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by Yuliansyah, Ashfaq Ahmad Khan, Arief Fadhilah

Submission date: 16-Jul-2019 03:46AM (UTC-0700)

Submission ID: 1152325836

File name: PAR-09-2018-00682_1.pdf (400.66K)

Word count: 10661

Character count: 61183

PAR
31,2

288

Received 24 September 2018
 Revised 7 January 2019
 7 February 2019
 Accepted 7 February 2019

113

Downloaded by Doctor yuliansyah.yuliansyah At 03:49 14 May 2019 (PT)

Strategic performance measurement system, firm capabilities and customer-focused strategy

Yuliansyah Yuliansyah

Department of Accounting, University of Lampung, Bandar Lampung, Lampung, Indonesia

Ashfaq Ahmad Khan

Business School, University of New England, Armidale, New South Wales, Australia, and

Arief Fadhillah

School of Business and Economics, Universitas Prasetiya Mulya, Jakarta Selatan, DKI Jakarta, Indonesia

Abstract

Purpose – The impact of a firm's strategic performance measurement system (SPMS) on its customer-focused strategy, under varying contexts, has largely been documented in the literature. However, the system's capacity to positively influence the firm strategy through its impact on the firm's peculiar internal and external capabilities, in the peculiar context of the developing countries' financial services sector, has so far skipped a thorough academic enquiry. This study, using Indonesia' financial services sector as its 'site', aims to fill this void in the literature.

Design/methodology/approach – The authors gleaned the study's empirical data from financial services sector firms using survey questionnaire and analyzed it using SmartPLS. A total of 107 valid responses from management members of different financial services sector firms in Indonesia were deemed useable.

Findings – The study findings support the paper's main thesis. The findings revealed that the strategic PMS contributes to enhancing firms' market orientation and robustness by positively contributing to their customer-focused strategy from three distinct dimensions – competitors, customers and organizational learning.

Research limitations/implications – The authors posit that an effective customer-focused strategy can be accomplished by purposefully adapting the focus of the firm's strategic PMS to positively influence the organizational learning, which subsequently translates into the firm's high competitiveness in the marketplace.

Originality/value – The unexplored link between the SPMS, firm's internal and external capabilities and customer-focused strategy in the particular context of a developing country's financial services sector will not only fill the current void in the literature but also instigate a new academic debate. The study will also contribute to the management accounting practice in service firms in the developing countries context.

Keywords Service sector, Business strategy, Developing economies, Firm capabilities, Strategic performance measurement system

Paper type Research paper



1. Introduction

Management accounting as a discipline, because of its high practical relevance, ought to relate to the challenges contemporary business organizations confront today and facilitate achievement of its due professional resilience required of it to effectively compete and succeed. Cadez and Guilding (2008, p. 837) emphasize the significance of analysing the role of certain management accounting practices in a contemporary setting for ensuring the discipline's relevance and value. Just focusing on the performance evaluation aspects of business operations would not suffice for the discipline to help business organizations effectively counter stiff competition they are facing today. Researchers assert that in the era of a very rapidly changing business environment and stiff competition, the strategic performance measurement system (SPMS) ought to help business organizations accomplish competitive advantage (Cadez and Guilding, 2008; Chenhall, 2003; Chenhall *et al.*, 2011; Langfield-Smith, 1997; Simons, 1990, 2000). Furthermore, the literature also endorses the significance of an effective and well-integrated SPMS, as a final step in the strategic management process, on the organization's strategy implementation system (Henri, 2006). Given the importance of SPMS's role in helping the organization accomplish its set organizational strategy, Henri (2006, p. 531) posits that the organization's SPMS must be aligned with its internal and external capabilities for it to be effective and consistent with the firm's strategic choices. This current study aims to contribute to the literature on SPMS by directing managers' attention to the role SPMS could potentially play, when efficiently designed and implemented, in improving the firm's strategy through its impact on the firm's internal and external capabilities.

Financial services sector in the case of developing countries evolves with their economic development. Hence, the implementation and periodic evaluation of the SPMS in financial services sector firms in such countries ought to receive particular attention in the management accounting literature. An effective SPMS affects the organization's performance; however, the level of effectiveness and efficacy of an organization's SPMS can be gauged by the organization's extent of success in accomplishing a competitive advantage that can be traced to its dexterous implementation of the SPMS that have positively influenced the organizational performance through a measurable improvement in the organizational capabilities (Henri, 2006). This study examines how this causal relationship between the three variables in an organization can accomplish the firm's set strategic goals. Several studies previously have investigated the relationship between the organization's Management Control System (MCS) and the strategic outcomes (Amoako-Gyampah and Acquah, 2008; Auzair and Langfield-Smith, 2005; Chenhall, 2005; Kumar and Subramanian, 1997; Porter, 1980). This study emphasizes an organization's strategic positioning in a market through the adoption of either the 'low cost, high quality' or the 'product differentiation' strategy, and then dexterously tailoring its SPMS to positively influence the organization's capabilities that would, in turn, lead the organization to successfully accomplish its set strategic goals. Thus, the study seeks to instigate a debate on alternative ways SPMS can be put to use in organizations. Several studies signal to the significance of this potent relationship. Langfield-Smith (1997) assert that the 'cost-leadership' and 'product differentiation' strategies are appropriately resorted to as the basis of the organization's strategic positioning in the market place. Similarly, Porter's 'generic strategy' has a close interconnectedness with other organizational strategies (Amoako-Gyampah and Acquah, 2008; Kim *et al.*, 2004; Langfield-Smith, 1997; Simons, 1987), while his notion of 'strategic positioning' is a factor that triggers the accomplishment of a competitive advantage for the organization (Zhou *et al.*, 2009).

