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CONTINGENCY FACTORS AND PERFORMANCE MEASUREMENT SYSTEM OF LISTED MANUFACTURING FIRMS IN NIGERIA

By

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Abstract

This study examined the influence of contingency factors on performance measurement system of listed manufacturing firms in Nigeria, these contingency factors are; organisational strategy, organisational culture, leadership style, external environment, and employees training. These factors are said to be conditioned variables that help organization to survive and become sustainable by aiding performance measurement system, in order to facilitate the overall organizational performance. Different studies have examined general factors in the past on performance measurement system of organizations; however this study focused more directly on manufacturing firms in Nigeria. Data were collected through a self-administered survey of 168 respondents from listed manufacturing firms in Nigeria, and analysis was done using PLS-SEM. The target respondents were accountants, auditors and managers of the sampled organizations. The main finding of this study was that leadership style of an organization has the highest influence on performance measurement system. More so, organizational culture, employee training and external environment all equally influenced performance measurement system of listed manufacturing firms in Nigeria. Although, organizational strategy was found not significant, the implication of this result showed that organizations must have quality leadership to direct the affairs of an organization and lastly, organizations must imbibe on good culture to positively influence the performance of the organizations.

Keywords: *Performance Measurement System, Contingency Factors, PLS-SEM.*

Introduction

Measuring performance is essential to enable researchers and managers evaluate the specific actions of firms, and how firms perform over time. There is a need to evaluate performance with the primary objective of providing valid measurement parameters and reliable yardstick's. Stakeholders' desires are to see tangible and positive results in return on their investment in a particular organisation. However, the use of multiple performance measures has an added beneficial effect on organizational performance (Ehab, 2010). However, performance measurement is said to be critical for efficient business management and thus when selecting a performance measurement system, organisations mostly depend on certain driving forces as key to success with a particular reference to organisational strategy in order to design adequate system of performance measures, measurement of its effectiveness and efficiency.

The selection of appropriate performance measures are very complex process for a firm, this is because companies are expected to measure all areas of activity in a modern performance measurement system. Also, in order to achieve organizational objectives, contingency factors variables need to be integrated into business management for its survival in form of quantifiable metrics that will look beyond the ordinary business control, as they are kind of psychological intent into management accounting field. To attain these, business owners need to design a yard stick or prototype laid down guides that will make the attainment of its firm success through a well-articulated mechanism. This mechanism is referred to as contingency factors.

Nigerian manufacturing firms face the inability to sustain their operations beyond a reasonable level. Maduekwe and Kamala (2016) study indicated that the failure rate of firms is very high and most do not survive beyond their

first year of operation. Also, Varma, Budwhar and DeNisi(2008) findings revealed that successful organizations knows that to win in today's competitive marketplace, they must attract, develop, and retrain talented productive employees. The inability of firms to take into cognizance performance measurement practice variables like: organisational strategy, organisational culture, leadership style, external environment and employees training will greatly affect both the survival and sustainability of many firms positively in the developing nations where Nigeria belonged. All these have resulted to weak performance of companies in Nigeria. Based on the above background, this study examines the relationship between the contingency factors and performance measurement system.

Literature Review

Contingency Factors

Otley (2016) posited that contingency factors are variables that are relevant to situational dynamics in coping with the demand of organisational environment. Previous studies such as Bourne, Neely, John and Platts (2003); Spector and Brannick (2011); Kevin, Herbert and Qi (2012) have identified various contingency variables that influence the adoption of performance measurement system and the choice of performance measurement tools and practices across all business sphere. The various contingency factors that influence the adoption of performance measurement system in organizational include size, organizational structure, strategy, technology, culture and leadership. Based on this study, five contingency factors are identified viz; organizational strategy, organizational structure, leadership style, external environment and employee training.

Organizational Strategy

An organizational strategy is said to be a plan that specifies how business will allocates resources like fund, labour and inventories to support infrastructure, production, marketing inventories and other business

activities. Johnson, Scholes and Whittington (2008) described organizational strategy as the direction and scope of an organization over the long term which help to attain benefit through its configuration of resources within a challenging environment aimed at meeting market needs and to fulfil stakeholders' expectation. Performance measurement system need to designed and implemented in line with business strategy of a given company. In order to link organizational strategy to objectives of individuals and as well as the operational activities of a given firm (Neely, Adams &Kennerly, 2002). In order to achieve organizational objectives, strategy and operational activities must be explicit enough not to lose sight of operational aspects of company's objectives.

