

## Chapter 6

# Exploring the Use of Performance Measurements in Arab Manufacturing Firms

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### ABSTRACT

*This study focuses on two Arab developing countries following the view that scope, role, and positioning of management accounting differ across organisations and countries, and, in the same direction, the study draws on the recent literature on localisation of global management control systems. Furthermore, the study embeds the view that certain contextual variables such as country differences and organisational culture possess particular cultural characteristics, which in turn affect individuals to respond distinctively to Management Accounting Systems' (MAS) applications. The main objective of this study is to investigate whether or not there are significant associations between the use and levels of importance of operational non-financial performance indicators (ONFPs) and the extent of a set of contextual variables including firms' and managers' characteristics and workforce involvement. The study reports and discusses findings of surveying manufacturing firms belonging to various industry sectors in Egypt and Saudi Arabia (SA) in mid-2005. Findings show that levels of importance of ONFPs in Egyptians firms are higher than those in use at their Saudi peers' firms. In general, findings on significant positive associations between the levels of importance of ONFPs and the incorporated contextual variables in the Egyptian firms seem to be in line with prior literature findings drawn from global practices. Interestingly, the effect of organisational culture seems to be witnessed in Saudi firms evident by the negative, rather than positive, associations between two variables belonging to managers' characteristics and workforce involvement and levels of importance of ONFPs.*

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## INTRODUCTION

Management Accounting Systems (MAS) can be considered as ‘those parts of the formalised information system used by organisations to influence the behavior of their managers that leads to the attainment of organisational objectives’ (Gerdin, 2005, p. 103). In this paper, performance measurement as a MAS instrument (Gerdin, 2005; Abdel-Kader & Luther, 2008) is investigated. Chenhall (2003) defines MAS as the systematic use of management accounting to achieve some goals. Bouwens and Abernethy (2000) argue that MAS can be designed to provide more sophisticated information which facilitates decision making within and coordination between functional departments.

The sophistication of MAS’ techniques has received attention in the extant literature (Bjornenak, 1997; Malmi, 1999; Tillema, 2005), such as costing (e.g., activity-based costing), and performance measurements (e.g., balanced scorecard). The focal point of this study is on the accounting information MAS provide. Such information comprises accounting instruments and is provided to managers and employees for specific purposes—such as an operating decision or the planning and control of an operating task (Tillema, 2005). Performance measurement as a MAS’ instrument is the core of this study.

The localisation of global management control systems has been a focal theme recently (Cruz, Scapens, & Major, 2011), where questions are raised whether management control systems are re-produced or rather reshaped by local managers when they are enacted at the local level. It is about analysing whether local managers are capable of resisting the homogenising pressures resulting from “travelling of accounting systems across interconnected times and spaces in contemporary world” (p.412). It is suggested research should focus on accounting as a “situated craft” (Chua, 2007, p. 487), as this could provide better explanations of “how ‘skillful’ practices are constituted locally

in response to global accounting systems” (Cruz et al., 2011, p. 425). Cruz et al. argue that “heterogenisation of management control practices is an essential part of the process of homogenisation which is developed by the stretching of ‘extra-local’ or global management control systems. This heterogeneity in accounting is produced as locals are increasingly exposed to the homogeneity produced by corporate (global) management control systems” (p. 425). Homogeneity is often said to be a product of globalisation, as the latter is supposed to lead to increasingly homogenised practices (Cruz et al., 2011, p. 417). This study, in line with Cruz et al.’s (2011), contributes to a better understanding of the use and levels of importance of performance measurements (particularly non-financial) in the surveyed Arab firms.

Firm’s MAS are said to be a significant element of their structures. Features of an appropriate accounting system depend upon firm’s circumstances (Abdel-Maksoud, Dugdale, & Luther, 2005). The appropriateness of using sophisticated techniques depends on the circumstances in which they are being used, which advocates the use of the contingency theory perspective (Tillema, 2005) as adopted in this study. The contingency theory postulates that no single best or universal control system exists, but that effective systems must be designed to fit the organisational and environmental circumstances faced by firms. Previous studies highlight the role of contingency theory in accounting studies (Hartmann, 2000; Abdel-Maksoud et al., 2005; Al-Omiri & Drury, 2007). The variables most commonly identified in the contingency theory literature are environmental uncertainty, production technology, structure, corporate strategy, and size (Covaleski, Dirsmith, & Samuel, 1996; Hartmann, 2000; Chenhall, 2003; Abdel-Maksoud et al., 2005).

Furthermore, commentators propose other variables such as political, economic environment, and culture. Hopwood (2005, p.576), for instance, argues that “the complex hybrids of national and supranational influences observed in accounting

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