The majority of management accounting studies examine the role of MCS in relation to organizational performance covering both financial and non-financial aspects (Henri, 2006; Hoque and James, 2000). However, how the organization's SPMS affects its strategy and strategic outcomes through its potential impact on organizational capabilities has had a very limited coverage in the literature so far. This current study fills this void in the literature. Furthermore, as Schatzki (2002) argues that social practices require peculiar 'sites' of construction, a social practice that is successful in the manufacturing sector may not be so in the financial services sector. This current study's chosen industry setting, financial services sector, is also new to management accounting research. The gap is also signalled to in recent research (Yuliansyah *et al.*, 2016 and Yuliansyah *et al.*, 2017). Despite its apparent significance for the world economy, the industry has attracted very limited attention in the management accounting-related academic literature (Chenhall, 2003; Collier and Gregory, 1995; Kihn, 2010). As Kihn (2010, p. 484). Thus, in general, the service sector, which financial institutions form an integral part of, has a number of research gaps and remains under-researched from the perspective of management accounting. The study also contributes to the management accounting research in the context of developing countries in Asia, as most previous studies' focus remained on Western countries (Efferin and Hartono, 2015; Lindquist and Smith, 2009; Scapens and Bromwich, 2010). Only 2.4 per cent of the total 373 published articles were from Asian-affiliated researchers in the past 20 years (Lindquist and Smith, 2009).

The remainder of the paper is set out as follows: Section 2 is devoted to the review of the literature aimed at developing the study's conceptual framework and hypotheses that help drive the study, while keeping it focused on its set objectives. Sections 3 and 4 discuss the research methodology adopted for the study and the outcomes of the empirical data analyses, respectively. Section 5, based on the analyses, draws conclusions.

2. The literature review – conceptual framework and hypothesis development

SPMS ought to play its due role in the firm's strategy selection. The significance of evaluating its internal and external capabilities and their dexterous coordination with the use of SPMS to help the firm achieve a competitive advantage borrow its bases from the Resource-Based View Theory (RBV). Organizational strategy is the outcome of an interaction between the resources at the organization's disposal, market place opportunities and the objectives the organization pursues. Henri (2006) notes that the relationship between the SPMS, which is part of the organization's overall MCS, and strategy selection occurs at the level of pinpointing organizational capabilities rather than at the level of strategy selection. Studies by Hurley and Hult (1998) and Henri (2006) showed that the capability of an organization in achieving a competitive advantage while adapting to the market dynamics can be in the form of innovativeness, organizational learning and market orientation. Although several studies have analysed the relationship between the SPMS and the organizational strategy (Chenhall, 2005; Gimbert *et al.*, 2010; Henri, 2006; Tsamenyi *et al.*, 2011), there are only a few studies that link this relationship to the RBV theory. As Henri (2006, p. 530) asserts, "Despite considerable interest in the relationship between management control systems (MCS) and strategy, the MCS literature has devoted scant attention to the RBV". Hence, this study aims to examine the relationship between the SPMS and the strategic outcomes mediated by the system's influence on the organization's capabilities.

SPMS when tailored skilfully by a dexterous management can assist organizations in accomplishing a competitive advantage for them through its effect on the organization's capabilities. In achieving such competitive advantage, researchers assume that Market

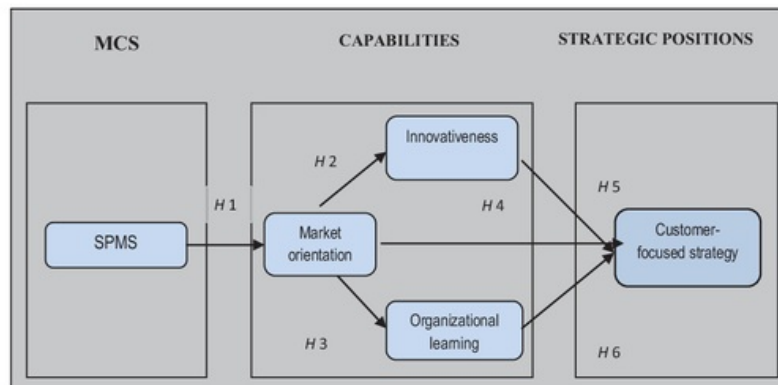
Orientation is an important element for an organization to develop organizational learning and innovativeness in its attempt at adapting to its business environment. This is in line with Hult and Ketchen (2001, p. 905) who assert that Market Orientation explains a major reason for a firm's position advantage. Market Orientation significantly influences and supports organizational innovativeness and learning, which, in turn, contributes significantly to enhancing the organization's competitive advantage in the marketplace (Hurley and Hult, 1998). Earlier management accounting literature (see, for instance, Cohen and Levinthal, 1989) also endorse that organizational learning and innovativeness is a major factor in the development of an organization's Market Orientation in enhancing its capability to better respond to the market demands. Market Orientation helps an organization support innovativeness and learning, which then have a very influential impact on how quickly it reacts to an innovation from the competitors (Cohen and Levinthal, 1989).

SPMS offers an advantage for the organization in creating strategic priorities to help it achieve a sustainable competitive advantage (Chenhall, 2005). The performance measurement system can assist in the achievement of a strategic advantage, through its crucial role in the formulation and implementation of the strategy, by adapting the organization's value chain functions according to the strategy. Based on these advantages of a sound SPMS in achieving strategy priorities, effectively and consistently, the system can be linked to the firm's capabilities (Henri, 2006). Hunt and Morgan (1995) state that the firm's capabilities drive the organization's performance because of their eminent role in equipping the firm with a distinct comparative advantage compared to its competitors. In other words, peculiar organizational capabilities can help the management in achieving a competitive advantage by helping it focus on priority strategies, and SPMS, when purposefully tailored, can play a role in the process.

