CONTINGENT FACTORS AFFECTING THE FINANCIAL PERFORMANCE OF MANUFACTURING COMPANIES: THE CASE OF ~~IN THE~~ EAST JAVA, INDONESIA

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ABSTRACT

Manuscript type: Research paper

Research aims: This study aims to examine how ~~the effect of~~ contextual variables which include innovation strategy, management accounting information system~~s~~ and internal business process performance affect ~~on~~ the financial performance of manufacturing companies in ~~the~~ East Java, ~~Province,~~ Indonesia.

Design/ Methodology/ Approach: Th~~is~~ise study employs a ~~ed~~ quantitative approach ~~study~~ to explain the relationship among the variables. The data of ~~Data collected from~~ 135 managers were collected and then ~~were~~ analysed through the ~~using the~~ partial least squared (PLS) approach.

Research findings: ~~T~~Rhe ~~r~~esults ~~—~~ show~~s~~ that management accounting information system~~s~~ and business process performance partially mediate the innovation strategy-financial performance relationship.

Theoretical contributions/ Originality: This study expands on previous works; it investigates ~~—done by investigating~~ the roles of management accounting information system~~s~~ and internal business process performance as mediating variables between innovation strategy and ~~—~~ firm's financial performance.

Practitioner/~~–~~ Policy implications: This study provides insights into on how management accounting information system~~s~~ and internal business process performance ~~affect the~~ impact ~~of~~ innovation strateg~~y~~y on financial performance. The results imply that managers need to improve the design and implementation of their accounting system~~s~~ and their internal business process performance. This initiative can ~~, to~~ support the firm's innovation strategy ~~y~~ which has an impact on the firm's financial performance. ~~among the East Java manufacturing firms,~~ The implications drawn from this study justify two things: ~~is study implies (1)~~, (1) firms need to be ~~the importance of being~~ more proactive in ~~innovative in~~

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their product innovation~~s~~ and ~~s well as~~ process innovation~~s~~ so as to remain competitive in the global market; and (2) ~~in the era of knowledge economy,~~ managers need to develop intangible assets~~,~~ such as a management accounting information system in the era of knowledge economy~~s~~.

Research limitations/ Implications: This study focuses on ~~is conducted on~~ the manufacturing companies of ~~in~~ the East Java Province of ~~,~~ Indonesia~~,~~ therefore, ~~thus the~~ generalisability of the findings ~~is study~~ may be restricted. Future studies ~~may~~ need to ~~be carried out to~~ incorporate larger and more diverse samples. This study ~~Moreover, as this study~~ did not consider the companies' ~~bu~~business life cycle~~,~~ hence, the full impact of the firms' financial performance may not have been ~~be~~ captured.

Keywords: Financial Performance, ~~i~~Innovation S~~s~~trategy, ~~management accounting information systems,~~ ~~i~~Internal ~~b~~Business ~~p~~Process ~~p~~Performance, ~~financial performance~~ Management Accounting Information System~~s~~

JEL Classification: M41

1. Introduction

The prevalence of ~~In the era of globalisation~~globalisation is widespread and impactful, particularly in the world of commerce and business. O~~, o~~rganisations are facing more challenging competitions thus many are striving to look for ~~, forcing them to have~~ a sustainable and competitive advantage that would help them to ~~in~~ achiev~~eing~~ better performance. Each organisation must formulate and execute the ~~-~~appropriate strategies to build its ~~their~~ competitive advantage (Bowen et al., 2009; Mazanai & Fatoki, 2011). In an effort to effectively execute the strategies~~y~~ chosen, the management of these organisations need~~s~~s to implement strategy-based performance management which includes ~~, which includes~~ performance measurement and management. P~~The p~~erformance measurement should be multidimensional in nature, covering both financial and non-financial performance aspects. These two types of performance measurements must be aligned so that organisations are able to monitor, control, and achieve a comprehensive performance (Davis & Cobb, 2010; Dowling & Helm, 2006; Juhl et al., 2002; Petersen & Schoeman, 2008; Sacristan-Navarro et al., 2011; Selvarajan et al., 2007; Thrikawala, 2011; Arora, 2016).

