

# Goal-setting participation as strategic measurement performance for enhancing managerial performance through procedural fairness and interpersonal trust

Soni Agus Irwandi<sup>1</sup>, Taufik Akbar<sup>2</sup>

<sup>1</sup> STIE Perbanas Surabaya, Nginden Semolo Street 34-36, Surabaya, 60118, East Java, Indonesia

<sup>2</sup> University of Diponegoro, Hayam Wuruk Street 5, Semarang, 50241, Central Java, Indonesia

## ARTICLE INFO

### Article history:

Received 10 September 2014

Revised 2 December 2014

Accepted 19 December 2014

### JEL Classification:

M12

### Key words:

Goal-Setting Participation,  
Procedural Fairness,  
Interpersonal Trust,  
Managerial Performance.

### DOI:

10.14414/jebav.14.1703005

## ABSTRACT

This research is a study of the behavior of the performance measurement strategy. Behavior is related to the participation of managers in setting performance goals that are measured in terms of financial and non-financial, that can affect managerial performance, with an intervening variable procedural fairness and interpersonal trust. The object of research was carried out at the level of middle and lower level managers in all companies in the Province of Banten and West Java are registered in the Indonesia Stock Exchange (IDX), with a sample of 205 managers. Results of the study showed that the manager's participation in setting performance goals that are measured in terms of financial and non-financial positively affect performance and managerial and procedural fairness. Beside, interpersonal trust partially mediates the effect of goal-setting participation managers on managerial performance.

## ABSTRAK

Penelitian ini merupakan sebuah penelitian tentang perilaku pada sistem strategi pengukuran kinerja. Perilaku tersebut berkaitan dengan partisipasi manager dalam menetapkan tujuan kinerjanya yang diukur dari segi keuangan dan non-keuangan, sehingga dapat mempengaruhi kinerja manajerial, dengan variabel intervening keadilan prosedural dan kepercayaan interpersonal. Objek penelitian dilakukan pada tingkat manajer level middle dan lower pada seluruh perusahaan di Propinsi Banten dan Jawa Barat yang terdaftar di Bursa Efek Indonesia (BEI), dengan sampel sebanyak 205 manajer. Hasil dalam penelitian menunjukkan bahwa partisipasi manager dalam menetapkan tujuan kinerjanya yang diukur dari segi keuangan dan non-keuangan mempengaruhi kinerja manajerial secara positif dan signifikan, dan keadilan prosedural serta kepercayaan interpersonal memediasi secara parsial pengaruh goal-setting participation managers terhadap kinerja manajerial.

## 1. INTRODUCTION

The system of performance measurement has become an issue which still continues among practitioners, academics, and researchers in which the system is still criticized and debated. The literature on the measurement system is found to be traditional performance measurement system with a focus on financial measurements. In other words, it cannot yet be used for decision making for any organization. The traditional financial measurement system has been criticized due to the only focus on short-term rather than long-term, and it was limited to the past rather than the future (Jusoh et al.

2007). This also affects the behavior of the performance measurement strategy in an organization.

In terms of measurement system, in management accounting studies it focuses on financial performance that is used to evaluate managerial performance, especially in the attitudes and behavior of managers when measuring using the financial aspect or budget. Thus they applied it so simple or too narrow for they view only one dimension (Lau & Sholihin 2005).

Here is the related management accounting research on the behavior of the system performance measurement strategy. The performance evaluation

\* Corresponding author, email address: <sup>1</sup> soni\_msi@yahoo.com.

is a superior style when evaluating the performance of subordinates based on the measurement of financial or accounting data. This research was done by (Subramaniam and Mia 2003; Lau & Tan, 2006; Parker & Kyj 2006; Leach-Lopez et al. 2007; Chong & Johnson, 2007; Derfus 2009; Jermias & Yigit 2013). The study only discusses how to influence the behavior of the performance evaluation style using measurements of financial performance but did not discuss the measurement of non-financial performance.

On the other side, the non-financial performance measures are considered much wider as by looking far ahead, and using it for sustainable development in the long-term competitive advantage (Lau & Moser 2008). The example of non-financial performance can be found in the Balanced Scorecard approach. It is the approach used by management to evaluate the performance behavior of employees in an organization. Like a study done by (Lau & Moser 2008), it advocates that the measurement of non-financial performance affects the behavior of managerial performance of employees. Therefore, the measurement of performance in terms of financial and non-financial must be incorporated by the company for strategic planning, control and evaluation of performance, because by combining the performance measure. In short, it enables the managers to address issues traditionally thought bounded by the financial function, which in turn can improve decision-making, and improve the solution of existing problems (Kaplan & Norton 2004).

The study above combines the performance measures of financial and non-financial, in influencing the behavior of the performance measurement strategy used by employers to evaluate the performance of subordinates. In the literature of management control system as it was proposed by (Merchant & Van Der Stade 2007), it is stated that in order to be able to motivate managers in order to perform better, then an evaluation of performance should be determined by measurement of performance that combines financial and non-financial.

The performance measurement system combines the performance measures of financial and non-financial to motivate participation in the organization. In other words, this system is used as the link information to all employees both from the top level to the bottom level (Lau & Sholihin 2005). It looks that this style of performance evaluation can be conducted by the employer when evaluating subordinates, participatory using performance measures both financial and non-financial. Partici-

pation in an organization with the style used for performance evaluation can expand the level of agreement that will ultimately improve performance (Sholihin et al. 2004). This is confirmed by research conducted by (Akbar and Irwandi 2014). They argue that participation involving middle and lower-level managers is measured from the aspect of financial and non-financial direct influence on managerial performance.