In the current study, the authors used the notion of organizational capabilities as in the previous studies (Henri, 2006; Hult and Ketchen, 2001; Hurley and Hult, 1998), which recognise and emphasize the role of market orientation, organizational learning and innovativeness in helping the management to improve organizational performance and accomplish a competitive advantage. The literature categorises 'market orientation' as a firm activity or a set of activities undertaken in pursuit of a goal and subjects it to its chosen strategy, and it could vary across different organizational sub-units and is part of or integrated with broader organizational processes, such as human resource management (Ruekert, 1992). Market orientation related firm activities when managed dexterously could improve firm performance through their influence on the firm strategy (Filatotchev *et al.*, 2017). The discussions above lead us to the following conceptual framework (see Figure 1 below) to help us guide the study:

The model fits the Indonesia's financial services sector as it diagrammatically demonstrates the interrelationships among the variables that lead up to the study's hypotheses as elaborated on above. Overall, in the context of developing countries, the liberalization of the financial services sector has resulted in an increased competition, and today, the sector has become the major source of employment in most developed countries and many emerging economies, such as Indonesia. In the peculiar context of Indonesia, one of the fastest growing emerging markets, the country's politico-economic environment has transitioned from a highly centralized military dictatorship to a more-open democratic economy (Rosser, 2002). This political and economic transition is similar to what other emerging economies in Asia, Eastern Europe, Africa and South America have experienced. Therefore, the findings of this study also have implications for other countries that share similarities with Indonesia. The rise of the

Figure 1.
Conceptual
framework of the
study



middle class and growing entrepreneurial activities has resulted in increased competition in the financial services sector in Indonesia, which until the recent deregulation attempts, was dominated by government-owned banks. The banking sector in particular has had to find ways to differentiate their product offerings to increase the size of their customer base (Yuliansyah *et al.*, 2016).

In addition, the financial services sector in Indonesia faces an extremely intense competition both from local and foreign competitors. In the banking sector, for example, there is an unusually large number of banks operating in Indonesia. The sector's domestic constituents face stiff competition from foreign counterparts. A total of 286 commercial banks operated in the sector between 1980 and 2010 (see Mulyaningsih *et al.*, 2015). The banking sector in Indonesia was severely affected by the 1997/1998 monetary crisis resulting in the closure of 16 banks. Since this crisis, the Indonesian Government has made a strong commitment to restore public trust in the country's financial system by emphasizing proper management of financial institutions (Rhodes *et al.*, 2008). The other financial services sectors, such as insurance, have also experienced a stiff competition with the average growth of 15 per cent in the past three years (Yuliansyah and Jermias, 2018). Given the significance of the sector for the country's economy and growth, this study is timely and its findings most relevant.

Henri (2006) asserts that for the organization's SPMS to be effective and consistent with the strategic choices, it should be aligned with the organizational capabilities. Based on the conceptual framework above, we provide the following explanation to help us reach the study's stated hypotheses:

2.1 SPMS and market orientation

An effective performance measurement system is crucial to the success of an organization and has to be dexterously amalgamated with the firm's set strategies (Poskela and Martinsuo, 2009). The purpose of SPMS is to control and evaluate business strategies set by the management for guiding the firm's operations (Chenhall, 2005; Naranjo-Gil and Hartmann, 2007). To achieve a sustainable competitive advantage, organizations have to choose one of the two generic strategies – the low-cost strategy or the differentiation strategy (Porter, 1980). The choice of strategy is based on the firm's capabilities and resources at hand and the extent of 'market orientation' the organization is capable of accomplishing. Once the management is clear on the level of their desired market

orientation, the organization then requires a 'tool' that can aid the management to formulate, evaluate and control plans and detect if there are problems with the achievement of the desired level of market orientation. An effective performance measurement system that is strategic oriented and amalgamated with the organization's set strategy would serve as the 'tool'. Therefore, the use of a SPMS ought to contain information that is related to the level of market orientation desired by the firm.

The relationship of strategic performance measurement and market orientation has not been fully explored in the context of management accounting. Nevertheless, the study by Guiding and McManus (2002) suggested that 'strategic management accounting' has a positive relationship with market orientation. Thus, in the contexts of the 'strategic performance measurement system' and the financial services sector firms functioning in developing economies, we set forth the following hypothesis for this study:

H1. There is a positive relationship between a SPMS and market orientation.

2.2 Market orientation and customer-focused strategy

The essence of organizational strategy is that it helps the management drive organizational processes and systems to create value for customers and the organization and help differentiate it from the competitors (Simons, 2000, p. 6). Organizational strategies affect marketing and other strategic activities in the organization (Noble et al., 2002, p. 25) with repercussions for the organization across the board. Market Orientation is the trigger in finding the market gap for the organization to focus on, while marketing capability is important in the formation of a market-oriented organizational capacity (Henri, 2006). Coupled with the organization's capability in building itself the market-oriented capacity, Market Orientation can help it to achieve a competitive advantage (Cravens et al., 1997). Hence, the firm that has successfully achieved Market Orientation, which is a reflection of the firm's business strategy, is better able to devote attention to the needs of its customers (Gatignon and Xuereb, 1995).

Day (1994) argues that if the firm is capable of efficiently responding to the market demand and can effectively cope with the changing market conditions, it stands a better chance at achieving a competitive advantage and a superior performance. In addition, because of the dynamic market in today's volatile business environment, firm's resources have to be acquired and applied exactly in accordance with what the environment demands (Morgan, 2012). The study conducted by Gatignon and Xuereb (1995) demonstrated a positive relationship between Market Orientation and organizational strategy. Thus, a particular organizational strategy would determine the extent of the Market Orientation accomplished by the organization. This leads us to the following hypothesis in the context of the financial services sector firms operating in developing countries:

H2. There is a positive relationship between Market Orientation and Customer-focused strategy.