A multi-dimensional performance measurement provides comprehensive performance information which is very crucial in supporting the execution of effective strategies. A single aspect of performance measurement is insufficient in providing comprehensive information to managers (Bhargava et al., 1994; Chen & Tang, 2015). For example, to gain lowest cost in operations, the management needs to have an excellent business process performance, in terms of operation management process and customer management process. Financial performance relies

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on how non-financial performance is addressed in a firm. An excellent business process performance, in turn, ~~s~~ would also need~~s~~ the support~~s~~ of ~~from~~ human capital management, information capital management, and the organisation's ~~-~~capital management. Performance measurement and management must provide all aspects of these critical information to ~~to~~ ~~s~~support the managers at every level in the ~~an~~ organisation (Bhargava et al., 1994; Venkatraman & ~~and~~ Ramunajam, 1986; Chen & Tang, 2015). ~~.T~~This study~~,~~ ~~therefore~~ focuses on how excellent~~ce~~ internal business process performance can ~~would~~ improve firm's financial performance, the outcome of which is dependent on the ~~. Financial performance is the outcome of~~ business process performance. As suggested by Bhargava et al. (1994) and Venkatraman and Ramunajam (1986), the firm's management needs to ~~must u~~use integrated diverse measurements to accomplish this outcome. When ~~. Therefore, when~~the firm's business process performance is excellent, ~~it is expected that~~ the firm's financial performance would also improve. ~~as well.~~ The Balanced Scorecard (BSC) is a well-known ~~-~~example of a multidimensional model which is used to assess ~~of~~ performance measurement and management. The BSC appears to be one of the "best practices" of performance management; it has ~~-~~been implemented in various types of organisations worldwide ~~around the world~~ (Kaplan &Norton, 1997). The BSC combines two important performance measurements such as ~~both n~~non-financial and financial performance indicators within a cause-effect relationship. The BSC also ~~It~~ consists of four perspectives~~,~~: ~~namely~~ financial, customer, internal business process~~,~~ and ~~s well as~~ learning and growth.

To ~~In~~ determine ~~ing~~ the factors that would affect the ~~the~~ firm's financial performance, ~~of the manufacturing companies,~~ this study adopts two approaches: ~~ed~~ the resource-based view and the contingency theory. According to the resource-based ~~based~~ view, the key to improve a firm's performance is to look at ~~based on~~ the firm's internal characteristics (Barney, 2001; Afrifa, 2015). Any ~~The~~ difference~~s~~ ~~in~~ noted in the firm's performance is ~~are~~ explained primarily by the ~~existence of an~~ organisation's resources which should be ~~are~~ valuable, rare and not easily imitated or ~~and~~ substitutable by rivals. ~~ry.~~ T~~Meanwhile, t~~he contingency theory helps to explain~~s~~ how ~~that~~ the design of an organis~~z~~ation would only be effective and universally applicable when ~~on~~ certain conditions are met and in certain ~~and~~ environments (Otley, 1980; Uyar, 2016). Since the condition and environment of each organisation is different, its design ~~the organisational design must also be unique for each organisation~~must also be unique. In this study, we highlight that ~~an~~ innovative strategy, ~~y,~~ management accounting information systems~~,~~ and internal business process management can act as ~~could be the~~ contingent factors that ~~would~~ affect firm's financial performance. ~~of organisations.~~

Prior empirical works (Hammel, 1999; Thrikawala, 2011; Daisy & Deqing, 2014; Mbizi et al, 2013; Roxas et al, 2014; Saunila & Ukko, 2013; Saunila, 2014) have illustrated that success in business is determined by innovation strategy. An innovation is a process that utilises resources (assets, skills, and capabilities) to accomplish something. Innovations are necessary in order to develop new products or services and innovations are achieved by building new production systems and operations that address the needs of customers (Jones, 2004; Lopez et al., 2015). The influence of innovation on performance indicators (such as, customer satisfaction,

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productivity and technological competitiveness) has been demonstrated by Terziovski (2002). In his research, Terziovski (2002) suggests three types of innovation strategy~~ies~~: ~~, namely~~ (1) integrated innovation strategy, (2) incremental innovation strategy, and (3) radical innovation strategy. He further asserts that ~~The result indicates that~~ incremental innovation strategy ~~which~~ consists of product innovation and process innovation; it is ~~is~~ more appropriate to be used as an incentive for continuing an innovation. This is because it does not take much time ~~long~~ to implement an innovation. It also ~~and~~ does not involve revolutionary changes which have higher risks of failure. In that regard, ~~Based on this argument,~~ this study thus ~~only~~ focuses on incremental innovation strategy.

The implementation of all types of innovation strategy~~,~~ however, requires a reliable management accounting information system~~s~~. According to Chenhall and Morris (1986), reliable and accurate information comes from a reliable management accounting information system which carries the ~~that has the~~ following criteria: ~~: (1)~~ broad scope, timeliness, aggregation and integration. Managerial performance is influenced by the interaction between management accounting information system and business strategy (Abdallah, 2014; Ali et al., 2012; Almajali et al, 2015). The i~~The i~~nformation provided by the management accounting information system~~s~~ plays a critical role in the managerial's decision making. Nonetheless, a ~~A~~ reliable management accounting information system~~s~~ needs the readiness of information technology (Abernethy & Guthrie, 1994; Masa'deh, 2013; Mas'deh et al, 2016).

