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MANAGERIAL PERFORMANCE AND PERFORMANCE MEASUREMENT SYSTEM

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ABSTRACT

This paper is based on theoretical. The aim of this paper is to explain about theory and research results related to Managerial Performance. The paper will explore the variables that can influence them. In conclusion, Burney and Widener (2007) conclude that performance is the link to the evaluative process, complexity, and managerial experiences moderate the relations between an SPMS and Job Relevant Information, Role Ambiguity, and Role Conflict. Furthermore, the research results from Hall (2008) indicate that comprehensive PMS is indirectly associated with managerial performance through dimensions of role clarity and psychological empowerment, Burney et al (2009) also provide evidence that heightened levels of organizational justice are the mechanism through which the perceived characteristics of the SPMS are associated with employee performance.

Keywords: managerial performance, performance measurement system.

1. Introduction

There is growing recognition of the importance of understanding in how and why performance measurement systems (PMS) in management accounting literature relate to individual and / or organizational performance. Furthermore, especially psychological theories indicate that performance measurement systems affect individual performance through cognitive and motivational mechanisms. Performance measurement systems have evolved from systems with a few measures focused on financial outcomes to systems with multiple non financial and financial related to strategy (Kaplan and Norton 1996, 2001).

The remainder of the paper contains three sections: the next section develops the literature review. This is followed by presentation of the results in findings and discussion. The final section concludes the paper.

2. Literature Review

Definition of SPMS

Firms are implementing strategic performance measurement systems (SPMS) defined as systems that “translate business strategies into deliverable results. Strategic performance measurement systems combine financial, strategic and operating business measures to gauge how well a company meets its targets” (Gates, 1999, 4).

Burney and Widener (2007, 43-44) defined an SPMS as “a performance measurement system that contains at least two measures and is linked to a firm’s strategy. SPMSs can vary in their reflection of strategic objectives; an SPMS that is closely linked to strategy better reflects a strategic objective than does one that is loosely linked”.

Definition of CPMS

Prior research indicates that more comprehensive PMS include a more diverse set of performance measures, and performance measures that are linked to the strategy of the firm and provide information about parts of the value chain (Chenhall, 2005; Malina & Selto, 2001; Nanni, Dixon, & Vollman, 1992; Neely, Gregory, & Platts, 1995). Comprehensive PMS have been popularized in techniques such as the balanced scorecard (Kaplan & Norton, 1996), *tableau de board* (Epstein & Manzoni, 1998) and performance hierarchies (Lynch & Cross, 1992). A comprehensive PMS is one that provides performance measures that describe important parts of the SBU’s operations and integrates measures with strategy and across the value chain.

Theories Underlie the Researches

Agency Theory

Agency theory assumes that employees are work averse and self-interested; thus, the primary agency problem is how organizations can use the performance measurement system to motivate employees and mitigate organizational control problems (Sprinkle, 2003). Agency theory suggests that a multiple-measure SPMS is more informative than a single-measure system since the latter is often an incomplete indicator (Feltham and Xie 1994). Predictions of Agency theory that linking incentives to specific measures will cause managers to pay more attention to those measures, which is associated with

reduced role ambiguity. Agency theory posits that incentives serve to align the manager's interest with those of the principal.

Expectancy Theory

Higher levels of performance are achieved because incentives provide extrinsic motivation, which lead to greater effort (Jenkins, Gupta, Mitra, & Shaw, 1998). Expectancy theory holds that managers will not put forth effort unless that effort is rewarded (Hilton et al. 2000).

Reinforcement Theory

Higher levels of performance are reinforcing the performance goals that are linked to incentives (Jenkins, Gupta, Mitra, & Shaw, 1998).

Goal Setting Theory

Goal-setting theory predicts that having specific goals “makes it clear to the worker what it is he is expected to do”—that is, the worker's role should be clear (Latham and Locke 1979, 72). Higher levels of performance are motivating employees to expend effort to achieve difficult goals (Jenkins, Gupta, Mitra, & Shaw, 1998).