A study combining the financial performance measures and non-financial organizations in a company is still unclear such as why and how the size can affect managerial performance (Sholihin et al. 2004). It is possible that the size of the performance of financial and non-financial performance of the company only affects not only on employee performance, especially on performance manager (Sholihin & Mangena 2010). For that reason, this research tries to focus on how the style of performance evaluation conducted by superiors to subordinates as measured by the performance of financial and non-financial can affect managerial performance.

This study also describes that the fairness of the evaluation system be the main determinant of the behavior of the employee, where the fair evaluation process is expected to be a favorable outcome for the performance of the employees. The research of procedural fairness is important because it shows how it can affect the attitudes and behavior of organizational members (Sholihin & Pike 2010). It is also described by (Lau & Moser 2008) that procedural fairness likely result in benefits for employees, including increased working performance.

Based on the previous studies, this study also explains when an organization implements a performance measurement strategy that combines size and non-financial finance. How and when it can affect procedural fairness (Lau & Sholihin 2005; Sholihin & Pike 2010; Sholihin et al. 2011). Later in the study (Lau & Moser 2008) revealed that procedural justice can improve managerial performance. Therefore, this study seems to be a potential procedural fairness as mediation variable between manager's participation in setting performance goals that are measured in terms of financial and non-financial to managerial performance.

Interpersonal trust is essential for contributing to the performance in an organization. In addition, the success of the performance evaluation can only occur in an environment where trust between members of the organization can evolve to one another. Beside, trust is a critical overview on the per-

formance evaluation process because with the increasing trust between subordinates and superiors, tends to lead to improved communication and openness between organizations, the existence of trust within an organization can also increase the solutions to solving problems, and improve performance (Sholihin et al. 2004; Lau & Sholihin 2005; Hartmann & Slapnicar 2009).

In a study conducted by (Chong & Ferdiansah 2011; Lau & Tan 2006), it was found that trust can affect the relationship between force performance evaluation on managerial attitudes and behavior. Trust in superiors can also be used as a mediation variable, because in previous studies in management accounting has been found that there is significant correlation between measurements of performance measured in terms of financial and non-financial to trust in his superiors (Lau & Sholihin 2005; Sholihin & Pike 2010; Akbar and Irwandi 2014) and trust in superiors can significantly affect the performance of managerial (Sholihin & Pike 2009; Akbar and Irwandi 2014). Therefore, this study include procedural fairness variables and interpersonal trust as an intervening variable between the influence of manager participation as measured by financial and non-financial to managerial performance.

Based on the related literatures described above, this study attempts to find out whether 1) Goal-setting participation managers affect managerial performance, 2) whether procedural justice mediates between the goal-setting influence managers' participation on managerial performance, 3) whether it mediates the effect of interpersonal trust between managers' goal-setting participation on managerial performance? Then, to test that the manager's participation is measured in terms of financial or non-financial performance goals set or known as goal-setting participation (Sholihin et al. 2011) directly affect managerial performance, and prove that justice procedural and interpersonal trust as an intervening variable indirectly affect between goal-setting participation managers and managerial performance.

## **2. THEORETICAL FRAMEWORK, AND HYPOTHESIS**

### **Goal Setting Theory**

Goal - setting theory is a root of experimental psychology and management theory. Goal theory is to set the premise that an individual is willing to be aware of the intentions and actions, and the performance of someone can be affected when carrying out his intention (Lock & Latham 2006). For

example, a manager who has a specific goal to increase profits from sales in every unit obtained in the previous year will try to increase sales in the future.

All the efforts above are intended that when the lower level managers know exactly what they should do to work, and then they will perform better than lower-level managers whose purpose is not clear, because a manager with specific goals will exert further efforts and spend more time to pursue those goals. In addition, specific goals will explain what is necessary to complete their tasks, which will ultimately have an impact on improving managerial performance (Locke & Latham 2006).

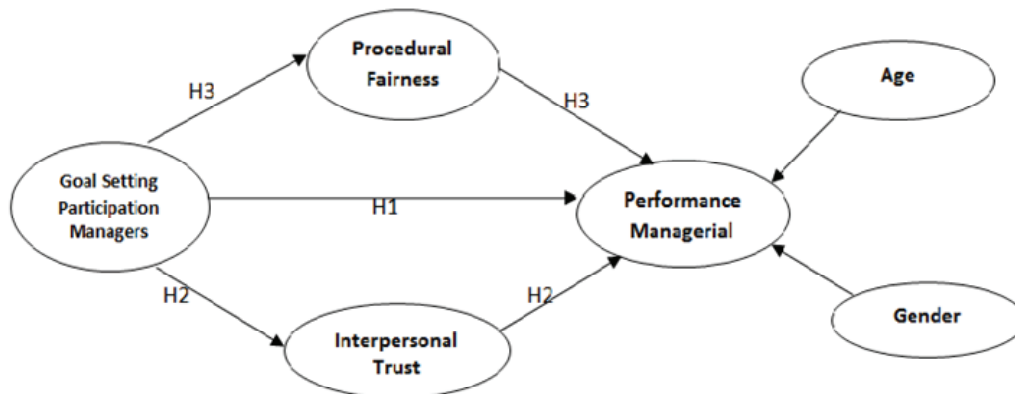
Based on the theory of goal setting, it can be explained that the managers who participate or engage in performance goal setting affect expectations for outcomes that will be accepted. Participation aims to shape attitudes, behaviors of employees and managers. In other words, participation may encourage managers to identify destination, take it with a commitment and work in order to achieve it, so the managerial activities within the organization will increase (Etemadi et al. 2009; Jeremias & Yigit 2013). As such, it is expected that with the manager participation in clear goal setting, it will have implications for the improvement of managerial performance.

