



## **STRATEGIC PRIORITIES AND PERFORMANCE EVALUATION: EVIDENCE FROM THE MALAYSIAN MANUFACTURING FIRMS**

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### **INTRODUCTION**

Most of the businesses nowadays are striving to survive and remain competitive due to the ever changing environment. According to McAdam and Bailie, (2002), business today requires better information across beyond the traditional financial measures in order to achieve understanding of the factors that create the foundation of future success.

Customers' requirements and production systems have changed considerably during the last decade. Customers today are more demanding and they expect to get high quality product with the lowest cost that they can pay. Customers are concerned with the decisions about the quality, faster deliveries, reliability, safety and availability of the products or services. Therefore, managers recognize these issues as critical factor in organization's performance. Quality, flexibility, dependability, speed and cost are the criteria to strengthen organization's strategic performance objectives.

In order to achieve this, organizations require innovative method of improving organization's performance. According to Kaplan and Norton (1998), this problem can be solve by adopts balanced set of measures (financial and non-financial). Financial measures alone cannot adequately reflect factors such as quality, customer satisfaction and employee motivation. By linking development, operational and financial measures, it can be more meaningful, therefore, better results can be obtained (Driva, 2001).

Organizational performance is commonly referred to as financial performance where considerations of budgets, assets, operations, products, services, markets and human resources are crucial in determining the overall performance of an organization (Dixon, 1999; Smith, 1999; Thurbin, 1994, Yeo, 2003). Financial performance considered as the 'bottom-line' of

organizational performance. . According to financial measures are those expressed in monetary terms whereby non-financial measures use non-monetary units. Financial measures only provide the past performance rather than the future performance.

With the globally competitive market, organizations these days are aware about measuring the overall organization not just depending on the financial perspective but non-financial perspective is also a main concern to measure the organizational performance. Non-financial measures, such as quality, enhance customer satisfaction, enhance employee welfare and strengthen organization's strategic performance objectives are supplement to financial measures.

According to Steeple, (2000),

“There are many advantages of using non-financial measures: the measures are more timely than financial ones; the measures are very measurable and precise; the measures are meaningful to the workforce so aiding continual improvement; the measures are consistent with company goals and strategies; and, non-financial measures change and vary over time as market needs change, and so tend to be flexible. A disadvantage, however, is that there is a huge range in terms of the number of non-financial measures that can be used by companies”

Unfortunately, few organizations have underestimate non-financial measures such quality, enhance customer satisfaction, enhance employee welfare and strengthen organization's strategic performance objectives can affect overall performance of the organizations. Despite many studies pertaining of financial perspectives and non-financial perspectives but lack of empirical study on what perspectives organizations tend to used in setting up their objectives and strategies, using a developing country—Malaysia context. As a result, the objectives of the study is formed as followed:

- i) To investigate the relationship between strategic priorities and organization's performance (i.e. financial perspectives and non-financial perspectives) of Malaysian organizations.

## **LITERATURE REVIEW**

### **STRATEGIC PRIORITIES**

In general, strategic priorities can be grouped under 5 categories i.e. cost/ price, quality, flexibility, speed and dependability. In a study done by white (1996), strategic priorities provide the first level for classifying manufacturing performance measures. According to Ahamd and Dhafir (2002), the selection of a range of performance measures ought to be made in line with the strategic priorities adopted by the organizations. Findings by (Carpinetti, 2001) point out quality dimension will impact upon the performance of an organization. Verdu'-Jover (2004), mentions about concentrating on the characteristics of the product and flexibility strategy will give positive impact on performance.

## **COST**

By late 70s, Americans had become aware to the successful Japanese industry had be. In industries such as steel, watches, ship building, cameras, autos, and electronics, the Japanese was a step further than American and European companies (Wainwright, 1995). The Westerners started to figure out why the Japanese incredibly grow successfully.

