

PROCEDURAL FAIRNESS AS INTERVENING VARIABLE BETWEEN VOICE AND PERFORMANCE EVALUATION FORMALITY ON TRUST

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Abstract: This study aims to test the hypothesis developed by Hartmann and Slapnicar (2009). That is to examine the influence of subordinate participation and performance evaluation formality in the process of performance evaluation of trust through the perception of procedural fairness. This research uses a survey method, which is data retrieval through a questionnaire. Subjects in this study are all staffs in one of the University of Malang who has met the criteria. The test used Partial Least Square (PLS). Results showed that the participation of subordinates was not able to improve the perception of procedural fairness directly, but can increase trust. While, the formalities of performance evaluation, directly able to improve the perception of procedural fairness, but can not increase trust. However, if tested indirectly performance evaluation formality can increase trust through the perception of procedural fairness, whereas subordinate participation cannot improve. Conclusion, this study supports the hypothesis developed by Hartmann and Slapnicar (2009), but there are some unsupported hypotheses because of the difference of the research object, where each research object has different evaluation system according to organizational objectives.

Keywords: Subordinate Participation, Performance Evaluation Formalities, Perception of Procedural Fairness, Trust



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The Performance Evaluation system is still at the center of attention in practice and management accounting research, this was revealed by Harris and Durden (2012). According to Hartmann and Slapnicar (2012), the level of procedural fairness perception in the process of Performance Evaluation carried out by superiors towards subordinates is still very limited, this is due to the presence of behavioral factors in the Per-

formance Evaluation process. The Performance Evaluation process itself is a derivative of organizational goals. Each organization has its own goals. Therefore the performance evaluation system of each organization will also vary. Likewise, each organizational unit also has a Performance Evaluation system that varies according to the center of responsibility of the unit. The center of responsibility has several types, such as cost centers, income, profits, and investment centers. Each unit determines its target in accordance with the center of accountability, if a unit has a revenue responsibility center, then the work target is also based on the income achieved, as well as the other responsibility centers.

The process of Performance Evaluation also has several characteristics such as Performance Evaluation Formalities and Subordinate Participation in the Performance Evaluation process. Performance Evaluation Formalities according to Desriani and Sholihin (2012), are Performance Evaluation processes that explain performance targets explicitly, measure performance with clear metrics, and provide rewards based on clear allocation rules. Whereas Subordinate Participation in the Performance Evaluation process according to Hartmann and Slapnicar (2009), is seen from how superiors involve subordinates in the Performance Evaluation process, such as asking the opinion of subordinates for their poor performance or asking things that are obstacles in improving their performance. Subordinate trust towards superiors (trusts) is added in this study because there are indications that subordinates' perceptions of fairness greatly influence individual behavior such as subordinate trusts to their superiors (Desriani & Sholihin, 2012). In this study, the perception of procedural fairness is defined as individual perceptions of fairness of the composition components of the Performance Evaluation system set by an organization. This concept focuses on an individual's cognitive map of the event that precedes the distribution of awards and evaluations of the event (Langevin & Mendoza, 2013).

There is an inconsistency in predictions about things that affect a Performance Evaluation said to be fair. This is due to the lack of a theoretical basis for what behaviors or procedures can improve a Performance Evaluation that is said to be fair (Hartmann and Slapnicar, 2012). So from that Agritansia and Sholihin (2011), say that procedural fairness still needs to be tested in various contexts. This research was conducted at one of the private universities with the consideration that an evaluation system has been established to assess the performance of employees/staff. But until now there has not been an evaluation of the extent to which Performance Evaluation is considered fair by employees. Research on the process of Performance Evaluation was first developed by Hartmann and Slapnicar in 2009 which tested Performance Evaluation Formalities affecting individual Trusts against

their superiors. Then it continued in 2012, which presented two characteristics of the evaluation process, namely Performance Evaluation Formalities and the importance of voice or the involvement of subordinates in the decision making process (Libby, 1999) in the process of Performance Evaluation. The two studies eventually became references in research that focused on the perception of procedural fairness in Indonesia. Research in Indonesia was developed by Agritansia and Sholihin (2011) and Desriani and Sholihin (2012).

This study examines the effect of formalities and Subordinate Participation in the process of Performance Evaluation on the perceptions of procedural fairness, as well as on subordinate Trusts to superiors in educational organizations. In the world of education, the staff has demanded to be able to contribute to education through the form of services provided. With these demands, human resources in this educational organization must also have good performance. Good performance is reflected in Performance Evaluation by superiors who can maintain the quality of human resources. If the quality of human resources in educational organizations is good, then the output of these educational organizations is generally also good.