2.3 Market orientation and organizational learning

Previous studies have mostly examined the relationship between Market Orientation and organizational learning providing evidence for a close relationship between the two phenomena (Cravens et al., 1997), with the direction of the relationship being positive (Farrell and Oczkowski, 2002). Market Orientation occurs when firms consistently compete by increasing their learning (Morgan and Berthon, 2008) and persistently adapting to the

changing market conditions. In addition, Cravens *et al.* (1997) assert that organizational learning can improve information about the market environment. This information when efficiently disseminated across all the organizational functions, to enhance coordination, forms part of the firm's market specific strategic objectives.

Adaptive learning contributes immensely to organizational success and is possible to apply only if the firm is sufficiently market oriented across all its business functions. Business organizations ought to accomplish Market Orientation to be able to focus on the market environment they operate in and put in due efforts to maximize the level of customer satisfaction based on applying adaptive learning (Baker and Sinkula, 1999). In addition, market-oriented organizations provide their employees a cultural framework that promotes among them an orientation towards learning, which, in turn, can result in the development of a variety of new products/services that would then contribute to the achievement a sustainable level of competitive advantage (Farrell and Oczkowski, 2002).

Empirical evidence of the relationship between Market Orientation and organizational learning can be seen from the study by Morgan and Berthon (2008) conducted on the site of the bioscience industry in England. Thus, study empirically demonstrated a positive relationship between Market Orientation and organizational learning. The same relationship was endorsed by Rahul and Kailash (2016). The aforementioned discussion takes us to our third hypothesis in the context of the service industry constituents in the financial sector operating within the developing countries context, which is stated as follows:

H3. There is a positive relationship between Market Orientation and organizational learning.

2.4 Market orientation and innovativeness

Academic research endorses a positive relationship between Market Orientation and Innovativeness. Market-oriented firms actively pursue identification of market requirements and needs to help it meet the market demand (Gatignon and Xuereb, 1995; Kibbeling *et al.*, 2013). Slater *et al.* (2000, p. 11) note that the main foundation of a firm's innovation efforts is to be persistently market-oriented, through being both reactive and proactive. Market Orientation, when successfully accomplished, helps improve the organization's capability in creating innovative products/services and, generally, help improve the firm's overall capability to innovate (Kirca *et al.*, 2005). Thus, a firm's objective focus on its set strategy would help it stimulate changes and improvements across all organizational functions through innovativeness (Hurley and Hult, 1998). Furthermore, being innovative would successfully lead the firm to a sustainable competitive advantage through its capability to meet the needs and desires of its customers (Kirca *et al.*, 2005).

Excellence in innovation is achieved when a firm successfully accomplished the status of the leader in a competitive market environment, through its persistence in and a successful pursuit of developing innovative products and services (Zhou *et al.*, 2009). Such market-focused firms will always endeavour to seek latest information related to what the market demands (Kirca *et al.*, 2005). In addition, such firms always actively pursue creativity and seek to find ideas and market-specific information that affect customer satisfaction and loyalty (Kirca *et al.*, 2005). Studies have shown that Market Orientation helps improve innovativeness (Cheng and Krumwiede, 2012; Kibbeling *et al.*, 2013; Kirca *et al.*, 2005). Furthermore, Kibbeling *et al.* (2013) found evidence of a positive relationship between Market Orientation and level of innovativeness. Hence, we set forth our next hypothesis within the peculiar context of the service sector financial institutions operating in developing economies:

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H4. There is a positive relationship between Market Orientation and Innovativeness.

2.5 Organizational learning and customer-focused strategy

Organizational learning is a process in which a firm is able to detect problems both internally or within its external environment and is able to successfully tackle these problems for it to remain adaptive to its environment (Kloot, 1997, p. 49), be able to continuously and consistently improve its performance (Huber, 1991; López *et al.*, 2005), remain competitive with faster learning process than its competitors (De Geus, 1988; Pablos and Lytras, 2008), achieve a sustainable growth and successfully maintain its set organizational strategy (Dickson, 1996; Kang *et al.*, 2007) and successfully induce change in market behaviour and trends by developing new products and services (Crossan *et al.*, 1995; Fiol and Lyles, 1985; Garvin, 1993; Huber, 1991; Slater and Narver, 1995) that would enable the organization to survive and sustain in the face of stiff competition in the marketplace (Easterby-Smith, 1997; Hitt *et al.*, 2001).

A firm can successfully land competitive advantage in a dynamic and competitive environment by promoting and pursuing organizational learning (Blazevic and Lievens, 2004), which ensures improvement in employees' knowledge that eventuates in them consistently making operational and product improvements thereby enabling the organization to accomplish business excellence (Sher and Lee, 2004). Chenhall (2005), quoting from Huber (1991), notes that organizational learning has a role in the process of information acquisition, interpretation, distribution and storage and that each of these functions can contribute to the accomplishment of the differentiation strategy and the low-cost strategy that eventually leads the firm to the realization of a competitive advantage. There is a positive relationship between organizational learning and strategic outcomes for the organization (Chenhall, 2005; Yuliansyah and Khan, 2015). The discussion leads us to our fifth hypothesis in the peculiar context of this study:

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H5. There is a positive relationship between organizational learning and Customer-focused strategy.

2.6 Innovativeness and customer-focused strategy

As business organizations encourage their members to contribute and help implement new ideas, products and processes, it creates an internal culture of innovativeness in the firm (Hult and Ketchen, 2001, p. 902). The management's capability to influence the choice of strategy for the organization is an important first step in an innovation process (Poskela and Martinsuo, 2009) that leads to the final outcome of innovativeness in the form of new product or service development that occurs in accordance with the strategy that is crafted by the management over time (Gatignon and Xuereb, 1995).

