

# **ROLE OF CONTRACTS OF PSYCHOLOGICAL OF PROCESS OF PREPARATION OF THE PARTICIPATION OF BUDGETING**

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## **Abstract**

Companies need a budget as one important component, to survive in a rapidly changing business environment today. An organization needs a budget for all strategies into plans and short-term goals and long-term. And in the budgeting process that takes all levels of the organizational structure to Participate. This article discusses the role of psychological contract in the drafting budgeting process. Inclusion of middle and lower-level managers in the budgeting process, this would lead to a commitment to the manager that the budget is also a goal, so that will fit between the destination managers with corporate goals (goal congruence). In the event of the company's goals suitability between the company and the manager, then the manager will try harder and take the initiative more to achieve budget targets set. The achievement of the budget targets is an achievement, where as the load participation goals of the organization. So it can be stated that the participation has a positive relationship with achievement

**Keywords:** participatory budgeting, contract Psicologist

## INTRODUCTION

The company needs budget as one of the important components, in order to *survive* in a rapidly changing business environment today. An organization needs to translate the overall budget strategy into plans and short-term goals and long-term. The functions of the budget other than as a tool to control, as well as a tool to coordinate, in Haryanti and Nasir (2002).

The budget process is an important activity and involves various parties, both top-level managers as well as managers of the lower level will be instrumental in preparing and evaluating various alternatives of the aims of the budget, where the budget is always used as a benchmark for the best performance of managers (Leslie, 1992) in Haryanti and Nasir (2002). With the expected participation of the budget pnyusunan manager's performance will increase, as a purpose designed and participation is approved, then the employees will internalize the goals set, and have a sense of personal responsibility to achieve it because they get involved in drafting the budget. Budget establish liability on any responsibility centers on the functional area, which is expected to improve managerial performance.

Budgeting can be done with a approach *top-down* and *the botton-up* (Chandra, 1992 in Rosidi, 2000). approach *Top-down* or budgetary *authoritative* top management budget for the organization as a whole, including the operation of the lower level. approach *Botton-up* allows the negotiation or participation among managers to achieve organizational goals.

With the involvement of middle and lower-level managers in the budgeting process, this would lead to a commitment to the manager that the budget is also a goal, so that will fit between the destination managers with corporate goals (*goalcongruence*). Thus in case of suitability objectives of the company between the company and the manager, then the manager will try harder and take the initiative more to achieve budget targets set. The achievement of the budget targets is an achievement, whereas the load participation goals of the organization. So it can be stated that the participation has a positive relationship with achievement

Budget is used in addition to measuring performance is also used to control and influence the behavior of the parties concerned with the establishment and implementation of the budget (ie *principal* and *agent*). In addition, the incentive compensation *agent* directly related to the budget and achieving goals. So the incentive and compensation on a budget then the tendency is the emergence of opportunistic behavior of the agent. *Agents* can play *games budgeting* by manipulating and targeted information in order to achieve the highest possible bonus.

Game *Budgeting* is generally regarded as a form of dysfunctional behavior that complicates the process of planning and business evaluation accuracy and manager, (Bart, 1998, in Young 2003). One of the ways used by the *agent* in *budgeting games* is through a participatory process.

In the budgeting process takes good human relationships. The process of creation of good human relationships the company's management can be done by applying the psychological contract. Anoraga in Hardiyanto (2011) stated the psychological contract in a company it is important to produce a good commitment between the employee and the company. The psychological contract is a collections of unwritten expectations that exist within ourselves each individual or employee in the company.

It is important in an organization to produce a good komtmn between employees and supervisors is through the psychological contract.

The psychological contract as an informal unwritten contract that consists of employee and his superiors' expectations regarding employment relationships are reciprocal. That is, the psychological contract arises when the employee believes that the liabilities of the company to employees will be comparable to the obligations provided by the employee to the company as an example of the employee believes that the company will provide job security and promotion opportunities and are committed to the company (Armstrong, 2004).

The main purpose of the psychological contract is to establish conditions conducive to the employees. The psychological contract is a stimulus and a motivator for employees to be more tied to the company. According to a statement Bhatnagar (2007), many empirical studies that show empirical support in the psychological contract as an important motivator for employees. It is also supported Anggun et al suryanto role in the mengarakan that the psychological contract can create motivation that will eventually membentu a perilaku.Perilaku the behavior is to remain loyal to the company and the job, so it appears the behavior remained loyal employee may indirectly affect the incidence commitment to the company.

