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FACTORS AFFECTING ORGANIZATIONAL PERFORMANCE

DAVOOD ASKARANY ‡

University of Auckland, New Zealand

ABSTRACT

There is an accumulated body of literature on the diffusion of a variety of relatively new strategic management tools in organizations. However, there is scant research on the level of association between the adoption of these techniques and organizational performance. Investigating the diffusion of six proposed strategic management tools of the past few decades through the lens of organizational change theory, we examine the relationship between the adoption of these techniques and organizational performance in both manufacturing and non-manufacturing organizations in New Zealand. The findings suggest a significant association between the diffusion of these relatively new strategic management tools and organizational performance. The findings also show that the adoption of strategic management tools is equally important for both manufacturing and non-manufacturing organizations.

Keywords: Strategic Management Tools; Organizational Performance; Manufacturing; Non-manufacturing; New Zealand.

INTRODUCTION

An extensive body of the literature suggests that the implementation of relatively new strategic management tools such as of activity-based costing (ABC), and balanced scorecard may lead to a substantial improvement in costing systems, productivity, profitability and performance in organizations (Lee et al., 2008a; Tsai et al., 2009; Karakas et al., 2008; Berling, 2008; Comelli et al., 2008; Kee, 2008; Tsai et al., 2008; Yuwei, 2007). However, the adoption of most of these relatively new strategic management tools lag behind those of traditional ones (AlOmiri and Drury, 2007a; Pierce, 2004; Innes et al., 2000; Baird, 2007; Baird et al., 2007; Langfield-Smith, 1997; Askarany et al., 2010). This raises a question whether these relatively

‡ Corresponding author affiliation: Business School, Department of Accounting and Finance, University of Auckland, New Zealand

new managerial tools are providing adequate contribution to organizational performances to encourage their adoptions. Is the adoption of strategic management tools equally important for both manufacturing and non-manufacturing organizations? Addressing the diffusion of relatively new managerial tools, many studies have investigated the impact of a variety of contextual factors on the diffusion of some strategic management tools in practice (Al-Omiri and Drury, 2007b; Anderson and Young, 1999; Askarany, 2003; Baird, 2007; Gosselin, 1997; Langfield-Smith, 1997). Nevertheless, the majority of these studies have focused on a few particular strategic management tools (e.g. ABC, balanced scorecard, etc.) and less attention has been given to other relatively new strategic management tools. So, it is unclear how other strategic management tools of the past few decades have been perceived by potential adopters and whether they are contributing to the organizations' performances. According to the organizational change theory, there are many reasons for an organizational change (e.g. adoption of relatively new strategic managerial tools) including improved organizational satisfaction, performance, efficiency and effectiveness (Jones and George, 32008). Deriving from organizational change theory, we would expect a positive association between the adoption of relatively new strategic management tools (as proxies for organizational changes) and organizational satisfaction (as a proxy for organizational performance). The study also examines the level of association between the adoption of relatively new strategic management tools and organizational industry (manufacturing versus nonmanufacturing) to see if these tools are equally important for both manufacturing and nonmanufacturing organizations. The remaining of this paper is organized as follows: Section 2 presents the literature review. Section 3 discusses the implemented research method and findings. And finally, Section 4 presents the conclusions.

LITERATURE REVIEW

There is no universal consensus with respect to what techniques constitute pure strategic management tools (Cadez and Guilding, 2008). Strategic management tools are drawn from a variety of disciplines such as management accounting, engineering and economics ((Miller, 1998; Miller et al., 2008). So, we are trying not to limit the coverage of strategic

management tools to any particular discipline (e.g. management, economics, etc.) and include relevant strategic management tool from any discipline which could provide organizations with necessary information for improving organizational performance and decision making. Rogers (2003) defines an innovation as an idea, practice, or object that is perceived as new by an individual or other unit of adoption. Further, he suggests that if the individual has no perceived knowledge about an idea and sees it as new, it is an innovation. Likewise, Damanpour and Gopalakrishnan (1998) define innovation as the adoption of an idea or behavior new to the organization. The common criterion in any definition of innovation is newness. According to Rogers (2003), newness in an innovation might be expressed not only in terms of new knowledge, but also in terms of first persuasion, or a decision to adopt. Wolfe (1994) explains diffusion of an innovation as a way the new ideas are accepted (or not) by those to whom they are relevant. Rogers (2003) extends this definition to consider diffusion as a process by which an innovation is communicated through certain channels over time among the members of a social system.