84 Customer orientation and market competition levels are the main challenges for the firm's strategy to confront and align with in the firm's market-oriented business processes (Gatignon and Xuereb, 1995). Firms strive to improve their innovativeness in order to be able to successfully respond to the market demand. Furthermore, Hurley and Hult (1998) assert that firms with a greater capacity for innovativeness will be more successful in responding to the changing market conditions through their ability to develop and pursue new capabilities in achieving a competitive advantage over their rivals. Gatignon and Xuereb (1995) showed that there is a positive relationship between

the firm's capacity to innovate and its business strategy. Rubera and Kirca (2012) showed a positive relationship between a firm's innovativeness and its organizational values. Thus, in the context of the financial sector, in developing economies, we set forth our last hypothesis below:

H6. There is a positive relationship between the firm's innovativeness and its customer-focused strategy.

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3. Research methodology

3.1 Data collection

This study used the survey method where the respondents are middle managers at financial services sector firms in Indonesia. The authors gleaned the study's empirical data by distributing two-four questionnaires to each of the selected institutions in the financial sector service industry. With the objective of accomplishing more robust and generalizable study outcomes, the authors collected data from more than one respondent in each institution. The questionnaires were distributed to middle level managers who participate in regular training workshops organized by one of the authors' university in Indonesia. The training workshops are held every week at the university premises that consists of 30-40 managers from different institution in Indonesia. The authors excluded those managers from the study who did not work in the financial sector service firms.

Data collection, refinement and analysis took a total of two months. Of the 150 distributed questionnaires, 135 questionnaires were returned (response rate of 90 per cent) and 107 questionnaires (71.33 per cent of the total number) were considered useable and, hence, run through our analyses. The demographic information of the respondents is presented below in Table I.

Category	Description	n	Cumulative	(%)	Cumulative (%)
Gender	Male	78	78	72.9	72.9
	Female	29	107	27.1	100.0
Age	<35	34	34	31.8	31.8
	36-40	42	76	39.3	71.0
	41-45	29	105	27.1	98.1
	>46	2	107	1.9	100.0
Education	Senior High	11	11	10.5	10.5
	School/Diploma	86	97	81.9	92.4
	Bachelor (S1)	8	105	7.6	100.0
Division	Accounting and finance	19	19	17.8	17.8
	General	40	59	37.4	55.1
	Human resources	8	67	7.5	62.6
	Marketing	9	76	8.4	71.0
Field Classification		31	107	29.0	100.0
	Banking	10	10	9.6	9.6
	Financing	32	42	30.8	40.4
	Insurance	9	51	8.7	49.0
	Pensium Fund	1	52	0.01	50.0
	Shares trading firms	52	104	0.5	100.0

Table I.
Demographic information

3.2 Variables measurement

3.2.1 Strategic performance measurement systems (SPMS). For analysing the firms' SPMS, we used a questionnaire, which was originally developed by Hall (2008) and subsequently used by some studies such as Hall (2011) and Yuliansyah and Khan (2015b). The questionnaire consisted of nine question items. Respondents were asked for their opinion on the provided statements using the Likert scale of 1 (strongly disagree) to 5 (strongly agree).

3.2.2 Market orientation. For measuring the extent of the firms' level of market orientation, we used the measurement instrument developed by Narver and Slater (1990) and later used by Henri (2006). The questionnaire consisted of 10 question items which comprised 4 question items for measuring the firms' competitor-oriented market and 6 question items for measuring their customer-oriented market. Respondents were asked to give their opinion on the statements provided using the Likert scale of 1 (strongly disagree) to 5 (strongly agree).

3.2.3 Innovativeness. Three question items which were developed by Burke (1989) were used to measure the level of the firms' extent of innovativeness in the current study. The same questionnaire was also used by Henri (2006). The questionnaire asked the respondents to give their opinion on the statements provided using the Likert scale of 1 (strongly disagree) to 5 (strongly agree).

3.2.4 Organizational learning. Four question items-based questionnaire was resorted in measuring the participating firms' level and extent of organizational learning. The questionnaire was developed by Naman and Slevin (1993) and then used by some studies, including Hult (1998) and Hult *et al.* (2000). The questionnaire prompted respondents to a set of four questions, where the respondents were asked to give their opinion on the statements provided using the Likert scale of 1 (strongly disagree) to 5 (strongly agree).

3.2.5 Customer-focused strategy. To glean empirical data on the firms' use of customer-focused strategy, this study used the questionnaire developed by Porter (1980). At first, the questionnaire consisted of 10 question items, comprising two question items for measuring the low-cost strategy and eight question items for measuring the differentiation strategy. However, following our analysis of the data, we found that the two question items related to the low-cost strategy had a low score, and based on the theory, those questions were discarded. Thus, only eight question items for the differentiation strategies were eventually used. Hyvönen (2007) posits that the differentiation strategy, in focus, is closer to the customer-focused strategy. Therefore, in the current study, strategic outcomes as revealed by the data analyses were considered to be the ones oriented towards the customers, that is signalling to the firms' use of the differentiation strategy. Two sets of questionnaires were resorted to in this study – the one developed by Porter (1980) and the second developed by Auzair and Langfield-Smith (2005). The respondents were asked to rate their level of agreement to the listed statements using the Likert scale of 1 (strongly disagree) to 5 (strongly agree).

