

Chapter 23

The Structural Effects of Quality Management Control Systems on Organizational Performance

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ABSTRACT

This chapter discusses the results of an investigation into the effects of control systems on organizational performance within the context of Quality Management (QM). Data were collected using questionnaires from 205 managers within local authority organizations in Malaysia. Respondents were selected using stratified random sampling, and the data was analyzed using two computer software programs: SPSS and AMOS. The findings demonstrate the existence of a significant effect for Quality Management Control Systems (QMCS) on employee satisfaction, innovation, and cost benefit. Although the direct effect of QMCS on customer satisfaction was insignificant, this relationship was mediated by the dimensions of employee satisfaction and cost benefit. In summary, this chapter provides evidence for the significant role performed by control systems as a source for performance improvement within QM-organizations. In addition, this study reveals that the relationship between control systems and performance is not a simple and direct relationship but rather a structural relationship.

INTRODUCTION

The notion of quality management is believed to bring out about not only better performance, in terms of both financial and non-financial factors, but it is also purportedly able to craft new forms of organization that are associated with several positive outcomes. These include more mutual communications among employees, a higher level of employee engagement in decision

making, and both broader and longer term views in assessing the overall performance (Kaynak & Hartley, 2005; Kim et al, 2012). This effectively transforms organizations from what were initially coined ‘traditional organizations’ to what is known as ‘contemporary organizations’. However, such management does not only affect how an organization works, but also how it is designed. Both factors are very closely associated with the issue of management control systems (MCS) within

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contemporary organizations that feature aspects of quality management. Despite calls for more research on MCS within contemporary organizations (Arjalies & Mundy, 2013), the literature suggests the need for further studies on MCS which critically considers the nature of the relationship between MCS and the specific strategies pursued by organizations (Pondiville, et al, 2013).

Rather than organizing MCS as a traditional formal control mechanism, consisting of planning and control elements, the literature suggests that contemporary organizations have crafted their MCS as an integrative part of the organizational strategy (Arjalies & Mundy, 2013). In other words, control systems are developed to be strategy oriented. The existence of strategy-related characters in MCS was found where organizations develop MCS whilst also keeping in mind the diverse and complex array of strategy requirements needed to pursue a strategy successfully. As such, MCS, within the context of QM, is said to include several facets of QM, such as greater participation from a wider range of employees and performance evaluation that is beyond the benchmark of merely quantitative and financial outcomes (Kim et al, 2012). As a result, MCS within such instances have been coined as strategy-related control systems (Ittner & Larcker, 1997). While the literature acknowledges the significance of strategy-related control systems, studies on this issue are relatively scarce. Therefore, this expands the margins of the existing literature by investigating MCS that are practiced within the sphere of quality management. Acknowledging the richness of the extant literature discussing MCS, it is noted that previous studies fall into various streams. This paper discusses an investigation into the effect of MCS on organizational performance. Theoretically, the observed effect of MCS on performance is one of the significant pieces of whole picture of MCS as a discipline; this has been highlighted by the author in a review of the development of the MCS research paradigm (Chenhall, 2003). Practically, this study discusses the issues related

to organizational performance, thereby providing scientific solutions for any organizations similar to the one included within this study.

This study involves local authorities (LA) in Malaysia, which are the public organizations that implement quality management with the objective to transform the entities to become an efficient public institution (Abdullah et al, 2013). Although this transformation has brought about some positive results, the actual impact is limited and unsatisfactory (Siddiquee, 2008). While there are a plethora of studies investigating the link between QM and the performance of LA, studies that actually unearth the quality management control systems (QMCS) are comparatively rare, thus leaving many issues related to QMCS in LA under-examined. Drawing upon the assertion that effective control systems would lead to performance levels that are successful at a significant level, this study consider four measures of performance, covering both the financial and non-financial measures that typically receive much attention within the management accounting literature. The aforementioned include measures of financial outcomes, employee satisfaction, customer satisfaction, and innovation. This study design uses performance as a criterion variable to investigate QMCS, thereby incurring the debate over the fact that even after years of QM being implemented by LA, the performance of such LA has consistently received criticisms and complaints relating to the unsatisfactory levels of their performance (Siddiquee, 2010). In addition, control systems have been described hypothetically as the next area of focus if public services in Malaysia are to improve their service delivery (Hassan, 2010). Despite the fact that LA plays an important role in dealing with the people at the frontline, only a limited amount of research has been carried out on the issue of public service delivery in Malaysia (Siddiquee, 2008). Therefore, this study seeks to lessen this gap by focusing on the link between QMCS and performance of LA.

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