The Evolution and the Diffusion of Strategic Management Tools

According to Johnson & Kaplan (1987), most of well-known strategic management tools till 1980s were developed during the nineteenth century and the first quarter of the twentieth century. For instance, management accounting systems (MAS) as one example of strategic management tools first appeared in the United States during the nineteenth century (Chandler, 1977). The use of sophisticated accounting procedures as another example of strategic management tools also dates back to the nineteenth century. According to Porter (1980), some companies in the USA used sophisticated sets of cost accounts as early as the first quarter of the nineteenth century. During this period, new accounting systems were devised to control and record the disbursements of cash which provided management with timely and accurate reports on expenditures. A voucher system of bookkeeping, which is used for controlling and recording disbursement, was also developed during the nineteenth century (Wood, 1895). In comparison, before the industrial revolution, accounting was mainly used as a record of the external relations between business units. Information for decision-making and control was usually acquired from market prices (Graner, 1954). Moreover, internal accounting systems for evaluating costs, yield, and working capital were developed during the nineteenth

century. New strategic management for analyzing productivity and linking profits to products were developed during the late nineteenth and early twentieth century. These techniques had a substantial impact on twentieth century's accounting practices. Some of these techniques provided the basis for the development of standards to monitor labor and material efficiencies and costs. The design of the Du Pont management procedures during that period facilitated the evaluation of the performance of capital; these gave significant attention to the application of return on investment. Such information helped managers in the allocation of new investments among competing economic activities and the financing of new capital requirements (Chandler and Salsbury, 1971).

According to Johnson & Kaplan (1987), before World War I, the Du Pont Company was using almost all of the strategic management tools for planning and controlling purposes, known until the 1980s. The initial application of non-financial information which has attracted considerable attention in the past three decades is not completely new too. According to Johnson (1992), as far back as the first half of the nineteenth century, business owners and managers were using nonfinancial information to control organizational operations. The idea of paying more attention to the working people and customers of organization's as a long-term source of profit (considered as non-financial perspectives in balanced scorecard) also dates back to the period before the 1950s. So, it seems that the logic behind most of today's strategic management tools and performance measurement techniques dates back to 1950s and before (though they have received more publicity over the past three decades). According to Björnenak and Olson (1999) the most popular strategic management tools of 1980s and 1990s periods (which received adequate attention by practitioners) can be listed as follows:

- Activity-Based Costing
- Activity-Based Management (ABM)
- Local information systems (LS)
- Balanced Scorecard (BSC)
- Life Cycle Costing (LCC)
- Target Costing (TC) and
- Strategic Management Accounting (SMA)

According to Chenhall and Langfield-Smith, (1998) and Askarany and Smith (2004), the most popular strategic management tools which have received considerable attention among managers in organization's can be listed as follows:

Activity Based Costing (ABC). An approach to costing that focuses on activities as the fundamental cost objects. It uses the cost of these activities as the basis for assigning costs to other cost objects such as products, services, or customers.

Activity Based Management (ABM). Use of ABC concepts to facilitate the identification and reduction of non-value-added activities.

Balanced scorecard. An integrated strategic performance management framework that helps organization's translate strategic objectives into relevant performance measures, by linking nonfinancial measures with a financial perspective in four areas of performance concerned with: financials, internal process, customers and innovation & learning.

Benchmarking. The search for industry best practice that will lead to superior performance. It emphasizes an outward focus and seeks to improved performance by learning from the experience of effective organizations.

Strategic Management Accounting (SMA). A focus on the analysis of the external environment which mandates corrections and adjustments to the internal control systems structures and decision support systems which are vital for the survival of organizations. SMA has an orientation towards the organization's environment such as suppliers, customers, and its competitive position relative to both existing and potential competitors.