Equity Theory

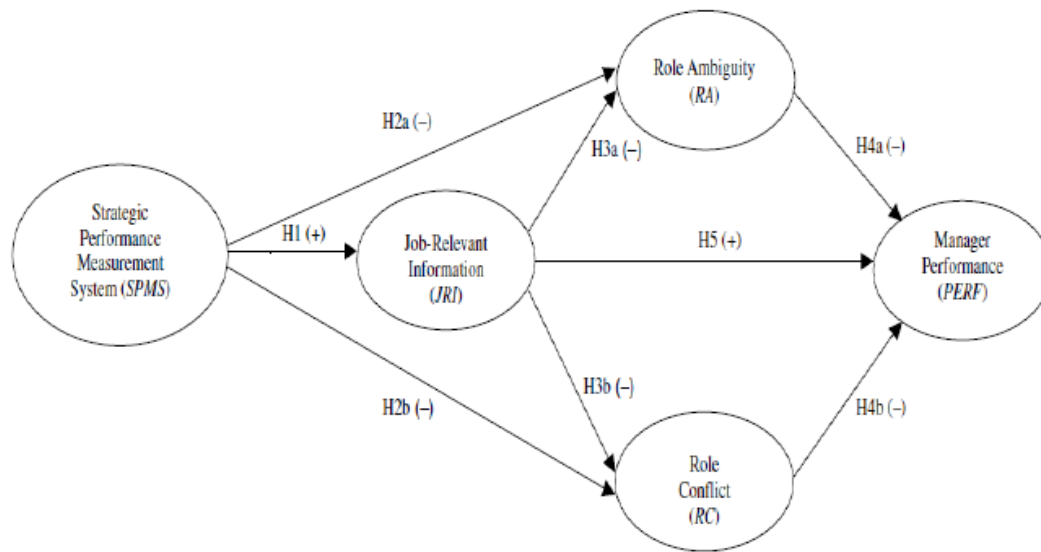
Distributive justice is rooted in equity theory which holds that employees calculate their outputs as a function of their inputs, compare that ratio to other employees' input–output ratios, and make a judgment regarding the fairness of their outcome (Adams, 1965).

3. Findings and Discussion

Hypotheses from Burney and Widener (2007)

- H1 : Job-relevant information (JRI) is positively associated with the extent to which the organization's performance measurement system is linked to its strategy (SPMS).
- H2a : Role ambiguity (RA) is negatively associated with the extent to which the organization's performance measurement system is linked to its strategy (SPMS).
- H2b : Role conflict (RC) is negatively associated with the extent to which the organization's performance measurement system is linked to its strategy (SPMS).
- H3a : Role ambiguity (RA) is negatively associated with job-relevant information (JRI).
- H3b : Role conflict (RC) is negatively associated with job-relevant information (JRI).
- H4a : Performance (PERF) is negatively associated with role ambiguity (RA).
- H4b : Performance (PERF) is negatively associated with role conflict (RC).
- H5 : Performance (PERF) is positively associated with job-relevant information (JRI).

FIGURE 1
Theoretical Model



Source: Burney and Widener (2007)

Result

Burney and Widener (2007) used a survey of Institute of Management Accountants (IMA) members. The survey was returned 763 respondents, with a response rate about 50,07 %. They use AMOS for test the hypotheses.

