behaviour which do not benefit an organization due to the use of relative performance measures, namely sabotage, collusion, choosing favourable reference groups and avoiding innovations that can increase team productivity (Gibbons and Murphy 1990). The act of sabotage aims to reduce peer performance, such as hiding relevant information, spreading gossip, theft, destruction of output or data, building obstacles that mean peers do not receive any useful information, reducing their own output and not employing novice employees with superior abilities (Lazear 1987). These forms of behaviour describe organizational politics.

The politics of going along to get ahead emerged because there were employees who behaved politically and caused collusion to occur. The use of relative performance measures raises the incentives for collusion (Gibbons and Murphy 1990). Employees collude to reduce the efforts of other employees to perform well. The thinking that underlies the act of collusion is that if the individual's performance is bad, and other peers also perform poorly, then it means that the cause of the poor performance is not an individual factor, but a factor beyond the control of the

employees. Individuals who perform poorly can be considered good, if the performance is still above the value of the peer performance.

The use of relative performance measures causes the increment of pay and promotions to be less relevant with pay and promotions policies, thus providing incentives for individuals to avoid pay and promotion policies. The use of relative performance measures provides more opportunities for general political behavior, the politics of going along to get ahead to be created, and the politics of pay and promotion policies.

H2a. Performance evaluation using relative performance measures is positively related to employees' perceptions of general political behavior.

H2b. Performance evaluation using relative performance measures is positively related to employees' perceptions of the politics of going along to get ahead.

H2c. Performance evaluation using relative performance measures is positively related to employees' perceptions on the politics of pay and promotion policies.

Organizational Politics and Budget Gaming

The cause of political behavior is the scarcity of resources in organizations (Kacmar and Carlson 1997). The scarcity of resources causes uncertainty, which drives the employees to protect themselves and fight for uncertainty (Yilmaz et al.2014). Organizational politics influences resource allocation behavior (Zahra 1987). If employees perceive that there is organizational politics due to a scarcity of resources which causes uncertainty, then this perception has an impact on behavior, namely

the behavior of obtaining additional resources and budgets (Ram and Prabhakar, 2010) and trying to affect the distribution of resources and creating slack (Witt et al. 2004).

General political behavior refers to actions that support personal interests by sacrificing organizational interests, including manipulating, misusing, cutting, and distorting information (Lau and Scully 2015). This behavior is in accordance with budget gaming behavior. For the reasons discussed above, all three forms of organizational politics can provide greater opportunities for budget gaming behavior.

H3a. Employees' perceptions of general political behavior are positively related to the tendency of employees to do budget gaming.

H3b. Employees' perceptions of the politics of going along to get ahead are positively related to the tendency of employees to do budget gaming.

H3c. Employees' perceptions of the politics of pay and promotion policies are positively related to the tendency of employees to do budget gaming.

Perceptions of Organizational Politics and Perceptions of Procedural Fairness

There have been many studies that connect organizational politics with perceptions of justice, for example Beugré and Liverpool (2006). Individuals involved in organizational politics tend to prioritize personal interests and agendas (Beugré and Liverpool 2006). In this situation, individuals tend to act and behave in a biased manner by violating the procedural fairness principles and behaving unethically and unkindly, ruining the sense of justice (Beugré and Liverpool 2006).

Organizational politics is the antithesis of justice and is very relevant to procedural justice (Kaya et al. 2016). Organizational politics provides unfair advantages to the group of individuals who are involved. Andrews and Kacmar (2001) showed a negative relationship between the perceptions of organizational politics and the perceptions of justice. Lau and Scully (2015) explained that perceptions of justice only appear if there is someone who can be blamed. The existence of organizational politics provides incentives to someone to be blamed (Beugré and Liverpool 2006).

General political behavior refers to gang establishment, and distorting and manipulating information (Kacmar and Carlson 1997). This behavior occurs when the procedure is unable to regulate how it should evaluate the employees' performance, so procedural fairness tends to be low. Regarding the politics of going along to get ahead, the rules of procedural fairness become representative (Beugré and Liverpool 2006). For a fair performance evaluation procedure, all the parties must be encouraged to have a vote. Pay and promotions policies refer to disloyalty with political policies and behavior that is suspected to reduce the perceptions of justice.

H4a. Employees' perceptions of general political behavior are negatively related to procedural fairness perceptions.

H4b. Employees' perceptions of the politics of going along to get ahead are negatively related to procedural fairness perceptions.

