

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

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## 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

competitive advantage over other companies. The concept of resource-based theory originates from strategic management that focuses on analyzing opportunities and threats to organizations in competitive environments (Porter, 1985).

The Organization's Commitment to Employees (OCE) helps the effective execution of the company's strategy placement. In achieving the company's goals, it needs targets that use dedicated manpower from competitive methods to achieve the best company performance. Existing targets are an important element of management control in almost all organizations (Chenhall, 2003). The role of targets is important especially in performance evaluation, because the fulfillment or exceeding of targets is often related to bonus payments (Widener, 2006a). Targets also functioned as a decision-making tool in planning, coordination, and resource allocation (Hansen and Van der Stede, 2004; Widener, 2007).

Many studies in accounting and psychology consider the effect of motivation from targets on individual behavior and show that difficult targets still can be achieved but improve performance (Bonner and Sprinkle, 2002). Targets direct attention to its relevant activities, inject greater and more real effort, and encourage the use of knowledge relevant to works or tasks (Locke and Latham, 1990) or by adjusting targets if economic conditions do not go according to predictions by making the target flexible. This adjustment can show that formulaic bonus plans are imperfect and unable to respond to changes in economic conditions (Burney, Henle, and Widener, 2009). It is also needed with the theory that states that very difficult targets can reduce one's target commitment or can cause pressure or anxiety, which both cause negative motivational influences (Beilock et al., 2004). On the other hand, however, several contributions state that, even though the targets are difficult, motivation becomes weaker but remains positive and does not turn to be negative if people are still trying to approach the target (Locke and Latham, 1990).

## 2.1. Commitment to Employees Create Dedication, Effort, and Communities through Motivation

OCE can be shown in many ways: the overall level of concern to emotional and physical well-being, concern to intrinsic job satisfaction and employee development, job satisfaction and fairness of financial compensation, and willingness to share extraordinary money returns with workers at all levels (Eisenberger et al., 1986). Bonner and Sprinkle (2002) and Eisenberger et al. (1986) found out that OCE perception made employees more aware or concerned in carrying out their work responsibilities. OCE also binds a sense of engagement with the company, and greater employee initiative and innovation – even though without direct compensation. The main reason for the above influences in companies is the sense of community and dedication found in OCE (Lee and Miller, 1999). OCE will provide a positive effect on performance through a sense of

community and dedication. Strong bond of love can motivate harder efforts, be more willing to cooperate, work faster and do better work (Eisenberger et al., 1986; Fiol, 1991; Becker, and Gerhart, 1996).

H1: OCE contributes positively to performance through increasing work motivation

## 2.2. Commitment, Motivation, and Target Setting

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, usually in accordance with the bonus limit (Jensen, 2003; Murphy, 2001). Targets are often also linked to monetary incentives. Similar to the target, monetary incentives motivate the direction, duration, and intensity of the business (Bonner and Sprinkle, 2002). Thus, the influence of motivation from targets and monetary incentives complement each other, according to research evidence if there are no changes in economic conditions (Latham, Mitchell, and Dossett, 1978; Lee, Locke, and Phan, 1997). Target setting is important for the company, there are sufficient empirical evidence about their usefulness and their impact on performance (Arnold and Artz, 2015).

H2: The target moderates the contribution of OCE on performance through work motivation

## 2.3. Commitment, Motivation, Target Setting, and Strategy

The literature on the views of resource-based companies has focused on human resources as an important resource of competitive advantage (Fiol, 1991; Lado and Wilson, 1994; Teece, Pisano, and Shuen, 1997). Human resources, according to these studies, can be a great asset if people are motivated to use their initiatives for the benefit of the company, and if they showed their loyalty to the company. Again, we emphasized that this kind of dedication may partly stem from the company's commitment to attention, compensation, and employee development (Barney, 1991; Choi, 1994; Fiol, 1991). The emotional and social climate within a company may serve to increase productivity and competitive advantage (Fiol, 1991). Companies in collaboration with their employees with a sense of dedication and accompanying community are believed to be in the core of the company's success (Lee and Miller, 1999). Aspects of OCE will play an important role in listing employees' best efforts at executing strategies and achieving targets (Lee and Miller, 1999; Arnold and Artz, 2015).

H3: Suitability between OCE, dedicated positioning strategy, and target indirectly provides a significant contribution in improving performance

Based on the description above, the researcher looks for direction and significance as well as OCE suitability, dedicated positioning strategies, and target settings that contribute to improving performance, which are described in figure 1 as follows:

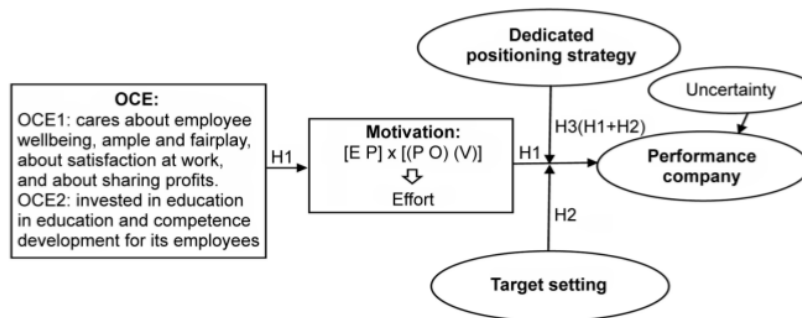


Figure 1. Theoretical Framework

3. Research Method

3.1. Sample and data collection

In this study, samples are needed for assessment / understanding of target setting on a business unit scale using the opinions of company leaders as respondents. Data on determining target researchers were collected from questionnaire data in the manufacturing sector in Indonesia. The method used is an email survey. Data is collected through interviews, telephone, and correspondence. Data was collected through questionnaires for 6 months. Questionnaires returned can be analyzed at 236. The respondents who participated included several positions: President Director (0.4%), Chief Director (0.9%), Deputy President Director (1.7%), and Company Leaders (2.1%). In addition there are also senior managers such as General Managers (14.4%), Marketing Managers (19.9%), HRD Managers (18.6%), Department Heads (11.9%), Financial Managers (8.1%), and Manager (22%).

3.2. Analysis Method

The analysis is done using a multivariate structural equation model (SEM) technique through a multigroup or multisample analysis approach to examine the presence or absence of moderating effects recommended by Bagozzi (1994), Kenny (2011), and Hopwood (2007). Multigroup analysis was suggested with the aim of evaluating conformity after doing sample solving into two different groups (two distinct sample).

Before multigroup analysis is done, Sauer and Dick (1993), and Kenny (2011) suggested testing overall structural models (all group) in order to evaluate the suitability of the model and the consistency of the relationships between variables. Before evaluating the overall model fit for the structural model, it is need to test important assumptions in SEM (Bagozzi and Baumgartner, 1994) which include: 1) Normality of data, especially at multivariate levels. 2) There is no significant and negative error variance. 3) There is no multicollinearity and singularity. 4) There are no outliers.

After the structural model for all groups is declared fit with the data and fulfills the required assumptions, a new multigroup analysis can be implemented. Structural equations and specifications of the measurement model developed are shown in table 1 below:

Measurement Model	
Exogenous Factor	Endogenous Factor
X 1 = λ 1 OCE + e 1	Y 1 = λ 1 Performance + e 7
X 2 = λ 2 OCE + e 2	Y 2 = λ 2 Performance + e 8
X 3 = λ 3 OCE + e 3	Y 1 = λ 3 Performance + e 9
X 4 = λ 4 OCE + e 4	Y 1 = λ 4 Performance + e 10
X 5 = λ 5 OCE + e 5	Y 1 = λ 5 Performance + e 11
X 6 = λ 6 OCE + e 6	Y 1 = λ 6 Performance + e 12
	Y 1 = λ 7 Performance + e 13
	Y 1 = λ 8 Performance + e 14
C1 = λ 1 Uncertainty + e 15	
C2 = λ 2 Uncertainty + e 16	
C3 = λ 3 Uncertainty + e 17	
C4 = λ 4 Uncertainty + e 18	
C5 = λ 5 Uncertainty + e 19	
Structural Model	
Motivation = Y <sub>1</sub> OCE + d1	
Performance = β <sub>1</sub> Motivation Y <sub>2</sub> Uncertainty + d2	

Table 1. Structural equations and specifications of the measurement model

In the SEM assumption stated that preliminary fit criteria are fulfilled, then evaluating the overall fit model structural, while the summary evaluation results are accompanied by decisions shown in table 2.

