

The Consequences of Individual Perception on Non-Financial Performance Measurement Systems

Lina

Department of Accounting, Faculty of Economics and Business, Universitas Pelita Harapan,
Tangerang, Indonesia

ABSTRACT

This study aims to develop a conceptual model that describes the consequences of individual perception of non-financial performance measurement systems based on the social exchange theory. The application of non-financial performance measurement may be associated with the perception of increased procedural fairness in the performance measurement process. Furthermore, performance measurements based on various non-financial measures tend to increase subordinates' trust in their superiors. Job satisfaction can be increased by increasing subordinates' trust in superiors. Trust between superiors and subordinates reflects openness to each other. This openness encourages open communication and can increase job satisfaction. Finally, job satisfaction that represents work attitude must be related to job performance.

Keywords: Job performance; non-financial performance measurement system; procedural justice; trust

INTRODUCTION

In the realm of management accounting, performance measurement systems play an important role in realizing a management control system so that organizational goals can be achieved. One form of performance measurement system introduced by Kaplan and Norton (1996) is a financial and non-financial performance measurement system known as the balanced scorecard. Financial performance measurement systems are often criticized for providing incomplete assessments of behavior and performance (Burney et al., 2009). The challenge faced by the organization is not to emphasize the focus on short-term and aggregate financial measurements but instead to focus on developing non-financial performance measurement systems that are more consistent with long-term competitiveness and profitability. Non-financial performance measurement systems related to learning and growth perspectives, internal business processes, and customers in general are broader and emphasize future and long-term goals. Furthermore, the perception of the consequences of non-financial performance measurement is an interesting research topic to explore.

This study aims to develop a conceptual model that describes the consequences of individual perception of non-financial performance measurement systems. The development of this model is based on the social exchange theory (Blau 1964). Through the social exchange theory perspective, perceived procedural justice and trust will arise from individual perception of non-financial performance measurement systems, which in turn will produce exchange effects in the form of job satisfaction which is a work attitude. This effect gives a transactional impression between superiors and subordinates in the workplace. In addition, this research model links attitudes and behavior. Pinder (2008) states that employee behavior can take the form of performance, absenteeism, and prosocial actions at work. This current study focuses on job performance.

Fuadah et al. (2020) found a positive relationship between the use of performance measures and procedural justice. Perception of the fairness of the performance evaluation process is the perception of the fairness of all aspects of organizational processes and procedures used by superiors to assess the performance of their subordinates, communicate performance feedback, and determine their rewards such as promotions and salary increases. Lau and Sholihin (2005) prove the influence of financial and non-financial performance measures on job satisfaction both directly and through subordinates' trust in superiors. Lau (2011) prove that nonfinancial measures, by themselves, significantly influence managerial performance through role clarity. More importantly, they also indicate that the effect of nonfinancial measures on role clarity is substantially stronger than that through financial measures. Lau and Scully (2015) indicate that the relationship between financial performance measures and trust are generally significant. Lau dan Roopnarain (2014) provide important insights into the intricacies by which performance measures influence employee motivation to participate in target setting and job performance. Lau and Moser (2008) indicate that the use of nonfinancial performance measures was perceived as procedurally fair. They also find that such perceptions are associated with higher organizational commitment which, in turn, enhances employee job performance.

A review of the literature shows that the majority of research on the consequences of non-financial performance measurement systems uses self-interest theory and goal setting theory (Lau and Moser, 2008; Lau dan Sholihin, 2005; Lau dan Roopnarain, 2014, Lau 2011, Fuadah et al. 2020). Self-interest theory suggests that people, motivated by self-interest, engage in social interaction to gain more in the long term. However, with such social interactions, they may need to compromise their short term interest. In order to ensure that such sacrifices will pay off in the long term, they rely on fair procedures. Consequently, organizations that employ fair procedures are likely to enjoy a high extent of loyalty, commitment, and good performance from their employees. Goal setting theory assumes that human action is directed by conscious goal and attention. The consequences of non-financial performance measurement basically show the reciprocity given by employees to their superiors. When superiors implement a performance measurement system, subordinates will perceive that superiors have implemented fair procedures and subordinates can show trust in superiors. This condition can ultimately create job satisfaction and have an impact on improving job performance. Therefore, the theory that is considered to better explain the consequences of non-financial performance measurement systems is social exchange theory.

Furthermore, most research on the consequences of non-financial performance measurement focuses only on attitude (e.g. job satisfaction) or behavior (e.g. job performance) even though according to Judge et al. (2001) job satisfaction can influence job performance. This research develops a conceptual model that is expected to answer the following research questions. Does individual perception of non-financial performance measurement systems influence perceived procedural justice? Does individual perception of non-financial performance measurement systems create subordinates' trust in superiors? Does the trust that subordinates have in their superiors affect their job satisfaction? Does job satisfaction influence job performance?

