EUROPEAN ACADEMIC RESEARCH
Vol. III, Issue 4/ July 2015

Impact Factor: 3.4546 (UIF)
DRJI Value: 5.9 (B+)

ISSN 2286-4822
www.euacademic.org

The Effect of Professionalism of Top Management Team Flexibility to System Implementation Strategy with Management Accounting Systems as Intervening Variable

POPI FAUZIATI
Senior Lecturer
Department of Accounting, Faculty of Economics
Universitas Bung Hatta, Padang
Indonesia

Abstract:

The study aims to determine the influence of professionalism of the management team peak towards the implementation flexibility of strategy through management accounting systems. Management accounting system is intervening variables, namely non-financial information, resource allocation and interactively. Data were collected through surveys at respondents of 127 managers in private and public hospitals in the West Sumatera. Data were analyzed using Structural Equation Model (SEM) with PLS Warp 3.0 program. The hypothesis of the study amounted to seven hypotheses, which are five hypotheses (H2, H3, H4, H5, H7) are accepted, there is a positive influence professionalism of the top management team of non financial information and resource allocation. The professionalism of the top management team has positive influence on the interactive; the use of non-financial information has positive influence on implementation strategy flexibility and the use of interactive positive effect towards implementing the strategy of flexibility. Other hypotheses (H1 and H6) are rejected, the professionalism of top management teams does not have positive influence on the implementation of the strategy of flexibility and use of resource allocation is not the positive effect on the implementation of the strategy of flexibility.

Key words: Professionalism top management team, implementation flexibility of strategy, management accounting system, partial last square (PLS).

The professionalism of the top management team (TMT) is to be professional demands indicated by top management, in addition to the professional attitude is needed in an organization. Professionalism of the TMT, leading to the strength of the TMT, competencies, top management skills. TMT will formulate a strategy and will affect the implementation of the strategy will be carried out by an organization (Gil & Frank, 2006). The strategy is the goal of the company to be able to run the organization well. This strategy is more focused on flexible strategies are strategies that can be adjusted to conversion the strategy will be carried out are divided over the application of financial information, non-financial information, performance evaluation, diagnostic, and interactive resource allocation (Gil & Frank, 2006). The need for professionalism of the TMT in the implementation of a flexible strategy will make the company more competitive in the industry.

The study will examine the influence of TMT professionalism on application flexibility strategy, test the influence of TMT on professionalism of MAS (non-financial information, resource allocation and interactive), and the test use of the management accounting systems (non-financial information, resource allocation power and interactive) to the implementation of strategic flexibility in hospital organization.

Professionalism is the professional commitment to the profession. The commitment showed by prides themselves as professionals, constant effort to develop professional skills. Professional management is the management of implementing quality management in the development of human resources in a professional manner. TMT is the team that is responsible for the effects arising from the decisions of the overall management

of the organization, such as: the director and deputy director. Environmental changes will bring the company into a condition that is completely new and uncertain. It takes the ability to adapt standard enterprise or flexible. This adaptability is to determine, how many flexibility in the strategy pursued by the company. Flexibility in the strategy will be very helpful in solving problems that might arise from an organization (Gil & Frank, 2006).

Management accounting system (MAS) is an organization of control mechanisms, as well as an effective tool that provides useful information to predict the consequences that may occur from a variety of activities that can be done. The results of MAS can help identify a problem, solve the problems, and to evaluate the performance. The information is needed and used in all phases in the management, including planning, control, and decision-making. This system also processed financial and non-financial information to meet of management in carrying out the functions of planning and control of the organization needed. Non-financial information such as client satisfaction information and services will also affect to the company. Non-financial information will be more consistent and will be useful for the application of a flexible strategy (Gil & Frank, 2006). According to Abernethy and Vagoni (Abernethy & Vagoni, 2004) customer-oriented strategy is a better use of financial information and non-financial information operationally for the management control can be used. With the non-financial information, the management can be exercise control, especially the control of the implementation of the strategy and to understand the customer.

The allocation of resources is defined as the distribution of monetary and non-monetary resources on decentralized units within the company to enable managers to carry out their tasks on their responsibilities respectively (Chenhall & Morris, 1991). Information MAS for the allocation of resources and to evaluate the performance is considered as the two main functions of

MAS (Gil & Frank, 2006). The use of the resource allocation of MAS is useful as a decision on the distribution of resources between organizational units (Gil & Frank, 2006). Allocation of resources reflecting the use of MAS for decisions making about the resources distribution among organizational units. In addition, the allocation of resources is also needed by the TMT, because the TMT emphasizes the role of resource allocation of MAS, one of the allocations of funds for the operation, so as to further improve their administrative roles. Emphasizes an interactive two-way communication process between the communicators. Interactive on an organization can be regarded as a liaison between units within the organization or the existence of an interaction in the organization served targeted. Application of flexibility strategies that will benefit from the combination of coordination and continuous learning with interactive or how their interactions within the organization (Gil & Frank, 2006). Interactive is very important for an organization wholeness. If organization interactive is lacked than information is not consistent, it will be an effect to the implementation of corporate strategies. However, if the organization is a great interactive is scheduled, then the target of the objectives is achieved and the strategies can be implemented.

Methodology and Procedure

A survey was employed in the data collected for this study. The questionnaires were distributed to the top managers at the hospital with 3 years of held the position. Where, the top manager already has the experience, that the manager can demonstrate professionalism or carry out their duties in a professional manner.

Tools Used

Professional versus administrative TMT background was measured with factual questions about managers' years of educational and functional experience in the professional (clinical) field and the administrative (general management) field (Hambrick & Chen, 1996). From individual scores, two TMT variables were constructed. An ordinal variable TMT background was constructed as the ratio of the average individual scores for years of professional background to the total number of years of professional and administrative background. A dichotomous, variable, professional TMT, versus administrative TMT, was constructed based on whether the majority of TMT members had a professional or administrative background. Thus, the final variable scores accounted for all years of professional or administrative background in the TMT and corrected for TMT size.

The MAS interactive styles were measured using a Likert-type instrument from Abernethy and Brownell (Abernethy & Brownell, 1999), which adapted to the specific setting. There is Ten items reflected to the main features of an interactive or diagnostic use of MAS (Bisbe & Otley, 2004). The use of (non) financial information was measured with a Likert-type instrument adapted from Abernethy and Lillis (Abernethy & Lillis, 1995) and Perera et al. (Perera, et, all, 1997). The ten information items listed in the question correspond with measures commonly reported by the hospitals. The variables expressing the purpose of MAS used the resource allocation and performance evaluation following the applied logic by Reed, 1986 and Reck, 2001 instruments. Two respondents were offered (not mutually exclusive), one decision for each type, and question to indicate a five-point with Likert-type scale for using MAS, and the (non) financial information for these purposes contained. The implementation of strategic goals related to the reduction cost and quality improvement was measured with a

nine-item with Likert-type instrument based on (Gupta & Govindarajan, 1984) and (Govindarajan, 1988) instrument. The instrument adapted according to governmental policy importance. Respondents were asked to indicate of the strategic policies, and goals were implemented in their hospital.

Statistical Techniques Employed

- Descriptive statistics i.e., mean and standard deviation were employed.
- Reability statistics and validity test was employed to examine the validity and reability instruments.
- t-statistics (significant value) was employed to examine the hypotheses

Objectives of the Study

- To examine the level of professionalism in the TMT is positively related to flexibility strategy implementation.
- To examine the level of professionalism in the TMT is positively related to the use of non-financial MAS information.
- To examine the level of professionalism in the TMT is positively related to the resource allocation function of MAS.
- To examine the level of professionalism in the TMT is positively related to the interactive use of MAS.
- To examine a flexibility strategy implementation is positively affected by the use of non-financial MAS information.
- To examine a flexibility strategy implementation is positively affected by the use of MAS for resource allocation decisions.
- To examine a flexibility strategy implementation is positively affected by the interactive use of MAS.