HYPOTHESIS DEVELOPMENT

Effect of Subordinate Participation on Procedural Fairness

Bosses who involve subordinates in the Performance Evaluation process will be seen as fairer by subordinates (Hartmann and Slapnicar, 2012). This is because subordinates look more at the boss who listens to the input, listens to the explanation regarding his performance, and who considers performance factors that cannot be controlled as a more understanding boss. Thus, Performance Evaluation is carried out in two directions, where subordinates can provide an explanation of the obstacles experienced while working, while employers can give input in overcoming these obstacles, and can try to position themselves as employees to be able to assess their performance more equitably.

H1 : Subordinate Participation has a positive effect on procedural perceptions fairness

Effect of Performance Evaluation Formalities on Procedural Fairness

According to Hartmann and Slapnicar (2009), procedural fairness is a direct and positive consequence of the formality of superiors in the process of the Performance Evaluation process. Bosses who provide performance targets, measure performance with clear metrics, and provide rewards based on clear rules will make Performance Evaluation more consistent, accurate, and can reduce habits, compared with employers who set targets implicitly, subjective performance appraisal, and provide reward according to personal judgment. This is consistent with the accounting literature of Hopwood (1972), Lau and Buckland (2001), and Colquitt and Jackson (2006), who find that fairness criteria must be applied at all levels of decision making processes, such as information seeking, rule decision making, and communication from the results.

H2 : Performance Evaluation Formalities have a positive effect on perception procedural fairness

Effect of Subordinate Participation in the Process of Performance Evaluation of Trusts

Subordinates involved in the evaluation process will have more trust in their superiors. This is due to psychological factors, the more a person is involved in a process carried out by his supervisor, then the person will increasingly have trust in his boss (Laschinger, et al., 2001). The more the boss listens to the subordinates about the explanation of the results of their performance, then the subordinates will also increasingly trust their superiors, this is because communication can increase the Trust itself. According to Whitener, et al. (1998), revealed that the basis for increasing trust in superiors is the following characteristics, (1) Consistency with time and situation; (2) Integrity; (3) Sharing and control of delegations, such as participation in decision making; (4) Communication; (5) Virtue.

H3 : Subordinate Participation in the Performance Evaluation process has a positive effect against subordinate Trusts to superiors

Effects of Performance Evaluation Formalities on Trusts

Subordinate trust towards the boss becomes a reaction that arises due to the process of Performance Evaluation (Dirks & Ferrin, 2002). So to explain the reaction of trusts to the usefulness of the Performance Evaluation analysis system we also consider the choices made by superiors regarding the development of performance targets and how employers provide rewards related to the performance of subordinates (Fisher, et al., 2005). Superiors who use a more formal Performance Evaluation system will have a positive effect on trust because it allows a higher level of integrity, honesty, accuracy, and consistency. This is in line with other studies such as those conducted by Hopwood (1972), Lau and Buckland (2001), and Lau and Sholihin (2005). Sitkin and George (2005), in their study, show that when employers must make controversial decisions, they tend to resist threats to the Trust and their legitimacy by increasing the use of formal controls and reducing their use of informal controls.

H4 : Performance Evaluation Formalities have a positive effect on Trusts subordinates to superiors

Effect of Subordinate Participation and Performance Evaluation Formalities on Trusts Through Procedural Fairness

The growing literature shows that procedural fairness has a positive effect on trust (Alexander and Ruderman, 1987, Folger and Konovsky, 1989, and Konovsky and Pugh, 1994). The influence of procedural fairness on subordinate trusts on superiors is also found in management accounting research (Magner and Welker, 1994, Lau and Sholihin, 2005, Lau and Tan, 2006, Stanley and Magner, 2007, and Lau and Moser, 2008). Procedural fairness is a consequence of the actions in Performance Evaluation carried out by superiors on their subordinates (Hartmann and Slapnicar, 2009). These actions can include Performance Evaluation Formalities and Subordinate Participation in Performance Evaluation. Bosses who disclose their work targets assess performance based on clear metrics and award

awards based on regulations will make Performance Evaluation more consistent and accurate. Other actions from superiors who try to involve subordinates in the Performance Evaluation process are also considered to be able to enhance the effects of procedural fairness. The more a boss can consider the input of his subordinates, listen to the explanation of his subordinates regarding performance, and set reasonable goals, the higher the perception of fairness of a subordinate, which later can also affect trust.

H5a : Performance Evaluation Formalities have a positive effect on Trustsubordinates to superiors through procedural fairness.

H5b : Subordinate Participation has a positive effect on Trustsubordinates to superiors through procedural fairness.