This research is expected to enrich the management accounting literature by studying the consequences of non-financial performance measurement systems. Understanding the consequences of individual perception of non-financial performance measurement systems on attitudes and behavior will enrich the development of the literature. By using social exchange

theory which comes from the realm of social psychology, this research is expected to provide a new perspective.

PROPOSITIONS OF THE CONCEPTUAL MODEL

Individual Perception of Non-Financial Performance Measurement Systems and Perceived Procedural Justice

Since fairness in performance evaluation is an important aspect of employee welfare and achievement of organizational goals, it is useful to examine how employees who are accustomed to being evaluated by traditional financial performance measures react to non-financial performance measures, especially with regards to their perception of procedural fairness (Lau & Moser, 2008). Subordinates whose performance is evaluated using a non-financial performance measurement process tend to have the perception that the process is fair (Kaplan and Norton 1996). Non-financial performance measurement is seen as more useful as a means of communicating long-term organizational goals, expectations, and results. This allows employees to understand how their relationship with the organization will be in the long run. Therefore, they can view long-term non-financial performance measurement as a fair procedure (Lind and Tyler 1988).

The adoption of non-financial performance measures can be considered by subordinates as a natural thing. Non-financial measures are very wide and varied. Various non-financial measures are generally available to suit the subordinate's operating environment. Therefore, subordinates tend to see this action is meaningful and relevant. In addition, because non-financial based performance measurement looks at the performance of subordinates in a broad scope, it is possible to provide recognition of the achievements of subordinates through a variety of different dimensions. Such performance measurements tend to be viewed by subordinates as a fairer procedure than relying solely on one aspect or performance dimension, for example financial aspects (Lau & Sholihin, 2005). Because the accuracy and completeness of information are fundamental criteria for assessing procedural fairness (Leventhal 1980), subordinates may view the use of non-financial performance measures as procedurally fair. This suggests that the application of non-financial performance measurement may be associated with perception of increased procedural fairness in the performance measurement process. Lau (2015) found that non-financial performance measures have an influence on procedural justice and finally has an impact on managerial performance.

Proposition 1: Individual perception of non-financial performance measurement systems are predicted to influence perceived procedural justice.

Individual Perception of Non-Financial Performance Measurement Systems and Subordinates' Trust in Superiors

Performance measurements based on various non-financial measures tend to increase subordinates' trust in their superiors (Lau & Sholihin, 2005). It is possible that while some financial performance measures may not be satisfactory, other indicators such as customer satisfaction, product development, and innovation may show satisfactory results. Taylor et al. (1995) found that when the performance measurement system is more open, focusing not only on financial measurements but also allowing more subordinate participation will create subordinate trust in superiors. Performance measurement that develops non-financial principles such as fair measurement of various aspects and based on evidence makes it possible to

stimulate behavior of subordinates' trust in superiors (Folger et al. 1992). This result in line with Bone (2017).

Subordinates can be evaluated in a favorable way based on various factors that indicate their various target achievements (Lipe & Salterio, 2000). This way of evaluating can reduce subordinates' feelings of insecurity. In this condition, subordinates tend to view superiors as people who behave well in evaluating subordinates which in turn can increase subordinates' trust in superiors. Studies conducted by (Hopwood, 1972) and (Otley, 1978) found that non-financial performance measurements can be associated with high levels of trust from subordinates to superiors. Whitener et al. (1998) revealed that when leaders show concern, such as considering the needs and interests of subordinates, acting to protect the interests of subordinates, and not exploiting subordinates, this will build the trust of subordinates. If subordinates feel that their superiors have acted benevolently, their trust in their superiors is also likely to increase.

Proposition 2: Individual perception of non-financial performance measurement systems are predicted to create subordinates' trust in superiors.

Subordinates' Trust in Superiors and Job Satisfaction

Job satisfaction refers to the attitudes or opinions of employees towards the job itself or the relevant environment, their overall emotional response to their job role (Diener, 2000) and is one of the most effective indicators of vocational happiness (Zhang et al., 2014). The existence of trust between members of the organization can improve problem solving and performance.

A study conducted by Asencio (2016) proved that when subordinates have a perception of trust in the leader, this perception is positively related to job satisfaction. If subordinates do not trust the evaluative style chosen and used to evaluate their performance, they are also likely to extend that distrust to their superiors who select and use that evaluative style. This distrust can lead to conflict, frustration, and dissatisfaction for subordinates (Lau & Buckland, 2001).