Numerous theories claimed the explanation the Japanese triumph including lowering the cost. For these reasons, most of the manufacturing organizations try to reduce manufacturing costs but still improve the quality of the product. To be able to compete on cost therefore requires the organizations to focus on design, and to compress the time from concept to market availability, both of which require an ability to introduce rapid changes during the design phase.

## **QUALITY**

Quality was a vital competitive dimension during the 1980s and its remain important to this day. In the mid-1990s, however, quality had shifted from a strategic advantage to a competitive necessity (Kaplan and Atkinson, 1998). Due to all the attention devoted to improving quality during the past 15 years, it may now offer limited opportunities for competitive advantage. Product quality is a subject that closely related to manufacture because there could be the existing of incorrectly made or defective raw material is used which there is a probability of product not meet the target specification (Wainwright, 1995).

Furthermore, when the manufacturer's product or piece of equipment fails to work or satisfy the user, the user will return the defective product or call the organization asking for repair to be made. Thus, the organization will provide readily quality such as warranty claims, feedback by the users and field service requests (Kaplan and Atkinson, 1998).

## **DEPENDABILITY**

Dependability is the ability to perform the promised service consistently, reliably, and accurately. Dependability has often been cited as the most important dimension in assessing the quality of delivery and is therefore a fundamental requirement for businesses to compete in the marketplace (Cook et al., 2002). Product dependability can be increased by simplifying the product complexity, as a product with fewer components is less likely to suffer failure. Dependability can be improved by over-designing the product, such that components function well within acceptable stress levels. High levels of dependability are only possible if the quality of component parts conform to adequate design and manufacturing standards.

Reduction of product specifications will enable a less complex product to be designed, but to maintain performance may require increased levels of innovation. The performance of a product relates to its manufacturing characteristics, with added features providing secondary factors to supplement the basic performance functions. With a simple design it is often difficult to achieve a desired level of performance, unless a high level of innovation can adapt new technology. Generally, to achieve a high performance or give improved features over competitors it is necessary to increase the level of innovation (Wainwright, 1995).

## **SPEED**

Speed is defined as the time it takes from the development of a product concept until the product reaches the market. Speed has become a major competitive weapon in today's competition. Being able to response rapidly and reliably to a user's request is the critical skill for obtaining and retaining valuable users' business.

The Japanese auto manufacturers for example can deliver a newly ordered customized car to a customer's driveway in less time (one week) than it takes the purchaser to obtain a valid parking sticker from government authorities for the vehicle. The manufacturing organization competing on the speed dimension can measure user lead times, the period between the initiates a request for a product until delivered that product. Such a measurement is importance to achieve and reliable limitation the times for meeting the targeted users' expectations.

## **FLEXIBILITY**

Flexibility is the ability to respond to market changes and it is generally viewed as dominated by manufacturing decisions (Fitzsimmons, Kouvelis & Mallick, 1992). Manufacturing organization have reacted to increase the product diversity and limitation product life cycles by the introduction of flexible manufacturing technology, to provide a set of manufacturing capabilities which enable a variety of quality management strategies to be achieved. Product design impacts on a number of manufacturing flexibilities. The manufacturing flexibility is easier to achieve with a less complex product. Complexity increases the burden on manufacturing through a higher number of components and assemblies, etc. thereby requiring greater control because of a greater possibility of error.

Manufacturing flexibility can be affected by component design, such that part manufacture can be achieved by a variety of methods. Similarly, parametrically designed component parts enable a common use of tooling to assist ease of manufacture, thereby increasing volume flexibility (Wainwright, 1995).

## **TRADITIONAL FINANCIAL MEASURES**

Historically, in the 1970s, researchers examined how organizations used management accounting systems especially budgeting as tools for performance measurement (Gosselin, 2005). In the 1980s, the focus was put essentially on the budgeting process and its impact on performance. The scope of the research on performance measurement began to broaden in the beginning of the 1990s (Gosselin, 2005). Dixon et al. (1990) and Kaplan and Norton (1992, 1993, 1996) developed new perspectives and frameworks to organize performance measurement systems.