It was concluded that the specified structural model was fit with the data. After the structural model is accepted, the next step is analyzing and interpreting standardized regression

weight between variables analyzed in the structural model. Estimation results for parameters between variables and decisions are shown in table 3.

Goodness of Fit Indices	Cut off Value	Estimated Result	Decision
Chi Square ( $\chi^2$ )	198.154	183.703	Good fit
P value	≥ 0.05	0.178	Good fit
Relative Chi-square	≤ 2.00	1.100	Good fit
RMSEA	≤ 0.08	0.021	Good fit
GFI	≥ 0.90	0.926	Good fit
CFI	≥ 0.90	0.993	Good fit
TLI (NNFI)	≥ 0.90	0.992	Good fit

\*Chi Square table at α = 0.05 and df = 167

Table 2. Evaluation of Overall Fit Models of Structural Models

Influence	Estimated Parameters	CR	Probability	Decision
Motivation ← OCE	0.433	6.323	0.000	Positive and Significant
Performance ← Uncertainty	- 0.141	-1.935	0.053	Negative and Insignificant
Performance ← Motivation	0.232	3.429	0.001	Positive and Significant

Table 3.

Results of OCE Parameter Analysis and Interpretation  
Source: Estimation Results, Amos 4.01, 2018

Based on table 3 above it appears that the OCE variable has a positive and significant impact on work motivation where in turn the work motivation variable influences performance. While the uncertainty variable as a control variable has a negative but not significant impact on performance.

3.3. Multigroup (Multisample) Analysis for the Target Setting Group

In order to detect and to evaluate the moderating effect of the target variable, the steps that must be taken are as follows: the first step, is to classify the sample into two groups; a sample that have target flexibility and samples that has fixed target. By using Cluster Analysis, it was obtained sample groups that had target flexibility (mean 3.12 on a scale of 1 to 7) as many as 142 and sample groups that had fixed target (mean 5.56 on a scale of 1 to 7) as many as 94. Number of members for each group sample still meets the minimum sample threshold for analysis of data with SEM, which is ≥ 50 with multivariate normality requirements met both for the flexibility target and fixed target groups.

The second step, is to estimate the model simultaneously simultaneously for the two sample groups and the values of  $\chi^2$  and df (degrees of freedom) are recorded. The value of  $\chi^2$  is 405.234 with df = 334. It appears that the value of TLI (NNFI) is 0.965 or is above the threshold of 0.90. The use of TLI (NNFI) in multigroup analysis was suggested by Sauer and Dick (1993), and Kenny (2011) with the aim of evaluating conformity after doing sample solving into two different groups (two distinct sample). Sauer and Dick (1993) and Kenny (2011) explains that the multigroup context analysis of the use of  $\chi^2$  to evaluate overall fit models can be relied upon because  $\chi^2$  is strongly influenced by the sample size for each different group can be very different, it is recommended to use the Tucker-Lewis Index (TLI) otherwise known as Non-normed Fit Index (NNFI) because it is relatively free from the influence of sample size. Furthermore, the structural path between work motivation variables and company performance is constrained so that the structural path between the two variables is equal for the two sample groups. The model that has been given constrain is then re-estimated. The results of  $\chi^2$  for the constrained model are 411.362 (df = 336) with TLI (NNFI) = 0.963 (> 0.90).

The third step, is comparing  $\chi^2$  of constrained models with the previous unconstrained model, the results of this com-

parison produce gaps  $\chi^2$  (df 2) = 6.138, while the value of the chi square table at  $\alpha = 0.05$  with df 2 is 5.991. These results indicate that there is a moderating effect from the target setting variable. In other words, the impact of work motivation on performance depends on the existence of the target setting.

