

# The Relationship between Strategic Performance Measurement System and Managerial Work Performance of Co-operatives in Malaysia

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## **ABSTRACT**

Performance measurement system has been recognized as critical factor for the effective and efficient management tool in competitive environment. The main research purpose is to investigate the current practices of strategic performance measurement system as well as to identify the level of managerial work performance among 100 best co-operative in Malaysia. This research also examines the relationship between strategic performance measurement system and managerial work performance. The selection of the sample is comprised the chairman, secretary, treasurer, manager and two members of the co-operative board among 100 best co-operative in Malaysia. The result indicates that the level of managerial work performance among 100 best co-operative in Malaysia is at the high level. Moreover, the correlation between strategic and managerial work performance among these co-operative shows that there are significant relationship between these two variables. The implication of the research findings in this study are co-operatives that have effective performance measurement system and use it as an internal control that is effective in their operations show that they are always be able to measure their performance. High performance in co-operative activities gives the impression that the management effectively and efficiently can manage their corporation. The goal of the co-operative cannot be achieved if there is low level performance of the management in the corporation.

**Keywords:** Co-operatives Management, Performance Measurement System, Strategic Management, Management Control System

## **1. Introduction**

In recent years, there has been a dramatic growth in the number of journals devoted to performance measurement system and publications concerning a wide range of PMS and their components in a variety of perspectives. The use of performance measurement systems is frequently recommended for facilitating strategy implementation and enhancing organizational performance. Therefore, top management in Malaysian co-operatives are aggressively designing and executing their strategic planning through performance measurement system. Performance measurement system is designed to achieve the greatest possible goal

congruence such as employee pursues personnel goals that are parallel to co-operative goal. The existence of strategic, comprehensive and dynamic in co-operative performance measurement system is needed as it will provide co-operatives' management with valuable insights the role of contemporary performance measurement system model which could assist them in aligning their performance measurement system.

Co-operative is an autonomous association composed mainly of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise which acts according to internationally agreed upon values and principles as outlined by the International Co-operative Alliance. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership (World Co-operative Monitor, 2015). According to Cooperative Principles and Practice (2012), a cooperative society is an association for the purpose of joint trading, originating among the weak, and conducted always in an unselfish spirit, on such terms that all who are prepared to assume the duties of memberships way share in its rewards, in proportion to the degree in which they make use of their association. Co-operatives in Malaysia have crucial roles in developing business systems, and making it possible for the country to join the global co-operatives society and sophisticated economies.

This research is related to the currently existing performance measurement systems characteristics identification. The research process is based on a questionnaire survey applied to the selected best 100 co-operative in Malaysia. The main research purpose is to investigate the current practices of using performance measurement systems as well as to identify and understand their main elements, principles and roles. This research may use as a tool for co-operative and offer depth knowledge for designing and developing an effective and efficient performance measurement system.

## **2. Co-operatives Movement in Malaysia**

One of the main reasons for the social-economy organizations to emerge is due to government and market failure. Failure in this context would mean, for instance, failure of the state to produce people of well-being, or failure of the market to generate healthy competition, being efficient and meet the needs of the consumers. Early establishment of co-operatives tend to correct these failures and mainly focused on emphasizing and improving the needs of a particular type of member. Efforts of introducing cooperatives in Malaysia have started as early as in 1907. Co-operative in Malaysia initially were proposed by the British colonials to fight the chronic problems of deficit spending and rural indebtedness among local wage earners. Following the early stage of co-operative development, newer form of co-operatives emerged where focus were made on issues affecting bigger community and involvement of different classes of actors (Othman, Mohamad, & Abdullah, 2013).

Co-operative movement in Malaysia started in the early 20th century. At that time farmers in rural areas were oppressed and exploited by middlemen under the "padi kunca

(padi: rice, kunca: volume of rice)” scheme. Farmers had to sell even their rice fields before their crops were planted, to service their credit payments. In urban areas, low wage workers, including civil servants, were vulnerable to money lenders. Under these circumstances, the idea of co-operatives was introduced and the office of the Director of Co-operation was established in Taiping, Perak in 1922. In the same year, the Co-operative Societies Enactment 1922 was enacted to supervise co-operatives.

### **3. Strategic Performance Measurement System (SPMS)**

Strategic performance measurement system are designed to present managers with financial and non-financial measures covering different perspectives which provide a way of translating strategy into a coherent set of performance measures (Chenhall, 2005). If the strategy information is provided and all measures are strategically linked, the common measures bias is eliminated (Humphreys & Trotman, 2011). As the company pursuing different strategy, the use of more non-financial based performance measurement system has a positive effect on performance (Tsamenyi, Sahadev, & Qiao, 2011). Managers’ assessment about the importance of the firm’s strategic resource mediates the association between the importance of strategic resources and performance (Widener, 2006). In addition, the participatory development process increased employees’ attitude, perceived social pressure and capability to take initiative amongst employees (Groen, Wouters, & Wilderom, 2012). In Spanish companies, a positive association between strategic performance measurement system and organizational performance is mediated by the comprehensiveness of the strategic decision array (Bisbe & Ricardo, 2012).

There is a significant relationship between strategy, organizational structure and environmental uncertainty and the use of non-financial and process measures (Gosselin, 2011). However, output measures were commonly used than process measures amongst microfinance institutes (Waweru & Spraakman, 2012). The effect of performance measure use on financial strategic decision influence depend on two properties of the performance measures; decision facilitating use and use for accountability (Artz, Homburg, & Rajab, 2012). In Netherlands, the alignment to environmental strategy is mostly achieved through the increased quantification of environmental measures (Perego & Hartmann, 2009). An example of strategic performance measurement system is performance goals are explicitly linked to long term strategies, high degree of management involvement in the design and selection of the performance measures, uses measure related to strategy dan PMSs offer assistance to organizational members that helps them understand relationships between activities and functional areas.

### **4. Managerial Work Performance**

Managerial performance is arguably the most important criterion variable in organizational study. Yet, despite extensive research in to the construct of managerial performance, there is still no common framework for considering underlying managers’ performance. This is also due to management and leadership roles overlap, as most managers show some leadership skills, while most leaders find themselves managing at times. In Kenya, managerial actions and

initiative are important because leadership is the main challenge to minimize co-operative societies suffer common problems associated with weak legislation, poor financial management, leadership, governance and political interference (Kinyuira, 2015).

Definitions of managers' work performance have evolved from a fragmented literature. Two streams of research into the nature of managerial work, the unitarist and the functionalist have emerged since the 1960s. From the unitarist standpoint, managers are viewed from a growth perspective by the function, behaviors, roles and decision they make. While the functionalist perspective emphasizes the measurement of managers' objective output as an indicator of organizational effectiveness (Hosie & Nankervis, 2016).

### **5. Performance Measurement System and Cooperative's Managerial Work Performance**

The size of the effectiveness of performance measurement systems can be studied from the perspective of the organization's performance in aggregate or individual employees. Most studies that examine the relationship between performance measurement systems and the performance is more focused on the performance of the organization (Chenhall, 2005; Gimbert, Bisbe, & Mendoza, 2010). There are also studies that measure the relationship between performance measurement system with job performance, but it is tested indirectly. Found other variables were tested with such features as organizational, ownership of strategic resources and elements of interaction management control system. However, Tung and Schoch (2011) concluded that the use of measuring the effectiveness of diversity in performance measurement systems can be attributed to two effects, namely the performance and results of the staff.

As the person responsible for managing and planning steps should be taken to improve the performance of the company, shareholders will be able to choose the individuals who represent them to meet the inspiration for all interested stakeholders to the continuity of the organization. Therefore, this creates a direct relationship between performance measurement systems used by the organization with the manager's performance. In Australia, Hall (2011) found that performance measures not affect the financial performance compared to the size of the financial manager. Performance measurement system can also serve as a system that allows learning to take place and it depends on the type of performance measurement system in a place.

### **6. Research Design**

In this regard, the purpose of this study is hypothesis testing as this research is intended to understand the relationship between strategic performance measurement system and managerial work performance. As the measures of strategic PMS and managerial performance applied at the individual level, the unit of analysis for this study was the individual manager. Managers in this study included co-operative board members and managers. In this quantitative research, cross sectional survey design was employed to collect wide array of information regarding performance measurement system and performance management from

a large number of individuals, using measurement items of the research construct. The present study used the top 100 best co-operatives in Malaysia for the year 2015 (Suruhanjaya Koperasi Malaysia, 2016) as the population frame.

The questionnaire is divided into three parts namely section (A) Background of respondents, (B) Strategic PMS and was measured with nine items adopted from Burney and Widener (2007) and Gimbert et al. (2010). Respondents were asked to indicate the organization's extent the use of stated strategic performance system ranged from 1 (strongly disagree) to 7 (strongly agree). The instruments developed by Mahoney et al. (1965) were used to evaluate eight dimensions of managerial performance including planning, investigation, coordination, appraisal, supervision, employment, negotiation, and representation. Respondents were asked, on a five-point likert scale ranging from 1 (low) to 5 (high).