4. Research results

4.1 PLS method

This study resorted to the Structural Equation Modeling (SEM), more specifically the SmartPLS, to analyze the empirical data gleaned for the study. PLS was used because of two main reasons. First, 'PLS deals with measurement errors, so multicollinearity is not a problem' (Hsu and Fang, 2009, p. 670). Second, PLS is 'convenient in situations where the interest of the research focuses on predicting one or more dependent variables' (Fraj *et al.*, 2015, p. 35). There are two stages of data analysis conducted using the SmartPLS, namely:

analysis of the assessment model and the structural model. Below we provide a brief explanation of both stages.

39 4.2 Reliability and validity analysis 21

The first step in the assessment of the model is to examine the reliability and validity. Examination of the reliability can be conducted through analyzing the Cronbach Alpha and Composite Reliability. Appropriate reliability can be explored if the construct values are above the minimum threshold of 0.7. As seen in Table II, the values for the reliability for both Cronbach Alpha and Composite Reliability signal to a good level of reliability of the constructs.

The quality of the validity analysis is assessed by exploring the score of AVE (Average Variance Extracted) for the Convergent Validity as well as the Cross Loading test and the Fornell-Larcker analysis for the discriminant validity test. First, a good validity of AVE is generated when the value of each construct exceeds 0.5. Table II shows that the individual values of all the constructs are higher than 0.5. Thus, the AVE score of the study signals to a good validity. Next, the Discriminant Validity was analyzed using Fornell-Larcker Criterion and cross-loading. See Table III below.

The Fornell-Larcker Criterion is measured by examining the outcome of the comparison between the square roots of AVEs and the correlation constructs, both vertically and diagonally. Sholihin *et al.* (2011, p. 142) note that a valid measurement using Fornell-Larcker Criterion is found when 'the square root of AVE of a construct is greater than the correlation between the construct with another construct'. Thus, as Table IV shows, all square roots of the AVE have a good validity. In addition, factor loading is considered valid when the score is at least 0.6 and is better if the score is at 0.7 or higher (Chin, 1998). As shown earlier in Table II, there is only one item that has a score below 0.7 (0.672). Thus, we conclude that the factor loading is valid, and overall, the analysis of reliability and validity shows a satisfactory score.

4.3 Structural model and hypotheses testing analysis

The analysis of the structural model is conducted simultaneously with the testing of the hypotheses. We test our set hypotheses in the following sections (see Figure 2 below).

4.3.1 H1: SPMS and market orientation. H1 is accepted: SPMS and Market Orientation have a good positive relationship towards the competitor ($\beta = 0.471, t = 5.458, p < 0.01$) and customer ($\beta = 0.424, t = 4.554, p < 0.01$). Based on the results, we conclude that SPMS can assist organizations in improving the level of their Market Orientation. Therefore, with a well-managed and implemented SPMS, existing business strategies can be controlled and evaluated in an efficient manner. The strategies chosen are based on the extent of Market Orientation the organization can adopt. When the organization has chosen the desired level of market orientation, it requires information that can be used to formulate, evaluate, control and detect if there are problems with the choice. The required information is sourced from an efficient functioning strategic-oriented performance measurement system. Therefore, the use of a strategic performance measurement system may divulge information related to the particular level of Market Orientation desired by the firm and also if there is any potential issues with it.

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4.3.2 H2: Market orientation and customer-focused strategy. Market Orientation and customer-focused strategy have a significant and positive relationship towards the competitors ($\beta = 0.291, t = 2.779, p < 0.01$) and the customers ($\beta = 0.345, t = 3.288, p < 0.01$). Based on our analysis of the empirical data, we conclude that Market Orientation helps organizations to be successful in achieving customer-focused differentiation strategies

Latent variable	Item	Loading factor	Strategic performance measurement system
<i>SPMS</i> (Cronbach alpha = 0.937, Composite reliability = 0.948, AVE = 0.669)			
SPMS1	The performance measurement system provides a broad range of performance information about different areas of the business unit	0.672	
SPMS2	The performance measurement system is produced in a fully documented form, which provides a record for evaluating performance	0.839	
SPMS3	It provides a diverse set of measures related to the key performance areas of the business unit	0.892	299
SPMS4	It provides consistent and mutually reinforcing links between the current operating performance of your business unit and the long term strategies of the organization	0.828	
SPMS5	The performance measurement system provides information on different dimensions of the business unit's performance	0.799	
SPMS6	It links together the activities of your business unit to the achievement of the goals and objectives of the organization	0.767	
SPMS7	It provides a variety of information about important aspects of the business unit's operations	0.859	
SPMS8	It shows how the activities of your business unit affect the activities of other units within the organization	0.869	
SPMS9	The performance measurement system provides a range of measures that cover the critical areas of the business unit's operations	0.817	
<i>Market Orientation competitor-oriented</i> (Cronbach alpha = 0.826, Composite reliability = 0.884, AVE = 0.657)			
MO1	Share of information concerning competitors' strategies	0.783	
MO2	Managers understand how everyone can create value	0.773	
MO3	Target customers where we have competitive advantage	0.862	
MO4	Discussion about competitor' strengths and strategies	0.820	
<i>Customer-oriented</i> (Cronbach alpha = 0.889, Composite reliability = 0.919, AVE = 0.695)			
MO5	Communicate information about customer experience	0.800	
MO6	Understanding of customer needs	0.873	
MO7	Measurement of customer satisfaction	0.882	
MO8	Commitment and orientation to serving customers' needs	0.842	
MO10	After sales service	0.765	
<i>Innovativeness</i> (Cronbach alpha = 0.635, Composite reliability = 0.792, AVE = 0.560)			
INNO3	Management actively seeks innovation and idea	0.785	
INNO4	Technical innovation (research results) is readily accepted	0.725	
INNO5	Innovation is readily accepted in program/project management	0.733	
<i>Organizational learning</i> (Cronbach alpha = 0.746, Composite reliability = 0.838, AVE = 0.565)			
OL1	Employee learning is an investment, not an expense	0.675	
OL2	Basic value include learning as a key to improvement	0.825	
OL3	Once we quit learning we endanger our future	0.734	
OL4	Ability to learn is the key improvement	0.765	
<i>Customer-focused strategy</i> (Cronbach alpha = 0.848, Composite reliability = 0.885, AVE = 0.524)			
SO3	Improving the utilization of available equipment, services and facilities	0.731	
SO4	Providing high quality services	0.683	
SO5	Providing after-sale service and support	0.706	
SO6	Customizing services to customers need		
SO7	Introducing new services/procedures quickly	0.808	
SO8	Providing services that are distinct from that of competitors	0.626	
SO9	Improving the time it takes to provide services to customers	0.735	
SO10	Offering a broader range of services than the competitors	0.766	