Hypotheses of the Study

- H1: The level of professionalism in the TMT is positively related to flexibility strategy implementation.
- H2: The level of professionalism in the TMT is positively related to the use of non-financial MAS information.
- H3: The level of professionalism in the TMT is positively related to the resource allocation function of MAS.
- H4: The level of professionalism in the TMT is positively related to the interactive use of MAS.
- H5: Flexibility strategy implementation is positively affected by the use of non-financial MAS information.
- H6: Flexibility strategy implementation is positively affected by the use of MAS for resource allocation decisions.
- H7: Flexibility strategy implementation is positively affected by the interactive use of MAS.

Results

The sample of this study has 30 public and private hospitals in the West Sumatera each hospital was given of 5 questionnaires. 150 questionnaires were sent to the hospitals, 138 copies (92%) returned and 12 copies (8%) incomplete. 127 copies (85%) questionnaires can be processed for this study. Descriptive statistics for the constructs are reported in Table 1.

Table 1

Descriptive statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Flexibility Strategy	127	9,00	24,00	18,8346	2,79956
Nonfinancial	127	10,00	29,00	20,3543	3,94511
Resource Allocation	127	3,00	15,00	11,6693	2,45937
Interactive	127	15,00	28,00	23,0000	3,21948
Top Management Team	127	7,00	21,00	13,4488	4,39283
Valid N (listwise)	127				

Validity test is intended to see the extent to which instruments are used actually can measure the variables to be studied. Instruments will be declared invalid if the loading factor of less than 0.4 means that the item is not valid. Furthermore, if viewed from the Kaiser Meyer Olkin-Measure of Sampling Adequency (KMO-MSA) of a variable if it is above 0.5 it gives the sense that the items of valid variables to be tested. Reliability test is intended to look at the level of data reliability or consistency of the data. In this study the reliability test using Cronbach's Alpha above 0.5 (Hair,et.,all, 2006).

Table 2: Result Reability and Validity Testing

Variables	Cronbach Alpha	KMO	Loading Factors	Result
Interactive	0.631	0.660	0.400 - 0.810	Reliable and Validity
Nonfinancial	0.647	0.722	0.457 - 0.800	Reliable and Validity
Resource Allocation	0.839	0.695	0.827 - 0.908	Reliable and Validity
Flexibility Strategy	0.584	0.573	0.559 - 0.855	Reliable and Validity

Validity and reliability of test results in Table 2 above shows that all the questions of the research instrument is valid and reliable to use, because the average Kaiser Meyer Olkin-Measure Of Sampling Adequency more than 0.5, the value of loading factor of more than 0.4 and Cronbach Alpha is larger than 0.5. The data processing and testing can be carried out with the level of significance and the parameters of the path between the latent variables. The hypothesis put forward to determine the effects of each construct were hypothesized.

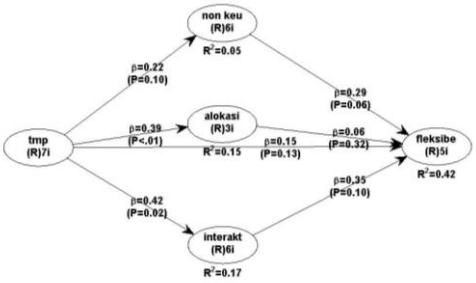

Figure 1.Results correlation between constructs

Based path analysis shows that the influence of TMT professionalism to the application of strategic flexibility has value of regression coefficients of 0.133. The effect of professionalism to the non-financial information shows the value of regression coefficients of 0.126. The professionalism influence of TMT on resource allocation showed the value of regression coefficients of 0.324. The professionalism influence of TMT of the interactive shows the value of non-financial information 0.357. The effect of flexibility strategy showed the value of regression coefficients of 0.308. Influence the allocation of resources has value of regression coefficient -0.217. Interactive effects of the application of strategic flexibility showed the value of regression coefficients of 0.522.

