Financial and nonfinancial performance measures: How do they affect job satisfaction?

Chong M. Lau\textsuperscript{a,\*}, Mahfud Sholihin\textsuperscript{b}

\textsuperscript{a}Department of Accounting and Finance (M250), UWA Business School, The University of Western Australia, 35, Stirling Highway, Crawley, WA 6009, Australia

\textsuperscript{b}Gadjah Mada University, Indonesia

Received 16 September 2003; revised 1 June 2005; accepted 6 June 2005

Abstract

Recent interest on the use of nonfinancial measures (e.g. in the Balanced Scorecard) generally assumes that such measures are essential to overcome the inadequacies of financial measures. However, it remains unclear (1) if the behavioural effects of these nonfinancial measures are different from those of financial measures; and (2) whether these effects are influenced by the relative importance of nonfinancial measures vis-à-vis financial measures. This study hypothesises that the use of performance measures for performance evaluation will significantly affect managers’ job satisfaction. However, these effects are indirect through the managers’ perceptions of the fairness of these measures and the interpersonal trust these measures promote. Based on a sample of 70 managers, these expectations are supported by the results. More importantly, the results also suggest that (1) the process by which nonfinancial measures affect employee job satisfaction is not different from that of financial measures, and (2) the relative importance of nonfinancial measures vis-à-vis financial measures has no significant effect on employee job satisfaction. These results may have important theoretical and practical implications.

© 2005 Elsevier Ltd. All rights reserved.

Keywords: Financial and nonfinancial measures; Fairness; Trust; Job satisfaction

* Corresponding author. Tel.: +61 8 6488 2910; fax: +61 8 6488 1047.
E-mail address: chong.man.lau@uwa.edu.au (C.M. Lau).

0890-8389/$ - see front matter © 2005 Elsevier Ltd. All rights reserved.
1. Introduction

Since performance evaluation usually affects employee compensation and rewards (Kaplan and Atkinson, 1998; Horngren et al., 2002), employees are likely to be concerned with the performance evaluation process including the types of measures used to evaluate their performance. This study investigates the behavioural consequences of the use of financial measures and nonfinancial measures for performance evaluation.

Performance measures are studied here because of the increased attention to the possible behavioural consequences of the different types of measures used in contemporary organizational settings. The current widespread adoption of nonfinancial measures is generally based on the notion that traditional financial measures may be too late, too aggregated and too one dimensional to be useful because they are narrow in focus, historical in nature and incomplete (Kaplan, 1984; Lynch and Cross, 1991; Ittner and Larcker, 1998; Hoque et al., 2001). In contrast, nonfinancial measures such as those relating to the customer, internal business process, and learning and growth perspectives are generally broader with greater emphasis on future and long-term objectives. Kaplan (1983, p. 686) suggests that ‘a particular challenge is to de-emphasize the current focus of senior managers on simple, aggregate, short-term financial measures and to develop indicators that are more consistent with long-term competitiveness and profitability.’ Kaplan and Atkinson (1998, p. 379) similarly note that ‘as organizations invest in acquiring…new capabilities, their success (or failure) cannot be motivated …in the short run solely by the traditional financial accounting model… the Balanced Scorecard introduces the drivers of future financial measures.’ This suggests that the use of long-term nonfinancial measures is likely to somehow generate more positive employee behaviours than those generated by the use of short-term financial measures.

However, to date, there is little systematic empirical evidence to indicate if and how managers would react to the use of nonfinancial measures. It is also unclear if such reactions are similar to or different from those generated by the use of the more traditional financial measures. Moreover, since organizations, which adopt nonfinancial measures for performance evaluation, are required to ascertain the relative importance or weights to be assigned to nonfinancial measures vis-à-vis financial measures, it is also imperative that they understand if and how different combinations of nonfinancial and financial measures affect employee behaviours.

These issues are important to facilitate the selection of the best mix of measures for performance evaluation. Indeed, there had been considerable management accounting research on the behavioural consequences of performance evaluation methods and procedures. However, these studies have generally focused on accounting (financial) performance measures (RAPM or budget emphasis) (e.g. Hopwood, 1972; Otley, 1978; Ross, 1994; Otley and Pollenen, 2000). In contrast, little research has been undertaken with respect to the use of nonfinancial performance measures (Ittner and Larcker, 1998) or on the behavioural consequences of the relative importance of the two categories of measures, financial and nonfinancial.

Our study, therefore, attempts to address these gaps in the literature. In studying the relationships between performance measures and managerial behaviours, our study will also investigate the intervening effects of two variables identified in earlier studies by
دریافت فوری
متن کامل مقاله

امکان دانلود نسخه تمام متن مقالات انگلیسی
امکان دانلود نسخه ترجمه شده مقالات
پذیرش سفارش ترجمه تخصصی
امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
امکان دانلود رایگان ۲ صفحه اول هر مقاله
امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
دانلود فوری مقاله پس از پرداخت آنلاین
پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات