

Examining the effect of organizational structure on the complexity of value-based management

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Abstract

The purpose of this research is to investigate the effect of organizational structure on the complexity of value-based management, which is applicable in terms of purpose, and descriptive-survey in terms of the nature and method of information collection. The statistical population of the present study includes executive directors and financial managers of companies listed in the Tehran Stock Exchange, and based on the available population and Cochran's formula, 317 people were selected by simple random sampling. The collection tool in this research is Novotani's questionnaire (2023), which has 4 components and 15 items. After checking the normality of data distribution using the Kolmogorov-Smirnov test, SmartPLS 3 software was used to test the hypotheses. The research findings showed that vertical differentiation has a negative and significant effect on the complexity of value-based management ($t=-4.052$). Centralization and formalization have a positive and significant effect on the complexity of value-based management ($t=9.108$). Also, horizontal integration has a positive and significant effect on the complexity of value-based management ($t=8.67$). Formalization also has a positive and significant effect on the complexity of value-based management ($t=7.25$). In general, it can be said that the organizational structure is effective on the complexity of value-based management; therefore, the complex process of value creation is realized and developed in the context of the appropriate formulation of organizational structure components along with the application and development of strategic management accounting innovations.

Keywords:

Organizational structure, Innovation, Centralization, Formalization.

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Extended Abstract

Introduction

Value-based management systems are designed to motivate managers to engage in actions that maximize stakeholder value (Bruck et al, 2018). Despite the widespread use of value-based management and its connection to scientific research, there is still little information about the reasons for the reported differences in the implementation of value-based management (Firk et al, 2019).

Recent literature on the drivers of value-based management implementation focuses on environmental and intra-organizational factors (Burkert & Lueg, 2013) and largely ignores organizational factors; while the structure of a company, which is an important organizational factor, has specifically been reported as an effective factor on the adoption of administrative innovations and the design of management control systems (Lee & Yang, 2011) and its effect is only partially tested in a value-based management environment.

The analyzes show that organizational structure variables including centralization, formalization and horizontal integration are positively correlated with the implementation of value-based management, and it is argued that centralization is due to providing a consistent framework for an organization to accurately implement value-based management is higher due to political appropriateness. Centralization seems to protect the value-based management system from potential social pressures. Also, formalization and horizontal integration seem to facilitate the implementation and sustainable use of value-based management. High levels of these structural variables are suggested to create a higher organizational fit (technical, political, and cultural fit) that helps maintain value-based management with respect to potential deinstitutionalization in the last stages of promotion. While vertical separation generally does not have a significant effect on the implementation of value-based management, the findings show a significant negative effect on organizational members' beliefs of value-based management, which we interpret as cultural incompatibility with value-based management.

This research contributes to the development of the literature related to the promotion of management accounting innovation and value-based management in the following ways: First, organizational structure is related to differences in the implementation of value-based management, and it is argued that the specific structural characteristics of an organization determine coordination with the characteristics of a specific management accounting innovation (Ansari et al, 2010). Second, it provides detailed findings regarding the interactions of different structural aspects on the sub-components of value-based management implementation. In particular, centralization results contradict with principled claims that decentralization is generally favorable for value-based management, and recent qualitative findings confirm the deterrent effects of decentralization in a value-based management environment (Chiwamit et al, 2017). The main question of the current research is: what effect does organizational structure have on the complexity of value-based management?

Theoretical foundations

Value-based management is described as an integrated management control system that aligns the entire organization with the strategic goal of maximizing stakeholder value (Schultze et al, 2018). Although value-based management is not a new management control system, it is considered as an innovation after being applied in an organization. Value-based management defines value creation interdependencies in the organization (value drivers) and organizational procedures with cause and effect (action plans), and creates incentives for goal setting and reward system.

Mohammadi Qashlaq & Atash Soz (2023), in a research titled investigation of the relationship between knowledge management and environmental variables of the organization with the organizational structure of companies operating in Urmia industrial towns, showed that there is a positive and significant relationship between knowledge management and the environmental variables of the organization with the organizational structure. According to them, the environmental variables of the organization can affect the organizational structure of the companies operating in the industrial towns of Urmia.