Organizational performance is viewed as financial performance where considerations of budgets, assets, operations, products, services, markets and human resources are crucial in determining the overall bottom-line of an organization (Dixon, 1999; Thurbin, 1994; Smith, 1999; Yeo.R, 2003). As the subject matter, the financial benefits of an organizational performance are often associated with organizational success (Thurbin, 1994; Yeo.R, 2003).

Management accountants have relied on the use of financial measures to evaluate the performance of cost centers (Gosselin, 2005).

According to Gosselin (2005), a preliminary analysis of the results of the survey show that manufacturing firms are still using to a large extent financial measures. In Gosselin's study, the results show that financial measures are more frequently used by manufacturing firms despite all the recommendations to put more emphasis on non-financial measures, management in manufacturing firms is still giving much more weight in the performance measurement system to financial measure . The financial measures are: net profit, gross profit margin, total sales of revenues, profit before tax, cost of goods sold, total expenses, total cost by department, amount of raw material inventory, cost per unit produced, amount of finished good inventory, total operating cash flows.

According to Andy Neely, (2000), through out the 1970s and 1980s the measures traditionally used by businesses were subject to highly vocal criticism from influential figures, such as Berliner and Brimson (1988); Hayes and Abernathy (1980); Johnson and Kaplan (1987); Kaplan (1983, 1984) and Skinner (1971).

According to Tibbits, (2000), traditional balanced scorecard designed for private profit-making companies. Financial perspective is the most well-known and financial perspective always highlights on linking strategies back to financial measures.

## **NON-FINANCIAL MEASURES**

According to Hussain, (2002), a non-financial measure has received attention from the management accounting information and there are several studies that deal with non-financial perspectives although without much information about the actual practices involved. Since the end of the 1980s academics, consulting firms and practitioners have all emphasized the need to give more weight to non-financial measures in performance measurement system (Gosselin, 2005).

According to Gosselin (2005), the expectation that the extent to which organizations use non-financial measures will be higher in firms that have implemented innovations if performance measurement systems such as the balanced scorecard or integrated performance measurement system but the result shows that the study cannot confirm that balanced scorecard and integrated performance system implementers use non-financial measures to a larger extent than other firms.

The result of the Gosselin (2005) study shows decentralized organizations tend to use more non-financial measures than centralized organizations. This also has been stated in Ismail, (2007) literature, the inclusion of non-financial measures of performance is not sufficient but it is important to link to a company's strategic goals. They conclude that companies are increasingly measuring customer loyalty, employee satisfaction and other non-financial areas of performance that they believe affect profitability. However, they have failed to relate these measures to their strategic goals or establish a connection between activities undertaken and financial outcomes achieved. Failure to make such connections has led many companies to misdirect their investments and reward ineffective managers.

Gosselin (2005) research shows that organizations faced uncertainty and volatile tend to used non-financial measures if compared with organizations that face a lower level of uncertainty environment. The measurement of non-financial performance such as quality and customer satisfaction is more difficult in services organization rather than manufacturing organizations (Silvertro et. al, 1992; Smith, 1998; Md. Mustaque and Gunasekaran, 2002).

Currently, non-financial measures are at the core of describing strategy and of developing a unique set of performance measures that clearly communicate business strategy (Kaplan and Norton, 1992; Tariq, 2007). According to Tariq (2007), after extensive fieldwork in the USA, they conclude that companies are increasingly measuring customer loyalty, employee satisfaction and other non-financial areas of performance that they believe affect profitability. However, they have failed to relate these measures to their strategic goals or establish a connection between activities undertaken and financial outcomes achieved. Failure to make such connections has led many companies to misdirect their investments and reward ineffective managers.