## **7. Findings**

A total of 400 questionnaires were distributed to target respondents and 145 were returned. Screening out of the returned questionnaires that were incomplete and failed to meet the requirement left 134 usable questionnaires (a response rate of 33 percent). About 66 percent of the respondents are male and 40 per cent of the respondents are co-operative board member. 45 per cent of respondents which is the higher percent have become a member more than 12 years in the current co-operative. 17.2 percent become a member of the co-operative in between 1-3 years, 11.2 percent in between 4-6 years, while 15.7 per cent has been being a member in between 7-9 years and only 10 per cent respondent who become a member of the co-operative in current in between 10-12 years. Descriptive analysis of the existence of strategic performance measurement system among the Malaysian best 100 co-operative is listed in table 1.

The finding of managerial work performance show that the level of performance management is at the high level. Based on the table 2, the best 100 co-operatives recorded the overall management performance as the highest mean which is 4.20. However, staffing was recorded as the lowest mean which is 3.90. This mean that the co-operative top management did not select and train individuals for specific job functions and charging them with associated responsibilities.

Table 3 shows that the correlation coefficient for strategic performance measurement system and managerial performance is high which is 0.686. It is indicating a strong relationship between strategic PMS and managerial work performance,  $p < 0.001$  and indicates that the coefficient is significantly different from 0. The values of correlation coefficient that have been obtained are positive which means that the relation exists in both variables have a positive relationship. This finding show us that the higher the level of managerial work performance, the more effective the strategic in performance measurement system and vice versa.

Table 1 The Existence of Strategic Performance Measurement Systems Among The Malaysian Best 100 Co-operative

	<b>Mean</b>	<b>Std. Deviation</b>
Performance goals in the PMSs are explicitly linked to long-term strategy	5.30	1.076
There is a high degree of co-operative's management involvement in the design and selection of the performance measures	5.39	1.137
Relationships between activities/ functional areas are included in the PMS	5.36	1.120
PMSs offer assistance to organizational members that helps them understand relationships between activities and of relationships between functional areas	5.34	1.138
Operating managers from different functional areas are involved in the design and selection of the performance measures	5.07	1.205
PMS uses measure related to strategy	5.16	1.132
Performance measurement helps understand how strategy achieved	5.27	1.138
PMS explains cause-and- effect relations	5.13	1.116
PMS uses measures chosen to fit strategy	5.22	1.167

Table 2 - Analysis The Level of Managerial Work Performance in Malaysian Best 100 Co-operative

	<b>Mean</b>	<b>Std. Deviation</b>
Planning	4.06	.744
Investigating	3.93	.806
Coordinating	4.01	.751
Evaluating	4.09	.799
Supervising	4.07	.806
Staffing	3.90	.852
Negotiating	4.06	.773
Representing	4.12	.805
Overall Management performance	4.20	.713
Total Average	4.04	0.78

Table 3 : Correlations Strategic PMS and Managerial Work Performance

		Total mean strategic PMS	Total mean managerial work performance
Total mean strategic PMS	Pearson	1	.686**
	Correlation		
	Sig. (2-tailed)		.000
	N	134	134

\*\* . Correlation is significant at the 0.01 level (2-tailed).

## 8.0 Discussion

This study using data collected from a questionnaire survey aims to address three questions; the level of strategic PMS application in co-operatives, the managerial work performance and the relationship between strategic PMS and managerial work performance of co-operatives in Malaysia. The result show the mean of the existence of strategic performance measurement system among the Malaysian best 100 co-operative is at the high level. These findings are consistent with the recommendation made by Humphreys & Trotman (2011) which is if the strategy information is provided and all measures are strategically linked, the common measures bias is eliminated. However, if strategy information is provided and all measures are strategically linked, the common measures bias is eliminated. This show that strategic dimension in contemporary performance measurement system in the organization would lead to the successful achievement. In Spanish companies, Bisbe & Ricardo (2012) found that a positive association between strategic performance measurement system and organizational performance is mediated by the comprehensiveness of the strategic decision array. Further, the findings of the study contribute to the literature concerning performance measurement system by providing evidence on the adoption of strategic performance measurement system amongst co-operative in Malaysia.

A professional manager who grounds his/her managerial decisions, actions and behaviors mainly on management concepts and tools provided by gaining functionality and high performance has a decisive contribution in achieving organizational efficiency and effectiveness (Verboncu & Condurache, 2015). As we can see in the best 100 co-operative in Malaysia, they evaluate the performance of the work of co-operative management based on planning, investigating, coordinating, evaluating, supervising, staffing, negotiating and representing. The overall management performance in these co-operative show that the level of the professional manager have been achieve their organizational efficiency and effectiveness.

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