

The Effect of Budget Communication On Managers' Performance

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Abstract: *The purpose of this study is to examine the impact of communication in budget with the performances. A survey method was conducted to 179 managers who involved in budgetary process in plantation's industry in North Sumatera by using self-administered structured questionnaire. The finding supports the postulation communication in budget significantly and positively that influenced the plantation managers' performance.*

Keyword: Budget, Communication, Performance

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I. Introduction

A company use the budget as a target achievement which is held through short and long term. Beside that, the purpose of budget is formed in the organization to measure the planning and controlling the organization which have been determined (Cherington & Cherington (1973); Searfoss (1973). However, there are many aspects which have been investigated by the reseachers in the field of management of accounting related to the bugetary. For example (Argyris (1952); Hoopwood (1974), The effect of human being to the budget (Nouri (1993); Onsi (1973), the effect of environment to the budget (Hopwood (1972); Otley (1978). While Kenis (1979) had done the research from the aspect of participation in the budget, the clarity of the budget, feed back of budget, evaluation of budget, and the difficulties in targetting the budget. It is also same with the research about the effect of the aspect of communication to the performance that has been done by the previous research (Williams, Macintosh & Moore (1990); Macintosh & Williams (1992); Hassel and Cunningham, 1996).

The process of budget is oftenly related to the changing of information and made the communication between one manager with other managers. The communication of budget has a correlation with the target of feed back of budget between a senior and junior managers. In this case, the correlation is the target of achieving the purpose which determined and communicated to the responsible managers (Kenis, 1979). Therefore, the communication can strengthen or change the activity if the budget has a problem or target of the succesness. The feedback of the activity can move to the best target of achievement (Locke and Latham, 1990). A formal communication is mainly for a seldom interaction which is seldom done by the boss is the budget of positive characteristics in the budget to the characteristics of the achievement (Williams et al., 1990). The other researcher found that communication of the budget has not a significance relationship to the success of performance (Zainuddin and Haron, 1999). This research is aimed to give a contribution of management of accounting which evaluates the effect of budget communication to the managers' performance.

II. Theoretical Framework And Hypothesis

2.1 Budget of Communication

The process of budget is oftenly related to the changing of information and made the communication between one manager with other managers. The budget of communication has a correlation with the target of the feedback between a senior manager and junior managers. In this case, the relationship is the target of achieving the purpose which determined and communicated to the responsible manager (Kenis, 1979). As Steers and Locke (1974) state that communication is the feed back which occur between one manager and other manager. They said that the feed back can be used as an instrument to achieve the target and incentive to the employers. The target of the achievement on the budget depends on the performances and the growth of the managers in doing the budget to the managers before the performance which is being reported.

While Latham and Yukl (1975) mention that communication is a feedback to achieve the goal of the organization. They explain that the feed back can improve the efforts and performances by: (1) the feed back can motivate the person to have a good performance (2) the feed back can motivate the person to improve the target of achievement after getting the previous target achievement, (3) the feed back can give an information to the person that contribute the efforts which is not enough to achieve the target so it needs a better effort, (4)

the feed back can give an information to the person in the aspect of ways to improve the method which is done in the activity of the job's description.

Other researchers, Bush and Frohman (1991) conceptualized that communication includes more than concepts which moved up and down at a traditional organization. But also between every rank of organization. They explain that communication is important in doing the organization and determined as a key to bring the successful of a better organization. This is appropriate to the research which is done by Alexander et al (1989) who stated that a communication is a statement or expression, instruction, rational, information, involvement and feed back which occurred in the organization. They explained that a communication between a boss and a staff can give the effect of performances and satisfactory of the staff through: (a) A communication can provide a data about job which needs to be done for the success of performance, (b) a communication gives a feed back to the performance which is given by the staff to evaluate the successness of their behavior, (c) a communication gives a strength to the wish of the staff and, (d) a communication can develop and keep a positive interpersonal correlation between a boss and staff. They also explain that the above efforts are motivated to influence the job performance and satisfactory of the staff.