### **BALANCED FINANCIAL AND NON-FINANCIAL MEASURES**

Responding to the need for an integrated management system capable of incorporating both traditional quantitative and more abstract qualitative performance measures (Halachmi, 2005), Robert Kaplan and David Norton have developed Balance scorecard (BSC) back in 1992. In brief, BSC is a multidimensional approach to performance measurement and management control that is linked specifically to organizational strategy. One of the major strengths is the emphasis it places on linking performance measures and action plans at all levels with business unit strategy (Bengtsson, 2004). The balanced measures is a customer-based planning and process improvement system, with its primary focus on driving an organization's change process by identifying and evaluating pertinent performance measures. It is an integral part of the mission identification, strategy formulation and process execution, with an emphasis on translating strategy into a linked set of financial and non-financial measures (Chan, 2004).

Non-financial and financial measures must be linked to each other in order the organization enable to strive to survive. BSC is the perfect model to subject matter. Through the years, the BSC has evolved from the original performance measurement tool (Kaplan and Norton, 1992), to become a possible instrument for implementing strategies (Kaplan and Norton, 1996) and a framework for determining the alignment of an organization's human, information and organization capital with its strategy (Kaplan and Norton, 2004). This shift has prompted companies to view the balanced scorecard as a strategic communication and management system (Halachmi, 2005).

BSC has been use widely in measuring organizational performance in term of financial perspective and non-financial perspective. BSC took an innovative performance measurement. The BSC is a strategic planning and management system that is used in organizations to align business activities to the vision and strategy of the organization, to improve internal and external communications and monitor organization's performance against strategic goals.(Mukonje, 2009). BSC, as a strategic management system integrates financial and non-financial perspectives. In each perspective, strategy or vision is translated into specific objectives, goals and measures. The objectives and goals along with the designed performance measures are

communicated throughout the organization (Mukonje, 2009). BSC is a set of measures which gives top managers a fast but comprehensive view of the business and provides answers to the following areas of perspective: customer, internal business process, innovation and learning, and financial (Butler et al; 1997; Mukonje, 2009).

The characteristic of comprehensiveness in the BSC involves the provision of performance measures in four perspectives, namely – the financial, the customer, the internal business process, and the learning and growth perspectives. Learning and growth measures indicate a company's success in developing the personnel and systems necessary for growth and product improvement in the long run.

Internal business process measures indicate the level of a company's performance with respect to activities that are critical to meet customer and financial objectives. Customer-related measures indicate a company's success in attracting and retaining its targeted customers. Financial measures indicate how well a company is performing with respect to its profitability targets.

The central idea behind the four perspectives (the financial, the customer, the internal business process, and the learning and growth perspectives) of the BSC was to complement traditional financial performance measures with non-financial performance measures (Decoene and Bruggeman, 2006; Mukonje, 2009).

For most organizations their financial goals are simply to survive, to succeed, and to prosper. Survival is measured by cash flow, success by quarterly sales growth and operating income by division and prosperity by increased market share by segment and return on equity (Mukonje, 2009). According to Kaplan and Norton (2005), some critics go much further towards the financial measures. They argue that the terms of competition have changed and that traditional financial measures do not improve customer satisfaction, quality, cycle time, and employee motivation. In their view, financial performance is the result of operational actions, and financial success should be the logical consequence of doing the fundamentals well. In other words, companies should stop navigating by financial measures. By making fundamental improvements in their operations, the financial numbers will take care of themselves, the argument goes (Mukonje, 2009).