Target costing. A form of costing system in which the manufacturing of a product or the provision of a service is restricted within a predetermined total cost ceiling so that a competitive price is achieved. Given the above, it can be argued that the introduction of relatively higher number of strategic management innovations during the 1980s and 1990s is in line with the expanded scope and speed of technological changes and innovations faced by organizations during the same period. Supporting this argument, many advocates of relatively new strategic management tools (such as ABC) claim that incapability of traditional managerial tools in coping with the requirements of technological innovations can be considered as one the main motivations behind the call for relatively more advanced and new

strategic management tools (Al-Omiri and Drury, 2007b; Anderson and Young, 1999; Askarany, 2003; Baird, 2007; Gosselin, 1997; Langfield-Smith, 1997). So, it can be claimed that the motivation behind the introduction of relatively new strategic management tools may link to the criticisms regarding the performance of traditional management tools in satisfying their users (Askarany et al., 2009; Beng et al., 1994; Bork and Morgan, 1993; Gosselin, 1997; Charles and Hansen, 2008; Kaplan, 1994). In line with the above argument, many advocates of relatively new strategic management tools (such as ABC, balanced scorecard, etc.) suggest that the adoption of these tools could contribute to the overall performance of organization's and increase organizational satisfaction (Kelly, 2007; Banker and Mashruwala, 2007; Vera-Munoz et al., 2007; Adam and Fred, 2008; Dikolli et al., 2007; Schneeweiss, 1998; Tatsiopoulos and Panayiotou, 2000; Thyssen et al., 2006; Tornberg et al., 2002). For example, Adam & Fred (2008) find that the extent of ABC implementation in organizations is significantly and positively associated with quality, cost, and profitability and cycle-time improvements. Deriving from organizational change theory, we would expect a positive association between the adoption of relatively new strategic management tools (as proxies for organizational changes) and organizational satisfaction (as a proxy for organizational performance). Nevertheless, research on the level of implementation of some these relatively new strategic management tools such as ABC has produced mixed and generally low adoption rates (commonly less than 30% with a few exceptions of over 70% adoption rates) both in manufacturing and service sectors (Al-Omiri and Drury, 2007a; Pierce, 2004; Innes et al., 2000; Baird, 2007; Baird et al., 2007; Langfield-Smith, 1997; Askarany et al., 2010). There is also some evidence that a number of firms which had started to implement ABC decided to stop the implementation after a short period (Innes and Mitchell, 1991; Madison and Power, 1993). This situation raises question regarding the adequate contribution of these relatively new strategic management tools to organizational satisfaction/performance. However, it is unclear whether (or not) organizations are satisfied with the performance of their implemented strategic management tools and whether (or not) there is a link between organizational performance and the diffusion of strategic management tools in practice. Is the diffusion of some strategic management tools more prevalent among manufacturing organization's than non-manufacturing organization's (or vice versa)? In other words, does

the diffusion of some strategic management tools need more attention in manufacturing organization's than non-manufacturing organization's (or vice versa)? As with the overall adoption rates, research on the diffusion of new strategic management tools in manufacturing and non-manufacturing organizations has produced inconsistent results. In another study (five years later) Innes et al (2000) similarly find a higher adoption rate for ABC users in non-manufacturing than in manufacturing organization's in the UK. As with the above, Al-Omiri & Drury (2007b) find a significant association ($p < .05$) between non-manufacturing firms (e.g. financial sectors and service sectors) and the adoption of ABC in the UK. These findings support Kaplan and Cooper's (1998) suggestion that service firms are more suitable for the adoption of ABC than manufacturing firms as most of their costs are fixed. However, despite the above findings, there are some evidence which suggests that the adoption of ABC is higher in manufacturing organizations than in non-manufacturing organization's (Pierce, 2004).

In summary, the above literature review raises the following questions: Is there any relationship between the adoption of relatively new strategic management tools and organizational performance? Is the adoption of relatively new strategic management tools equally important for both manufacturing and non-manufacturing organizations? Addressing the above questions, current study investigates the diffusion of six relatively new strategic management tools of the past few decades in practice. Then it examines the association between organizational industry and the diffusion of relatively new strategic management tools to see if their adoptions are more prevalent among manufacturing organization's or nonmanufacturing organizations. Finally the paper tests the association between the diffusion of relatively new strategic management tools and organizational performance. However, 'employee's satisfaction' is one of the most prevalent (non-financial) tool for measuring organizational performance in organizations (Baruch and Ramalho, 2006; Mason et al., 2005). This is in line with the statement made by Rigby (2001: 139) suggesting that "there is no equivalent of the Consumer Reports for management to use in evaluating the tools available to them". Given the above, current study uses 'employee's satisfaction' as a proxy to measure organizational performance. The following section describes the details of the research method adopted in this study to answer the above questions.