Job satisfaction can be increased by increasing subordinates' trust in superiors (Ross, 1994). Trust between superiors and subordinates reflects openness to each other. This openness encourages open communication which will reduce anxiety and frustration. In the end this condition will lead to lower stress levels and can increase job satisfaction. Research by Ozpamuk et al. (2023) found that affect-based trust is positively associated with job performance.

Proposition 3: With subordinates' trust in superiors, it is predicted that job satisfaction will be created as a manifestation of work attitude.

Job Satisfaction and Job Performance

At least since the beginning of the human relations movement in the 1940s, it has been commonly assumed that employees who are more satisfied with their jobs tend to be more productive than those who are dissatisfied. Among many managers, politicians, and social critics, it is intuitively reasonable to assume that employees who are more satisfied are employees who are more productive. It can be said that job satisfaction affects job performance (Pinder 2008). Judge et al. (2001) revealed that attitudes must be related to job performance and found that there is a relationship between job satisfaction and performance. Edwards et al. (2008) proved that there is a positive relationship between job satisfaction and job performance. These results are consistent with research by Wu et al. (2017). Using a sample of millennial

workers, Indrayani et al. (2023) found that job satisfaction is one of the determinants of job performance.

Proposition 4: Job satisfaction is predicted to have an influence on job performance.

DISCUSSION

Social exchange theory is one of the most influential conceptual paradigms for understanding workplace behavior. Social exchange theory has been used extensively to investigate exchange processes and behavior related to various phenomena in organizational contexts (Cropanzano & Mitchell, 2005; Luo 2002). This theory proposes that interpersonal interactions are determined from a reciprocal perspective (Blau 1964). These interactions are usually seen as interdependent and dependent on the actions of others. Reciprocal interdependence emphasizes interpersonal transactions in which an action by one party leads to a response from the other party.

One of the basic tenets of social exchange theory is that relationships develop over time into mutual trust, loyalty, and commitment. To do so, the parties must comply with certain exchange rules. Exchange rules form the normative definitions of situations that constitute or are adopted by participants in exchange relationships (Emerson 1976). In this way, exchange rules and norms guide the exchange process. Thus, the use of social exchange theory in an organizational behavior model is framed on the basis of exchange rules or principles. Reciprocity or payment in kind is perhaps the best-known exchange rule. Particularly, individuals voluntarily exchange material or symbolic resources when they experience accrual benefits during the exchange process. Referring to Cropanzano & Mitchell (2005), reciprocity in exchange can take the form of reciprocity as a transactional pattern of interdependent exchanges, reciprocity as social trust, and reciprocity as a moral norm.

It is possible that while some aspects of subordinate performance such as financial aspects may be unsatisfactory, other indicators such as customer satisfaction, product development and innovation may be satisfactory. If performance evaluation is based only on a limited number of actions such as financial aspects, subordinates may receive a bad evaluation (Sholihin & Lau, 2003). Benefits from managers' efforts to increase intangible assets (such as investments in upgrading employee skills) are generally excluded by financial measures (Kaplan & Norton, 2001). Non-financial measurements provide a way to overcome these inaccuracies by measuring intangible assets in non-monetary terms. This allows the intangible to be valued and ensures that the efforts of managers are more accurately reflected.

Kaplan and Norton (1996) revealed that non-financial performance measurement considers both external and internal measures from the perspective of learning and growth, critical business processes and innovation, as well as measures of results from past efforts and measures that drive future performance. Non-financial performance measurement is not limited by time considerations. Therefore, non-financial performance measurement can measure employee long-term performance more accurately (Shank and Govindarajan 1994).

Non-financial measures such as customer satisfaction levels may be easier to understand than aggregate financial measures. Given that subordinates are likely to have a better understanding of the assessment criteria and judgments are subject to flexible interpretation, subordinates may be in a better position to seek explanations about their performance ratings and to provide alternative interpretations. This increases the likelihood of unfair judgments being properly discussed, explained, and corrected (Johnson 1988). Bol & Smith (2011) show that the level and ability to control objective (financial) performance measures affect subjective

(non-financial) performance measurements of superiors on different aspects of subordinate performance and cannot be quantified.

CONCLUSION

This study develops a conceptual model that focuses on individual perception of non-financial performance measurement systems. This research model provides practical implications, namely individual perception of non-financial performance measurement systems have important consequences for attitudes and behavior. It is interesting to study further whether the existing model can be used in other type performance measurement systems such as strategic performance measurement systems (Burney & Widener, 2007) or comprehensive performance measurement systems (Hall, 2011). The use of other theories and concepts will certainly provide results and insights that may differ so can expand the literature. The work attitude discussed in this study is only job satisfaction. Future research can observe other work attitudes as described in the conceptual model, namely job commitment and job involvement. Future research can conduct empirical research to confirm the model developed in this study.

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