Organizational Culture

Organizational culture is the standard for common values □□and principles practiced over time in the organization, and it has begun to be applied to create solutions to problems that arise in daily business operations (Owens, 2013). The internal environment of the organization is represented by the organizational culture and is created by the traditions and beliefs of the directors and teams of organizations (Aycan, 1999). Therefore, culture must be taken into account for the effective implementation of the performance measurement system in an organization. Culture in the organization is the set of organizational values □□and standards, regulatory principles and understandings that are common to the entire organization (Daft, 2004).

Leadership Style

Organisational leadership is defined as the roles and processes that "facilitate setting direction, creating alignment and maintaining commitment in groups of people who share common work" to achieve direction, alignment and commitment (Van Velsor, McCaulley & Ruderman. 2010). Pounder (2021) enthused that leadership is the process of enlisting and assuring the cooperation and collaboration of others in the pursuit of set goals. Leaders

are expected to guide, direct, teach and organize the group they navigate towards the set goal. Indeed, the quality of leadership determines the level of cooperation and collaboration which in turn represent critical success factors.

External Environment

External environment refers to the attributes, manifestations, or occasional texture of the environment an organization faces as the focal unit of interest (Tung, 1979). When researchers focus on the availability of resources in the external environment, munificence is the primary concern. Organizations operating in turbulent external environments face a shortage or abundance of critical resources that can influence organizational performance (Dess & Beard, 1984).

Employee Training

Wexley and Latham (1982) defined training as a planned program designed to produce relatively permanent changes in the knowledge, skills, attitudes and behaviour of employees. The level of training is associated with the success of new organizational system (Tait & Vassey, 1988), and adequate training is essential to overcome resistance to change and convince employees of the benefits of new system (Smith, 1998).Cavalluzzo and Ittner (2004) found that the development and outcomes of performance measurement are positively associated with the extent of related training provided. The related training offer targets the willingness of organizations to obtain support resources for the development and implementation of the performance measurement systems. Therefore, training has become the most important factor in today's business world, as training increases the efficiency and effectiveness of employees and the organization (Raja, Furqan &Muhammed, 2011).

Theoretical Background

The reviewed theories adopted by previous studies in the area of performance measurement system cannot be overemphasized, as theories guide researchers in providing explanations to phenomenon's under review, hypothesizing the relationship between variables and projecting outcomes. The theories for adoption are; contingency theory, resource based-view theory and theory X and Y. The resource based view theory propounded by Wernfelt (1984) focuses on internal resources of a firm while theory X and Y developed by McGregor (1960), centered on employee productivity in an organisation. This study relied on contingency theory as the theory that will examine the interrelationships of contingency factorsand how these factors behave so as achieve organisationaleffective performance measurement system. Management accounting practices have been defined and explained by contingency theory over time in different ways; starting from 1970. Contingency theory emphasized that there is need for an organization to ensure suitability and appropriateness of its strategy, culture, and leadership style under differential situation.

Within the domain of organizational theories, contingency theory is the only theory that pitched organisational dynamism as factors to attain organisational goals. Improved organisational performance can be achieved through the selection and implementation of matching contingency factors, that can as well be referred to as organisational factors (McAdam, Miller & McSorley 2019). It perceives business organization as a loose system without any general template that can be considered as the best. As such,it is determines the factors that management accounting practice can adopt to get the best out ofeach situation. However, organizational factors including strategy, leadership style, culture, external environment, and training policy mostly determine management accounting practice design and its effectiveness in relation to organisation performance (Burkert, Davila, Mehta

&Oyon, 2014). Going by this assertion, Henri (2006) sees management accounting as a field that viewed management control system applications to all organizations in different circumstances. According to Ferreira and Otley (2005), contingency theory postulates that the effectiveness of performance measurement system in a business organization is determined by some factors referred to as contingency factors. It is also argued within the theory that, the selection and application of appropriate contingency factors brings about improvement in organizational performance (Henri, 2006).

In support of this, some studies like; Donaldson, (2001); Brown and Iverson, (2004) hypothesized that organizational culture, business strategy, external environment, and employee training, motivation, leadership and technology affects performance in business organizations. It is further explained that the essence of contingency theory is to suggest to management control system operators in various organizations the degree of fit between contingency variables and performance measurement system that is capable of generating improved organizational performance under different circumstances.