After the target setting is proven to influence work motivation with performance, then the final step is evaluation of parameters between the sample fixed target versus flexibility target group. Results Evaluation of estimated parameters between sample groups with flexibility target versus fixed target, shown in tables 4 and 5.

Influence	Estimated Parameters	CR	Probability	Decision
Motivation $\leftarrow$ OCE	0.594	4.979	0.000	Positive and Significant
Performance $\leftarrow$ Uncertainty	-0.187	1.642	0.103	Negative and Insignificant
Performance $\leftarrow$ Motivation	0.355	3.192	0.001	Positive and Significant

Table 4. Parameter Analysis Results for Target Flexibility

Influence	Estimated Parameters	CR	Probability	Decision
Motivation $\leftarrow$ OCE	0.305	3.491	0.000	Positive and Significant
Performance $\leftarrow$ Uncertainty	-0.087	-0.893	0.376	Negative and Insignificant
Performance $\leftarrow$ Motivation	0.014	0.146	0.887	Positive and Insignificant

Table 5. Parameter Analysis Results for Fixed Target  
Source: Estimation Results, Amos 4.01, 2018

Meanwhile, to be able to see the suitability of the OCE, a dedicated positioning strategy, and targets contributing to improving performance, can be seen from the results of indirect effects, shown in table 6:

Dedicated positioning strategy		Target setting		Decision
Differentiation	Cost Leadership	Flexibility	Fixed	
0.0196	0.068	0.198	0.0389	Suitability of OCE with differentiation strategy and target flexibility will indirectly contribute to company performance through work motivation

Table 6. Result of Indirect Effect  
Source: Estimation Results, Amos 4.01, 2018

### 3.4. Descriptive Variable Indicators

The results of the descriptive variable in the form of respondents' perceptions for each respondent of the studied variables are presented in the following table 7:

Research Variable	Theoretical Range	Actual Range	Mean	S D
OCE	6 - 30	7 - 30	22.97	5.828
Work Motivation $[E \rightarrow P] \times [(P \rightarrow O)(V)]$	1 - 343	1 - 343	207.06	60.784
Target Setting	4 - 28	8 - 28	24.21	3.29
Dedicated Positioning Strategy	3 - 15	4 - 15	11.80	2.833
Performance	8 - 25	16 - 56	40.26	9.063
Uncertainty	5 - 56	5 - 25	18.22	5.015

Table 7. Descriptive Variable Indicators  
Source: processed research data, 2018

The result of OCE descriptive variables show in the table 7, the theoretical range is close to the actual range with an average value of 22.97 and a standard deviation of 5.828, this indicates that the distribution of data with deviations is small. While the perception given by the respondent in answering the questionnaire shows an average of 3.517 on a scale of 5 which indicates that the organizational commitment given to employees is

sufficient. Work motivation variables obtained from calculations using the Vroom formula (Nadler and Lawler, 1989), results from  $[E \rightarrow P] \times [(P \rightarrow O)(V)]$  obtain an average of 5.291 with a standard deviation of 0.280 which shows the effect of work motivation

The results of target descriptive variable indicate that the actual range 8 - 28 is in the theoretical range of 4 - 28 with an average of 24.21 and a standard deviation of 3.29. This indicates that answers spread and data deviations are small. While the perceptions of respondents in answering questionnaires showed an average of 3.563 from a scale of 7 indicating respondents in answering questionnaires indicated that they tended to choose enough (middle range). For variable dedicated positioning strategies with an average value of 11.80 and standard deviation of 5.828 indicate small data deviations. Perceptions given by respondents in perceiving companies in implementing strategies tend to strategies tend to differentiation strategies.

Descriptive results of performance variables with an average value of 40.26 and standard deviation of 9.063. This indicates a data distribution and deviations are quite small. Whereas the perception given by respondents for the performance variable shows an average of 5.0338 from a scale of 7 indicating that the performance tends was quite strong. The uncertainty variable shows the actual range is the same as the theoretical range, this indicates that the response is spread and extreme. The existence of extreme value shows that all companies face uncertainty. The average value of this variable is 18.22 and the standard deviation of 5.015 shows small data deviations. Respondents in perceiving uncertainty tended to be sufficient.