H4c. Employees' perceptions of the politics of pay and promotion policies are negatively related to procedural fairness perceptions.

Perceptions of Procedural Fairness and Budget Gaming

Procedural fairness refers to the employees' perceptions toward procedural fairness which is applied in all the resource allocation processes. Fair procedures are based on six criteria, namely: consistency, bias suppression, accuracy, can be corrected, representation and ethicality (Leventhal 1980). Procedural fairness is related to behavior (Colquitt et al. 2001) and plays an important role in reducing budget slack behavior (Özer and Yilmaz 2011).

Some studies that connect procedural fairness with dysfunctional behavior have been found. Procedural fairness is associated with negative, subtle and hidden behavior, such as damaging equipment, damaging working processes and disposing of materials. Budget gaming behavior is a negative behavior that is likely to be the same as the behavior of employees' who stealthily avoid controlling formal organizations.

Managers' perceptions regarding the implementation of fair procedures will reduce the opportunity to create budget gaming. Because managers perceive that procedures are regulated and implemented well enough, they will have a greater perception of procedural fairness and tend to create less budget gaming.

H5. Employees' perceptions of procedural fairness are negatively related to budget gaming behavior.

Organizational Politics and Procedural Fairness as Mediating Effects

Some evidence shows that the relationship between performance evaluation sys-

tems and managerial behavior is a complex and indirect relationship through intervening variables, for example Otley (1978) and Hopwood (1972). This study suspects that organizational politics and procedural fairness might mediate the relationship between performance evaluation systems and budget gaming behavior.

Most likely, non-financial measures which are less ambiguous, more complete and easier to understand have an impact on employees' perceptions toward the existence of organizational politics. Furthermore, the perceptions of organizational politics will ruin the fairness perceptions because organizational politics provide unfair benefits to the group of individuals who are involved in them. If individuals perceived fairness toward non-financial measures, their perception will affect the behavior.

This reasoning is also strengthened by statistical explanations. Hair et al. (2012) explained that mediating was considered significant if all the path coefficients were also significant. This study formulates the hypotheses, that non-financial measures are significantly related to the organizational politics; organizational politics are significantly related to budget gaming and procedural fairness; while procedural fairness is significantly related to budget gaming behavior. Hence, as far as non-financial measures are concerned, the indirect effects through the perceptions of organizational politics and perceptions of procedural fairness are likely to be significant.

H6a. The relationship between non-financial measures and budget gaming behavior is significantly mediated by employees' perceptions of general political behavior.

H6b. The relationship between non-financial

measures and budget gaming behavior is significantly mediated by employees' perceptions of the politics of going along to get ahead.

H6c. The relationship between non-financial measures and budget gaming behavior is significantly mediated by employees' perceptions of the politics of pay and promotion policies.

H6d. The relationship between non-financial measures and budget gaming behavior is significantly mediated by employees' perceptions of procedural fairness.

The theoretical discussions above also suggest that relative performance measures may be significantly related to organizational politics; organizational politics are significantly related to budget gaming and procedural fairness; while procedural fairness is significantly related to budget gaming. Hence, as far as relative performance measures are concerned, the indirect effects via organizational politics and procedural fairness are likely to be significant.

H7a. The relationship between relative performance measures and budget gaming behavior is significantly mediated by employees' perceptions of general political behavior.

H7b. The relationship between relative performance measures and budget gaming behavior is significantly mediated by employees' perceptions of the politics of going along to get ahead.

H7c. The relationship between relative performance measures and budget gaming behavior is significantly mediated by employees' perceptions of the politics of pay and promotion policies.

H7d. The relationship between relative performance measures and budget gaming behavior is significantly mediated by employees' perceptions of procedural fairness.

Methods

Sample and Data

Data was collected through questionnaires. The sample was drawn from operational level managers of the 136 manufacturing companies listed on the Indonesian Stock Exchange (www.idx.co.id, 2018) because all the biggest and advanced companies in Indonesia are listed on that exchange. A total of 105 companies, each with over 500 employees were selected as samples. The go-public manufacturing industry was chosen for the following reasons: (1) industrial control (He and Lau 2012); (2) non-financial measures are more commonly conducted by larger companies (Lau and Sholihin 2005); (3) the manufacturing industry is one of the largest industries in Indonesia and plays an important role in developing the ASEAN economy (Soetanto and Fun 2015). Budgeting is used across all functions within the organization (Kenno et al. 2018), therefore the manager level in various functional areas was chosen because this level accommodates greater responsibility (Butterfield et al. 2005), allows for the generalization of results (Hopwood 1972) and they are believed to have participated in their firms' budget processes.

