

UNIVERSITI TEKNOLOGI MARA

**THE INFLUENCE OF
MANAGEMENT CONTROL
SYSTEMS AND STRATEGY ON THE
PERFORMANCE OF
MICROFINANCE INSTITUTION
USING THE CONTINGENT-BASED
MODEL**

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ABSTRACT

Besides financial performance, non-financial performance is also an important element for any organisation in achieving specific competitive advantage from its rivals. Microfinance institutions might collapse due to the lack of management's focus on performance. From a contingency theory perspective, management is the highest elements that influence strategy and performance. The performance can improve when managers apply effective controls and strategic roles. The contribution of contingency theory, resource-based view and transaction cost economy provides the ability to identify strategic capabilities and competencies for the achievement of competitive advantages. Thus, certain types of strategic management and management control systems have become the focus of a majority of the research. Nevertheless, limited studies investigate the influence of management behaviour and strategic capabilities and competencies on institutional performance in the context of contingency theory. In line with capabilities and competencies, this study aims to investigate the influence of behavioural factors namely lever of management control systems and managerial roles on strategic capabilities and competencies namely cost leadership, differentiation, market-linking capabilities and management capabilities and subsequently financial performance and non-financial performance in Malaysian microfinance institutions. Although it is evident that most microfinance institutions have sufficient financial performance, but microfinance institutions have other obligation such as non-financial performance targets. Since the number of microfinance institutions in Malaysia recently reached to 20 banks and institutions that now considering this market as an industry. The competition in the market reflects the fact that reached the time for improvement and setting proper strategy with proper management control systems. Data were gathered through a questionnaire survey to 1820 head of branches. The usable questionnaires received were 359, indicating a response rate of 20.9%. The structural equation modelling and SPSS resulted in finding from data analysis. The finding confirmed that the managerial roles has a significant and positive effect on strategic capabilities and competencies, namely cost leadership, differentiation, market linking and management capabilities and financial performance and non-financial performance. The finding also confirmed that the lever of management control systems has a significant and positive effect on strategic capabilities and competencies, namely cost leadership and differentiation. The result also discovered a significant positive effect among all strategic capabilities and competencies factors and institutional performance. This study also found the market linking capability plays a significant role in enhancing the relationship between managerial roles and performance, while the management capability enhances the relationship between managerial roles and non-financial performance. These results extend to the growing body of knowledge on the behavioural aspect of management, institutional performance, strategic capabilities, competencies and contingency theory as well as served as a base for future studies on strategic management and accounting. Besides, it highlights the adoption of strategic capabilities and competencies could promote performance on microfinance institutions by facilitating to improve competitive advantages in the industry, upgrade non-financial and financial standing. Thus, this study subjected its limitation such as data, research design, and literature, which could overcome in future, research.

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