

THE EFFECT OF STRATEGIC MANAGEMENT AND STRATEGIC MANAGEMENT ACCOUNTING SYSTEM ON THE PERFORMANCE OF MANUFACTURING COMPANIES IN EAST JAVA (USING THE PERSPECTIVE OF INSTITUTIONAL THEORY)

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ABSTRACT

The performance growth of the company spoke about the increase in value to satisfy stakeholders resulting from better management of the resources have been obtained. Strategic management and strategic management accounting system were designed to help companies achieve performance. This research was conducted with reference to (1) the concept that the strategic management and strategic management accounting determine the performance achievement; (2) institutional theory which states that legitimacy can improve performance; (3) the results of previous research have not revealed the causal relationships regarding strategic management and strategic management accounting systems on performance. The purpose of the study was to explain (1) the influence of the institutionalization of strategic management and strategic management accounting system on performance and (2) the effect of the institutionalization of strategic management and strategic management accounting system in manufacturing enterprises in East Java. This is a quantitative research paradigm with explanation manifold uses manufacturing companies as research samples. The research instrument to measure company performance was indicated by the size of financial and non-financial performance while both two legitimacy tools measurement consists of three dimensions: institutional environment, the level of institutionalization, and the institutionalization impact. Total of population that has been determined as 1088 companies and sample of 292. Data obtained as many as 16 manufacturing companies located in East Java were analyzed using Kendal Tau one-tailed nonparametric analysis. The findings showed that (1) the level of institutionalization of strategic management and strategic management accounting system positively affects the performance of the company and (2) the level of strategic management institutionalization affects the level of strategic management accounting system institutionalization positively. Empirical evidence also shows that the level of institutionalization of strategic management is influenced positively by an external source, namely the institutional environment, while the level of institutionalization of strategic management accounting system is influenced not only by external sources but also internal sources of legitimacy, namely the institutionalization another tool that is strategic management. This means the company's performance is achieved when the company becomes similar to other companies through the institutionalization of strategic management as legitimacy tools.

Keywords: strategic management, strategic management accounting system, the performance of the company, institutional theory

Introduction

An increase or growth of the company has always been very important and interesting instance to be appointed as a research topic. Companies are likened humans, have phases of life such as birth, growth-developed, and die. However, mortality for both is different. Death of living beings is absolute, but the death of the company is a choice. Of course no company wants to be in a phase of death or failure, but instead wants the company to always be on the graph that is always growing. The performance growth of the company spoke about the increase in value to satisfy stakeholders resulting from better management of the resources have been obtained. To achieve this growth, the company must be consistent in producing a satisfactory performance of various different stakeholders. The reason, performance growth requires growth of managed resources in advanced where these resources come from the stakeholders. Therefore, the company must satisfy the stakeholders to obtain additional resources. Satisfactory performance refers to the company's performance that exceeds the average or even superior performance where performance can only be achieved by the company that is able to produce a competitive advantage.

Various ways can be done by the company to achieve the performance above average, but the two most crucial and essential is to internalizing the changes or applying the right strategy effectively and implementing strategic management and strategic management accounting system that is conceptually created for that purpose through improved strategic position of competitiveness, continuous improvement, and the accuracy of the information as a basis for decision making. Based on institutional theory, the company's performance can be achieved when the company's activities become legitimate or congruent with the values of social environment. Jones (2013: 337) states that "institutional theory learns how organizations can improve their ability to survive and survive in a competitive environment by becoming legitimated that is acceptable, reliable, and accountable, in the view of stakeholders". More detailed, this theory also shows the mechanism of achieving the legitimacy. This theory (institutional theory) 1) view the process in which structures, including schemes, rules and routines, built as an authoritative guide for social behavior and 2) the question of how the elements were created, diffused, adopted and adapted throughout the room and time and how these elements lead to further deterioration and is not used (Scott, 2004: 2).

The results of previous studies related to the effect of strategic management and management accounting system positioned on the performance of companies that is seen from Pearce, Freeman, and Robinson (1987), Falshaw, Glaister, and Tatoglu (2006), Robinson and Pearce (1983), Dibrell, Craig, Neubaum (2014), Nixon and Burns (2012), Jorgensen and Messner (2010), Nixon et al (2011), Seal (2010:107), Scapens (1994), Burns and Scapens (2000), Granlund (2001), Riberio and Scapens (2004), Guerreiro, Pereira, and Frezzati (2006), Scapens and Varoutsas (2010), Pitcher (2015), Nielsen, Mitchell, and Norreklit (2015), Ghasemi, Mohammadi, and Khan (2015), Rahman (2012), Cadez and Guilding (2008), and Cadez and Guilding (2012) known to have a) the results of studies that revealed different results regarding the effect of strategic management and management accounting system positioned on the performance of the company, b) the use of theory in a previous study that was dominated by the theory of national culture, contingency theory, and the theory of configuration but the use of institutional theory perspective is still few, and c) contradictory information from the research journal about the effect of the institutionalization of management accounting system positioned on the performance of the company, and d) rare comprehensive causal examination.

Indonesia also became one of the countries affected by environmental changes. The number of mergers and acquisitions activity, informed by the Business Competition Supervisory Commission, have increased substantially in recent years. Jones (2013) suggest inter-organizational strategy were taken when the environmental uncertainties faced by the company is very high. Companies in the manufacturing sector are companies that need special attention and the need to achieve superior performance for the manufacturing sector to be repositioned as a pillar of the economy of this country has a variety of problems related to institutional aspect as published by the Ministry of Industry of the Republic of Indonesia (Ministry of Industry). In East Java, the manufacturing sector is the largest contributor to the economy of East Java.

LITERATURE REVIEW

1. Sociological Institutional Theory

Institutional theory learns how organizations can improve their ability to survive and survive in a competitive environment to be legitimate, that is acceptable, reliable, accountable, in the view of stakeholders (Jones, 2013: 337). There are three (3) types of institutional theory mentioned by Amenta and Ramsey (2010) has its origins and emphasis in different research strategies, namely: sociological institutionalism, historical institutionalism and political institutionalism. All three have similarities mentioned by Clemens and Cook (1999) and Amenta, (2005) in Amenta and Ramsey (2010: 15) by stating "basic commonality in all theoretical claims institutional is that something that is identified at a higher level is used to describe processes and lower yields. " The difference lies in (1) focus on various determinants of the order of a higher level and vary in how much they have significance causally and (2) the origin and the emphasis in research strategy and the strengths and weaknesses of different (Amenta and Ramsey, 2010). Institutional argument relies on institutions that decisive action is not on the aggregation of individual actions or patterned interactions between individuals (Amenta and Ramsey, 2010: 16).

This study uses institutional theory manifold sociological institutionalism expressed by Amenta and Ramsey (2010) has the characteristics that focus on 1) the cause of cultural and ideational and 2) the search for legitimacy that tends to focus on the process of imitation, diffusion, and convergence of policy. Scott (1987) described a few things about sociological institutional theory. First, sociological institutionalism have four (4) formulations with a focus on (a) institutionalization as value investment process, (b) institutionalization as the process of creating reality, (c) institutional systems as a class of the elements, and (d) the institution as a different social layer.

2. Company Performance

The terms of performance and effectiveness are used interchangeably (March and Sutton, 1997 in Henri, 2014: 95). There is a concept that varies on the performance or effectiveness of an organization depends on the perspective of the organization. For example, the concept of the organizations effectiveness exists to organization seen from a perspective with the goal system concept is different from the performance of companies seen from competing-value perspective because each perspective has a different focus. Similarly, the concept of performance measurement is diverse and has evolved as it has been informed by Henri (2004). Nevertheless, regarding the design there are some similarities in terms of financial size and orientation of the short-term. Performance measurement in this study using a measure of financial performance and non-financial as though decision-making are more likely to consider or focus on the financial aspects, the performance of manufacturing firms in Indonesia are measured by using non-financial measure.

