



# Employee morale, non-financial performance measures, deployment of innovative managerial practices and shop-floor involvement in Italian manufacturing firms

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## ABSTRACT

The relationship between performance measures and the development of innovative managerial practices (IMPs) is far from clear. The deployment of IMPs often requires shop-floor involvement and this might intensify the level of importance of shop-floor non-financial performance measures (SFNFPMs) of Employee Morale. On the other hand, human resource managers have long been concerned with measures of lateness, absenteeism and staff turnover (core SFNFPMs relating to Employee Morale), but from a diagnostic rather than interactive standpoint. This study investigates whether the level of importance of SFNFPMs of Employee Morale in manufacturing firms should be ascribed to the deployment of IMPs or to shop-floor involvement (human resource) considerations. In late 2003, a survey of medium-large Italian manufacturing firms was undertaken. The Italian context was considered particularly appropriate because Italian firms lag behind in their application of contemporary management techniques, and, until the late 1990s, industrial relations were based on a conflict relationship. Our findings suggest that, contrary to human resources literature, the significant positive associations between the importance of SFNFPMs related to Employee Morale and the deployment of IMPs seem to be independent of shop-floor involvement. Furthermore, the significant positive association between training (one of the shop-floor involvement variables) and the level of importance of SFNFPMs related to Employee Morale is found to be dependent upon IMPs deployment.

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## 1. Introduction

The management accounting literature reveals that changes in the environment and the technology of a company can lead to new decision making and control problems (Bruggeman & Slagmulder, 1995). As organisations adapt to these developments, they must make sure that their management accounting systems (MAS) are designed to be congruent with the new control requirements (Chenhall, 2003). Fullerton and McWatters (2002) underline that in the presence of innovative managerial practices (IMPs), firms need decision-making systems that incorporate bottom-up measures, as well as frequent reports of quality results. The empirical literature reviewed by Chenhall (2006), for example, shows that non-financial performance measures are more widely adopted in Just in Time (JIT) and Total Quality Management (TQM) settings.

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Furthermore, traditional accounting measures (e.g., product costs, labour rates, material or labour variances and profitability) provide little information on some aspects of a company's business, such as quality, employee participation, production synchronisation, on-time deliveries, and customer satisfaction (Chenhall, 1997; Fullerton & McWatters, 2002). This has contributed to the development and popularity of non-financial performance measures, particularly shop-floor measures (Abdel-Maksoud, Dugdale & Luther, 2005; Banker, Potter & Schroeder, 1993).

However, a large part of the human resources literature shows that shop-floor non-financial performance measures relating to 'employee morale', such as staff turnover, absenteeism and lateness, have been used in human resource management for a long time. They were some of the first measures to be used by human resource managers, and the first phenomenon studied by work psychologists (Bezanson & Schoenfeld, 1925; Kornhauser & Sharp, 1932; Motley, 1926). Research studies indicate that lack of opportunity for shop-floor involvement was one of the major causes of job dissatisfaction and therefore staff turnover, absenteeism and lateness (Hackman & Lawler, 1971; Hackman & Oldham, 1976). The human resources literature highlights that the use of non-financial performance measures related to employee morale can be also explained by factors other than the unilateral deployment of IMPs, of which shop-floor involvement (a human resources consideration) is one.

Although studies have looked both at the effect on shop-floor involvement of adopting IMPs, (see, Forza, 1996; Snell & Dean, 1992), and at the use of shop-floor non-financial performance measures (SFNFPMs) (see, Abdel-Maksoud et al., 2005; Chenhall, 2006), we are not aware of any studies that have integrated all three factors. The above studies, in general, oversimplify the development of performance measures within organisations (Burchell, Clubb, Hopwood & Hughes, 1980; Hopwood, 1987) and ignore the use of these management accounting measures in other areas of organisational control. According to Hansen and Mouritsen (2007), a linkage between manufacturing practices and performance reporting systems exists: reporting manufacturing performance measures to line personnel is positively related to the implementation of JIT, teamwork and TQM practices, and worker morale is positively related to new manufacturing practices and performance information. Also, Hansen and Mouritsen (2007) have claimed that research dealing with the interface between operations management and management accounting is needed to clarify the role of management accounting. Lillis (2002) argued that while much of the prescriptive performance measurement literature is highly persuasive, there is increasing awareness of the need to discuss implementation issues. More recently, Chenhall (2003) and Abdel-Kader and Luther (2008) have highlighted the need for additional research to increase our understanding of the organisational and environmental factors that explain the development of MAS, including the use of non-financial measures.

In the Italian context, commentators have generally argued that Italian firms are lagging behind European and North American firms in the application of contemporary management techniques (see, for instance, Bergamin Barbato, Collini & Quagli, 1996; Costa, Faccipieri & Rullani, 1978; Kipping, 1999; Volpato, 1978). This has been ascribed to the low level of market competition since the late 1970s. Italian managers have often focused on ways to enhance the design and use of management accounting techniques in their companies (Bergamin Barbato et al., 1996). This trend was reinforced by swings in the Italian economy (rapid economic growth in the 1980s followed by an economic crisis in the early 1990s) as managers struggled to solve many managerial problems (Bergamin Barbato et al., 1996).

Another factor that has probably delayed the use of management techniques, and particularly employees' non-financial performance measures, in Italian firms is the Italian industrial relations model during the 1970s. Industrial relations in Italy have been historically based on a conflict relationship between firms and unions, so that, in general, performance measures have been seen by union representatives as non-impartial instruments in the hands of the firm. This adversarial relationship has had a detrimental effect on the level of confidence in performance measurement, and therefore limited its use in Italian manufacturing firms.

According to a recent survey by the Bank of Italy (Bank of Italy report 2005, pp. 10–13), the Italian manufacturing sector lags behind others in Europe in terms of innovation and investment in research and development. Labour productivity has grown less than in other European countries. The 1990s has been a period of intense change in Italian firms. In the last 10 years the government has developed policies to enhance competitiveness in many sectors. While one would expect this government support to improve the sector, it seems that, according to a recent survey (IFERA, 2003), most Italian manufacturing firms (93%) are family owned, which is potentially an obstacle to management accounting change (Burns & Scapens, 2000).

While Italian research studies on management control systems in manufacturing and service firms are common (e.g., Arena, Azzone, & Caimi, 2004; Catturi & Mussari, 1996; Collini & Stefani, 1994; MIP – Politecnico di Milano, 1991; Ostinelli & Toscano, 1996), studies on the use of shop-floor performance indicators, the level of application of IMPs and the extent of deployment of contemporary management accounting techniques in Italian manufacturing firms are rare. Surveys on Italian firms in the 1990s (e.g. Bergamin Barbato et al., 1996) have shown evidence of an increased awareness among Italian managers of the importance of developing their firms' MAS. This was influenced both by Italian managers' recognition of the need for efficiency in facing international competition and the increasing number of university-educated managers, who understand the usefulness of the new management tools (Bergamin Barbato et al., 1996).

In their survey of 115 medium and large Italian manufacturing firms, De Toni and Tonchia (2001) showed that the majority of performance measurement system (PMS) models include traditional cost performances (production costs and productivity) but do not incorporate the more innovative non-cost measures (quality, time and flexibility). De Toni and Tonchia concluded that it is vital to formalise and integrate these with other systems within the firm and to revise the use of PMS in Italian manufacturing firms. A recent survey of Italian firms (Arena et al., 2004) has highlighted a growing tendency to include

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