The questionnaires were obtained by post, personal means, and via a link. Of the 156 questionnaires that were returned, a total of 128 questionnaires could be analyzed. Pilot testing was conducted by validating the 51 questions item and 37 valid items were obtained. Through interviews with 10 manag-

Table 1. Number of Sample

	Total
Questionnaires sent via post	530
Questionnaires which were not returned	(493)
Questionnaires Returned	37
Questionnaires sent personally	32
Questionnaires via link: https://goo.gl/forms/0qTf9fbpUFRuxOYv2	87
Total of Returned Questionnaires	156
Total of Incomplete Questionnaires	28
Total of Questionnaires that could be analyzed	128

ers, five additional items to measure relative performance measures were obtained.

which referred to the non-financial measures from the balanced scorecard by Kaplan and

Table 2. Instrument

Variable	\sum item Pilot Test	\sum item valid	Added Items from Interviews	\sum Item Final
Non-financial Measures				
* Internal Business Process	6	4		
* Learning & Growth	3	3		
* Customer	8	7		
	17	14	0	14
Relative Performance Measures	3	2	5	7
Organizational Politics				
a. General Political Behavior	2	2		
b. Go Along To Get Ahead	7	3		
c. Pay & Promotion Policies	6	3		
	15	8	0	8
Procedural Fairness	7	5	0	5
Budget Gaming Behavior	9	8	0	8
Total	51	337	5	42

Measurement of Variables

Non-financial Measures

Non-financial measures refer to the three balanced scorecard perspectives developed by Kaplan and Norton (1996), namely customer perspective, internal business process, and the learning and growth perspective. The non-financial measures were measured by 14 out of 17 items developed by Hoque et al. (2001),

Norton (1996). This study accommodates Hopwood's (1972) questionnaire's words. "*When a superior evaluates your performance, how much importance do you think the superior attaches to the 14 non-financial measures items?*"

Relative Performance Measures

Relative performance measures refer to each employee's performance which is evaluated by comparing directly with peer perfor-

mance (O'Grady and Akroyd's 2016). A total of seven items were used to measure the relative performance measures (two items from Van Elten, 2017 and five items from the interviews). The study of Van Elten (2017) was the first empirical study to test relative performance evaluation at the middle-management level. This study adds the measure of the relative performance evaluation through the interview process.

This study accommodates the sentences in Van Elten's questionnaires (2017), "*Do you feel that your peer performance is a reference for your superior when evaluating your performance?*" Two statement items, "How important it is for the superior to refer to the peer performance when evaluating your performance, in a situation where you are performing well, and in a situation where you are performing poorly?" Five additional items from the interviews were: (1) conveying ideas; (2) accepting additional tasks outside of your main responsibilities; (3) completing additional tasks outside of your main responsibilities; (4) overcoming employee turnover; (5) emphasizing overtime.

Procedural Fairness

Procedural fairness is an evaluation of how fair the procedures are which are used to evaluate managers' performance (He and Lau 2012; Sholihin and Pike 2010). Procedural fairness was measured by using five items developed by Colquitt (2001). This instrument measured the respondents' perceptions of the fairness of the performance evaluation procedures.

Organizational Politics

Organizational politics was measured by instruments developed by Kacmar and

Carlson (1997) through eight items (two items related to general political behavior; three items about going along to get ahead; and three items related to pay and promotion policies). General political behavior refers to self-serving individuals, who behave when rules and regulations are not available, and try to get influence and distort information. The politics of going along to get ahead only works if there are others who also act politically; they agree with those who are strong and intentionally remain quiet for their own personal interests. The politics of pay and promotion policies relates to avoidance or a tendency to reject the establishment of pay and promotion policies for personal interests.

Budget Gaming Behavior

Budget gaming refers to the intentional and planned behavior of managers who manipulate current sales, costs, estimated profits and other items in the budgeting process (Bart 1989). Budget gaming behavior was measured by instruments developed by Libby and Lindsay (2010) and Onsy (1973), using a total of eight question items: five items were adapted from Libby and Lindsay, (2010) and three items from the slack attitude measurement of Onsy (1973). The question items for the performance evaluation system used a 7-point interval scale from 1 (never important) to 7 (always important). The question items for procedural fairness, organizational politics and budget gaming behavior used a 7-point interval scale from 1 (strongly disagree) to 7 (strongly agree).