Embodiment good psychological contract can lead to balance, harmony, harmony, and kelancara on the progress of management, as well as the relationship between the company and the psychological karyawan.Kontrak interwoven with strong will can bring balance, harmony, harmony and smoothness on the progress of management, as well as the relationship between companies with employees. Psychological contract can serve to avoid the appearance of conflict and social gap between the company and employees.

A harmonious relationship between employees and the Vendor may be established if

there is a strong psychological contract, otherwise if the psychological contract is applied is not strong or not in accordance with what was expected, it can cause a problem such as increasing sense *disengaged* employees. This means that if the company can provide the needs of employees with a gift of hope, then the employee may be more motivated to complete the task well and vigorously. Employee motivation that can either contribute to or performance of the company for more advanced and developed. Conversely, if the company does not meet the needs of employees with good, then employees can not also write a good performance or contribution. While in the preparation of budgetary participation required contributions from all levels within the organization.

### **Study of the Psychological Contract participation Budgeting and Participation Budgeting A**

budget is a statement made by the management plan that will be done in the future in a given period, which will be used as a guideline in the implementation of activities during the period (Hanson, 1966). From this sense, the budget has been prepared to have a role:

1. The budget serves as the planning, namely that the budget contains a summary of the organization's financial plans in the future.
2. Budget measure performance, budget is used as a control system for measuring managerial performance.

Along with the role of the budget, Argyris, (1952), the Riyadi, (2000), stated that the key to effective performance is achieved when the purpose of the budget and the participation of agents played an important role in achieving these objectives. Manager participation in budgeting encourages managers to identify the objectives, targets, accepted the budget in full and implemented to achieve these targets.

Participatory budget is a budget made by more than one person, which confirms that the budget is prepared by involving many parties that are competent in it. Participation itself by Siegel in Rahayu (1997) is defined as a decision-making process shared by two or more parties that have an impact in the future for decision makers. Milani Rahayu (1997) defines participatory budgeting as perceived level of influence and the individual's involvement in the budgeting process. In a study of participation budgeting (the process whereby the budget-making involved and have an influence in determining the size of the budget) shows that there is a positive effect on the motivation of the management for two reasons:

1. There is a greater acceptance of the aims of the budget if they feel they are in control of managers, compared with coercion from outside. This leads to the responsibility of

individuals to achieve goals.

2. The results of the budget-making participation is effective information exchange. approved budget are the result of the expertise and knowledge producers budget, which is close to the neighborhood of product / market. In addition, the budget-makers have a better understanding of their work through interaction with the supervisor during the examination and approval.

Participation budget making very favorable for the concentration of responsibilities in the implementation of the dynamic and uncertain environment for managers who are responsible for the centralization of responsibility makes it possible to have the best information about the variables that can affect their income and expenses.

participation *Midle manager* and *low manager* in the preparation of the budget will provide benefits, (Kren, 1992, in the Sahara, 2005):

1. Reducing inequality of information within the organization
2. Make a greater commitment to the manager to implement and meet their budget, and creating an environment that encourages the acquisition and use of information relevant job ,

With the benefits of participatory budgeting can allow top management to understand the problems faced by employees and the employees are also better able to understand the difficulties faced by top management. So that participatory budgeting can increase employee commitment to achieve budget goals.

### **Psychological Contract**

According Anoraga(2011) mention the psychological contract in a company it is important to produce a good commitment between the employee and the company. The psychological contract is a collection haragan-hope not terutlis that exists within every individual or employee in a company that is always there throughout the individual in a company.

According to Armstrong in Hardiyanto (2011), the psychological contract is an informal contract is not written, composed of employees and superiors expectations regarding employment relationships are reciprocal balik.Artinya psychological contract arises when the employee believes that the liabilities of the company to employees and superiors about the working relationship is reciprocal behind. That is, the psychological mkontrak arise when the employee believes that the company's obligation on the employee to the company, for example, employees who believe that the company will provide job security and opportunities for promotion, and are committed to the company.

The psychological contract is a series of employee expectations about what they will give to the organization or company is called by donations or contributions and in return will give the organization or company for contributing to the reward perhargaan commonly called incentives, according Maheswari (2008).

Turnley and Feldman (1998) assumes that employees will build hope psychological contract based on three sources, namely a promise made by the company representatif, the perception of corporate culture, as well as the adjustment of expectations as to how the company will operate. This lack of understanding encourages new employees to actively menginterpeasikan first experience in a new environment to predict what will happen in the future and hopes to build working relationships do (Rousseu, 1995).