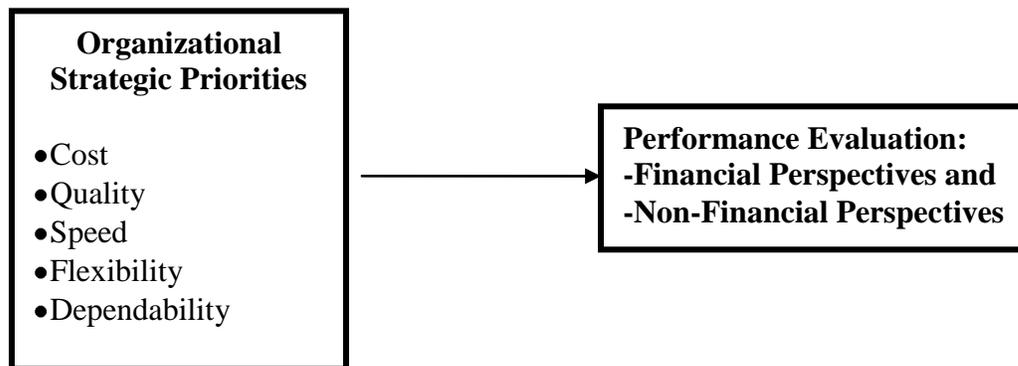
Although, BSC evaluation has contribute to the organizational as a tool to measure performance through the year but Atkinson et al, 1997 argued that BSC First, Adequately highlight the contributions that employees and suppliers make to help the company achieve its objectives. Second, identify the role of the community in defining the environment within which the company works.

Forth, identify performance measurement as a two-way process, which enables management to assess stakeholders' contributions to the company's primary and secondary goals and enables stakeholders to assess whether the organization is capable of fulfilling its obligations to them now and in the future. According to Ulf Johanson, (2006) it has become evident that the word "balanced" does not mean that the four perspectives are equally important. In the original text and the conceptualization, the financial perspective is placed on top and this has affected the development and diffusion of balanced scorecards in private firms.

## RESEARCH HYPOTHESIS

- H1: There is significant relationship between strategic priority (i.e. cost, quality, flexibility, speed and dependability) and financial performance
- H2: There is significant relationship between strategic priority (i.e. cost, quality, flexibility, speed and dependability) and non-financial performance

## RESEARCH FRAMEWORK



(FIGURE 1: RESEARCH MODEL)

## SURVEY INSTRUMENT

To provide empirical evidence on the performance evaluation of Malaysian organizations, a mail survey was conducted. The survey instrument consisted of the critical criteria construct presented in Figure 1: Research Model. The questionnaire comprised the organization's measures in term of financial and non-financial perspectives, the organization's priorities in strategic planning and organization's profile. A five-point Likert scale was utilized to measure the extent to which respondents agree that the performance evaluations were implemented, where 1 represented 'strongly agree' and 5 represented 'strongly disagree'.

## SAMPLING METHOD AND PROCEDURE

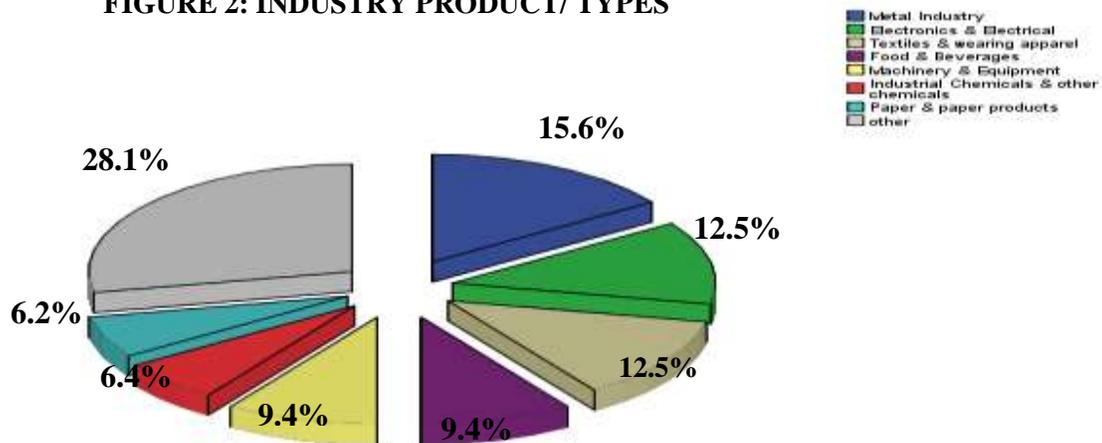
Samples for the population were drawn from a database --Directory of Federation of Malaysian Manufactures (FMM), year 2008. The FMM Directory provides a database of over 2,000 manufacturing companies. The population was spread across Malaysia. A simple random sampling of 200 companies located in Malaysia was adopted. In distributing the questionnaire, a key person of the respondent companies was identified and notified through telephone. This is to ensure that the respondent has adequate knowledge of organization's performance evaluation system. A total of 32 usable responses were gathered and used in the data analysis. This represented a response rate of 16 per cent. For a mail-survey, this low response rate is not unusual in Malaysia.