Results and Discussion

Measurement Model

The discriminant validity test results, on 42 question items obtained 32 items which could be further analyzed (outer loading between 0.710 and 0.967) and significant at $p < 0.001$ (Table 3). Average variance extracted (AVE) values for each construct ranged between 0.738 and 0.909.

value indicated a relatively strong predictive power (Ringle and Hansmann 2004). All the Q square (Q^2) values for endogenous constructs were greater than zero, ranging from 0.187 to 0.483. These results showed support for the predictive relevance of the structural model. The results showed that the model was a good fit.

Figure 2 shows that all the path coefficients were significant, except the relationship between relative performance measures and

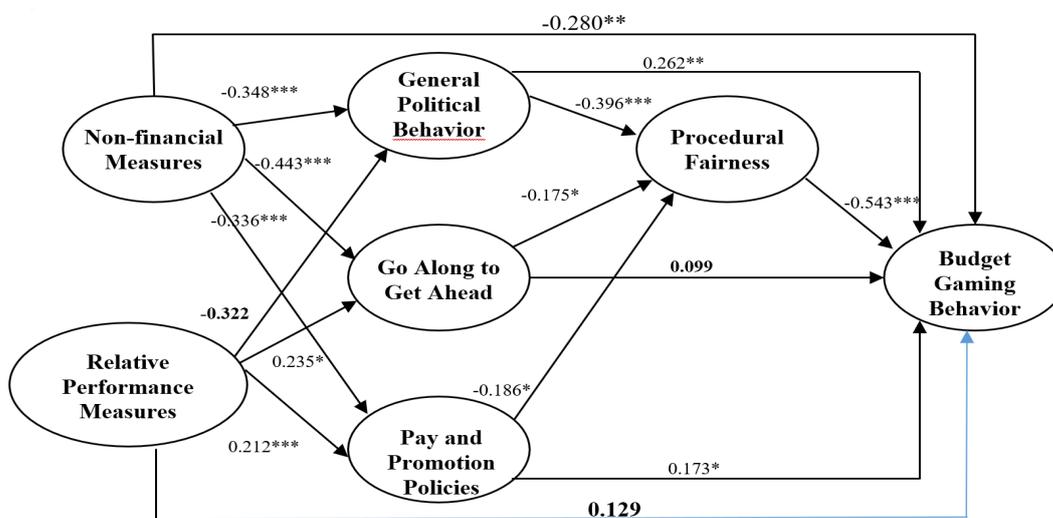


Figure 2. Path Coefficients Model

***, **, * $p < 0.01$, $p < 0.05$, and $p < 0.10$ (One-tailed)

The reliability test showed that Cronbach's alpha for each construct ranged between 0.836 and 0.966; and the composite reliability value of each construct ranged from 0.924 and 0.972, and they all met the recommended value limit ≥ 0.7 (Hair et al. 2012). Overall, the PLS measurement model showed that convergent validity, discriminant validity, and internal consistency reliability had been satisfied.

Structural Model

The goodness fit of the model was evaluated by a structural model. The result showed that R square (R^2) = 48% and this

general political behavior (RPM-GPB); politics of going along to get ahead with budget gaming (GA-BG) and relative performance measures with budget gaming (RPE-BG).

Hypotheses Testing

Table 4 shows the significance results of the relationship between the constructs.

Non-financial Measures – Organizational Politics

Table 4 shows that the non-financial measures are negatively and significantly re-