Empirical Review and Hypothesis Formation

Organizational Strategy

Several studies (Neely *et al.*, 2002; Johnson *et al.*; 2008; Gareth, 2010 and Kavale, 2012)have attempted to examine how various performance measures relate to organizational strategy. Perera and Pole (1997), for example, argued that a customer-centric strategy consists of dimensions that are not well captured in traditional financial accounting information and, therefore, non-financial information would be more relevant. Balanced score card users report higher associations between performance metrics and critical success factors than non-balanced score card users (Frigo&Krumwiede, 1999). Rejc and Slapničar (2007) found that a targeted performance measure that is also well aligned with business strategy improves a company's profitability. A performance measurement system

should be designed and implemented according to the business strategy of the company, in order to link the strategy to the objectives of functions, groups of people and individuals, as well as to operational aspects (Neely, Adams &Kennerly 2002). Therefore,this study hypothesized thus:

H_{01}: Organizational strategy significantly influence performance measurement system

Organizational Culture

Organizational culture is established through the assumptions, beliefs, ideals and behaviours of important stakeholders, to gain competitive advantage (Peteraf, 2013). Organizational culture helps to shape procedures, unifying the skills of the organization into one strong unit. In addition, it helps in solving problems that affect an organization and, therefore, can hinder or enable the success of the organization (Kiara, 2017). Therefore, culture must be taken into account for the effective implementation of the performance measurement system in an organization. Culture in the organization is the set of organizational values □□and standards, regulatory principles and understandings that are common to the entire organization (Daft, 2004). Therefore, this study also hypothesized thus:

H_{02}: Organizational culture significantly influence performance measurement system

Leadership Style

Leadership characteristics include managers' education and functional training, effective governance and leader professionalism, managerial styles and beliefs. Previous studies have found a relationship between organisational leadership, performance measurement practice and organisational effectiveness (Teelken, 2008). Therefore, this study further hypothesized thus:

H_{03}: Leadership Style significantly influence performance measurement system

External Environment

When researchers focus on the availability of resources in the external environment, munificence is the primary concern. Organizations operating in turbulent external environments face a shortage or abundance of critical resources that can influence organizational performance (Dess& Beard, 1984). When the focus is on the type of information, uncertainties, dynamism and complexity are the main variables (Castrogiovanni, 2002). When analyzing the degree, frequency, and rate of unpredictability of change among organizational elements, dynamism is the focal point of strategic leadership (Tan & Litschert, 1994). By studying the scope, status and heterogeneity of environmental elements relevant to focal organization, complexity becomes a critical dimension (Dess and Beard, 1984). The importance of these three dimensions is highlighted by many researchers who have studied them, albeit using different dimension labels (Machuki & Aosa, 2011).Therefore, based on the above assertions, this study equally hypothesized thus:

H_{04}: External Environment significantly influence performance measurement system

Employee Training

An effective performance measurement system depends on executives and managers with the knowledge, skills and willingness to use the system properly (Chamberlain, 2011). The studies of Smith (1998), Armstrong (2003), Ittner (2004) and Chamberlain (2011) had found a positive relationship between training and the effectiveness of performance measurement systems.Therefore, we hypothesize thus:

H_{05}: Employee training significantly influence performance measurement system.