Table Result of Hypthoteses Hypothesis	Hypothesized Direction	Result
H1	+	Supported
H2a	-	Supported
H2b	-	Supported
H3a	-	Supported
H3b	-	Supported
H4a	-	Supported
H4b	-	Supported
H5	+	Not supported

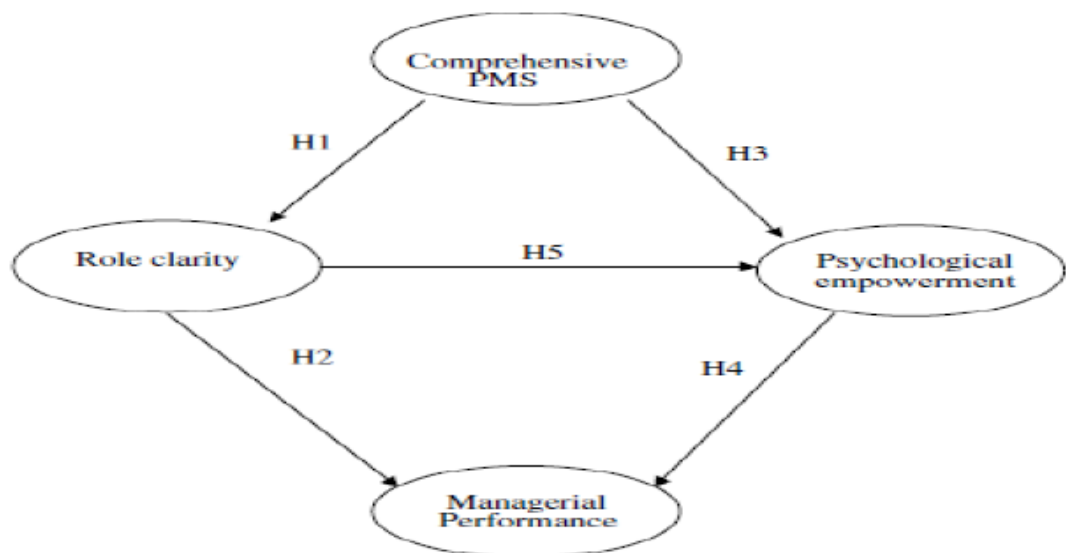


Fig. 1. Theoretical model: comprehensive PMS, role clarity, psychological empowerment and managerial performance.

Source: Hall (2008)

Hypotheses based on Hall (2008):

H1 : There is a positive relation between comprehensive PMS and role clarity.

H2 : There is a positive relation between role clarity and managerial performance.

H3 : There is a positive relation between comprehensive PMS and the four dimensions of psychological empowerment.

H4 : There is a positive relation between the four dimensions of psychological

H5 : There is a positive relation between role clarity and the four dimensions of psychological empowerment.

The result

Hall (2008) collected data using a questionnaire administered to SBU managers within Australian manufacturing organizations and distributed 369 questionnaires, 83 were received, which provided a response rate of 22.5%. He used PLS regression analysis to test the hypotheses in this study.

Table Result of Hypotheses Hypothesis	Result
H1	Consistent, weak for process clarity
H2	Consistent, no association for process clarity
H3	Consistent, weak for self-determination
H4	Only the meaning dimension of psychological empowerment is positively associated with managerial performance
H5	consistent

Hypotheses of Burney et al (2009)

- H1a : The extent to which employees perceive the SPMS reflects a strategic causal model is positively associated with procedural justice.
- H1b : The degree to which employees perceive the SPMS is technically valid is positively associated with procedural justice.
- H2a : The extent to which employees perceive the SPMS reflects a strategic causal model is positively associated with distributive justice.
- H2b : The degree to which employees perceive the SPMS is technically valid is positively associated with distributive justice.
- H3 : Distributive justice is positively associated with procedural justice.
- H4 : Procedural justice is positively associated with employee performance through organizational citizenship behaviors.