## 4. Result and Discussion

The results of the OCE estimation parameter for motivation are 0.433, while motivation for performance is 0.232. While the OCE contribution to performance indirectly through motivation is 0.101, while the OCE effect on performance is 0.124. With this condition proves that OCE affects motivation, which in turn motivates performance positively and significantly. These results support H1.

By comparing  $\chi^2$  between the unconstrained model and  $\chi^2$  constrained model, it produces a gap of  $\chi^2$  (df 2) = 6.138. The chi square table at  $\alpha = 0.05$  with df 2 is 5.991. These results indicate a moderating effect of the target setting on the relationship between organizational commitment to employees and company performance through work motivation. These results support H2. The parameters of the estimation results between variables for the sample group that tend to have target flexibility, OCE on work motivation have a positive impact (0.594) and are significant. Whereas for sample groups that tend to have fixed targets, OCE on work motivation also has a positive impact (0.305) and is significant. The sample group that tends to have a target of flexibility, work motivation towards performance has a positive impact (0.355) and is significant. But for sample groups that tend to have fixed targets, work motivation towards performance has a positive impact (0.014), but it is not significant.

The results of indirect influences indicate that OCE quality influences performance through work motivation in the target group of flexibility samples is 0.198, while at the fixed target is 0.0389. While the weight of the effect of OCE on performance through work motivation in the sample group differentiation strategy is 0.196, while in the sample strategy group the cost leadership strategy is 0.068. This condition shows that OCE with a tendency towards differentiation strategy and target flexibility strategy will contribute greatly to performance through work motivation. These results support H3. But what can be considered is from the results, it appears that the effect of work motivation on company performance for the target flexibility group is greater than the sample group that have a fixed target, and the differential strategy group is greater than the sample group cost leadership strategy, so that suitability in the target setting and strategy execution is known.

## 5. Conclusion

OCE has a positive and significant effect on performance through work motivation. OCE that responded well by employees can lead to benefits of providing motivation such as close community, good collaboration, employee loyalty and dedication, job effort involvement, and initiatives that will ultimately increase company performance. These results is confirmed by the research of Lee and Miller (1999). However, what need to be observed in this study are the impact of motivation on company performance depending on the company's orientation to the target policy and the execution of the strategy used. In the sample group that tends to apply target flexibility, work motivation has a positive and significant impact on company performance, while in the sample group oriented to fixed target, work motivation has a positive but not significant impact on company performance.

The suitability between OCE and strategy differentiation and target flexibility will indirectly give a significant contribution to company performance through work motivation. If we concerned to the results of this study, the target flexibility of companies that tend to use differentiation strategies will contribute to greater performance than the group that uses the cost leadership strategy. The results of this study indicate that sampling group, that tends to have confirms cost leadership strategy does not conform if it uses target flexibility. Cost leadership with use of efficient inventory management techniques, cost reduction efforts, and efficient manufacturing process. Researchers understand that target flexibility can be expensive because anticipating target flexibility can make people try to avoid bottom-up adjustments or top-down adjustments, and even reduce target motivation because people do not have clear guidelines for assessing their performance. Studies on target adjustment have explored the extent to which companies revise their targets at the end of the year or have investigated how anticipation of adjustments will adversely affect year-end performance (Anderson, Dekker, and Sedatole, 2010).

The researcher divides the target into a target flexibility and a fixed target is to find out whether the company will revise the target in the face of business conditions for performance achievement. As is known, the usefulness of target flexibility can also depend on the extent to which the target strength can be revised to suit the conditions that occur, but not as a monitoring tool. There are researchers and practitioners who emphasize the target role as one of the evaluation tools between the implementation of work and plans. If the target is rigid and cannot be adjusted to changes in business conditions, researchers will question the usefulness of existing targets (Arnold and Artz, 2015). But there are also those who argue that for easy targeting, such as a rolling budget, to anticipate business conditions that occur will lead to targets that are unclear and uninformative. Easy targets will hinder control-oriented goals. From the explanation above, the tendency of targets to moderate positively or negatively on performance needs to be studied continuously (Hansen and Van der Stede, 2004).

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