According to Griffin (2002) psychological contract is a series of owned eskpektasi an individual for what he contributed to the organization and what the organization will be given as remuneration.

The concept of the psychological contract is the belief of individuals in reciprocal obligations with the owner of this pekerjaan. Kepercayaan expressed about the understanding of the promises made and the offer consideration in the changes that binding between workers and organizations in order to construct a reciprocal obligations. The trust will exist when individuals enter the organization by making the unwritten contract that must be obeyed. This contract about mutual expectations, labor and employment. Psychological contract based on an understanding between labor and work in the fulfillment of the contribution of each, so that the presence of a reciprocal process between workers' expectations regarding the owner of the work in fulfillment of their respective contributions. So with a reciprocal process regarding expectations among workers with this job owner, gave rise to the application of the system of psychological contract. The establishment of the psychological contract between the workers and the owner of the work comes from the interrelationships of hope and understanding regarding the fulfillment contributions. (Subagyo, 2012). According to Rousseau (1995), the psychological contract underlying beliefs about mutual obligations between the employee and the employer. Psychological contract consists of three dimensions, namely:

a. Contract Transactional

Transactional contracts are short term and focus on just the economic aspects, the type of work that narrow (narrow) and the minimal involvement of employees in the organization. There are two main dimensions examined in transactional contract, which is narrow and short term. Narrow means that employees are required to

perform only a series of jobs in the reward. Keterlibatan restrict organization of employees in the organization and provide unlimited opportunities for training and development. Short term yaitu employees have no obligation to keep working in the organization forever and is committed to work up to a certain time limit. Organizations offering employment relationships only for a certain period and is not obliged to guarantee the employee's career long term. Transaksional contracts that are characterized by monetary berjangkauan with limited employee involvement in the organization and relation to other individuals in organisasi that appear to be differences with other individuals in the organization so that it appears a significant difference with the concept of relational contracts.

b. Relational Contract

*Relational Contract* has a long period of time can not be determined until expiration. This type of contract also involves socio-emotional factors. As kepercayaan, security and loyalty. Each party hopes a mutual relationship (*reciprocal*). Relational contracts involve two dimensions, namely dimensional stability and loyalty. *Stability* concerns the employee is required to work on the organization for a relatively long time and do other things to keep his job. Organizations in this case offer a compensation package that is stable and long-term working relationship. While loyalty is employee is required to support organisasi, demonstrating loyalty and komitmen organization. In addition, employees are expected menjadi good organization members. Conversely organization committed to ensure the welfare and needs of employees and their families.

c. Contract Balanced

*Balanced contract* is a mix between zero from transaksional and relational contract, is dynamic and *open-ended* focus on the economic success of the company and the opportunity to develop employees' careers. Both the employees' mutual company to contribute to learning and development. *Balanced contract* consists of *external employability*, including career development outside the organization. In this aspect, the employee has an obligation to develop marketable skills outside the organization. While the obligations of the organization is to improve the long-term working relationships both within and outside the organization. *Internal Advancement* includes career development in the internal labor market. Employees are obligated to develop the skills valued by today's organizations. In addition, organizations are obliged to create career development to workers in the company.

*Dyanamic perforamance* includes obligations of employees to do new things and help the company achieve its goals in order to become a competitive company. While the obligations of the organization is to help employees to improve learning and implementing the performance requirement.

### **Psychological Contract Research and Budgeting Participation**

There are a lot of research on the psychological contract leh Argyris was first introduced in 1960 in the book *Understanding Organizational Behavior* (Schalk and Roe 2007). This concept was developed by Levinson kemudaian, Price, Mandl and Solley in 1962 when it conducted a study on the *utility*company. Levinson apply the concept of contracts psychotherapy namely a set of intangible aspects in an agreement between experts pskiloloanalysis namely a set of intangible aspects in an agreement between psikoloanalysis experts and patients in the work setting. Psychological contract developed into an unwritten agreement as a form of expectations between the organization and employees. At first, the psychological contract is applied in the form of a formal relationship between the organization and the employee and bonded with tangible aspects such as salaries. But in its development of this concept facilitates the intangible aspects such as honor gained a person because of his job, a chance to develop and feeling in Ayomi by the organization.

