

Performance Matter: Suitability between Organization's Commitment to Employees, Target Setting, and Strategy

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Abstract

The purpose of this study is to provide evidence that in achieving performance, the suitability of Organizational Commitment to Employees (OCE), target setting, and strategy execution is needed. The results of this study indicate that OCE affects motivation, which in turn motivates work to influence performance positively and significantly. Regarding target setting, classifying fixed targets and flexible targets conducted shows that sample groups tend to apply target flexibility, work motivation has a positive and significant impact on company performance. Indirect effects indicate that the suitability of OCE with differentiation strategies and target flexibility will indirectly make a major contribution to company performance through work motivation. These results indicate that the application of OCE in achieving performance with cost leadership strategies tends to use fixed targets.

Keywords: Organization's Commitment to Employees (OCE); work motivation; target setting; strategy; performance.

1. Introduction

Human element within the company is considered as an important resource for achieving targets and executing strategies. In a standard incentive plan, a bonus is given if the performance reaches the targeted level. If the performance exceeds this target, the bonus will usually increase (Lee and Miller, 1999; Jensen, 2003; Murphy, 2001). If there are no changes in economic conditions, the motivational effects of targeting and monetary incentives complement each other (Lee, Locke, and Phan, 1997). The aspects of *Organization's Commitment to Employee* (OCE) in the form of providing monetary incentives will play an important role in motivating employees' best efforts to achieve targets and execute strategies. The company's commitment to employees (OCE) can also be demonstrated from various aspects such as the company's attention to employee welfare and satisfaction, with fairness and the desire to provide rewards, bonuses, and investment in developing competencies and compensation (Lee and Miller, 1999)

Regarding to strategy, there is literature that has concerned to the gaps that arise between strategic conception and effective execution (Porter, 1996). Those who have a resource-based view of the company have argued that placement experts such as Porter (1980, 1985) must pay more attention to the resources needed to execute the strategy (Barney, 1991; Teece, Pisano, and Shuen, 1997). One important resource is human capital for the company; its manpower. A dedicated and talented workforce can act as a valuable, rare and irreplaceable resource that can help companies carry out appropriate placement strategies (Lado and Wilson, 1994). Therefore, then the company's commitment to – its concern to and service to – human capital will be easier to achieve higher profitability. Although empirical studies are still not widely done, this human dimension has gained significant conceptual attention by strategists lately (Fiol, 1991; Hall, 1993).

Research on how a company's commitment to employee welfare can help execute profitable placement strategies (Lee and Miller, 1999). Some studies regarding targets indicate the role of important targets in performance evaluation, because target fulfillment or exceeding target is often related to bonus payments (Widener, 2006a), targets are an important element of management control in almost all organizations (Chenhall, 2003). Targets also serves as decision-making tools in planning, coordination, and resource allocation (Hansen and Van der Stede, 2004; Widener, 2007).

This study investigates the implications for the profitability of a company's commitment to its employees on company performance by increasing work motivation. In addition, the research presents and defines the extent to which companies potentially adjust targets throughout the period or remain from the initial target plan. Therefore, in this study, targets are classified into two groups: flexibility target and fixed target. This relationship generates an additional and indirect relationship between the target and the company's performance with the target as a mediating variable, which contributes to the company's performance. More specifically, research observes whether OCE can actually help effective the execution of achievement of targets and placement of strategies associated with performance achievement.

2. Literature Review

The resource-based theory shows that in order to achieve its objectives according to the targets previously set, an organization need an internal capacity structure to adjust external environmental conditions. Internal resources and external market conditions are created through the development of unique strategies. This resource-based theory was introduced by Penrose (1959) popularized by Barney (1991) who stated that the presence of organizational resources and how resources work is very important to enable companies to achieve