Williams et al (1990) with Macintosh and Williams (1992), state that a communication is an interaction between a boss and staffs in the process of budget. This is supported by many literatures and theories about the organization which focused on an interaction as an interpersonal correlation among of the members of organization. The interaction is receiving and sending the information through oral and written communication (Schermerhorn et al., 1997). In the research by Williams et al., (1990), they mentioned that a formal communication is mainly to the seldom interaction done to the boss as a characteristics of the budget which has a positive effect to the characteristics of the performance. While Macintosh and Williams (1992) mention that a communication in the budget is formed based on the suggested and changed of final designing budget and the interactions which are determined by the general norms, instruction, and standard document of organization.

As what has been explained, a communication of budget relates with the feed back between manager who evaluates the performance of responsible senior manager. That is why Locke and Latham (1990) argued that communication is a way to deliver the information about the growth and development of the senior manager and junior manager that are based on their responsibility. So the feed back can move to the better target of achievement.

While Steers and Locke (1974) stated that communication or feed back are oriented to make sure the target of achievement as a real and an action in giving incentive to improve the efforts of manager. Because of that, the information which is delivered related with their performances in order to help the manager to work better in achieving the target. Then Hassel and Cunningham (1996) state that a communication of budget is a changing information which occurred between a centre office and a sub unit manager about the factors influencing budget and performance. The result of the research has a positive relationship between a communication and a performance.

The research about communication of the budget and the effect on performance have not yet done by the researchers. For example, Pincus (1986) who did a research to 327 patients of hospital resulted the positive effect between communication and performance. In his research, Pincus (1986) stated that a communication is a process which made and changed the messages in each of organization of environment resulted the doubtful of group and individual and group. However, the result of research by Rodwell et al. (1998) acquired the negative correlation between a communication and a performance. The other investigation found that a communication in budgeting did not have the significant correlation to the success of work (Zainuddin and Haron, 1999).

The information on a planning (budget) and a real result which achieve on the target should be communicated to the staff whose performances evaluated. In spite of that, there are many results of the performances in achievement which are told to the managers without knowing by the staff about their performances at work. Until the staffs are called by the managers to discuss her/his report of performances at work. The consequences are every staff does not care to the plan of a budget and a performance without guidance. Therefore, the aspect of communication in the budget is very important in the process of budget (Irvine, 1982).

As a result of research by Katz and Kahn (1978), that acquired a communication in the process of budget is needed if the person whose responsible to the budget has a knowledge of the following: (1) training and procedure in designing the budget, (2) rational of budget, and (3) motivation to achieve the target of budget. They explain that a communication can be stated in the common understanding as a guideline of work, rational of work, guideline to train and ways, feedback of the information and the doctrine of achievement of the budget. So the communication of budget helps the efforts to the achievement of a better budget. The research by Locke et al. (1981) supports this finding. The finding of the research is that they found the important goal for the feed back is to improve the performance of the staff at work field.

Achieving the goal of budget has a correlation with the ability to communicate the activity between the managers and staffs. If the member of the organization does not know the result of the work that they have done, they will not feel whether they are success or fail and no there is a feeling to improve their performance at work (Becker and Green, 1962). As what has been explained by Welsch (1988) that a budget can be done better by the manager, staff, and all the colleagues should have commitment to be responsible at work. That is why, a communication among of them takes an important role. It means that the budget is a way of communication in organization which relates a part of organization to acquire the feedback of their activity in achieving a better target. Therefore, the feed back is not only for improving a communication but also the instruction is to guide the managers and performances in achieving better organization (Smither et al., 1995).

While, Steers and Locke (1974) declared that a communication or feed back are the guideline to make sure the activity of achieving the target, and as an action in giving an incentives to motivate the improvement of managers' performance at work field. This will not be able to achieve without any communication. As a result of the research done by Hellweg and Phillips (1980), they found that there is a positive effect between a communication and a productivity of performance.

The research on accounting which relates to the budget of communication has not many been done by reseacher. Such as Kenis (1979), who has done a research of empirical research on the characteristics of budget to the behavior and performance of the managers in the manufacture of industry in New Jersey-Philadelphia. There are 169 respondents, he found a feedback of impressive to the managers' performances who have the weak or significant correlation. Furthermore Hirst and Lowy (1990) did a research to 44 managers grade senior in the company. The researcher found the effect of feed back to the budget on the performance had not significant. Based on the reult of the research, they explained that the feed back needs to be improved the performances. This case is based on the research finding by Locke and Latham (1990) who finds that a communication or feed back can create the behaviour to the wish of achieving the prurpose.