3. Strategic Management

In this study, strategic management refers to the institutionalization of strategic process consists of strategic activities and techniques. Strategic management process, according to David (2011) consists of three processes, namely strategy formulation, strategy implementation, and evaluation of strategies include its sub-activities. While the techniques in strategic management by Afonina (2015) as follows SWOT analysis, Critical success factors, Cost-benefit analysis, Customer satisfaction analysis, Analysis of customers complaints, Analysis of employee satisfaction, Market segmentation, Price analysis, Market share analysis, Customer profitability analysis, Benchmarking, Level of service analysis, Life cycle analysis, Porter's 5 forces, PEST analysis, Portfolio methods, Balanced scorecard, Value chain analysis, Activity based costing.

4. Strategic Management Accounting System

Management accounting derived from an economic perspective (to support business operations) has been progressing grouped by IFAC (1998) into several stages of change that is evolutionary (prior to 1950, 1965, 1985, and 1995) in the theoretical framework of economic and in particular the principle of marginal neoclassical economics: the conventional wisdom (before 1960), agency theory (1960-1970), contingency theory (1980-1990), and strategic management accounting (1990-present) with

the implication of management accounting in the form of shift focus from the provision of information to use of available resources to create value for all stakeholders. Waweru (2010).

As like strategic management, strategic management accounting system refers to the institutionalization of activity based management and its techniques. There are ten (10) a decisive step in the implementation of Activity Based Management (ABM), in which four (4) steps associated with Activity Based Costing (ABC), four (4) steps associated with (Process Value Analysis (PVA), and two (2) general measures according to Hansen and Mowen (2012). The techniques in management accounting strategic grouped by Juras (2014) into five categories: (1) Costing, (2) Planning, Control and Performance Measurement, (3) Strategic Decision Making, (4) Competitor Accounting, and (5) Customer Accounting. Strategic management and strategic management accounting systems have relevance. Historically the emergence of strategic management accounting is triggered by the need for information managers to support strategic decision making.

METHOD

This research uses quantitative approach for testing the institutional theory to investigate the effect of strategic management and strategic management accounting system on company performance. Based on the existence of theory that shows the strength of the hypothesis, this research is an explanatory research. This study used two independent variables, namely Strategic Management and Strategic Management Accounting System and the dependent variable is the Corporate Performance as Figure 1. Testing did not only include the main variables, but also sub-variables. This is because the institutional theory test basically involves two sub variables and the dependent variable sub with a design that is presented in Figure 2.

Figure 1: Research Design

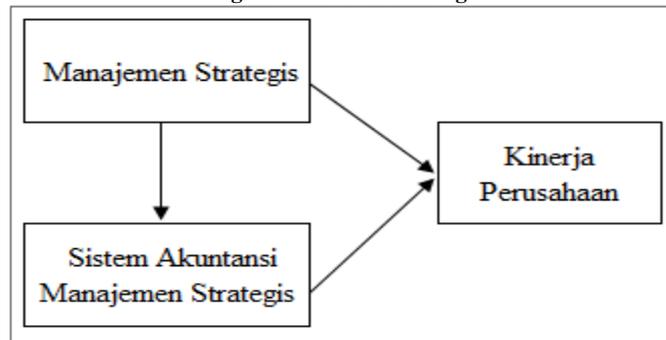
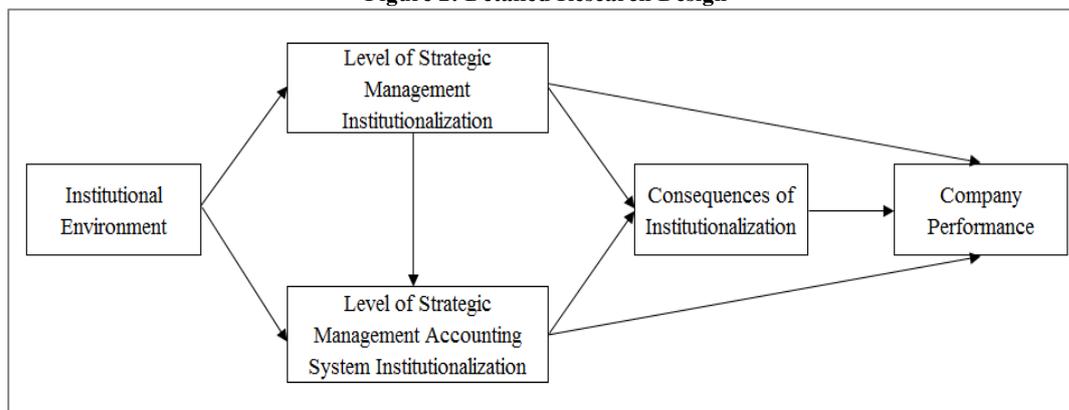