Table II.
Loading factor, cronbach alpha, composite reliability and AVE

Table III.
Discriminant validity

Latent variables	SPMS	Competitor oriented	Customer oriented	Organizational learning	Innovativeness	Customer-focused strategy
SPMS	0.818					
Competitor	0.471	0.810				
Customer	0.424	0.623	0.834			
Organizational learning	0.508	0.570	0.475	0.752		
Innovativeness	0.395	0.438	0.364	0.516	0.748	
Customer-focused strategy	0.407	0.619	0.621	0.533	0.344	0.724

Table IV.
The result of PLS structural model: path coefficient and t-statistics

Dependent variables	Independent variables				
	SPMS	Competitor	Customer	Innovativeness	Organizational learning
Competitor	0.471 (5.458)***				
Customer	0.424 (4.554)				
Organizational learning	NR	0.448 (4.813)***	0.196 (2.041)**		
Innovativeness	NR	0.346 (3.325)***	0.148 (1.212)		
Customer-focused strategy	NR	0.291 (2.779)***	0.345 (3.288)***	-0.020 (0.231)*	0.214 (1.999)**

Notes: N = Not hypothesized in the model; ***significant at 1% (one-tailed); **significant at 5% (one-tailed)

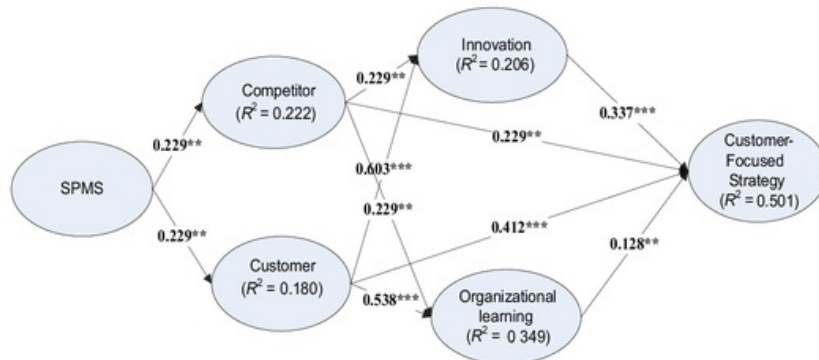


Figure 2.
PLS model with significant path coefficients

Notes: ***Significant at 1% (one-tailed); **significant at 5% (one-tailed); *significant at 10% (one-tailed)

through its role in equipping the firm with a competitive advantage. If the firm can respond to the market demand and can cope with the changing market conditions, then it will stand a better chance to achieve a competitive advantage and a superior performance in terms of profitability. 75

4.3.3 H3: *Market orientation and organizational learning.* Market orientation and organizational learning demonstrated a significant positive relationship with the competitors ($\beta = 0.448$, $t = 4.813$, $p < 0.01$) and the customers ($\beta = 0.196$, $t = 2.041$, $p < 0.01$). Based on our analyses, we conclude that Market Orientation helps the firm in the organizational learning process. The firm's ability to actively seek Market Orientation as a regular activity will help it better understand its customer needs and environmental conditions, which will, in turn, help it improve organizational learning and better focus on learning how to better understand its environmental conditions and efficiently meet its customers' needs. 13

4.3.4 H4: *Market orientation and innovativeness.* Data analysis revealed a positive relationship for Market Orientation and innovativeness with competitors ($\beta = 0.346$, $t = 3.325$, $p < 0.01$) but have no relationship with the customers ($\beta = 0.148$, $t = 1.212$, $p < 0.1$). These results are in line with Kirca, Jayachandran and Bearden's (2005) study, which concluded that Market Orientation helps the firm to be more innovation focused and improve its capability in producing innovative products and services and, hence, perform high in the face of competition. The literature supports the idea of innovation excellence that can be achieved with the firm becoming a leader in offering innovative products and services that eventually succeed in the marketplace (Zhou, Brown, and Dev, 2009).

4.3.5 H5: *Organizational learning and customer-focused strategy.* Organizational learning and customer-focused strategy have a positive relationship ($\beta = 0.214$, $t = 1.999$, $p < 0.05$). The underlying reason is because organizational learning can help the firm pinpoint and test new markets where it can compete more effectively and efficiently, thereby ensuring achievement of a more sustainable growth as well as a review its strategies (Dickson, 1996; Kang *et al.*, 2007). Organization learning would also positively affect the firm's overall behavior in respect of developing new products (Crossan *et al.*, 1995; Fiol and Lyles, 1985; Garvin, 1993; Huber, 1991; Slater and Narver, 1995) that would, in turn, enable the organization to survive and compete in a highly competitive market environment (Easterby-Smith, 1997; Hitt *et al.*, 2001).