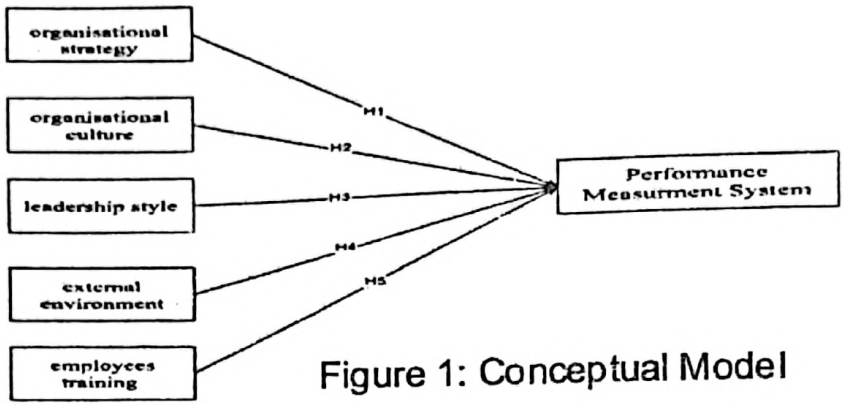


Figure 1: Conceptual Model

Research Method

This study utilized a cross-sectional survey of a sample of listed manufacturing firms in Nigeria, encompassing various products and services. The survey conducted between April and June 2021 for all the listed manufacturing companies in Lagos, Nigeria. The questionnaire with the introduction letter indicating the objective and importance of the study was administered to target respondents. The respondents to this were accountants (39%), auditors (28%) and mangers (33%). In particular, target respondents were senior officers estimated as having adequate experience, knowledge of the performance management system within the sampled listed manufacturing companies in Lagos, Nigeria. We distributed 236 questionnaires to the respondents, 185 were returned, out of which 168 (91%) were useful for further analysis similar to previous study of Sivo, Sanders, Chang and Jiang (2006). The results from the questionnaire were analysed using partial least squares-structural equation modelling.

Results and Analysis

This study tested for the normality using skewness and Kurtosis on the data collected and discovered it was slightly non-normally distributed; hence the study used PLS-SEM. The study also tested for common method bias. However, felt common method bias could be a problem because the study collected data on both the independent (contingency factors) and dependent variables (performance measurement system) from the same respondents (Podsakoff, Mackenzie, Podsakoff & Lee, 2003). As a result, the study applied Harman's single factor test to investigate common method bias using an unrotated principal factor analysis and performed exploratory factor analysis on all of the observed variables.

Measurement Model

The study assessed the measurement model to determine the validity and reliability of the measurement items by examining the individual item loadings, internal composite reliability, convergent validity, and discriminants validity. All measurement model results are displayed in Table 1. Most of the indicators loaded above 0.708, although, the items were not deleted because their AVEs and CRs are already beyond the recommended thresholds. Also, all constructs have their CR and AVE above 0.7 and 0.5, respectively. Therefore, CR and AVE are confirmed satisfactory having reached the recommended minimum threshold values.

Similarly, the study, assessed the discriminant validity (Hair, Ringle &Sarstedt 2013). Ringle and Sarstedt. (2015) suggested a thresholds value for Heterotrait and Monotrait values to be 0.90 or below if the path model includes constructs that are conceptually very similar, like this study. The result for the HTMT test, as displayed in Table 2; shown that all values ware below 0.90. Hence discriminant validity is confirmed.

Table 1: Summary of the Construct Loadings, Convergent Validity and Reliability

Constructs	Items	Loadings	Composite Reliability (CR)	Average Variance Extracted (AVE)
External environment	EE2	0.673	0.837	0.508
	EE3	0.700		
	EE4	0.646		
	EE5	0.779		
	EE6	0.757		
	EE7	0.716		
Employee training	ET1	0.743	0.915	0.642
	ET2	0.852		
	ET3	0.864		
	ET4	0.795		
	ET5	0.785		
	ET6	0.762		
Leadership style	LS1	0.749	0.94	0.691
	LS2	0.788		
	LS3	0.836		
	LS4	0.828		
	LS5	0.899		
	LS6	0.817		
	LS7	0.893		
Organizational culture	OC1	0.901	0.908	0.665
	OC2	0.798		
	OC3	0.682		
	OC4	0.825		
	OC5	0.856		
Organizational strategy	OS1	0.665	0.869	0.572
	OS2	0.799		

Performance measurement system	PMS1	0.815	0.907	0.661
	PMS2	0.870		
	PMS3	0.755		
	PMS4	0.792		
	PMS5	0.830		

Source: Author's computation, 2021

Table 2: HTMT Criterion for Discriminant Validity

	1	2	4	6	7	8
1						
2	0.737 (0.650; 0.805)					
3	0.603 (0.526; 0.779)	0.667 (0.405; 0.657)				
4	0.430 (0.258; 0.583)	0.545 (0.377; 0.700)	0.675 (0.490; 0.832)			
5	0.507 (0.252; 0.756)	0.607 (0.352; 0.874)	0.848 (0.700; 0.912)	0.748 (0.625; 0.819)		
6	0.850 (0.777; 0.906)	0.680 (0.560; 0.779)	0.648 (0.507; 0.770)	0.579 (0.396; 0.738)	0.633 (0.349; 0.926)	