In the study Rousseau (1990; in Haq et al, 2011) found them to contract traksaksional characterized as having a high competitive level in terms of economic, such as wages and lack of organizational commitment. In this study, found the results of that meeting will memabwa tranasaksional contract employees who have kontinuans commitment to the organization. This can be explained as by Coyle- Shapiro and Kessler (2002), which states that the psychological contract theories have employees will be motivated to avenge what they considered to be their obligations to the organization if the company promises to Country they have also been met.

Hendi and Rahim results of research in 2011 found that the effects of the contract and the effective psikolgis commitment on employees' turnover intention. From these studies it can be seen that the more positive psychological contract employees view, the higher the affective commitment to the enterprise and the lower turnover intention score.

In the study Fariza (2013), found that the psychological contract has a significant influence on organizational commitment as well as to the three components of organizational commitment that affective commitment, kontinuans, and normative. Of the three components of the commitment, the psychological contract has an influence and contributed the most to

the affective commitment. Furthermore transactional contracts have a significant impact on the level of commitment and the individual components of organizational commitment. Of the two types of psychological contracts, transactional contracts contributed most significantly to the commitment and employee continuans.

Trust of employees of the organization is an employee of the organization's expectations in the future. If the trust is very high, then someone will try to work as best as possible and it is also possible *Organizational Citizenship Behavior* (OCB) can be done well. Research conducted by Noer Aisha Diamond (2015), indicates that the contract psikologis positive but not significant effect on the performance of employees in Jember Regency Pulmonary Hospital. Results were refused research conducted by Caesar Diana (2012), that karyawan performance is also influenced by the psychological contract. As well as research jayanti (2013), which shows the psychological contract obtain any positive effect on the performance of karyawan Hospital Semarang.

In a study Krishnan and Shield (2012) provide experimental evidence of the effect of psychological contract violation on the honesty of their communications subordinates for participatory budgeting. Participatory budgeting allows employers to obtain personal information of subordinates and can improve economic outcomes, especially in the presence of ex post information asymmetry. However, participatory budgeting can also build the psychological contract which subordinates expect superior to fulfill the promise of participation. When subordinates promised participatory budgeting but these expectations are not met, their psychological contract is violated. According to Krishnan and Shield psychological contract breach will cause a negative effect on the budget communication honesty, even when the economy contracts fulfilled. That is, the psychological contract is violated subordinates will respond with a budget of less honest communication relative to the participants of the psychological contract is fulfilled. The results showed that psychological contract breach subordinate during participatory budgeting associated with a lower level of honesty. Moreover, the effects of psychological contract breach honesty persist in the coming period, even when the psychological contract is no longer violated. These results have implications for the design of economic contracts in the company.

Early Rosdini (2015) in his research aimed to examine the effect of psychological contract, *shared financial interest* and procedural fairness towards honesty in participatory budgeting. The independent variable in this study is the fulfillment or violation of the

psychological contract, *shared financial interest*, awareness of other employees on the creation of *slack* and perceptions of procedural fairness. The dependent variable in this study is the honesty of the business unit managers in the budgeting process partisipatif. Hasil this study indicate that psychological contract affect the honesty of the business unit managers. Honesty business unit manager in a state of participatory budgeting full- *full influence* greater than in a state of participatory budgeting *pseudo- some influence* and honesty business unit manager in a state of participatory budgeting *pseudo- some influence* smaller than the participatory budgeting *pseudo-no influence*. The results also show that a *shared financial interest* honesty affect the business unit manager of honesty smaller business unit manager in a state of the division of benefits on *slack* created without their share of the benefits than the *slack created*. In the absence of benefit sharing *slack* created to other employees, the business unit manager honesty higher when other employees know the creation of *slack* than when other employees do not know the creation of the *slack*. In addition, this study also proves that procedural fairness increases honesty business unit managers in the process of participatory budgeting.

## **Conclusion**

Participation budgeting is the process of budget preparation that involves everything in the organizational structure, the low manager, middle manager and top manager.

In the preparation of budgetary participation, because it involves all the structures that exist within the organization, it is predicted that the psychological contract will affect the outcome of the process of preparation of budgetary participation. Psychological contract itself is an expectation of an individual for what he contributed to the organization and what the organization will be given as a reply to this jasa. Hal in support of the research results Krishnan and Shield (2012) and Early research Rosdini (2015), where the results of the second the research that psychological contract influence on honesty in the process of preparation of budgetary participation.

In early research rosdini Krishnan and consider only the factors *shared financial interest*, Procedural Justice, and honesty to communicate in the formulation of budgetary participation. While the research conducted by Hendi and Rahim (2012), Fariza (2013) shows the results of research that psychological contract influence on organizational commitment

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