### **Theory of Management Control System**

Management Control System is a system used by an organization in managing human resources in order to fit with the strategy that has been applied (Hongren et al. 2006; Merchant & Van der Stede 2007; Anthony & Govindarajan 2007). All are included in the management control system that is to combine performance measurement of financial performance measures and non-financial, employee and managerial incentive systems, procedures or policies, personal control, and culture as well as social control (Smith 2008). All of these things are used to support the organization's strategy orientation with directing, thinking, and encourage businesses that goal strategy consistently achieved (Smith 2008).

According to (Merchant & Van der Stede 2007), it is stated that the action control, personal control, result control, cultural control are all parts of the management control system. They are control tools that can trigger the employees in order to achieve the set targets, the controls work includes goal setting, building naturally self-motivated with a rule and commitment, and reward the achievement of the performance achieved.

**Figure 1**  
**Framework of the Research**



The managers within a business organization clearly require criteria to determine how well they work and to control their performance. In this case, the measurement of performance which combines the size of the financial and non-financial is an important concept in control, because the performance measurement system to convey information that is necessary for the execution of work. Management Control System helps managers to find the information and ensure the performance of the employee, and the employee's behavior in line, or consistent with the goals of the organization (Armash et al. 2010).

Based on the theory above, it can be inferred that the strategies used by good management by involving employees in the process of goal setting as measured by the performance of financial and non-financial, to apply fair procedures, and their confidence in the employer, must be concerned with the behavior of employees are consistent with the objectives in an organization, when a goal has been consistent and in line, then the consequence is on increasing managerial performance.

### Framework

Schematic framework in this study can be described in Figure 1.

### Goal-Setting Participation and Managerial Performance

Goal-Setting Participation is the participation of managers in setting performance goals that are measured in terms of financial and non-financial (Sholihin et al. 2011). Non-financial measures include customer, internal business processes such as innovation, and learning and growth. All are considered much wider by looking far ahead, and using for sustainable development in the long-term competitive advantage (Kaplan & Norton 2004).

Financial size illustrates the advantage in a company as focused on profits or income based on accounting data.

Goal-setting theory reveals that by the participation manager, the manager can affect the expectations for outcomes that will be accepted. Participation encourages managers to identify goals, accept with a commitment, and work in order to reach it, which in turn improve the performance of the manager (Etemadi et al. 2009; Jeremias & Yigit 2013). Managerial performance is a manager's skills when carrying out managerial activities that include planning, investigation, coordination, supervision, staffing, negotiation and representation (Hall 2004).

Empirical research on goal-setting participation on managerial performance has not been done yet because it only focuses on the context set up the involvement of managers in the performance objectives in terms of financial or budget. Some research that has been done by (Leach-Lopez et al. 2007) which found that participation in budgeting (financial) positive effect on job satisfaction and performance. And research (Lau et al. 2006) who found that the budgetary participation is positively related to performance, but research has been done (Lau & Moser 2008) found that the use of non-financial performance measures/non-budget, a significant effect on managerial performance.

Based on the description that has been described above, likely to influence the participation of managers in setting performance goals are measured based on the aspects of financial and non-financial impact on managerial performance. Therefore, this study tries to find the performance goal setting participation is measured from the aspect of budget/financial and non-budgetary/non-financial positive effect on managerial performance (see Figure 1). The hypothesis is as follows:

H1: Goal-setting participation managers directly and positively affect the managerial performance.

### **Interpersonal Trust**

Trust is the relationship to superiors as an important part to drive an increase on openness during the communication among members of the organization (Hartmann & Slapnicar 2009). The focus of this research is on the relationship of trust between superiors and subordinates in which trust can be raised from interpersonal relationships between superiors and subordinates are based on the level of reliability, confidence, and confidence security or superiors, on motives and intentions relating to the status and career interests in a subordinate organization (Hartmann & Slapnicar 2009).

Individuals who trust can synchronize, help each other, and work together - together. The trust behavior also can improve the quality of a decision and be able to improve the performance of the work (Lau & Sholihin 2005; Hartmann & Slapnicar 2009). Thus, the employee who is active in participation by superiors in setting performance goals can increase the trust of subordinates, because they indirectly have control and ego involvement in the organization (Akbar and Irwandi 2014). Subordinates feel that the boss can protect and promote the interests of subordinates and show sensitivity to the needs of subordinates (Lau & Sholihin 2005; Lau & Tan 2006; Chong & Ferdiansah 2011). When trust is subordinate to the boss, it increases and managerial performance increases, too.