Source: Author's computation, 2021
Note: 1=Employee Training 2= External Environment 3 = Leadership Style 4 = Organizational Culture 5 = Organizational Strategy 6 = Performance Measurement System

Multicollinearity Test

Table 3 Result of the Collinearity Assessment (Variance Inflation Factor)

Variables	VIF	1/VIF
Employee Training	1.86	0.54
External Environment	2.04	0.49
Leadership Style	1.72	0.58
Organizational Culture	1.32	0.76
Organizational Strategy	1.36	0.74

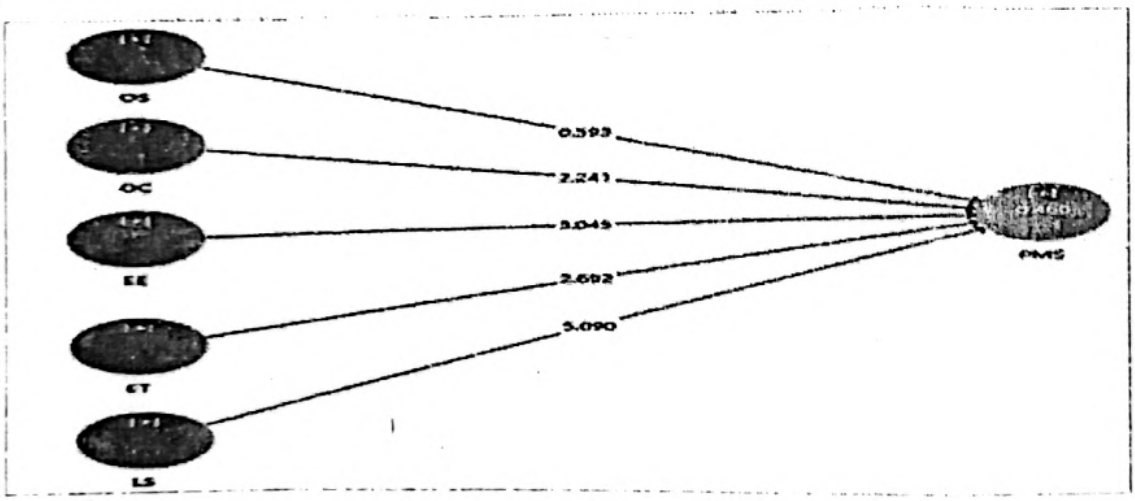
Author's Computation, 2021

The Variance Inflation Factors (VIF) was employed to assess multicollinearity among the independent variables, and the result is presented in Table 3.The rule of thumb for linearity test among the independent variables is that the VIF result should be less than five before the variables can be said not to be heavily collinear. Therefore, the result established that the level of collinearity among the independent variables is still within the acceptable standard.

Table 4 Hypothesis Testing

	B	Std Error	T-Value	P Values	Confidence Interval 2.50%	97.50%
EE -> PMS	0.192	0.063	3.045	0.004	0.083	0.279
ET -> PMS	0.168	0.062	2.692	0.010	0.082	0.273
LS -> PMS	0.357	0.070	5.090	0.000	0.202	0.455
OC -> PMS	0.195	0.087	2.241	0.030	0.066	0.381
OS -> PMS	0.044	0.075	0.593	0.556	-0.078	0.160

Source: Author'scomputation,2021



Structural Model

The second part of the assessment was the structural model. The study, applied this model because, the measurement model assessment was satisfactory. As described by , five key criteria form the assessment for the structural model in PLS-SEM. These include examining the collinearity, coefficient of determination (R^2), effect sizes (f^2),

the relevance of the path coefficients, the statistical significance, and the predictive relevance (Q^2). Hair, RingleandSarstedt. (2017) recommended that it is essential to test for collinearity before proceeding with other structural relationship assessments.

The study, assessed the R2 values to determine the coefficient of determination of the model based on the Hair et al., (2017) classification of R^2 values of 0.75 = Substantial; 0.50 = Moderate; and 0.25 = Weak. The result showed that the contingency factors accounted for 46% (moderate) of the total variance for the performance measurement system. Also, the study, assessed the effect size of the contingency factors on the performance measurement system based on the guideline of Cohen (1998). The guideline states that f^2 of 0.35 = Large, 0.15 = Medium, and 0.02 = Small. The findings show that external environment (0.061), employee training (0.039), and organisational culture (0.040) have small effect sizes on the performance measurement system. Also, leadership style (0.154) has a medium effect on the performance measurement system, while organisation strategy (0.003) does not affect the performance measurement system.