In the research by Williams et al., (1990), they found that a formal communication, is mainly to communication which is seldomly done with the manager that gives on positive effect to the determined performance. While Macintosh and Williams (1992) state that a communication on budget is a thing created according to the suggested and changing of final budget and interaction which have been determined by the general norms, instructions and organization standard document. Then Hassel and Cunningham (1996) stated that communication of budget is the changing of information which occured between high official woman and the subunit managers of the factors which influence the budget and performance. Their research has got positive correlation between a communication and performances.

2.2 Performance

Performance is a process of the staff to do his/her duties which is measured based on the efficient and effectivity (Bourne, Franco, and Wilkes, 2003, 99). In meassuring the efficient and effectivity need a standard, in this case 'a standar of performance'. An employer is known produced 15 "product" per day does not give a perfect basic for considering whether an employer is satisfactory or not. A standard which has been discussed aboved is very important as a comparison. It is possible for 25 products which are enough for a daily work. The standard of performance is clearly explained the expected grade of performance, and as an instrument to be compared, or purpose, or the target depending on approach. The realistics standard of performance, meassurable, and easy to understand the benefits for the organization or the employers. It means that the performance is defined as a work which is identified as satisfactory. It is very important to determine the standard before started the work, so all the persons who are involved will understand the grade of the expectation performance.

The performance of the employers are oriented to the performance which is meassured based on the criteria and standard of the organization. The management for achieving the high performance of human is intended to improve the whole company (Fuad Mas'ud, 2004). According to Waldman (1994), performance is a combination of the behaviour on performances on what its expected and choice or part of the duty of requirements among of individual or organization. But Mangkunegara (2001) performance is defined as a result of the quality and quantity of work which is achieved by an employer in doing his/her duty based on his/her responsibilities. Soeprihantono (1988) said that performance is the result of work employer while working in the organization compared to the possibilities, for example, standard, target/goal/criteria which had been determined and agreed previously by the organization.

Performance is the result or the grade of sucessness person during the period in doing the duties compared to the standard of the result of work, target or criteria which had been determined and agreed previously by the organization (Rivai, 2004). Furthermore Rivai states that performance is not independently but correlated with the satisfaction of work, compensation, affected by the skill, ability and characteristics of individual. In other words, performance is determined by the ability, wish and environment. Therefore, to have a

good performance, an employer should have a high wish to do duties and understand his work and able to be improve if there is an appropriateness between job and ability.

Performance is the aspects' attitude of the ability of manager to achieve one of the purpose in the short or long time which is based on the function of manager such as designing, planning, controlling, role of staff, meeting of staff and description (Mahoney et al., 1965). While Thompson (1967) stated that the measurement of prestation can be defined into three classifications: (1) measuring the individual ability to make the other person's hope with whom he/she has a relation at his/her work, (2) measuring of how far the individual is doing his/her work, able to handle the external effect and, (3) measuring someone according to the efficiency, quality and quantity at work. Furthermore, he explains that each of the measurement of the prestation is related to each of the managers' duty.

Most of the reseachers in the field of management of accounting did a research in the field of manufacture industry, and to measure their prestation by using the measurement of Mahoney et al. (1965). In general Mahoney et al. (1965) measures the performance based on the eight dimensions of the function of manager : plan, coordination, agreement, controlling, investigation, measurement, staff, and representative, and the whole of prestation.

Based on the previous research, there has not been a reseacher who did a research of the effect of communication and prestation to the industry of plantation. Thus the prestation of the research did not use the whole dimensions of Mahoney et al. (1965). This has been done because of the characteristics of industry of plantation is different with the industry manufacture. In industry of plantation, the activities were run at two grades such as, (1) the activity that was held by the director of the center in the company, and (2) activities were run by the manager at every unit of the industry (Atmosudirdjo, 2001).

Despite of the characteristics is different between the industry of plantation and manufacture, so the measurement of manager's performance at each units of plantation is differ with the other center of company. Because of this research is done at units of the plantation, so the value of managers' performance plantation based on the function of the managers such as plan, investigation (research), coordination, measurement and controlling and performance.