Table 3. Outer Loadings (Discriminant Validity)
Cross Loadings

	NFM	RPM	GPB	GA	PPP	BG	PF	SE	p value
Non-financial measures (NFM)									
NFM8	0.73	0.151	0.003	0.038	-0.079	0.078	0.022	0.085	<0.001
NFM10	0.887	-0.01	0.096	-0.029	0.056	-0.203	-0.192	0.145	<0.001
NFM11	0.89	-0.063	-0.006	0.032	-0.209	0.129	-0.038	0.092	<0.001
NFM12	0.929	-0.077	-0.045	-0.091	0.108	-0.017	0.024	0.112	<0.001
NFM13	0.903	-0.008	0.058	0.094	0.02	-0.023	0.115	0.127	<0.001
NFM14	0.835	0.04	-0.111	-0.037	0.091	0.054	0.075	0.091	<0.001
Relative Performance Measure (RPM)									
RPM1	0.018	0.908	0.071	0.009	-0.02	0.017	0.08	0.061	<0.001
RPM2	0.057	0.877	0.065	-0.011	0.015	0.005	0.028	0.067	<0.001
RPM3	0.021	0.943	-0.045	0.028	-0.018	0.152	0.074	0.044	<0.001
RPM4	0.019	0.949	0.133	-0.055	0.024	0.084	0.073	0.051	<0.001
RPM5	0.03	0.899	0.164	-0.121	0.025	-0.022	-0.025	0.053	<0.001
RPM6	-0.051	0.918	-0.176	0.053	0.016	-0.102	-0.093	0.043	<0.001
RPM7	-0.094	0.89	-0.215	0.098	-0.044	-0.146	-0.143	0.047	<0.001
General Political Behavior (GPB)									
GPB1	0.023	0.034	0.927	0.029	0.05	-0.076	-0.021	0.098	<0.001
GPB2	-0.023	-0.034	0.927	-0.029	-0.05	0.076	0.021	0.073	<0.001
Go Along to Get Ahead (GA)									
GA1	0.006	-0.016	0.026	0.93	0.005	0.03	-0.049	0.08	<0.001
GA2	-0.079	-0.013	-0.05	0.913	0.07	-0.04	0.02	0.071	<0.001
GA3	0.074	0.03	0.024	0.903	-0.075	0.01	0.03	0.065	<0.001
Pay and Promotion Policies (PPP)									
PPP1	-0.022	0.079	0.028	0.015	0.96	-0.016	-0.027	0.057	<0.001
PPP2	0.045	-0.006	0.096	-0.035	0.967	0.111	0.072	0.05	<0.001
PPP3	-0.024	-0.075	-0.129	0.021	0.932	-0.099	-0.047	0.06	<0.001
Budget Gaming (BG)									
BG2	0.033	-0.082	-0.092	-0.028	-0.117	0.71	-0.157	0.081	<0.001
BG3	-0.041	0.073	-0.079	0.03	0.043	0.894	0.069	0.068	<0.001
BG4	-0.145	0.078	0.022	0.101	-0.014	0.896	0.054	0.06	<0.001
BG5	0.067	0.002	0.221	-0.008	-0.013	0.908	0.063	0.076	<0.001
BG6	-0.027	0.015	-0.007	0.033	-0.002	0.942	0.025	0.062	<0.001
BG7	0.15	-0.257	-0.149	-0.029	-0.015	0.725	-0.05	0.088	<0.001
BG8	-0.002	0.103	0.034	-0.11	0.089	0.908	-0.047	0.078	<0.001
Procedural Fairness (PF)									
PF1	0.163	-0.089	0.101	-0.104	0.046	-0.108	0.81	0.055	<0.001
PF3	-0.044	0.042	0.152	-0.03	-0.076	0.181	0.906	0.057	<0.001
PF4	-0.041	0.1	-0.069	-0.006	0.069	-0.078	0.909	0.063	<0.001
PF5	-0.06	-0.061	-0.172	0.128	-0.034	-0.007	0.912	0.061	<0.001

P values < 0.05 are desirable for reflective indicator

lated to: (1) general political behavior, (2) going along to get ahead and (3) pay and promotion policies with the path coefficient = -0.348; -0.443 and -0.336 and significant at p-value <0.001 (H1a, H1b, H1c are supported). This means that non-financial measures reduce the perceptions of organizational politics. These results support Lau and Scully (2015) and strengthen the argument of Hochwarter et al. (2006) and Parker et al. (1995), that non-financial measures can reduce the ambiguity in the performance evaluation process. When performance measures are more accurate, more complete, and more understandable, they can reduce the ambiguity in the performance evaluation process and also the perceptions of organizational politics. This finding supports the goal setting

theory. To achieve goal congruence between individuals and organizations, there must be an appropriate control system through a performance evaluation system that uses non-financial measures.