The study further assessed the significance of the paths in the model based on the hypothesis. The findings revealed that all relationships were significant except for the relationship between organisational strategy and performance measurement system. Leadership style has the strongest effect on performance measurement systems with a coefficient value of 0.357, followed by organisational culture and external environment. It was also observed that, organisation strategy has a negative insignificant relationship on the performance measurement system of listed manufacturing firms in Nigeria. The study, equally examined the predictive relevance of the model to ascertain the model's capability. It is usually ascertained based on the coefficient value of the Q^2 estimate of the endogenous variable. The Q^2 values of the endogenous variables showed

that the performance measurement system has a Q^2 value of 0.293, which shows that the model has a relatively good predictive relevance.

Discussions and Implications

This study's aim is to examine the influence of contingency factors (organizational strategy, organisational culture, leadership style, employee training and external environment) as identified on the performance measurement system. The study employed a survey of self-administered questionnaire of 168 respondents across listed manufacturing firms in Nigeria. Data were analysed using PLS-SEM. The finding showed that leadership style has the strongest positive significant relationship effect on performance measurement system of listed manufacturing firms to Nigeria. This finding is in consonance with theory and past studies. The theory of resources base view laid much emphasis on human capital resources that leadership styles relate to technical knowhow, experience, knowledge, training, and manager-subordinate relationship in an organization, all put together with other factor inputs to achieve significant organizational performance. More so, theory "Y" posited by Pale-Thorpe (2011) postulated that team leadership is a fundamental process focusing on the satisfaction of critical needs of a team with the goal of enhancing team effectiveness by increasing resilience and productive time, reduce the negative factors such as exhaustion and absenteeism. Leadership style and contingency theory are in consonance as tested and established by previous studies like, Donaldson (2001), Moynihan and Ingraham (2004), Brown and Iverson (2004), Chen-hall (2007) and Alexander, Brudneyand Yang(2010). Zsolt (2012) also, posited that organization management cannot do without putting in place an effective leader. In furtherance of the theoretical Linkage Pool, et al., (2001).characterized leadership style combined with performance measurement system to determine business performance.

The findings of this study also show that external environment also influence the performance measurement system of manufacturing firms in Nigeria.

This finding implies that some external factors such as weather and climatic conditions, government regulations and competition from similar firms can influence the performance measurement system of the organization. This finding is in tandem with the studies of Elhamma, (2015) who found that environmental uncertainty has significant and positive impact on the use of management control system. However, this finding is in contrast with the finding of Thi, Thi, Thi and Quoc (2020) where application of management accounting was investigated in Vietnamese enterprise, it was found that business environment has a negative impact on management accounting application. Therefore, based on the contingency factor model, it is important that organization managers pay greater emphasis on sophisticated performance measurement system when organizations facing high uncertainty.

The findings of the study also showed that employee training is a good predictor of performance measurement system of listed manufacturing firms. The empirical finding of this study was in line with the studies of Smith (1998) Armstrong (2003) Ittner (2004) and Chamberlian (2011), they all found a positive relationship between training and the effectiveness of performance measurement systems. This finding implied that human resource managers must keep up with the training of their staff to in order to generate positive performance measures for the organization.

Conclusion and Recommendations

Result of the findings revealed that, external environment, employee training and organizational culture have minor effects on performance measurement system, and leadership style has a medium effect on performance measurement system while organizational strategy was found to have a weak and ignorable effect on performance measurement system of listed manufacturing firms in Nigeria. Further assessment of this study path model on the hypotheses tested revealed that all relationships were significant

except the relationships between organizational strategy and performance measurement system as leadership style has the strongest effect, followed by organizational culture, external environment and employee training. Going by the results, the study is said to be fit and concludes that; the influence of contingency factors (organization culture, leadership style, external environment and employee training) on performance measurement system of listed manufacturing firms showed a positive and significant influence. Thus, any manufacturing firms that employed the aforementioned contingency factors on performance measurement system are likely to achieve its firms' objectives

Based on empirical findings and the results of this study, the study therefore recommends that management should try to maintain a fairly democratic leadership style in order to allow employee full participation in operational activities. Therefore, organizational culture, external environment and employee training needs to be monitored with kin interest.

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