2.3 Hypothesis of the Research

The effect of budget communication on performance has not been done by many researchers previously. The research which was done by Kenis (1979) found that the effect of feed back (communication) on performances' managers have a weak correlation and no significant. Further research by Hirst and Lowy (1990) is also found the effect of a feed back of budget on performance has no significant. Other research is also found that a communication in the budget does not have a significant correlation on the success of work (Zainuddin and Haron, 1999). However, the research that was done by Hassel and Cunningham (1996) and Hassel (1998) have a positive correlation between budget communication with the performances. The finding of the research is positive (Hassel and Cunningham (1996); Hassel (1998) occur because they apply the measurement of communication from the dimensions with the participants by Milani (1975). That is why, hypothesis in this research are: The communication of budget is positive on the performance.

III. Methodology Of The Research

3.1 Population and Sample

The population in this research is the managers of the plantation at PT Perkebunan Nusantara (PTPN) 4 and they have experienced as managers for three years or more. Based on the data which has been collected, it is known that the population is 328 persons. The purpose of the population is based on the table Krejcie and Morgans (1970). Based on the table needs, the sample of the research is 179 respondents. After the data has been collected, the result is that there are 4 respondents do not answer the questionnaire completely, so there are only 175 respondents used in this research. Meanwhile, the technique of collecting sample is done by using random sampling (*simple random sampling*).

3.2 Variable and Measurement

The budget of communication is an instrument to measure the interaction which is based on the suggestion and the change information in the process of budget (Macintosh and Williams, 1992; Williams et al., 1990). The measurement construction of budget of communication in this research is based on the questionnaire which is developed by Swieringa and Moncur (1975) including five items of the questions. These five questions are formed by the scale Likert 1 "strongly disagree" up to 7 "strongly agree". A research which is done by Merchant (1981, 1984) has factors such as 51 up to 67. However a research by Williams et al. (1990) has factor 45 up to 63. While in this research, the factor is 0.76 up to 0.84. It means that all the item of the questions variable budget of communication has been accurately to measure the research or valid. It is because the factor is bigger than 0.50. While, the reliability is Alpha Cronbach as 0.86. This case explains that all the items of the

questions of budget variable communication that has been used because it is bigger than what is prerequisites by Nunally (1978) is 0, 70.

The measurement of the performances' variable in this research is based on eight item of the questions which concerned to the managers' performances and one item of the question concerning to the whole content of the performances (Mahoney et al., 1963). They also suggest that the eight item of the questions about managers' performances must explain at least 55 per hundred dimensions of the managers' performances. This measurement has been used by many researchers for example Brownell (1982), Dunk (1990), Kren (1992), Lau et al. (1997), Lau and Buckland (2000), Chalos and Poon (2001), Chong and Chong (2002), Wentzel (2002) and Nasir (2004). As what has been explained above on the theoretical framework, the plantation managers' performances are based on the functions of managers that they have done at the level of plantation. Thus, this research used the sixth item of the questions such as plan, investigation, coordination, evaluation and controlling, and a whole performance. This questionnaire is formed by the sixth scale of Likert to 1 "strongly disagree" up to 7 "strongly disagree". The result of the test which has been done in this research shows that the variable of the performances is valid and the reliability is at garde Cronbach Alpha 0.947. Meanwhile the suggestion by Mahoney et al (1965) is that the result of the test shows the performances of the whole dimension of performances can be explained through the six dimensions work with R-square is 71.60%. As the conclusion that is the variable of performances can be applied as the accurate construction to be analyzed continuously.

IV. Data Analysis And Discussion

4.1 The Description of Statistics

This research is based on the answers of respondents to the questionnaire of the research 11 item of questions which consists of 5 item of questions for variable of busget communication and 6 item of questions for performances' variable.

The Description of Statistics research variable

| <u>Variable</u> | <u>Minimum</u> | <u>Maksimum</u> | <u>Average</u> | <u>Variance</u> |
|-----------------------------|----------------|-----------------|----------------|-----------------|
| The budget of communication | 1.40 | 6.60 | 4.15 | 1.41 |
| Performance | 2.83 | 7.00 | 5.23 | 1.26 |

Based on the description of statistics, it can be explained that the answer of the respondents to the variable of budget communication is on the average at 4,15. This point explains that the communication which occurs in the process of simple budget to be meant that a communication occurs either high or low. It means that the feed back which occurs in the process of budget is relatively running as formality and simple which is either high or low. Meanwhile, for performances' variable, the answer of respondents shows that the plantation managers' performances is less than high to the average at 5,23.