Relative Performance Measure – Organizational Politics

Table 4 shows the not significant relationship between relative performance measures and general political behavior (path coefficient -0.322; p-value 0.170; H2a is not supported). This means that the relative performance measures do not increase the perception of general political behavior. Based on the interviews with the managers, general

Table 4. Hypothesis Testing H1 – H5

Hypothesis	Path	Path coefficients	Standard Error	t-statistic	P value One-tailed	Results
NFM – OP						
H1a (-)	NFM-GPB	-0.348	0.087	4.000	<0.001***	Sig
H1b (-)	NFM-GA	-0.443	0.083	5.337	<0.001***	Sig
H1c (-)	NFM-PPP	-0.336	0.076	4.421	<0.001***	Sig
RPE – OP						
H2a (+)	RPM-GPB	-0.322	0.337	0.955	0.170	Not Sig
H2b (+)	RPM-GA	0.235	0.155	1.516	0.066*	Sig
H2c (+)	RPM-PPP	0.212	0.081	2.617	0.005***	Sig
OP – BG						
H3a(+)	GPB-BG	0.262	0.127	2.062	0.021**	Sig
H3b(+)	GA-BG	0.099	0.123	0.804	0.211	Not Sig
H3c(+)	PPP-BG	0.173	0.125	1.384	0.084*	Sig
OP-PF						
H4a (-)	GPB-PF	-0.396	0.111	3.567	<0.001***	Sig
H4b (-)	GA-PF	-0.175	0.109	1.605	0.054*	Sig
H4c (-)	PPP-PF	-0.186	0.114	1.631	0.052*	Sig
PF – BG						
H5 (-)	PF-BG	-0.543	0.128	4.242	<0.001***	Sig
Control path	NFM-BG	-0.280	0.097	2.886	0.031**	Sig
Control path	RPM- BG	0.129	0.086	1.500	0.224	Not sig

***p value <1%; **p value <5%; *p value <10%; Sig = significant

political behavior is seen as a behavior that tends to be rude and less effective in achieving personal goals.

However, the path between relative performance measures and the politics of going along to get ahead (path coefficient 0.235; p-value 0.066) and the politics of pay and promotion policies (path coefficient of 0.212; p-value 0.005) are significant (H2b and H2c supported). This means that the relative performance measures can increase the perception of the existence of politics of going along to get ahead and the politics of pay and promotion policies. The findings support Gibbons and Murphy (1990) who found that the use of relative performance measures brings up the incentives for collusion and increases the opportunities for the politics of going along to get ahead and the politics of pay and promotion policies behavior.

Organizational Politics – Budget Gaming

Table 4 shows that the relationships between (1) general political behavior and budget gaming (path coefficient 0.262; p-value 0.021); (2) pay and promotion policies and budget gaming (path coefficient 0.173; p-value 0.084) are positive and significant relationships (H3a and H3c are supported). These results indicate that general political behavior and pay and promotion policies increase budget gaming behavior. These findings support previous studies, general political behavior provides a higher opportunity to conduct budget gaming (Yilmaz et al. 2014); general political behavior sacrifices organizational interests for personal interests through misuse, manipulation and the distortion of information (Lau and Scully 2015); the perceptions of organizational politics have an impact on employees' behavior to obtain additional re-

sources (Ram and Prabhakar 2010), and creating slack (Witt et al. 2004); and individuals behave based on their perceptions of reality (Kacmar and Carlson 1997). The perception of the existence of general political behavior (manipulation, abuse, cutting, and information distortion) effects the dysfunctional behavior of budget gaming such as spending unused budgets, delaying the expenses needed and making budgets that are easier to achieve (Bart 1989).

The findings show that the perceptions of the politics of pay and promotion policies are positively related to budget gaming behavior. This means that if there is a perception that individuals avoid and reject pay and promotion policies, then this perception can increase the opportunities for budget gaming behavior. These findings also support Ram and Prabhakar (2010) and Witt et al. (2004). These results strengthen the argument that the perceptions of organizational politics affect the resource allocation behavior (Witt et al. 2004).

A different result in H3b is that the politics of going along to get ahead is not positively related to budget gaming (path coefficient 0.099; p-value 0.211). This finding does not support previous studies, that is management accountants tend to create budget gaming when faced with obedience pressure from superiors (Davis et al. 2006).

This findings was confirmed by several managers by phone and they explained that "...once the budget is approved, the manager has the authority to implement the budget". Because managers' performance is often compared to peer performance, so managers in general conduct budget gaming based on their own decisions and it tends to be done stealthily rather than in groups, to avoid being discovered by peers.

Organizational Politics – Procedural Fairness

Table 4 shows that all the path coefficients of the relations between the three dimensions of organizational politics and procedural fairness are negative and significant. The path coefficients and p-value values, are respectively -0.396, <0.001; -0.175, 0.054; -0.186, 0.052 (support H4a, H4b, H4c), which means that organizational politics reduces procedural fairness. This finding supports previous studies, which found a negative relationship between the perceptions of organizational politics and the perceptions of justice (Lau and Scully 2015). The results also emphasized the argument that organizational politics affect the perceptions of justice (Beugré and Liverpool 2006). Organizational politics ruin the perceptions of justice or the antithesis of justice (Kaya et al. 2016). Organizational politics gives an unfair advantage to the group of people and this creates perception of injustice.