Empirical findings conducted by (Lau & Tan 2006; Chong & Ferdiansh 2011) suggest that participation in the budgeting positively affects the trust. Research conducted by (Sholihin et al. 2011) found that goal-setting participation significantly and positively affects interpersonal trust. Later, some studies by Akbar and Irwandi (2014) provide evidence that interpersonal trust mediates the effect of participation on managerial performance and goal setting. Therefore, this study posits that goal-setting participation by the managers is mediated by interpersonal trust affecting the managerial performance. The hypothesis is stated as follows:

H2: Goal-setting participation managers affect managerial performance which is mediated by interpersonal trust.

### **Procedural Fairness**

Procedural Fairness can be conceptualized as an assessment of fair procedure, used to evaluate the performance of employees and communicate the performance feedback (Sholihin & Pike 2010). Pro-

cedural fairness associated with subordinate perceptions about the whole process applied by their superiors to evaluate their performance, as a means to communicate performance and to determine the reward for them as a promotion or a raise (Cropanzano & Benson 2005).

It is clear that procedural fairness should be applied fairly. This is expected to increase the managerial performance of the company (Lau & Sholihin 2005; Lau & Tan 2006; Sholihin & Pike 2006) with a fair performance evaluation procedure; the subordinates will be motivated to do a better job that will eventually be reflected in the improvement of their performance. Sholihin et al. (2011) found that goal-setting participation positively affects procedural fairness. A study by Lau & Moser (2008) found that procedural justice affects performance.

Several studies have revealed that participation related to procedural fairness with regard to performance. This can allow that procedural fairness to mediate the participation of managers in setting the goal that measured from the financial aspect and non-financial to managerial performance. Therefore, this study argues that procedural justice mediates the effect of goal-setting participation managers to managerial performance. Thus, the hypothesis proposed is the following.

H3: procedural justice mediates the effect of goal-setting participation managers on managerial performance.

## **3. RESEARCH METHOD**

### **Measurement of the Variables**

#### **Goal-Setting Participation**

Goal-setting participation by managers consists of 2 items of questions. The first involves such as "that the boss to participate in setting performance-goals (non-financial), the second that "I fully get involved in setting performance-goals (financial). The constructs questions using a Likert scale of 1 (one) to 7 (seven). The value of one when it strongly disagree, and the value of seven when it is so much agree once. Goal-setting instrument of participation by the managers uses instruments from Locke & Latham (2006) and Sholihin et al. (2011).

#### **Procedural Fairness**

Procedural fairness consists of four (4) items statements. First it is fair of a company in implementing the procedure, to evaluate the performance of employees. Secondly it is fair procedures in determining promotion company employees. These three companies communicate back that it is fair proce-

dures for the performance of the company to its employees. Fourthly, it is fair procedures of the company to determine the increase in payroll employees. The constructs of the questions uses a Likert scale of 7 of the values, in which 1, when it is strongly disagree to 7, when it is strongly agree. Procedural fairness uses a reference of McFarlin and Sweeney developed by Lau & Moser (2008).

### **Interpersonal Trust**

Interpersonal trust consists of 4 questions. First, it is hat "the boss took an advantage, on the basis of the interests of his subordinates. Both or all employees feel free to discuss an issue with superiors, without fear or harm to the job position. All three employees feel confident and believe that "the boss will frankly to the information related to the interests of his subordinates. Fourth, employees will continue to believe the boss, when the boss acts in a way that can be justified, for example, that is: when the employer makes a decision that seems contrary to the interests of his subordinates. Item questionnaire using a Likert scale of 1 to 7 of the value of one when it is strong disagree to strong agree grades seven when it is to agree very much. Interpersonal trust is measured using a reference of Read's, developed by Sholihin et al. (2011).

### **Managerial Performance**

Managerial performance is the performance of the individual members of the organization in managerial activities including planning, investigation, coordination, staffing, negotiation, monitoring, and evaluation. This variable instrument consists of 9 questions or statements using a Likert scale of 1 to 7 of the value of one if strongly disagree to strongly agree grades seven if they agree very much. The performance is measured using the reference managerial of Mahoney developed by Hall (2004).

### **Sample and Data Collection Procedures**

The data are primary data in the form of the perception of respondents, collected by mail survey administered and surveyed via email with Google docs system. The questionnaires were sent to the middle and lower-level managers who are responsible for marketing, production, HR (Human Resources), financial and treasurers. The population consists of 432 on 72 companies engaged in the primary field, secondary sector (manufacturing), and the tertiary sector (services) in the province of Banten and West Java having been listed in the Indonesia Stock Exchange.

The large companies were taken based on a minimum number of sample in the Structure Equation Modeling (SEM) using a ratio of 5 observations for each estimated parameter. After this, it uses 22 parameters (constructs) with the minimum sample to be used that is a total of 110 samples (Hair et al. 2010). The number of questionnaires distributed during the study is based on a purposive sampling to achieve the representative sample in accordance with the specified criteria. Then, the questionnaires were sent to the all companies of 360 questionnaires. The number of companies is 72 times the number of questionnaires that have been suited to the criteria based on purposive sampling that is 5 for each company.

The following is the results of a questionnaire collected by questionnaires. They were sent by the researchers with the total number of 360 questionnaires. Thus, the questionnaires were returned directly of 25 collected by electronic mail of 50 questionnaires and collected by postal questionnaire of 130, and then the total questionnaire collected is 205 questionnaires.