All the above result of the descriptive analysis can be seen that there is no variable of the research which has too high or low point for the average. While the point of the variance for the whole variable of the research is about 1,26 and 1,41. This case shows that the data is group above the average and it does not show many variances.

4.2 The Analysis of Test regression Model

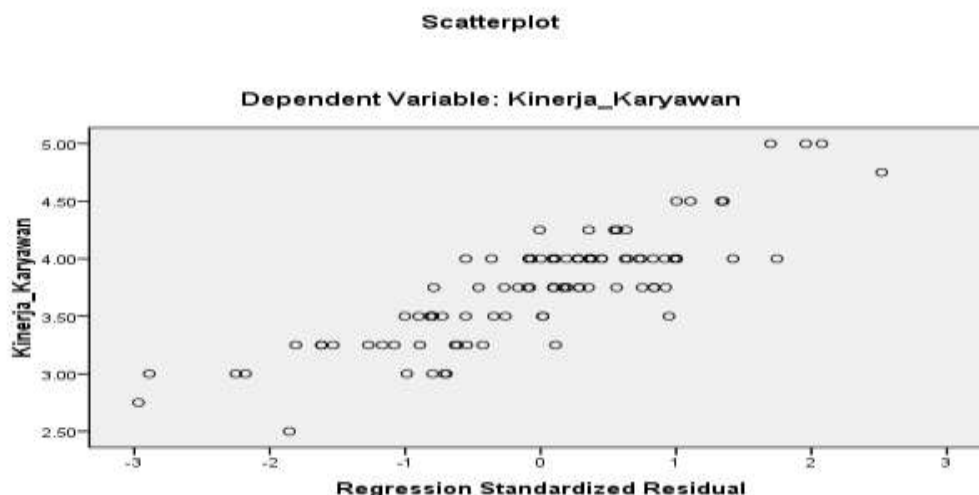
In this analysis, it needs to test whether the data will be tested by using test of regression model. The test of classic assumption is done to determine the same requirements acquired at regression model and it can be accepted econometric. The test of regression model or classic assumption tes includes the multikolinearity test, auto correlation, heteroskedatisasi and normality test. Data that has been used in this research is that the data *cross-section* non data *time series*. Thus the auto correlation test does not need to be done.

4.3 Test of Multikolinearity

This test is to find out there is a perfect correlation between independent variable and regression model. Thus the independent variable in this research is only the budget communication variable, so it has no need to do test multikolinearity.

4.4 Test of Heteroskedasticity

This test is done to find out whether there are variances 'differences in the regression model for more than one observation to other observation. A better regression of a regression model is if there is no found heteroskedastisitas. To find out whether it occurs the heteroskedastisitas or not, it can be done by concerning to the graphic of *scatterplot* on the following picture.



Picture 1 Test of Heteroskedasticity.

Based on the test which is done, from the graphic can be seen the dots distributing that shows the data distributes randomly and not clear. And it distributes t above of the point 0 at Y. This means that there is no heteroskedastisitas at regression model. Thus, regression model can be used in this research.

4.5 Test of Normality

This test is to make sure whether the data is able to be contributed normally or not. A good regression model is if it has the distribution at normal data or nealy to normal. The result of test normality can be seen on the following table.

Table 1: Test normality

| Variable | Z Table | Skewness | Z Count | Decision |
|-------------------------|---------|----------|---------|----------|
| Budget of communication | 2.58 | .13 | .70 | Normal |
| Performances | 2.58 | -.20 | -.08 | Normal |

P < .01

Based on the result of test statistics that has been done, it can be acquired that all the dimentions of the research has value Z counting less than value Z Table. This case shows that the distribution is at normal $p < .01$. thus, the regression model of the research can be used in this research.