Procedural Fairness – Budget Gaming

Table 4 shows that procedural fairness is negatively related to budget gaming (path coefficient -0.543; p-value <0.001, H5 is supported). This means that employees' perceptions of the procedural fairness which are applied in all the resource allocation processes can reduce the budget gaming behavior. This finding supports the organizational justice theory and the previous studies, in which procedural fairness is significantly related to behavior (Colquitt et al. 2001) and managers' perceptions of the procedural fairness have a negative effect toward budget gaming (slack) (Ozer and Yilmaz 2011). When managers perceive that procedures are sufficiently well organized and implemented, they will have a

higher perception of procedural fairness and tend to create less budget gaming.

Mediating Effect

Table 5 shows the results of the mediating roles of organizational politics and procedural fairness on the relationship between performance evaluation systems and budget gaming. The Sobel-test is used for the mediating test. The standard error of Sobel for a path with a single mediator is: standard error = the squared root of $(a_i^2 se_{b_i}^2 + b_i se_{a_i}^2)$, where $se_{a_i}^2$ and $se_{b_i}^2$ are the squared standard errors of a_i and b_i . The standard error of Sobel for a path with two mediators = the squared root of $(a_1^2 d_{21}^2 se_{b_2}^2 + a_1^2 b_2^2 se_{d_{21}}^2 + d_{21}^2 b_2^2 se_{a_1}^2)$, where $se_{a_1}^2$, $se_{b_2}^2$, and $se_{d_{21}}^2$ are the squared standard errors of a_1 and b_2 and d_{21} . (Hayes 2013).

Mediating Roles of Organizational Politics

The results show that the relationship between non-financial measures and budget gaming behavior is significantly mediated by general political behavior and the politics of pay and promotion policies (H6a and H6c are supported). These results connect the previous findings, that non-financial measures are negatively related to the general political behavior and pay and promotion policies (H1a and H1c are supported) and general political behavior; while pay and promotion policies are positively related to the budget gaming behavior (H3a and H3c supported).

The relationship between the relative performance measures and budget gaming behavior is significantly mediated by the politics of pay and promotion policies. These

Table 5. Hypothesis Testing H6 – H7

Hypotheses	Path	Standard Error Sobel	p-value	Results
NFM-OP-BG				
H6a	NFM-GPB-BG	0.050	0.080*	GPB mediates
H6b	NFM-GA-BG	0.056	0.293	GA does not mediate
H6c	NFM- PPP-BG	0.045	0.085*	PPP mediates
H6d	NFM-PF-BG	0.065	0.010***	PF mediates
	NFM-GPB-PF-BG	0.033	0.031**	GPB and PF mediate
	NFM-GA-PF-BG	0.029	0.140	GA and PF do not mediate
	NFM-PPP-PF-BG	0.023	0.054**	PPP and PF mediate
RPM-OP-BG				
H7a	RPM-GPB-BG	0.106	0.291	GPB does not mediate
H7b	RPM-GA-BG	0.037	0.330	GA does not mediate
H7c	RPM- PPP-BG	0.031	0.089*	PPP mediates
H7d	RPM-PF-BG	0.061	0.385	PF does not mediate
	RPM-GPB-PF-BG	0.076	0.265	GPB and PF do not mediate
	RPM-GA-PF-BG	0.020	0.225	GA and PF do not mediate
	RPM-PPP-PF-BG	0.016	0.058**	PPP and PF mediate

***p value <1%; **p value <5%; *p value <10%

results connect to the finding, which is that the relative performance measures are positively related to pay and promotion policies (H2c is supported) and pay and promotion policies are positively related to budget gaming behavior (H3c is supported). This finding supports Otley (1978) and Hopwood (1972), in that the relationship of performance measurement systems with managerial behavior is a complex relationship and tends to be indirect through the intervening variables.

A different result was obtained for the politics of going along to get ahead; this dimension does not significantly mediate the relationship between the non-financial measures and budget gaming behavior. This is due to the politics of going along to get ahead is not positively related to the budget gaming behavior (H3a is not supported).