The test shows that the response to one less complete answer, to be used in data processing (Sholihin et al. 2011), a total of 220 questionnaires were used, resulting in a response rate of as much as 57%. The response shows a very effective response and high. Later, the test was conducted at the beginning and at the end of the respondents, showing that there was no problem for non-responses bias.

Demographic analysis of the respondents indicate that the average age of the respondents is <30 years of 32 respondents to the percentage rate of 15%, aged 30-45 years of 105 respondents to the percentage rate of 51%, age > 45 years of 68 respondents to rate the percentage of 33%. Then, for the gender of male respondents, there were 115 respondents with a percentage rate of 56%, in males by 90 respondents with a percentage rate of 43%. The age and gender in this study serve as a control variable.

### **Data Analysis Techniques**

Hypothesis testing is done using Structural Equation Modeling (SEM). According to Equation Modeling (Hair et al. 2010) it is a multivariate analysis technique, to estimate a series of interdependent relationships in several variables by combining aspects of multiple regression (in examining the relationship of dependence) and analysis factors (ie representing a concept which is not measurable or factors with multiple variables). Software used in

**Table 1**  
**Descriptive Statistics of Variables**

Variables	Theoretical Score		Actual Score		Standard Deviation
	Range	Mean	Range	Mean	
Goal-Setting Participation	2 s/d 14	8	2 s/d 14	8.67	2.859
Procedural Fairness	4 s/d 28	16	12 s/d 26	20.71	3.823
Interpersonal Trust	4 s/d 28	16	8 s/d 28	18.95	4.836
Managerial Performance	9 s/d 63	36	9 s/d 63	46.98	8.379

Source: Output of SPSS 21 (2014).

this study is Warp Partial Least Square (PLS Warp) version 3.0.

#### 4. DATA ANALYSIS AND DISCUSSION

##### Descriptive Statistics

All data were collected by using questionnaires which were tabulated and processed for analysis purposes. As displayed, the data analysis of descriptive statistics is to provide an overview of the respondents regarding the research variables, which shows the number of theoretical and actual range, average, and standard deviation, such as shown in Table 1.

The respondents' response to the question of participation goal-setting variable has a value of 2 to the theoretical range of 14 with the average value of 8. In actual range, participation has goal-setting variable values ranging from 2 to 14 with an average value of 8.67 and the value of 2,859. The value of standard deviation of the average respondent's answer to the question items participation with goal-setting variable values are above the range of the actual value of the theoretical range. Thus, it can be concluded that the participation of employees in the middle and lower-level managers in setting performance goals is measured from the financial aspects and non financial aspects, in which the respondents of the company is quite intensively to do it.

The procedural fairness has the theoretical value range of 4 to 28 with an average of 16. In the actual range of procedural fairness, it has a value of 12 to 26 with an average value of 20.71 and standard deviation values of 3,823. The average value of respondents' answers to the question items for procedural fairness with real range above the theoretical value of the range. For that reason, it can be concluded that procedural fairness has a very high value to be applied by the respondents of company.

Interpersonal trust has a value of theoretical range is between 4 and 28 with an average value of 16. The value of the actual range is between 8 and 27 with an average value of 18.95 and a standard

deviation value of 4.863. The average value of the respondents' answers to the question items interpersonal trust variable with a value of true range over the range of the theoretical value or it can be concluded that the trust subordinates to superiors is very pretty.

Managerial performance has a value of theoretical range of managerial performance variables between 9 and 63 with an average value of 36. The actual value of the variable range of managerial performance is between 9 and 63 with an average of 46.98 and a standard deviation value of 8.379. The real value of the range above the range of the theoretical value or it can be concluded that increasing managerial performance in the company.

##### Validity and Reliability

A construct can be said to be reliable if the value of Composite Reliability is above 0.7 (Hair et al. 2010).

##### Reliability

Table 2 describes the Composite Reliability of goal-setting participation that is of 0.861, procedural fairness of 0.952, interpersonal trust of 0.948. The managerial performance is 0.952. The value of composite reliability is 0.7 so that all variables are reliable. Test the validity of uses indicators of average variance extracted (AVE), subject to be above 0.5 and discriminant validity must be above 0.7, (Hair et al. 2011).

Table 3 represents the goal-setting participation has discriminant value of 0.869 and AVE value of 0.755, procedural fairness variable has a value of discriminant validity of 0.849 and AVE value of 0.720, interpersonal trust has a value of discriminant validity of 0.906 and AVE value of 0.822, managerial performance has discriminant validity of 0.830 and AVE value of 0.690. All variables have a value above 0.70 and discriminant validity variance extracted is also of 0.50. It can be concluded that all indicators are valid.

##### Assessing the criteria of Goodness-Of-Fit

There are three types of assessment of this

**Table 2**  
**Results of Reliability Test**

No.	Variables	Composite Reliability	Criteria
1	Goal Setting Participation	0.861	Good
2	Procedural Fairness	0.952	Good
3	Interpersonal Trust	0.948	Good
4	Managerial Performance	0.952	Good

**Table 3**  
**Results of Validity Test**

No.	Variables	Validity Discriminant	AVE	Criteria
1	Goal-Setting Participation	0.869	0.755	Valid
2	Procedural Fairness	0.849	0.720	Valid
3	Interpersonal Trust	0.906	0.822	Valid
4	Managerial Performance	0.830	0.690	Valid

Source: Output WarpPLS 3.0 (2014).