METHOD

This research is quantitative research, with survey data collection methods. The data analysis method used in this study used the Structural Equation Modeling-Partial Least Square (SEM-PLS) approach with the WarpPLS 5.0 program. This study uses a population of all educational staff one of the Private Universities in Malang Regency. Based on the population, samples were chosen based on several criteria, namely having served at that position for at least one year, having a boss who had Performance Evaluation and had been evaluated. This criterion is used with the consideration that the respondent has the time and experience in the Performance Evaluation process so that he can identify and determine the appropriate questionnaire answers.

Variable Measurement

Subordinate Participation was measured using an instrument developed by Hartmann and Slapnicar (2012). This instrument consists of three indicators that can be measured using appropriate relative interests. The treatment in this study is whether or not there is an opportunity for individuals to express opinions related to the process of Performance Evaluation. Participants were given the opportunity to determine the target to be achieved. The Subor-

dinate Participation instrument uses a five-point Likert scale.

Performance Evaluation Formalities are measured using instruments developed by Hartmann and Slapnicar (2009). This instrument consists of three indicators, namely the target setting, performance measurement, and reward giving. The procedural fairness perception is measured using an instrument developed by Hartmann and Slapnicar (2009). Procedural fairness consists of four indicators. Furthermore, subordinate trusts to superiors are measured using instruments developed by Hartmann and Slapnicar (2009). This instrument consists of three indicators. All instruments in this study used a five-point Likert scale with ranges ranging from points 1 to 5.

RESULTS

In this study, the number of questionnaires distributed was 70 questionnaires, while the questionnaires returned were 49 questionnaires. All returned questionnaires have met the criteria and can be analyzed, so the questionnaire return rate is 70%. From the rate of return, demographic data are obtained as follows.

Based on table 2, it can be seen that all variables have a composite value > 0.70 . So that these indicators meet the composite reliability criteria, and it can be said that all variables are reliable. The variable data validity test uses the value of Average Variance Extracted (AVE) if the value of AVE > 0.50 then the variable can be said to be valid. The AVE value of the Subordinate Participation variable, procedural fairness, and trust is above 0.50, so the three variables are valid. Whereas for Performance Evaluation Formalities variable which still has AVE value < 0.50 , according to Barclay, et al. (1995), and Fornell and Larcker (1981), validity test can also be done by comparing square root of AVE with correlation value between constructs in the model. If the AVE value of Performance Evaluation Formalities is based, a result of 0.684 will be found. These results are still higher when compared to the correlation value between constructs in the model. Therefore the Performance Evaluation Formalities variable can still be said to be valid.

Procedural Fairness as Intervening Variable Between Voice

Table 1 Demographic Data

	Category	Total	Percentage
Gender	Male	10	20%
	Female	24	49%
	Unknown	15	31%
Department	Head of Subdivision / above Head of Subdivision	10	20%
	Staff	39	80%
Age	20-30 Years	21	43%
	30-40 Years	18	37%
	Above 40 Years	10	20%
Graduates	Senior High School	10	20%
	Bachelor	28	57%
	Postgraduate	11	23%

Source: Data processed

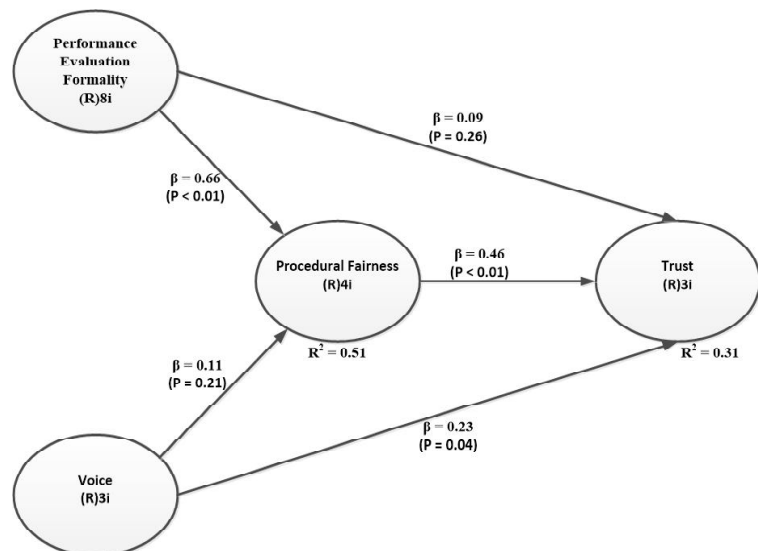
Outer Model

Table 2 Outer Model

	Performance Evaluation Formality	Voice	Procedural Fairness	Trust
<i>Composite Reliability</i>	0,870	0,927	0,931	0,898
<i>Average Variance Extracted</i>	0,468	0,808	0,773	0,747