Table 3 Hypothesis testing results

Variabel	**β**	**Standard error**	**sig**	**Remaks**
TMT Professionalism → Flexibility Strategy	0.150	0.134	0.13	Rejected
TMT Professionalism → Nonfinancial	0.220	0.167	0.10***	Accepted
TMT Professionalism → Resource Allocation	0.390	0.072	0.01*	Accepted
TMT Professionalism → Interactive	0.420	0.210	0.02**	Accepted
Nonfinancial → Flexibility Strategy	0.290	0.182	0.06***	Accepted
Resource Allocation → Flexibility Strategy	0.060	0.125	0.32	Rejected
Interactive → Flexibility Strategy	0.350	0.266	0.10***	Accepted

*, **, and *** Significant at 0.01, 0.05, and 0.10 levels respectively (two-tailed).

From Table 3 and Fig. 1, it can be seen that the value of the regression coefficient of 0.220, the standard error of 0.134. The influence of TMT professionalism to the application of strategic flexibility of a significant has value of 0.13 and significant level at 0.10. This value is not significant, because the significant

value bigger than significant level. The first hypothesis (H1) is rejected. That means, there is no positive effect professionalism of the TMT of the strategic flexibility implementation. The value of second hypothesis (H2) regression coefficient is 0.220 and the standard error of 0.167. The influence of TMT professionalism to the use of non-financial information has a value of significant 0.10 and significant value of 0.10. This value is significant because the significant value the same with the value of the significant level then hypothesis (H2) is accepted. That means, there is a positive effect professionalism of the TMT of the non-financial information.

The results of the third hypothesis (H3) regression coefficient of 0.390 with the standard error of 0.072. Professionalism influence TMT to use a resource allocation significant has value of < 0.01 and significant value of 0.01. This value is significant because the value of the significantis smaller than the value of the significant then the 3rd hypothesis (H3) is accepted that the professionalism of the TMT of a positive effect on use MAS resource allocation. The results of the fourth hypothesis (H4) regression coefficient of 0.420 with the standard error of 0.210. Professionalism influence TMT of the interactive use of the significant has a value of 0.02 and significant value of 0.05, this value significantly. The value of a significant is smaller than the value of the significant then the fourth hypothesis (H4) is accepted that the professionalism of the TMT has positive influence on interactive use.

The results of the fifth hypothesis (H5) regression coefficient of 0.29 with the standard error of 0.182. The effect of non-financial information on the implementation of strategic flexibility significant has value of 0.06 with a significant value of 0.10. This value is significant then the fifth hypothesis (H5) is accepted. That means, there is a positive effect for using non-financial information on the strategic flexibility implementation. The results of the sixth hypothesis (H6) regression coefficient of 0.06 and standard error of 0.125. The

effect of allocation of resources to the implementation of a strategic flexibility significant has a value of 0.32 while the significant value of 0.10. Therefore, the value of a significant is bigger than the value of the significant. This value is not significant. The sixth hypothesis (H6) is rejected, and namely the uses of resource allocation positively not affect the application of strategic flexibility. For the seventh hypothesis (H7) regression coefficient of 0.35 and the standard error of 0.266. The influence of interactive use of the application of strategic flexibility has a value of significant 0.10 and 0.10 value of significant level. The value of a significant is the same value of the significant, this value significantly and the seventh hypothesis (H7) is accepted. The interactive use's MAS positively influences the implementation of strategic flexibility.

Discussion of the Results

This paper has explored the role of MAS in supporting to implementation strategy and TMTs background affected. The first hypothesis (H1) is rejected in because of differences in the characteristics of the sample, in terms of age and duration of work at the hospital. The result is different with Gil & Frank, 2006; Ittner & Larcker, 1995; Perera et all, 1997. In addition, the hospital culture in Indonesia, especially in the West Sumatera in contrast with overseas hospitals. Top management has not implemented strategy flexibility in the hospital. The sixth hypothesis (H6) is rejected. Also illustrating, the use of the allocation of resources does not affect to the implementation of the strategy flexibility. The results of the study are also not accordance with Gil & Frank, 2006, which found that the use of the allocation of resources in a positive effect on the implementation of the strategy flexibility. Because, the resources between organizational units are not effective, the lack of good resources that is not appropriate for applied flexibility strategies. While the five hypothesis is the

hypothesis, H2, H3, H4, H5 and H7 are accepted so that it can be explained that the professionalism of the TMT in a positive effect on the use of non-financial information, the allocation of resources and interactive use. While the use of non-financial information and positively influenced the implementation of strategic flexibility and interactive use of MAS positively influence the implementation of strategic flexibility.