For the relationship between the relative performance measures and the budget gaming behavior, general political behavior

and going along to get ahead is not significantly mediated. This is due to the relative performance measures being not significantly and positively related with general political behavior (H2a is not supported) and the politics of going along to get ahead is not positively related to budget gaming behavior (H3b is not supported). This finding supports Hair et al. (2012) as the mediating is not significant if there is no significant path coefficient.

Mediating Roles of Procedural Fairness

The results show that non-financial measures can increase the perceptions of procedural fairness (path coefficient 0.301; p-value 0.001). This finding supports the previous studies, by Lau (2015) and Chia et al. (2014). Table 5 shows that procedural fairness mediates the relationship between

non-financial measures and budget gaming. This result connects the previous findings that non-financial measures are positively related to procedural fairness and procedural fairness is negatively related to budget gaming (H5 is supported).

For the relative performance measures, the not significant results are shown for the relationship between relative performance measures and procedural fairness (p-value 0.434). Information obtained from the interviews' results showed that: (1) Manufacturing companies face a lot of uncertainty so that it is difficult to determine the managers' performance target level, so relative performance measures are used as a solution. (2) The relative performance measures do not refer to the manager' performance in the previous year, so there is a small possibility that this measure can be manipulated. Therefore, the use of relative performance measures does not reduce the sense of justice. Because the relationship between the relative performance measures and procedural fairness is not significant, procedural fairness cannot mediate the relationship between relative performance measures and budget gaming.

Mediating Roles of Organizational Politics and Procedural Fairness

The Sobel-test for two mediators (Table 5) shows that the general political behavior, pay and promotion policies, and procedural fairness all mediate the relationship between non-financial measures and budget gaming. A different result was obtained for the dimension of going along to get ahead and procedural fairness, these two variables do not mediate the relationship between non-financial measures and budget gaming.

For the relationship between the relative performance measures and budget gaming, general political behavior, going along to get ahead and procedural fairness, they do not mediate. A different result was obtained for the dimension of pay and promotion policies and procedural fairness, they significantly mediate the relationship between relative performance measures and budget gaming.

Conclusion, Limitation, Future Research

This study concludes that: 1) The non-financial measures are proved to be negatively related to general political behavior; the politics of going along to get ahead and the politics of pay and promotion policies. 2) Relative performance measures are not proven to be positively related to general political behavior, but are proven to be positively related to the politics of going along to get ahead and the politics of pay and promotion policies. 3) General political behavior and the politics of pay and promotions policies are proved to increase budget gaming. However, this is not proven in subordinates' perceptions of going along to get ahead. 4) Organizational politics have been proved to be able to reduce procedural fairness. 5) Procedural fairness is proved to be negatively related to budget gaming. 6a) Two forms of organizational politics (general political behavior and the politics of pay and promotion policies) significantly mediate the relationship between non-financial measures and budget gaming, both in their direct affect and through procedural fairness. 6b) Procedural fairness is proved to be able to mediate the relationship between non-financial measures and budget gaming. 7a) For the relationship between relative performance measures and budget gaming, the majority of the indirect relation-

ships through procedural fairness and organizational politics are not significant. Only the dimension of the politics of pay and promotions policies significantly mediates the relationship of relative performance measures toward budget gaming. 7b) The perceptions of procedural fairness are not able to mediate the relationship of relative performance measures toward budget gaming.

This study supports the goal setting theory and the organizational justice theory. The application of appropriate performance evaluation controls through non-financial measures can improve the goal congruence between individual and organizational goal. This goal congruence has the effect of reducing the organizational politics behavior, increasing the sense of fairness, and reducing budget gaming. This study provides some assurance for organizations, in an effort to reduce budget gaming behavior, that using non-financial measures to evaluate manager performance may be beneficial particularly through reducing the perception of organizational politics and enhancing the perception of fairness.

Due to the limited research references on relative performance measures and organizational politics in the management accounting setting, future research can continue to test these two variables to understand how relative performance measures that are viewed as more adaptive controls might influence behavior, particularly in general political organizational settings. Future research can highlight the sample of small organizations, non-manufacturing sectors and state-owned enterprises. Testing the relationship between performance evaluation systems and organizational politics, which are associated with fraud and employee outcomes can also be a research agenda in the future. Future research can also choose an experimental method to ensure a causal relationship between relative performance measures and budget gaming behavior. This study collected data on both the independent and dependent variables from the same respondents at one point in time, and this could possibly lead to common method bias (CMB) problems which may affect the results. To ensure this, it is suggested that future research should test and control for common method bias (CMB).

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