(Sholihin & Ratmono 2013). Assessing the goodness-of-fit criteria, in view of a model of the best of several different models (competing models) can be done as follows: (1). ARS (Average R-Squared). The p-value for the ARS must be less than 0.05, which means the value of ARS is significant. If these criteria are met then categorized the model is fit. 2). AVIF (Average Variance Inflation factor). AVIF as an indicator must be smaller than 5. If these criteria are met then categorized the model is also fit. 3). APC (Average Path Coefficient). The p-value for the APC must be less than 0.05, which means the value of the APC significantly. If these criteria are met then categorized the model is also fit.

The result of this assessment was done using WarpPLS 3.0. It shows that the criterion of goodness of fit model is with APC with the values such as ( $p < 0.001$ ), ARS ( $p < 0.001$ ) and AVIF (Good if  $< 5$ ), meaning that all models have been declared fit

### Hypothesis Testing and Discussion

Table 4 shows the test results of the parameter of beta coefficient between goal-setting participation and managerial performance. It shows there is a positive effect of 0.48, with a p value of 0.01 is smaller than  $< 0.05$  is thus the first hypothesis (H1) can be supported. The second and third hypotheses are to test the effect of mediation. According to (Hair et al. 2010) to test the effect of mediation can be done by the following procedure: (1). Estimating the direct influence of exogenous variables with endogenous. (2) Estimating the indirect effect simultaneously between mediating variables, exogenous and endogenous.

The results of testing the effect of mediation

are on Table 4 and Figure 2. It shows that the direct effect of the beta coefficient of 0.50 MP GSP  $\rightarrow$  that is positively significant with p-value of 0.01 is below 0.05. Beta coefficient of indirect effect GSP  $\rightarrow$  MP is decreased significantly positive 0.48 with a p-value of 0.01 is below 0.05. GSP beta coefficient of 0.27  $\rightarrow$  IT significantly positive with p-value of 0.01 is below 0.05. Then, the IT  $\rightarrow$  MP with positive beta coefficient of 0.21 is significantly with p-value of 0.01 under 0.05.

Thus the requirements for testing the mediation have been met with a form of mediation partially due to the direct effect of GSP  $\rightarrow$  MP which has a positive effect significantly and the effect of indirect positive effect GSP  $\rightarrow$  MP significantly too, with beta coefficient reduced, then GSP  $\rightarrow$  IT and IT  $\rightarrow$  MP is significant.

Thus the second hypothesis (H2) is supported. According to (Kenny 2003) that the partial mediation occurs when the direct effect of independent variables and the dependent variable is significantly positive and the independent variable and the dependent variable to be significant with the beta coefficient dropped after it is controlled by the effect of mediating variables.

Full mediation occurs when the direct effect of the independent variables and the dependent variable is significantly positive and then the independent variable and the dependent variable become insignificant after influenced indirectly by mediating variables. The test of the effect of subsequent mediation shows that the direct effect of the beta coefficient of 0.50 MP GSP  $\rightarrow$  positively significant with p-value of 0.01 is below 0.05.

Beta coefficient of the indirect effect GSP  $\rightarrow$  MP is decreased significantly positive 0.48 with a p-



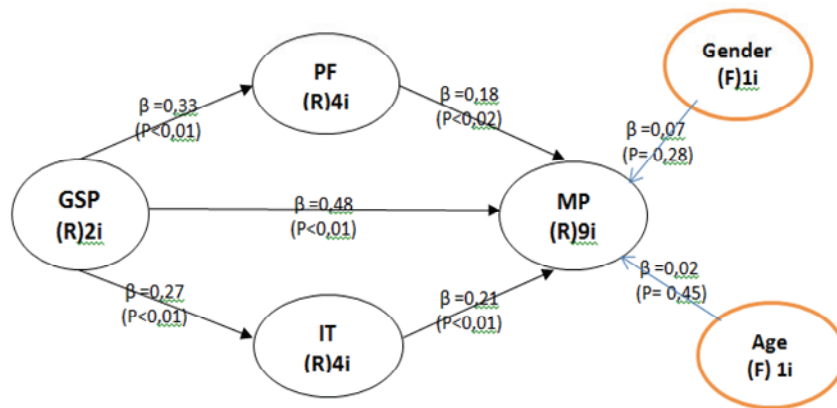
**Table 4**  
**Standardized Path Coefficient and P-Values for the Structural Model**

Variables	Direct Effect		Indirect effect		Inferences
	Coefficient of Beta	p-value	Coefficient of Beta	p-value	
GSP ->MP	0.50	0.01	0.48	0.01	Significant
GSP -> IT			0.27	0.01	Significant
IT -> MP			0.21	0.01	Significant
GSP -> PF			0.33	0.01	Significant
PF ->MP			0.18	0.02	Significant

Source: Output of WarpPLS 3.0 (2014).

Goal-Setting Participation(GSP), Managerial Performance (MP), Procedural Fairnes (PF), Interpersonal Trust (IT).

**Figure 2**  
**Model of the Overall test Results**  
**Full Structural Model**



Source: Processed data by WarpPLS.3.0.

value of 0.01 is below 0.05. GSP beta coefficient of 0.33 → PF significant positive with p-value of 0.01 is below 0.05. Then, PF → MP with positive beta coefficient of 0.18 is significant with p-value of 0.02 under 0.05. Thus, the requirements for testing mediation have been met with a form of mediation partially due to the direct effect of GSP → MP positively affects significantly.