This paper has some limitations are inherent to the survey method, such as the use of perceptual measures, purposive sampling (Young, 1996), and the common-method bias (Podsakoff & Organ, 1986). Limitations may also be found in the lack of testing of the directions of causality due to the cross-sectional nature of the study, and in the focus on a single industry. Several possible paths for further research exist, of which we mention two here. First, TMT variables could be associated with other and different contingencies, such as power and communication structures, which are not studied or controlled for in this study (e.g., (Finkelstein & Hambrick, 1996)) or additional MAS dimensions can complement our classification of MAS, including a more detailed description and measurement of the distinction between the coercive and enabling use of MAS.

REFERENCES

Abernethy. M. A. and A. M. Lillis. (1995). "The impact of manufacturing flexibility on management controls system design, "Accounting, Organizations and Society, vol. 20, no. 4, pp. 241–258.

Abernethy. M. A. and P. Brownell. (1999). "The role of budgets in organizations facing strategic change: an exploratory study," Accounting, Organizations and Society, vol. 24, pp. 189–204.

Abernethy. M. A. and E. Vagoni. (2004). "Power, organization design, and managerial behavior," Accounting, Organizations and Society, vol. 29, pp. 207-225.

Bisbe. Jand D. Otley. (2004). "The effects of the interactive use of management control systems on product innovation," Accounting, Organizations and Society, vol. 29, pp. 709–737.

Chenhall. R. H. and D. Morris. (1991). "The effect of cognitive style and sponsorship bias on the treatment of opportunity cost in resource allocation decision," Accounting, Organizations and Society, vol. 16, no. 1, pp. 27-46.

Finkelstein. S and D. C. Hambrick. (1996). Strategic Leadership: Top Executives and their Effects on Organizations, St. Paul, Minneapolis: West Publishing Company.

Gill. N. D. and H. Frank. (2006). "How top management teams use management accounting system to implement strategy," Journal of Management Accounting Research, vol. 18, pp. 21-53.

Govindarajan. V. (1988)."A contingency approach to strategy implementation at the business-unit level: integrating administrative mechanisms with strategy," Academy of Management Journal, vol. 31, no. 4, pp. 828–853.

Gupta. A.and V. Govindarajan. (1984). " Business unit strategy, managerial characteristics, and business unit effectiveness at strategy implementation," Academy of Management Journal,vol. 27, pp. 25–41.

Hair. Joseph F, et, all. (2010) Multivariate Data Analysis. New York. Pearson Prentice Hall.

Hambrick. D. et. all. (1996). "The influence of top management team heterogeneity on firm's competitive moves," Administrative Science Quarterly, vol. 41, pp. 659–684.

Ittner. C. D.and D. F. Larcker. (1995). "Total quality management and the choice of information and reward

systems," Journal of Accounting Research, vol. 33, pp. 1–34.

Perera. S. G. Harrison and M. Poole. (1997). "Customer-focused manufacturing strategy and the use of operation-based nonfinancial performance measures: a research note," Accounting, Organizations and Society, vol. 22 no. 6, pp. 557–572

Podsakoff. P. M and D. W. Organ. (1986). "Self-reports in organizational research: Problems and Prospects," Journal of Management, vol. 12, pp. 531–544.

Porter. M. E. (1985). Competitive Advantage: Creating and Sustaining Superior Performance, New York, NY: The Free Press.

Reck. J. L. (2001). "The usefulness of financial and nonfinancial performance information in resource allocation decisions," Journal of Accounting and Public Policy, vol. 20, pp. 45–7.

Reed. S. A. (1986). "The impact of nonmonetary performance measures upon budgetary decision making in the public sector," Journal of Accounting and Public Policy, vol. 5, pp. 111–140,

Young. S. M. (1996). *Survey Research in Management Accounting: A Critical Assessment*, In Research Methods in Accounting, edited by Alan J. Richardson, Vancouver, BC: CGA-Canada Research Foundation.