A test of the existence of possible response bias between early and late responses was performed by a t-test. The results reveal that no significant differences exist.

## RESEARCH FINDINGS AND DISCUSSION

### RESPONDENT PROFILE

FIGURE 2: INDUSTRY PRODUCT/ TYPES



Industries	Frequency	Percent
Metal industry	5	15.6
Electronics & Electrical	4	12.5
Textiles & wearing apparel	4	12.5
Food & Beverages	3	9.4
Machinery & Equipment	3	9.4
Industrial Chemicals & other chemicals	2	6.2
Paper & paper products	2	6.2
Other	9	28.1
<b>Total</b>	<b>32</b>	<b>100.0</b>

TABLE 1: INDUSTRY PRODUCTS/TYPES

Figure 2 and Table 1 show the percentage and the frequency of the responded industries. Out of 32 companies analyzed, five companies (15.6%) are involved in metal related industry, four companies (12.5%) are involved in Electronic and Electrical and Textiles and Wearing Apparel respectively. Three companies (9.3%) involved Food and Beverages and Machinery and Equipment respectively. Two companies (6.2%) are involved in Industrial Chemicals and Other Chemical, Paper and Paper Products and respectively, with the remaining involved other industries (28.1%) such as Optical Products, Rubber, Furniture, Packaging Consumer Products, Display Devices Glass, Fire Resistant and Pipes, Valves and Fitting.

**TABLE 2: NUMBER OF YEARS IN OPERATION**

Industries	Years of operation			Total
	10 years or less	11-20 years	> 20 years	
Metal Industry	2	0	3	5
Electronics & Electrical	1	2	1	4
Textiles & wearing apparel	2	1	1	4
Food & Beverages	1	0	2	3
Machinery & Equipment	0	1	1	3
Industrial Chemicals & other chemicals	1	0	0	2
Paper & paper products	2	0	0	2
Other	1	6	2	9
<b>Total</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>30</b>

Table 2 shows the breakdown of respondent companies by industry and number of years in operation. 10 companies have been operating less than 10 years, 10 companies between 11 to 20 years and the remaining 10 companies more than 20 years in operation. The remaining two companies did not complete the number of years in operation. 33.33% of the companies surveyed have been operating more than 20 years and the companies involved in metal industry, electronic and electrical, textiles and wearing apparel, food beverages, machinery and equipment, automobile related and pipes, valves and fittings. This few industries can be considered as business experience within the sector.

**TABLE 3: ORGANIZATION ISO 9000 CERTIFICATION**

<b>Industry</b>	<b>ISO 9000</b>	
	<b>Yes</b>	<b>No</b>
Metal Industry	4	1
Electronics & Electrical	3	1
Textiles & wearing apparel	0	4
Food & Beverages	2	1
Machinery & Equipment	1	2
Industrial Chemicals & other chemicals	2	0
Paper & paper products	0	2
other	6	3
<b>Total</b>	<b>18(56.25%)</b>	<b>14(32.75%)</b>

**TABLE 3 SHOWS THE PERCENTAGE OF RESPONDED COMPANIES THAT RECEIVED ISO 9000 CERTIFICATION**

About 18(56.75%) companies from various industries received ISO 9000 certification, namely from Metal industries, Electronics & Electrical, Food & Beverages, Machinery & Equipment, Industrial Chemicals and other chemicals and other industries such as Optical Products, Rubber, Furniture, Packaging Consumer Products, Display Devices Glass, Fire Resistant and Pipes, Valves and Fitting. With the emergence of quality, this finding reveals the need for manufacturing companies to obtain ISO 9000 certification. The ISO 9000 certification begins to attract greater attention in Malaysia.