Source: Data processed

Inner Model



Keterangan :

Performance Evaluation Formality : Performance Evaluation Formalities
 Voice : Subordinate Participation
 Procedural Fairness : Perception of Procedural Fairness
 Trust : Subordinate Trust in Bosses

The level of significance used in this study is 0.05, so based on the significance level, the results of the hypothesis test are as follows. The first hypothesis (H1) states that Subordinate Participation has a positive effect on procedural fairness. $P\text{-value} > 0.05$ with a coefficient of 0.11. This shows that Subordinate Participation does not have a positive effect on procedural fairness. Based on the results of these studies, H1 is rejected.

The second hypothesis (H2) states that Performance Evaluation Formalities have a positive effect on procedural fairness. $P\text{-value} < 0.05$ with a coefficient of 0.66. This shows that the Performance Evaluation Formalities have a significant positive effect on procedural fairness. Based on the results of the study, H2 was accepted.

The third hypothesis (H3) states that Subordinate Participation has a positive effect on subordinate Trusts to superiors. The $P\text{-value}$ value of the model is < 0.05 with a coefficient of 0.23. This shows that the Subordinate Participation has a positive effect on subordinate trust in superiors significantly. Based on the results of these studies, H3 is accepted.

The fourth hypothesis (H4) states that Performance Evaluation Formalities have a positive effect on subordinate Trusts to superiors. The $P\text{-value}$ value of the model is > 0.05 with a coefficient of 0.09. This shows that the Performance Evaluation Formalities have no positive effect on subordinate Trusts to superiors. Based on the results of the study, H4 is rejected. Furthermore, indirect effects testing will be continued by looking at the table as follows.

Table 3 Indirect Effect

<u>Indirect Effects for Paths with 2 Segments</u>		
	Performance Evaluation Formality	<i>Voice</i>
<i>Trust</i>	0,300	0,051
<u>P-Values of Indirect Effects for Paths with 2 Segments</u>		
	Performance Evaluation Formality	<i>Voice</i>
<i>Trust</i>	<0,001	0,304
<u>Standard Errors of Indirect Effects for Paths with 2 Segments</u>		
	Performance Evaluation Formality	<i>Voice</i>
<i>Trust</i>	0,090	0,099
<u>Effect Sizes of Indirect Effects for Paths with 2 Segments</u>		
	Performance Evaluation Formality	<i>Voice</i>
<i>Trust</i>	0,032	0,017

Source: Data processed

The fifth hypothesis is seen through the results of testing the effect indirectly or indirect effect. To test the effect indirectly the significance level used is still equal to 0.05, so based on the significance level, the results of the fifth hypothesis test are as follows. Hypothesis 5a states that Performance Evaluation Formalities have a positive effect on subordinate Trusts on superiors through procedural fairness. The significance value reflected in the $P\text{-value}$ is < 0.05 with a coefficient of 0.30. This shows that Performance Evaluation Formalities have a positive and significant effect on subordinate Trusts on

superiors through procedural fairness. Based on the results of the study, H5a was accepted.

Hypothesis 5b states that Subordinate Participation has a positive effect on subordinate Trusts on superiors through procedural fairness. The $P\text{-value}$ is > 0.05 with a coefficient of 0.05. This shows that Subordinate Participation does not have a positive effect on subordinate Trusts to superiors through procedural fairness. Based on the results of the study, H5b was rejected.

DISCUSSION

The results of this study cannot prove that Subordinate Participation in the Performance Evaluation process can affect procedural fairness. The results of this study are not in accordance with the Hartmann and Slapnicar (2012), a study which shows that the higher the Subordinate Participation in the Performance Evaluation process will improve procedural fairness. This is due to the different characteristics of the Performance Evaluation process for each organization. The Hartmann and Slapnicar (2012), study were conducted at a bank that is a profit-oriented organization, while this research was conducted at educational organizations that are non-profit organizations. Non-profit organizations in the implementation also have goals to be achieved, and one way to ensure that these objectives have been achieved, namely by a mechanism in the Performance Evaluation system. However, the evaluation mechanism is minimal in providing space for Subordinate Participation, so that even if there is or not Subordinate Participation in the evaluation process, it will not change the perception of procedural fairness in the process of Performance Evaluation.