Mohammadi Pushharaki & Landran Esfahani (2023) in a research titled organizational structure on the complexity of value-based management in knowledge-based companies reported that a high level of concentration with the political suitability of an organization had a positive relationship with value-based management, while vertical differentiation with cultural fit seems to have a negative relationship with value-based management. High levels of formalization and horizontal integration indicate technical, political and cultural fit with value-based management, which has helped to achieve a high level of value-based management implementation.

Research method

The current research is descriptive of the correlative type and applicable in terms of purpose. A questionnaire (Nowotny, 2023) was used to collect data related to the organizational structure variable. This questionnaire has 4 components and 15 items. Its components include centralization (4 questions), formalization (4 questions), horizontal integration (4 questions) and vertical differentiation (3 questions). In order to collect data related to the value-based management complexity variable, Novotny's questionnaire (2023) was used and this questionnaire has 23 items and 6 portfolio components (4 questions) - financial value (3 questions) - non-financial value (3 questions) - goal setting. (5 questions) - Plan of actions (4 questions) - Mentality (4 questions), and was investigated based on Likert's 5-factor scale. The statistical population of the research includes financial and executive managers of different levels working in companies admitted to the Tehran stock market. It should be noted that the distribution of measurement parameters is homogeneous in the statistical community and no specific idea has been considered for the structure of the community. The sampling method is simple random. In addition to being simple, this method also has acceptable accuracy. In this research, 353 questionnaires were completed, of which 36 were discarded due to confusion and lack of answers to all the questions, and 317 questionnaires were evaluated in the final.

Research findings

The results of the factor analysis of the questionnaire items showed that all the items are greater than 0.4, and the value of the t statistic is greater than 1.96, so the questionnaire has desired validity. The fitting of the structural model using t coefficients is such that these coefficients must be more than 1.96 in order to confirm their significance at the 95% confidence level. The significant results of the coefficients are reported based on the value of the t statistic; so that if the value of t statistic is greater than 1.96, it can be concluded with 95% confidence that the independent variable has an effect on the dependent variable.

Factor loadings indicate the correlation between each obvious variable (questions) and its related factors. Questions with factor loadings less than 0.4 are not sufficient to remain in the model and should be removed. As you can see in the model, all the numbers are above 0.4, so no question is deleted. R² determination coefficient criterion (R Squares): The value of R² is calculated only for the dependent (endogenous) structures of the model, and in the case of exogenous structures, the value of this criterion is zero. The higher the value of R² related to

the endogenous structures of a model, the better the fit of the model. Chain (1998) considers three values of 0.19, 0.33, and 0.67 as criteria for weak, medium and strong values of the fit of the structural part of the model by R^2 criterion. Predictive quality criterion (Q^2): It specifies the prediction of the model. Models that have an acceptable structural fit should be able to predict indicators related to the endogenous structures of the model.

Discussion and conclusion

Three main structural variables, including centralization, formalization and horizontal integration, show a positive relationship with the complexity of value-based management. These results suggest that organizational structure is another reason for the frequently reported differences in the complexity of value-based management.

According to the obtained results, formalization has a positive relationship with the complexity of value-based management in general and each of the sub-dimensions of value-based management. These results are consistent with our assumption that formalization increases the transparency of organizational processes, and thus formalization seems to facilitate the identification and interconnection of financial and especially non-financial value drivers.

The results also show that if the information about the unit's activities is spread throughout the organization, it increases the political fit with value-based management, and can reduce the opportunistic behavior of employees or unit departments in an organization. Furthermore, it is argued that in companies with high horizontal integration, there are cultural practices in which employees are willing to adjust action plans based on the logic of value-based management when necessary, and thus appear to show more belief in value-based (cultural appropriateness) management.

This research contributes to the existing literature on value-based management and promoting management accounting innovations. Although recent research reports contingent factors that affect the implementation of value-based management at the environmental level such as perceived environmental uncertainty (Burkert & Lueg, 2013) and the intra-organizational level, such as top management team characteristics (Burkert & Lueg, 2013) and financial manager succession (Firk et al, 2019), the findings of this research expand by identifying organizational structure as an important relevant factor at the organizational level. Therefore, we find that organizational sub-variables affect the technical, political and cultural fit of an organization with value-based management differently and interdependently.

Previous studies showed that mechanized organizations were more successful in implementing administrative innovations. This research shows that formalization gives organizational members the ability to effectively transfer new rules to routines that become institutionalized and remain.