And, the effect of indirectly positive effect GSP → MP is significantly with beta coefficient decreased. And, then GSP → MP → PF and PF is significant. Based on the above test results, it can be said that the procedural fairness partially mediate the effect of goal-setting participation on managerial performance. All in all, the second hypothesis (H3) is supported.

Based on the above empirical findings, it indicates that the participation of managers in setting performance goals is measured from the aspect of financial and non-financial impact on managerial performance. This evidence is supported by the goal-setting theory put forward by (Locke & Latham 2006) who explains that the managers who participate or engage in the organization can affect the performance goal-setting for expecting the out-

comes. This is also accepted.

Participation aims to shape attitudes, behaviors of employees and managers. In other words, participation can encourage managers to identify the objectives .They can also take it with a commitment and work in order to achieve it. Thus, at the end of managerial performance is achieved within the organization and it increases (Etemadi et al. 2009; Jeremias & Yigit 2013). It is supported by a study cone by Akbar and Irwandi (2014) who found that goal-setting participation affects managerial performance.

Based on the results as seen in Table 4, it can be said that interpersonal trust partially mediates the effect of goal-setting participation managers on managerial performance. This result is consistent with the study by Lau & Tan (2006), Chong & Ferdiansah (2011) who also found that participation in the budgeting aspects (financial) has effect positively on trust. It is also supported by the research conducted by Sholihin et al. (2011) who found that goal-setting participation significantly and positively affect interpersonal trust.

The findings also support the research by Akbar and Irwandi (2014) who found that interper-

sonal trust mediate the effect of goal-setting participation on managerial performance. Statistical results are also shown in Table 4 showing that procedural fairness mediates indirectly positive the effect of goal-setting participation on managerial performance. This is in accordance with the opinion by Lau & Sholihin (2005), Lau & Tan (2006), and Sholihin & Pike (2009) with a fair performance evaluation procedure; the subordinates were motivated to do a better job. This eventually is reflected in the improved performance. This evidence is proved to be still consistent with Sholihin et al. 2011) and also by Lau & Moser (2008).

The control variables are age and gender and the results of the control variables is not significant. This indicates that gender and age are already controlled. According to Sholihin & Ratmono (2013) regardless of the effect outcome of the controlled variables towards the criteria, will not affect the results that have been hypothesized.

## 5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATION

In general, it can be inferred that there is a direct positive and significant effect between goal-setting participation by the managers and managerial performance. It also indicates that procedural fairness and interpersonal trust mediate partially the indirect effect of managers' goal-setting participation on managerial performance.

The evidences found in this study contribute to the system of performance measurement strategy by combining financial measures and non-financial as parts of the management control system. These can help managers to find the information whether the employee's behavior in line with organizational objectives and ensuring whether the performance of employees in an organization the company increase.

The strategy that used by management company can be both by applying a fair procedure and bringing a sense of confidence in the employer. They must involve the behavior of employees who are committed to the goal in a business organization. The employee behavior is reflected by involving employees in the process of goal setting organizational performance.

The employees' involvement in the process of setting performance goals is expected to improve the managerial performance within an organization. Therefore, when an individual has committed to a specific purpose, in this case the employees who participated in an organization set perform-

ance goals, they can affect their actions, and finally increase the performance.

The limitation deals with the use of a questionnaire and survey method. The problem that may arise is the low response rate, and the bias by the respondents in the questionnaire because of being lack of control. The sample taken at the companies located in two provinces that have been listed on the Indonesia Stock Exchange. Thus, the results can not be generalized to companies throughout Indonesia that are listed on the Stock Exchange. This study didn't include the antecedent variables on the participation of managers in setting the goals that are measured in terms of both financial or budget or non-financial or non-budget.

The suggestion is that for further research, it can use the sample of the companies in Indonesia all are listed in on the Indonesia Stock Exchange. Researchers can conduct research on non-profit-making organizations or in the public sectors by adding antecedent variables in the goal-setting participation, such as variables of work attitude and that of need for achievement.

## REFERENCES

- Anthony, RN and V Govindarajan, 2007, *Management Control System*, 12<sup>th</sup> ed. McGraw-Hill/Irwin: Boston.
- Armash, H, Salarzahi, H, Kord, Baker, 2010, 'Management Control System', *Interdisciplinary Journal of Contemporary Research In Business*, Vol. 2, No. 6.
- Akbar, T and Irwandi, SA 2014, 'Partisipasi Penetapan Tujuan Perusahaan Sebagai Variabel Prediktor Terhadap Kinerja Manajerial', *Jurnal Akuntansi Multiparadigma*, Vol. 5, No. 2.
- Cropanzano, R, Goldman, B & Benson, L, III 2005, 'Organizational justice', In J Barling, K Kelloway, & M Frone (Eds.), *Handbook of work stress* (pp. 63-87), Beverly Hills, CA: Sage.
- Chong, VK and Johnson, DM 2007, 'Testing a model of the antecedents and consequences of budgetary participation on job performance', *Accounting & Business Research*, Vol. 37 No. 1, pp. 3-19.
- Chong, VK and I, Ferdiansah, 2011, 'The effect of trust-in-superior and truthfulness on budgetary slack: An experimental investigation', *Advances in Management Accounting*, 19: 55-73.
- Derfuss, K 2009, 'The relationship of budget participation and reliance on accounting performance measures with individual-level conse-