The results of the study also prove that Performance Evaluation Formalities can improve the perception of procedural fairness held by employees. The results of this study are not in accordance with research by Wijayanti (2013), but according to Hartmann and Slapnicar (2009), research which proves that Performance Evaluation Formalities can positively influence the perception of procedural fairness. This is because, in a Performance Evaluation, subordinates always give a perception of what they feel, so that if the Performance Evaluation process is done formally, then the employee will have a fairer perception of the Performance Evaluation process. This is caused by behavioral factors possessed by every human being Hartmann and Slapnicar (2009).

The results of the study also prove that Subordinate Participation can increase subordinate trust in their superiors. This result is due to the existence of psychological factors, and the more employers involve subordinates in a process that is done, then the subordinates will increasingly have trust in their

superiors (Laschinger, et al., 2001). If subordinates are involved in a Performance Evaluation process, the subordinates will have a perception that their supervisor will objectively assess, because the reason for the Performance Evaluation process has been heard and reconsidered by the supervisor.

This study cannot prove that Performance Evaluation Formalities can increase subordinate trust in their superiors, so the results of this study are not in accordance with Hartmann and Slapnicar (2009) research. The reason is that one of the characteristics of educational organizations is the formal Performance Evaluation process, both concerning target setting, performance measurement, and reward giving. For employees of the system that has been formed, there is no connection or relationship with their trust in superiors. Another factor that causes subordinate trusts to superiors is not influenced by the Performance Evaluation Formalities because the Performance Evaluation system has been formed from the center, so employees think that their superiors have nothing to do with establishing a Performance Evaluation system. This ultimately gives reasons why subordinate trusts to superiors are not influenced by the formal or not a performance evaluation system.

In this study, hypothesis 5 is divided into two, namely hypothesis 5a and hypothesis 5b. H5a is accepted with a low mediation effect, so it can be said that Performance Evaluation Formalities can increase trust through procedural fairness. This indicates that if the subordinates have perceived the Performance Evaluation process carried out starting from determining the target, evaluating the performance, and giving the reward fair, then it will be able to influence the level of trust that subordinates have towards their superiors. Trust levels cannot be influenced by Performance Evaluation Formalities before subordinates give a perception of the fairness of a Performance Evaluation Formalities. Whereas H5b is rejected because even though the subordinates have been included in the Performance Evaluation process, which psychologically can affect trusts to superiors, but if they have an unfair perception of the process of Performance Evaluation carried out by their superiors, then it cannot

increase trust against their supervisors. In the H5b model, there is a low, but not significant mediation effect, so that H5b is rejected.

Implications

The results of this study can prove the hypothesis developed by Hartmann and Slapnicar (2009), that one of the characteristics of the Performance Evaluation system, which is Performance Evaluation Formalities, can enhance trust through procedural fairness. In addition, it can be seen that the process of Performance Evaluation is strongly influenced by behavioral factors, namely the perception of each on an evaluation system. The characteristics of educational organizations which are non-profit organizations also influence the perceptions of individuals in them, such as the main purpose of improving services and establishing a centralized evaluation system can influence the views of education personnel in perceiving procedural fairness. This research also provides practical implications for universities and other organizations that the perception of procedural fairness is important in building subordinate trusts against their superiors. The Performance Evaluation system in the organization should be built by taking into account the fair perceptions of employees, both in the Performance Evaluation procedure, and the process of carrying out Performance Evaluation. If a company can improve the Performance Evaluation system that is fairer, then the performance of the organization will be even better, because subordinates will be more confident and feel they have the organization, so that the performance of subordinates will be better, and organizational goals can be achieved.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

This study aims to develop research conducted by Hartmann and Slapnicar (2009), by examining the effect of Performance Evaluation Formalities and Subordinate Participation on Trust superiors on superiors, through the perception of procedural fairness. The results of hypothesis testing do not support the results of previous studies, namely Subor-

dinate Participation is not able to influence procedural fairness. Meanwhile, Performance Evaluation Formalities can improve procedural fairness. Furthermore, in increasing subordinate Trusts to superiors, the variables that can improve are Subordinate Participation, while Performance Evaluation Formalities are not capable. But the Performance Evaluation Formalities turned out to be able to increase trust through procedural fairness, while Subordinate Participation if through procedural fairness is not able to increase subordinate Trust to superiors.

Recommendation

Suggestions for the next kind of research are expected to be able to conduct research on other research objects such as in the financial unit of an institution, whether government institutions or profit-oriented organizations, so that results can show more phenomena and objectivity in an organization's Performance Evaluation system. In addition, research with similar topics is expected to look at other Performance Evaluation system factors that can influence the perceptions of procedural fairness and subordinate trusts to superiors, such as the characteristics and personal values of superiors.

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