RESEARCH METHOD AND FINDINGS

A survey questionnaire was mailed to all (366) members of Chartered Institute of Management accountants (CIMA) in New Zealand in 2007. CIMA is a professional management accounting body with over 155,000 members and students in 158 countries. Given the required level of managerial knowledge for becoming a CIMA qualified, it can be argued that CIMA professionals are equipped with necessary skills and knowledge to know about the implementation of strategic management tools in organizations. Hard copies of the questionnaires were sent to all targeted populations followed by a general announcement on CIMA website (in three week's) encouraging those CIMA members who had received the hard copies of the questionnaires but didn't complete them to fill up an online version of the questionnaire. Examining the diffusion of managerial tools in organizations, respondents were asked to indicate if their company has (or has not) considered the adoption of any of those six relatively new managerial tools addressed in the paper: activity based costing, activity based management, balanced scorecard, benchmarking, strategic management accounting and target costing (or any other practices not listed in the questionnaire) by using a 5-point Likert-type scale (Pierce and Brown, 2004; Innes et al., 2000; Anderson, 1995; Abdel-Kader and Luther, 2006; Al-Omiri and Drury, 2007b) as follows: with anchors of 1 "discussions have not taken place regarding the introduction of the technique"; 2 "a decision has been taken not to introduce the technique"; 3 "some consideration has being given to the introduction of the technique in the future"; 4 "the technique has been introduced on a trial basis"; and 5 "the technique has been implemented and accepted". Examining organizational performance, respondents were asked to indicate the extent of their satisfactions with the implemented strategic management tools in their organizations. A 5point Likert-type scale (Abdel-Kader & Luther, 2006; Innes et al., 2000) was used with anchors of 1 to "very dissatisfied" and 5 to "very satisfied". Pilot tests of the instrument were initially undertaken with a group of university academics, managers and management accountants. Before the survey instrument was mailed to the targeted populations, its content validity was addressed by asking a group of management accounting lecturers and postgraduate students with manufacturing experience to review the instrument for clarity and meaning and to refine the design and focus of the content

further. Modifications were made as deemed necessary. To help motivate response, respondents were offered a final report of the results together with the resulting recommendations to facilitate the implementation of recent cost and management accounting innovations in their organizations. The final number of useable responses (both hard copies and online replies) was 142 completed questionnaires plus 10 not-completed or not delivered. The final completed questionnaires have provided the authors with a satisfactory response rate of 39.5%. According to Krumwiede (1998), the normal response rates for these kinds of surveys is approximately 20 per cent though there are many published surveys with lower response rates such as 12.5 per cent ((Brown et al., 2004) or 19.6 percent (Al-Omiri and Drury, 2007a). Non-response bias was examined both by using the aggregated data provided by CIMA (such as total number of CIMA members working in manufacturing and non-manufacturing organizations, the average length of experiences of CIMA members and their average ages as qualified CIMA members) and comparing them with similar information gathered by the surveys, and through a comparison between early and late responses. The former showed responses to be representative, the latter that there was no perceived difference between these responses, suggesting that non-response bias would not influence the outcomes.

The Diffusion of Relatively New Strategic Management Tools

According to Table 1, in terms of the extent of the diffusion (based on their implementation rates), benchmarking as a relatively new strategic management tools is received the highest diffusion rate (with 35% implementation rate) followed by strategic management accounting (with 28.2%), activity based costing (22.5%), balanced scorecard (21.4%), target costing (18.3%) and finally activity based management (17%) respectively. The findings show that despite suggested benefits of relatively new strategic management tools, the diffusion of these techniques have not been intense as they may have been expected by the literature (Gosselin, 2007). Insert Table 1 here

The Diffusion of Relatively New Strategic Management Tools and Organizational Performance

As discussed earlier, the advocates of relatively new strategic management tools suggest that the implementation of these techniques could lead to higher organizational

performance and thus increase organizational satisfaction (Askarany et al., 2009; Kelly, 2007; Banker and Mashruwala, 2007; Vera-Munoz et al., 2007; Adam and Fred, 2008; Dikolli et al., 2007). Given the above, the following section examines the extent of the relationship between the diffusion of relatively new strategic management tools and organizational performance. Table 2 reveals the overall level of organizational satisfaction with new strategic management tools in New Zealand.