Figure 2: Detailed Research Design



The unit of analysis in this study is the level of organization or company. This research has a cross sectional dimension of time using one-shot approach to address the problem of research study. The instrument used in this study was a valid and reliable questionnaire consisting indicators statements for main variables and sub-variables. Total of population that has been determined as 1088 companies and sample of 292. Data obtained as many as 16 manufacturing companies located in East Java were analyzed using one-tailed non-parametric analysis Kendal Tau.

RESULT AND DISCUSSION

Table 1 and Table 2 below show the results of non-parametric test to answer the research problems.

Table 1: Nonparametric Test Result for Main Research Design

Correlations

			Companies_Performance	Strategic_Management	Strategic_Management_Accounting_System
Kendall's tau_b	Companies_Performance	Correlation Coefficient	1.000	.483**	.103
		Sig. (1-tailed)	.	.005	.293
		N	16	16	16
	Strategic_Management	Correlation Coefficient	.483**	1.000	.650**
		Sig. (1-tailed)	.005	.	.000
		N	16	16	16
	Strategic_Management_Accounting_System	Correlation Coefficient	.103	.650**	1.000
		Sig. (1-tailed)	.293	.000	.
		N	16	16	16

** . Correlation is significant at the 0.01 level (1-tailed).

Table 2: Nonparametric Test Result for Detailed Research Design

Correlations

			Companies_Performance	Isomorphism	Negative_Effect	Strategic_Management	Strategic_Management_Accounting_System	Institutional_Environment
Kendall's tau_b	Companies_Performance	Correlation Coefficient	1.000	.351*	.140	.483**	.103	.276
		Sig. (1-tailed)	.	.034	.233	.005	.293	.078
		N	16	16	16	16	16	16
	Isomorphism	Correlation Coefficient	.351*	1.000	.549**	.339*	.244	.305
		Sig. (1-tailed)	.034	.	.002	.038	.101	.059
		N	16	16	16	16	16	16
	Negative_Effect	Correlation Coefficient	.140	.549**	1.000	.174	.165	.448
		Sig. (1-tailed)	.233	.002	.	.181	.194	.011
		N	16	16	16	16	16	16
	Strategic_Management	Correlation Coefficient	.483**	.339*	.174	1.000	.650**	.167
		Sig. (1-tailed)	.005	.038	.181	.	.000	.193
		N	16	16	16	16	16	16
	Strategic_Management_Accounting_System	Correlation Coefficient	.103	.244	.165	.650**	1.000	.062
		Sig. (1-tailed)	.293	.101	.194	.000	.	.374
		N	16	16	16	16	16	16
	Institutional_Environment	Correlation Coefficient	.276	.305	.448	.167	.062	1.000
		Sig. (1-tailed)	.078	.059	.011	.193	.374	.
		N	16	16	16	16	16	16

*. Correlation is significant at the 0.05 level (1-tailed).