4.3.6 H6: *Innovativeness and customer-focused strategy.* The analysis of the data revealed a negative relationship between innovativeness and Customer-focused strategy ($\beta = -0.020$, $t = 0.231$, $p < 0.1$). This study did not confirm H6. In addition, the results contradict with Gebauer *et al.* (2011) who assert that innovativeness and customer-focused strategy has a positive interrelationship. Following Oliva and Kallenberg (2003), we assume that the underlying reason for the negative effect between innovativeness and customer-focused strategy in the context of the financial services sector may be due to the limited scope for innovations (in intangible services) to immensely affect profitability compared to innovations in firms that deal primarily in tangible products. However, this argument needs further empirical investigation.

Thus, summarizing the discussions in the sub-sections above, we produce the following table (Table V) about the outcomes of the data analyses.

5. Conclusion

This study aims to investigate how SPMS can facilitate improvement in organizational capabilities thereby helping it accomplish a competitive advantage for the organization. Organizational strategies are deemed effective if the organization successfully demonstrates

Table V.
A Summary of
hypotheses results

Hypothesis	Description	Findings
1	There is a positive relationship between SPMS and market orientation	Supported
2	There is a positive relationship between market orientation and customer-focused strategy	Supported
3	There is a positive relationship between market orientation and organizational learning	Supported
4	There is a positive relationship between market orientation and innovativeness	Supported
5	There is a positive relationship between organizational learning and customer-focused strategy	Supported
6	There is a positive relationship between innovativeness and customer-focused strategy	Not supported

the flow of benefits from its effective implementation of the SPMS and its impact on the improvement of the organizational capability that eventually translates into superior organizational performance (Henri, 2006). This study examines how this cause and effect relationship between the variables can help the organization achieve its set strategic outcomes. Borrowing from the organizational strategy literature, this study emphasizes the firm's strategic positioning in a market accomplished through the differentiation of strategies and the resulting strategic outcomes for the organization. A firm well-equipped with a competitive advantage in a financial services sector operating in an environment of stiff competition will be able to consistently improve its market performance and meet its customer satisfaction needs (Zhou et al., 2009). In addition, based on the RBV literature, market orientation enables firms to improve learning and create innovations that eventually result in new processes and products.

This study drew its conclusions based on the empirical data from a survey with 107 usable respondents, in the contexts of financial services firms and a developing country. The data were analyzed using SmartPLS. The results of the study show that the performance measurement system can improve customer-focused strategy through Market Orientation and organizational learning. However, a direct link between innovativeness and customer-focused strategy could not be ascertained. This study endorses the prevalence of competition among the financial services sector firms, which encourages firms to focus on organizational learning that, in turn, translates into better products and services for the customer. An efficient and dexterously tailored performance measurement system (PMS) plays a significant role in the process by contributing to the improvement of the firm's position in the marketplace from both the competitors' and customers' perspectives, through facilitating organizational learning aimed at helping the firm gain a customer-oriented competitive advantage. SPMS positively influences market orientation, though indirectly, through it being more competitor orientated or customer orientated.

This study contributes to the current literature on the SPMS part of the organization's MCS in several ways. First, the majority of the studies in the field of management accounting examine the role of MCS towards organizational performance, which mostly refer to the financial and non-financial aspects (Henri, 2006; Hoque and James, 2000). Nevertheless, studies on how MCS affects organizational capabilities and, in turn, help accomplish its set strategic objectives are very limited. This current study fills this void in the literature. Furthermore, as Schatzki (2002) asserts, each social practice gets constructed and established on a peculiar social 'site'. Thus, a social

phenomenon can have a different outcome when constructed on a different 'site'. Similarly, an organizational practice that gets constructed and established in a manufacturing industry may not have the same outcomes as the one in the financial services sector. The study's second contribution stems from the Schatzki's (2002) position on the construction of social practices. As advocated in recent studies (Yuliansyah *et al.*, 2016 and Yuliansyah *et al.*, 2017), this study operationalises a MCS-related research under the peculiar setting of financial institutions, which form part of the service sector. Although competition in this industry is very stiff and it contributes significantly to the global economy, only a few studies on financial services sector firms are conducted in the field of management accounting (Chenhall, 2003; Collier and Gregory, 1995; Kihn, 2010). Kihn (2010, p. 484) gives examples of the very few management accounting areas captured by academic research. 'a number of gaps and under-researched yet important areas in the literature were identified in existing management accounting research. They include [...] service sector organizations' [...].

This study contributes to the current body of the literature on management accounting, particularly in the area of MCS, organizational learning and strategy implementation in financial services sector. Third, this research contributes to the management accounting research in Asia, in particular, and developing countries, in general. Previous studies have been conducted in the context of Western countries and only a few studies focused on the developing countries, specifically in Asia (Efferin and Hartono, 2015; Lindquist and Smith, 2009; Scapens and Bromwich, 2010). There are only 2.4 per cent of the total 373 published articles coming from Asian-affiliated researchers in the past 20 years (Lindquist and Smith, 2009). This study adds to the literature on the development of management accounting in Asia, with a particular focus on Indonesia.

This study used a sample of respondents from the financial services sector firms; hence, the findings may not be generalizable to other industries. Future studies can replicate this study in the context of manufacturing sector firms and focus on the comparison of the study outcomes across the two sectors, particularly in the light of this study's unsupported *H6*, as indicated in Section 4.3.6. Despite the limitations, the study contributes to the management accounting theory and practice in several ways, as referred to above. This study also extends the findings of a more recent study by Yuliansyah and Khan (2015a) on the mediating role of organizational learning on the relationship between the organization's PMS and its customers-focused strategy.

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Corresponding author

Yuliansyah Yuliansyah can be contacted at: yuliansyah@feb.unila.ac.id

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