**TABLE 4: RESULTS OF THE PRINCIPAL COMPONENT FACTOR ANALYSIS FOR THE PERFORMANCES OF ORGANIZATIONS**

	<b>FACTOR LOADINGS</b>	<b>EIGENVALUE</b>	<b>PERCENTAGE OF VARIANCE EXPLAINED</b>
<b>COMPONENT 1:</b>			
<b>INCREASE PROFIT</b>	<b>0.764</b>	<b>4.38</b>	<b>19.38</b>
<b>INCREASE SHAREHOLDER WEALTH OR VALUE</b>	<b>0.635</b>		
<b>INCREASE SALES REVENUE</b>	<b>0.580</b>		
<b>ENLARGE MARKET SHARE</b>	<b>0.523</b>		
<b>COMPONENT 2:</b>			
<b>ENHANCE EMPLOYEE WELFARE</b>	<b>0.658</b>	<b>2.25</b>	<b>12.32</b>
<b>REDUCE CUSTOMER COMPLAINTS</b>	<b>0.630</b>		
<b>ENHANCE CUSTOMER SATISFACTION</b>	<b>0.524</b>		

Notes: Extraction method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.

**TABLE 5: RESULTS OF THE PRINCIPAL COMPONENT FACTOR ANALYSIS FOR THE STRATEGIC PRIORITIES**

	<b>Factor Loadings</b>	<b>Eigenvalue</b>	<b>Percentage of variance explained</b>
<b>Component 1</b>			
Provide high quality products	0.830	5.72	16.32
Provide unique product features	0.747		
Provide effective after-sales service and support	0.730		
Provide survey of customer satisfaction	0.652		
<b>Component 2</b>			
Achieve low production of cost	0.836	3.42	13.52
Low product price	0.643		
Monitor operating cost	0.606		
<b>Component 3</b>			
Make changes in design and introduce new products quickly	0.879	1.85	13.03

Customize products and services to customers' needs	0.742		
<b>Component 4</b>			
Make rapid volume and/or product mix changes	0.811	1.23	12.27
Provide fast deliveries	0.762		
Fast customer response time	0.638		
<b>Component 5</b>			
Make dependable delivery services	0.832	1.05	11.62
Product availability	0.421		

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Notes: Extraction method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.

**TABLE 6: DESCRIPTIVE STATISTIC FOR ALL VARIABLES**

	Minimum	Maximum	Mean	Std. deviation	Cronbach Alpha
<b>Strategic Priorities:</b>					
Cost/Price	3.35	5	4.8432	0.4479	0.75
Quality	3.01	5	4.2188	0.9750	0.82
Flexibility	1.52	5	3.6250	1.3380	0.71
Speed	1.00	5	3.5625	1.4354	0.83
Dependability	1.00	5	4.1563	1.1103	0.78
<b>Organization's Performance</b>					
Financial performance	3.25	5	4.5938	0.7121	0.90
Non-financial performance	2.25	5	3.7580	0.5640	0.82

Performances of organizations are divided into two groups i.e. financial and non-financial performances, responding companies place a major weight on the usage of financial performance (mean 4.5938), followed by non-financial performance (mean = 3.7580). On the other hand, each strategic priority has been grouped according to Quality, Cost, Flexibility, Speed and Dependability (Table 6). The use of each variable was measured on a five-point scale from (1) Least important, (2) Slightly important (3) Important (4) Fairly important and (5) Very important. After factor analysis, descriptive statistics on the seven components are displayed in Table 6. Table 6 shows that responding companies place a major weight on the cost and price as organization priority (mean = 4.8432), followed by quality (mean=4.2188), flexibility (mean=3.6250), speed (3.5625) and dependability (4.1563).