- quent variables: A meta-analysis', *European Accounting Review*, 18 (2), 203–240.
- Etemadi, H, Dilami, ZD, Bazaz, MS & Paramaswaran, R Culture, 2009, 'Management accounting and managerial performance: Focus Iran'. *Advances in Accounting, incorporating Advances in International Accounting*, 25, 216–225.
- Hall, M 2004, 'The effect of Comprehensive Performance Measurement Systems on Role Clarity, Psychological, Empowerment and Managerial Performance', *Global Management Accounting Research Symposium*, Available on [www.ssrn.com](http://www.ssrn.com).
- Hartmann, F & Slapnicar, S 2009, 'How formal performance evaluation affects trust between superior and subordinate managers', *Accounting, Organizations and Society*, 34 (6, 7), 695–886.
- Hair, J, W Black, B Babin and R Anderson, 2010, *Multivariate Data Analysis: A Global Perspective*, (7<sup>th</sup> edition), New Jersey: Pearson.
- Hongren et al. 2006, *Introduction to Management Accounting*, 9<sup>th</sup> ed. Upper Saddle River: Pearson Education.
- Jermias, J and Yigit, F 2013, 'Budgetary Participation in Turkey: The Effects of Information Asymmetry, Goal Commitment, and Role Ambiguity on Job Satisfaction and Performance', *Journal of International Accounting Research*, Vol. 12, No. 1, 29–54.
- Jusoh, Ruzita, Ibahim, DN, Zainuddin, Yuserrie, 2008, 'The Performance Consequence Of Multiple Performance Measures Usage', *International Journal of Productivity and Performance Management*, Vol. 57, No. 2.
- Kaplan, RS and DP, Norton, 2004b, 'Measuring the Strategic Readiness of Intangible Assets', *Harvard Business Review* (February): 52–63.
- Kenny, David A 2003, *Mediation*, <<http://www.users.rcn.com/dakenny/mediate.htm/>>.
- Merchant, K and Van, Der, Stede, 2007, *Management Control Systems: Performance Measurement, Evaluation and Incentives*, Prentice-Hall: London, UK.
- Lau, CM and Sholihin, Mahfud, 2005, 'Financial and Non-financial performance measures: How Do They Affect Job Satisfaction', *The British Accounting Review*, 37, 389–413.
- Lau, CM & Moser, A 2008, 'Behavioral effects of non-financial performance measures: The role of procedural fairness', *Behavioral Research in Accounting*, 20 (2), 55–71.
- Lau, CM & Tan, SLC 2006, 'The effects of procedural fairness and interpersonal trust on job tension in budgeting', *Management Accounting Research*, 17 (2), 171–186.
- Leach-Lopez, MA, WW Stammerjohan and FM, McNair, 2007, 'Differences in the role of job-relevant information in the budget participation-performance relationship among U.S. and Mexican managers: A question of culture or communication', *Journal of Management Accounting Research*, 19: 105–136.
- Locke, EA and Latham, GP 2006, 'New directions in goal-setting theory', *Current Directions in Psychological Science*, Vol. 15 No. 5, pp. 265–8.
- Parker, RJ and L, Kyj, 2006, 'Vertical information sharing in the budgeting process', *Accounting, Organizations and Society*, 31: 27–45.
- Sholihin, M, Na'im, A and Lau, CM 2004, 'The effects of multiple measures-based performance evaluation on managers' performance: The role of procedural fairness and interpersonal trust', in Epstein, MJ and Manzone, JF (Eds), *Studies in Managerial and Financial Accounting*, Vol. 14, Elsevier, London.
- Sholihin, M & Pike, RH 2009, 'Fairness in performance evaluation and its behavioural consequences', *Accounting and Business Research*, 39 (4), 397–413.
- Sholihin, M and Pike, R 2010, 'Organizational Commitment in the Police Service: Exploring the Effects of Performance Measures, Procedural Justice, and Interpersonal Trust', *Financial Accountability & Management*, 26(4).
- Sholihin, M, Pike R, Mangena, M & Li, 2011, 'Goal-Setting participation and Goal Commitment: Examining the Mediating Roles of Procedural fairness and Interpersonal trust in UK financial services organization', *The British Accounting Review*, 43 (2011) 135–146.
- Sholihin and Ratmono, 2013, *Analisis SEM-PLS untuk hubungan nonlinear dalam penelitian ilmu sosial*, Penerbit Andi Offset, Jakarta.
- Smith, Langfield, 2008, 'Strategic management accounting: how far have we come in 25 years?', *Accounting, Auditing & Accountability Journal*, Vol. 21, pp. 204–228.
- Subramaniam, M and L, Mia, 2003, 'A Note on Work-Related Values, Budget Emphasis and Managers Organizational Commitment', *Management Accounting Research*, Vol. 14, No. 4, pp. 389–408.
- Yuen, D 2007, 'Antecedents of budgetary participation: enhancing employees' job performance', *Managerial Auditing Journal*, Vol. 22 No. 5, 2007 pp. 533–548 q Emerald Group Publishing Limited 0268-6902.

### **ACKNOWLEDGEMENTS**

We would like to express our gratitude to our respondents who participated in this research;

we would also like to thank the reviewers for so their valuable comments and constructive suggestions.