4.6 Hypothesis testing

After all regression models completed the requirements, the next step is to do testing hypothesis. The hypothesis will be tested in this research which states the budget of communication is affect positive to the performances. This test is statistically showed the result as in the following:

Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .155 ^a | .024 | .018 | 1.25204 |

a. Predictors: (Constant), Komunikasi Anggaran

ANOVA^b

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|-------|------------|----------------|-----|-------------|-------|-------------------|
| 1 | Regression | 6.802 | 1 | 6.802 | 4.339 | .039 ^a |
| | Residual | 277.466 | 177 | 1.568 | | |
| | Total | 284.268 | 178 | | | |

a. Predictors: (Constant), Komunikasi Anggaran

b. Dependent Variable: Kinerja

Coefficients^a

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|------------|-----------------------------|------------|---------------------------|--------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 4.653 | .291 | | 15.974 | .000 |
| | Comunica | .138 | .066 | .155 | 2.083 | .039 |

a. Dependent Variable: performances

From the result of the test can be explained that the variable statistics of budget communication is affect significantly positive on the performances at grade sureness or alpha about 96.10%. The result of the testing also explains that the performances' variable is affected by the budget of communication about 15.50% while the rest is about 84.50% is do not did at this research. Thus the hypothesis in this research is accepted.

4.7 Discussion

A budget of communication is a feed back on the managers who involve in the process of budget. So it can help the efforts to achieve the goal of budget. The result of this research acquired that the budget of communication is affected the plantation managers' performances atPTPN 4.

The result of this research is contrary to the research which has been done by Kenis (1979), who is done the empirical research concerning the effect of budget characteristics on the managers' attitude and it gets the result that the feedback or communication to the managers' performances has a weak effect or no significances. It is also same with the research by Hirst and Lowy (1990) that acquired an effect of feedback or budget of communication. Based on the result of his research, they explain that the feedback needs to improve the performances. The result of this research is also contrary with the research by Zainuddin and Haron (1999),that found the budget communication has no significant correlation to the sucess of work.

In general, the different is may occur because there is differences in applying the instrument of research for variable budget of communication. The previous research which has been done by the researchersuse the instrument with two item of questions, while this research use the instruments by using 5 item of questions which is developed by Fertakis and DeCoster (1968). The differences of the instrument will cause the difference perception of respondentsabout thebudget of communication.

The difference of the result in this research with the previous research is also explained below. The budget of communication at PTPN4 ocur in two characters, one is among the plantation managers and the director of staff through budget of communication meeting or the commitee. This case occurs before the process of budgeting has been done by the managers, the director is formerly giving the guideline of designing the budget and the standard which has been determined. Futher, the process of communication is interpersonal between each of the managers at plantation. Then the communication of the budget among of the managers are together with the director through meeting of budget or the commitee. While the previous research found that communication which occurred was the interaction between the director and the staff in the centre of office.As what has been explained by Welsch (1988) that the budget can be done better if the director, staff and all the employers have a good understanding each other in the responsibility to gain the purpose of the budget. So the communication among of them must be gained each other.

However, this research is supported a research which has been done by Williams et al. (1990). They found that a formal communication, particularly on seldom interaction to the director, is characterized with a positive effect to the performances. They also found that a budget of communication affects the performances on the dependent duty of gathering work.

The result of this research is supported by the research which has been done by Hassel and Cunningham (1996), who have found that there is a positive correlation between a budget of communication and performances. They stated that the involvement of the managers in the process of budget causes the budget of communication.

Meanwhile, the result of this research explains that a budget of communication at PTPN4 needs to be improved for improving the plantation managers' performances. It can be seen from the answer of the respondents on the instrument of the questionnaire (statistics descriptive). On the average, the plantation managers' budget of communication at PTPN 4 tends to be high or neutral. The improvement of the communication is done in order to run the functions of the manager optimally in the process of budget. For example, to determine the standard fund should not be determined by the director, but all together with the plantation's managers. Thus, the plantation's managers will be able to achieve the budget because the standard of the budget is not appropriate to the real condition at the plantation. Finally, it can improve their performances as the plantation manager. This case is appropriate as what is suggested by Irvine (1982) states the aspect of communication is more important than to improve the managers' performances.

V. Conclusion And Suggestions

Based on the result of the research which has been done, it is known that the hypothesis in this research is accepted. Thus, the conclusion of the research is a budget of communication affects significantly positive on the performances. This explains that a higher feedback or budget of communication affects on the managers' performances.

Even though this research has been designed but it cannot be ignored that the result of this research. Although the research has been well designed but there still have limitations. Thus, the generalization of decision should concern on the limitation of the research. This research conducted which has done by this non-public society because the private plantation has different characteristics between PTPN 4 as government plantation.

For a further research in the future, it is suggested to add the productivity dimensions and the budget of variances as a measurement on performances' variable. This may be resulted to a strong finding the impact of communication in budget with the performance.

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