## HYPOTHESES TESTING

Multiple regression analysis was carried out to test the effect of five strategic priorities on firm performances.

### MULTIPLE REGRESSION ANALYSIS

#### (1) FINANCIAL PERFORMANCE

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + e$$

Where Y = financial performances,  $b_0$ = the intercept,  $b_1$ - $b_5$  = coefficients,  $X_1$ - $X_5$  = strategies priorities and  $e$ =error term

**TABLE 7: REGRESSION ANALYSIS: INDIVIDUAL STRATEGIC PRIORITIES AND FINANCIAL PERFORMANCE**

Value/Variables	Beta	t-value
Cost/price (X1)	0.162	2.498**
Quality (X2)	0.287	3.589**
Flexibility (X3)	0.062	0.974*
Speed (X4)	0.212	0.824
Dependability (X5)	0.318	1.485

F value = 14.224, Sign p = 0.000, R Square = 0.265

\*\* Significant at 1% level

\* Significant at 5% level

The result presented in Table 7 indicate that the coefficients  $b_1$  (cost),  $b_2$  (quality) and  $b_3$  (flexibility) are positive and significant. The whole model is significant ( $F=14.224$ ;  $p=0.000$ ) and explains 26.5 per cent of the financial performance. Overall, the results partially support the hypothesis proposed earlier.

#### (2) NON-FINANCIAL PERFORMANCE

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + e$$

Where Y = Non-financial performances,  $b_0$ = the intercept,  $b_1$ - $b_5$  = coefficients,  $X_1$ - $X_5$  = strategies priorities and  $e$ =error term

**TABLE 8: REGRESSION ANALYSIS: INDIVIDUAL STRATEGIC PRIORITIES AND FINANCIAL PERFORMANCE**

Value/Variables	Beta	t-value
Cost/price (X1)	0.138	3.129**
Quality (X2)	0.249	3.089**
Flexibility (X3)	0.020	1.570
Speed (X4)	0.034	0.569
Dependability (X5)	0.31	0.406

F value = 13.564, Sign p = 0.000, R Square = 0.183

\*\* Significant at 1% level

\* Significant at 5% level

The result presented in Table 8 indicate that the coefficients b1 (cost) and b2 (quality) are positive and significant. The whole model is significant (F=13.564; p=0.000) and explains 18.3 per cent of the non-financial performance. Overall, the results also partially support the hypothesis proposed earlier.

## DISCUSSION AND CONCLUSION

This paper has examined the effect of the strategic priorities on firm performances. Overall, the results show support to the notion that firm performance is positively associated with strategies priorities. The results of this study are rather mixed when taking the five strategic priorities individually. An interpretation of the results is that manufacturing companies with strategic priorities such as cost, quality and flexibility will experience improvement in performances both financially and non-financially. Findings from Govindarajan's (1988) indicate that budget/cost evaluative style is positively and significantly associated with business effectiveness. The result is consistent with Droge's et al., (2000) that quality improvement often leads to higher initial prices, greater customer loyalty and market share, as well as significant cost benefits. The results is align with previous study of Fitzsimmons, (1991), where the author mentioned three types of flexibility such as volume (ability to respond to demand changes), product(the ability to introduce new products) and lead (ability to respond to customers' order fast) is necessary to compete on the delivery service. This statement further agreed by Verdu-Jover' (2004) that flexibility of the operational will provide a rapid response or speed to environmental changes and therefore it will increase quality strategic priority of the organization.

From this survey, it can be concluded that many Malaysian companies still focus heavily on the use of financial performance as compared to non-financial performance.

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