** . Correlation is significant at the 0.01 level (1-tailed).

1. The Institutionalization of the Strategic Management and Strategic Management Accounting System Affect Corporate Performance Positively

The performance of most, or more precisely 56.2% of sixteen (16) manufacturing company located in East Java, which becomes the actual sample of the study experienced an increase in both financial and non-financial performance. Performance above average occurred as many as 68% of the 16 companies that experienced an increase in ROA, 56.2% increased ROI, 56.2% have been able to increase the number of business units, 68.8% were able to achieve an increase in productivity, 56.2% did increase the amount of labor, 56.2% were able to increase utilization, 56.2% experienced an increase in the value of the input, 68.7% increase in the value of output and 50% achieved an increase in value added. Improved performance of the company is affected by the institutionalization of strategic management and strategic management accounting system. The contribution of strategic management institutionalization on performance is 48%. Companies that institutionalize the strategic management high even very high as much as 56.2%. Also, performance was influenced by the institutionalization of strategic management accounting system by 10%. The institutionalization of strategic management accounting system has been done by 43.7% of companies.

The institutionalization of strategic management and strategic management accounting system in manufacturing companies is because the manufacturing companies feel pressured by institutional pressures in the environment as much as 17% and 6%. The institutionalization of strategic management in a manufacturing company as a result of pressure in the institutional environment have led to the similarity between one company with another company that is using the same strategic management and institutionalize the legitimacy of this tool in a high level and even very high. The likening process is known as isomorphism that is coercive, mimetic, and normative isomorphism. The magnitude of influence of these two legitimacy tools on isomorphism is 34% from strategic management and 24% from strategic management accounting system. Isomorphism itself contributes 35% on companies' performance.

Exposure above shows that most of the companies of the sixteen (16) manufacturing company located in East Java, which becomes the actual sample of research can achieve performance excellence even in his efforts to achieve improved performance of both financial performance and the performance of non-financial companies are faced with the reality that companies operate in an uncertain business environment in which in such environments also contain environmental institutional containing various rules and norms of certain pressing or forcing the company and must be adhered to by the company, which means requires the activity of the company's operations must conform or be congruent with the institutional aspects (own legitimacy) if the company wants the continuity of business in the neighborhood.

The achievement of the performance of most of the sixteen (16) manufacturing company located in East Java, which becomes the actual sample of the study had the likeness social behavior shown in the likeness of institutionalization means of legitimacy, namely the strategic management where almost all companies are equally institutionalize the strategic management level high and even very high. Likeness or uniformity of social behavior is known as isomorphism according to Raynard, Johnson, and Greenwood (2015: 1) occur because of similar companies experiencing social expectations are similar and similar pressure to conform to social expectations are so inclined to adopt a strategy and a managerial similar. In this case, not only the similarity or likeness / similarity in institutional aspects and strategies are required, but also management accounting information similarities.

Most companies of sixteen (16) manufacturing company located in East Java, which becomes the actual sample of research seems to have realized that the legitimacy of the main determining factors and the first for the company to be in a phase of survival and growth, and the unwillingness or inability of the company in obtaining legitimacy will impact on the performance in some periods continuously and ultimately failure of the business (business failure) where both the decline of business (business decline) or failure of the business (business failure) at the risk certainly of abandonment (ignorance) on adherence to the institutional aspects. The institutional aspects, namely the various rules and norms in the environment in which it operates come from the corporate stakeholders that contribute to the company. As an interested party and contribute to the company, the respect and protection of stakeholders into demands should or even must be fulfilled automatically by the company. Ignorance will impact on the stakeholders dissatisfaction. Contribution withdrawal which is the main trigger of business decline and failure.

Such conditions that the pressure in the institutional environment and awareness of the importance of the legitimacy of the company, bringing most of the companies of the sixteen (16) manufacturing company located in East Java, which becomes the actual sample of this study institutionalize the strategic management and strategic management accounting system in the company with a variety of processes, both coercive, mimetic, and normative. It also showed that the institutionalization of these two legitimacy tools is a response from the company that implicitly mean, that the institutional aspects (values and norms that govern the company) not only as a result of a class of specific elements within an institutional system, but also as a different social layer . Interpreting institution as those two things lead to the fulfillment of social demands obligatory because of the lower strata or level or higher and a position in an institutional system. The institutionalization of strategic management is done to generate social behavior isomorphism so that the legitimacy of the company can be obtained.