The findings indicate that a total of 50% of establishments are either dissatisfied with their adopted strategic management tools or believe that their tools need improvement. Table 3 reveals the extent of the association between organizational satisfaction and the levels of the diffusion of six relatively new strategic management tools in New Zealand (Based on Pearson Chi-Square). According to Table 3, the extent of the association between organizational satisfaction (as a proxy for organizational performance) and the diffusion of all relatively new strategic management tools addressed in the current survey (except benchmarking) are statistically significant. Thus the findings support the notion that the higher the levels of the diffusion of relatively new strategic management tools (except benchmarking), the higher the levels of organizational performance (Kelly, 2007; Banker and Mashruwala, 2007; Vera-Munoz et al., 2007; Adam and Fred, 2008; Dikolli et al., 2007). Further studies are recommended to seek the major difference between benchmarking and other relatively new strategic management tools which might have led to this inconsistency.

The Diffusion of Relatively New Strategic Management Tools and Organizational Industry

As discussed earlier, the contemporary literature shows some controversy in terms of the extent of the diffusion of relatively new strategic management tools in manufacturing organization's compared with non-manufacturing organizations. In other words, it is not clear whether (or not) the diffusion of relatively new managerial tools are more prevalent among manufacturing organizations or non-manufacturing organizations and whether (or not) the diffusion of relatively new managerial tools need more attention in manufacturing organizations or non-manufacturing organizations. Addressing the above question, this section

examines the extent of association between organizational industry and the diffusion of six relatively new strategic management tools addressed in this study. Table 4 reveals the significance of the association between organizational industry and the levels of the diffusion of six relatively new managerial tools in New Zealand (Based on Pearson Chi-Square. According to Table 4, there is no statistically significant association between the organizational industry and the diffusion of any of relatively new strategic management tools addressed in the current survey. The findings of current study suggest that the diffusion of relatively new strategic management tools is equally important for both manufacturing and non-manufacturing organizations.

CONCLUSIONS

Investigating the diffusion of six most popular strategic management tools of past three decades: activity based costing, activity based management, balanced scorecard, benchmarking, strategic management accounting and target costing, the current study suggest that the take-up of these relatively new managerial tools is not as high as they may have been expected. For example, the highest diffusion rate (which belonged to benchmarking) is 35% followed by strategic management accounting (with 28.2%), activity based costing (22.5%), balanced scorecard (21.4%), target costing (18.3%) and finally activity based management (17%) respectively. Furthermore, the findings reveal no significant association between organizational industry and the diffusion of any particular of strategic management tool addressed in the current survey, suggesting that the diffusion of these relatively new strategic management tools is equally important for both manufacturing and non-manufacturing organizations. According to the results (except for benchmarking), there is a significant association between organizational performance and the diffusion of all relatively new strategic management tools addressed in the current survey. The findings (except for benchmarking) are in line with organizational change theory. According to organizational change theory, the implementation of relatively new strategic managerial tools (as some organizational changes) would expect to contribute to organizational performance/satisfaction which is supported by this study. So, this may imply that facilitating further implementation of relatively new

strategic management tools (except benchmarking) in organizations could contribute higher organizational performance. Further studies are recommended to seek the major difference between benchmarking and other relatively new strategic management tools which might have led to this inconsistency. The findings, conclusions and the implications of this study should be interpreted based on the normal limitations of mail surveys, such as lack of researcher interaction with respondents. Furthermore, non-response bias is a typical problem associated with survey methods, but normal tests for such bias, from comparing early and late responses, revealed no significant differences. However, since the respondents were all qualified CIMA members, they may have exhibited a positive bias towards the reporting of the adoption of relatively new strategic management tools in their organizations. Thus, any generalization of the reported results of this study to other organizations in New Zealand and other countries should be treated with caution.

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