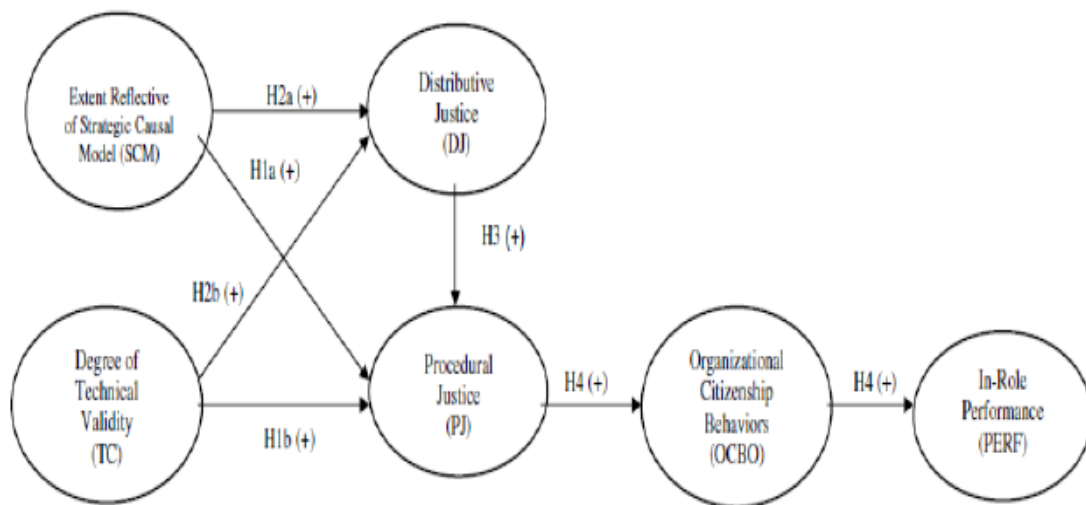


Fig. 1. Theoretical model.

Source: Burney et al (2009)

Result

Burney et al (2009) conducted a survey within one region of the Branch Banking division. 333 employees returned surveys for a response rate of about 60%. They use AMOS to estimate the structural equation model. There are two important things from the result. First, the extent to which employees perceive that the SPMS reflects a strategic causal model and the degree to which it is technically valid are positively associated with their perceptions of organizational justice. Second, the heightened levels of organizational justice are mechanism through which the perceived characteristics of the SPMS are associated with employee performance.

Table Result of Hypotheses Hypothesis	Result
H1a, H2a	Supported ($p < 0,05$ and $p < 0,01$)
H1b, H2b	Supported ($p < 0,01$ and $p < 0,05$)
H3	Supported ($p < 0,01$)
H4	Supported (PJ to OCBO, $p < 0,05$; OCBO to PERF, $p < 0,01$)

Conclusion and Implications

Conclusion

Burney and Widener (2007) conclude that performance is the link to the evaluative process, complexity, and managerial experiences moderate the relations between an SPMS and Job Relevant Information, Role Ambiguity, and Role Conflict. Furthermore, the research results from Hall (2008) indicate that comprehensive PMS is indirectly associated with managerial performance through dimensions of role clarity and psychological empowerment; Burney et al (2009) also provide evidence that heightened levels of organizational justice are the mechanism through which the perceived characteristics of the SPMS are associated with employee performance. It can be said that based on Burney and Widener (2007), Hall (2008) and Burney et al (2009) are investigating the role of learning processes at managerial (individual) level. They have examined how cognitive and motivational mechanism help to explain links between PMS and managerial performance.

Implications

Burney and Widener (2007) states that their implications such as the linkage of an SPMS with evaluative processes, the complexity of an SPMS, and manager's experience are important, at least in terms of improving managerial performance. Companies also need to be aware of the experience levels of employees that use SPMS. SPMS is more beneficial for inexperienced and experienced managers that it is for those managers with moderate experience. In addition, the result indicates that comprehensive PMS (CPMS) influences manager's cognition and motivation, which, in turn, influence managerial performance (Hall, 2008). Furthermore, Burney et al (2009) states that the implication is that the firms do not necessarily need to introduce subjectivity into the incentive contracting system, but can enhance performance by linking incentive contracts to their SPMS if the system contains characteristics that enhance employees' perception of justice.

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Hosted by Faculty of Economics of Universitas Bengkulu

Chairman of
The 12th MIICEMA 2011



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