The conditions in accordance with Raynard, Johnson, and Greenwood (2015: 1) which states that the increased legitimacy acquired when the company obtained the approval of safe and public support for social operates in accordance with a prescription. Not only according to the statement, it is also appropriate institutional theory proposed by Jones (2013: 337) that "the theory of institutional learn how organizations can improve their ability to survive and survive in a competitive environment to be legitimate, that is acceptable, reliable , accountable, in the view of stakeholders "and Scott (2004: 2) which states that institutional theory 1) view the process in which structures, including schemes, rules and routines, built as an authoritative guide for social behavior and 2) question on how the elements were created, diffused, adopted and adapted throughout the room and time and how these elements lead to further deterioration and not used.

Although it is known that the effect of variable strategic management and strategic management accounting system of the performance is positive but there are other variables outside the model that affect the company's performance by 41%. Based on theory and previous research variables that affect performance include organizational development, ownership structure, governance, operations strategy and supply chain, big data, analytics, alliances strategic technologies, market orientation, organizational factors and factors of managerial, industrial design, the intensity of entrepreneurship, and etc.

2. The Institutionalization of the Strategic Management Positively Effects The Institutionalization of Strategic Management Accounting System

The institutionalization of strategic management in a range of high and very high as much as 56.2% is owned by the company of sixteen (16) manufacturing company located in East Java which became an actual sample of the study while the institutionalization of strategic management accounting system in the same range occurred in 43.7% of the company. The positive influence provided by the institutionalization of strategic management on the institutionalization of strategic management accounting systems is dominant (65%) which both are the tools of legitimacy. It shows that the institutionalization of legitimacy tool can occur not only from external sources but also internal resources that is resulted from institutionalization of another legitimacy tool. In this case another tool of legitimacy is strategic management. The cause is in carrying out activities of strategic management, manufacturing companies require their strategic management accounting systems which provide financial information to provide cost and benefit considerations at each stage of the strategic management activities. Given these considerations the company can take decision in the most effective and efficient way.

Such conditions above in accordance with the institutional theory expressed by (Zucker, 1987: 443) that states "in this theory, organizations affected by normative pressures that can come from sources external to the situation and come from within the

organization itself'. Although the institutionalization of strategic management accounting system is positively influenced by a dominant and strategic management insitusalisasi by 65%, but there are still 35% of the positive influence by other things outside the research model.

CONCLUSION

Based on previous exposure, it can be concluded three (3) points. First, the institutionalization of strategic management and strategic management accounting system positively affect the performance of a manufacturing company in East Java. This result confirms red line from the research results of Caravella (2011), Popadiuk, Rivera, and Bataglia (2014), Jang, Lee, and Nelson (2014), Johnston (2013), Deephouse (1996), Modell (2012), Berrone et al (2010), Lapsley and Pallot (2000), Covaleski et al (1993), Guerreiro et al (2006), Scappens (1994), Burns and Scapens (2000), Granlund (2001), and Riberio and Scapens (2004). The positive influence means higher institutionalization level of strategic management and strategic management accounting system, the higher the performance of the company. Specifically, it was found that the institutional environment has positive effect on institutionalization level of strategic management and strategic management accounting system. It means that the greater stress on the institutional environment led to the increase of institutionalization of those two legitimacy tools. Institutionalization level of strategic management and strategic management accounting system affect performance through isomorphism. It is known from the institutionalization level of strategic management and strategic management accounting system that positively effects isomorphism and an isomorphism has positive effect to the companies' performance which means that the higher the level of institutionalization of strategic management and strategic management accounting system, the bigger and the stronger isomorphism, then the higher the companies' performance.

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