To advance the firm, its innovation strategy must be implemented together with its business process. The firm's internal business process is related to its operation management, customer management, innovation, as well as regulatory and social processes (Kaplan & Norton, 1997; Erhemjamts & Venkateswaran; 2013). In that regard, process innovation is associated with efficient production process, timely delivery to customers, and after-sales service. Excellent business process performance has an impact on cost efficiencies and product quality improvement. It accelerates asset utilisation, which in turn, has a positive impact on firm's financial performance. To create value in these processes, the firm's accounting information system and business process performance need to play important roles. The effective implementation of the firm's innovation strategy can affect the firm's financial performance, thus, it should be supported by a reliable management accounting information system and an excellent business process (Davis & Cobb, 2010; Emeka, 2012; Grande et al., 2011; Masa'deh, et al, 2017). While previous studies have demonstrated the importance of the management accounting information system and internal business process performance, little work has been done to explore this issue from the perspective of manufacturing companies in East-Java, Indonesia. Attempting to fill in the gap, this study was conducted based on a number of reasons. First, theories, concepts and practices developed in different contexts are not necessarily applicable to the context being studied. Moreover, firm's resources and capabilities which include its management accounting information system, internal business processes and innovation strategy, are regarded as unique factors. These may be used to explain the differences in the firms' performance of manufacturing companies based in

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East-Java. ~~.~~ S~~Moreover, s~~cholars ~~argue that the determinants of performance should be based on the context of research, as they may be different from another context~~ (Lussier & Pfeifer, 2001; Mazzucato & Donovan, 2016; Mazzucato & Pena, 2016a) have argued ~~,~~that the determinants of firm's performance need to be based on the context of research, as performance may differ from one context to another, thus ~~-~~the relevance of the current study.

The manufacturing companies of ~~This study focuses on~~ the East Java Province of Indonesia ~~since the manufacturing sector from this area~~ contributes~~ d~~ to 10.04 per cent of Indonesia's export. The same area also contribute s~~d~~ to 20.85 per cent of the nation's GDP (Industry Magazine, 2013). However, the growth of the ~~its~~ manufacturing industry in the East Java Province has been fluctuating ~~es~~ since 2012. With the level of competition ~~getting sharper due~~ from ~~to~~ foreign manufacturers such as ~~particularly in C~~China, getting sharper, ~~,~~ the ~~this~~ phenomenon for the East Java Province may worsen. Therefore, it is necessary to conduct a study that can examine which ~~a study on c~~contingent factors are likely to affect the ~~ing~~ financial performance of these manufacturing companies, in the midst of a ~~in the era of g~~global competition. ~~is needed.~~

This study ~~research~~ contributes to the body of knowledge by providing additional evidence from the East Java Province that shows ~~on~~ the mediating effect of management accounting information system~~s~~ and internal business process performance on innovation strategy-financial performance relationship. ~~, in the context of manufacturing companies in the East Java Province.~~ The ~~results of the~~ findings may be useful to policy decision makers and managers who can use the outcome ~~-~~to improve the financial performance of the ~~firms in the~~ manufacturing sector of ~~in~~ the East Java Province. The rest of this ~~organisation of the~~ paper is organised as follows. Section 2 presents the literature review. ~~on the conceptual development.~~ Section 3 explains the research methodology. S~~employed, while s~~ections 4 ~~and 5~~ reports on the findings and section 5 discusses the empirical results. Finally, s~~respectively. S~~ection 6 provides the conclusion of the study.

2.1 The Industry-Organization (I/O) Paradigm versus The Resource-Based Theory

The issue on how an organisation pursues its competitive advantage and achieves above-average returns is still not settled and it requires further research. The Industry-Organisation (I/O) paradigm states that external environment factors especially, industry factors, significantly affect firm's performance. The first empirical study supporting this paradigm was conducted by Schmalensee (1985) who revealed that industry factors affect firm's performance by approximately 20 per cent while in the case of McGahan and Porter (1997), industry factors affect firm's performance by 19 per cent. To achieve a competitive edge within the industry, an organisation needs to have a good strategy. However, the formulation of a good strategy may be influenced by external factors such as industry factors. These are usually beyond the control of the management as they are independent from the organisation (Morrison & Teixeira 2004). In contrast, internal factors reveal how management preferences and company characteristics can influence

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the resolution of company issues or the expansion plans of company products, services or processes (Makhija, 2003). Unlike external factors that are out of the company's control, internal factors are unique to the company. They include the firm's resources and capabilities both of which can be controlled (Galbreath, & Galvin, 2008). Based on this, the current study focuses only on the internal aspects of the firms being investigated.

The resources~~-~~-based view (RBV) states that a sustainable and ~~-~~competitive advantage depends on how a firm ~~could~~ controls and properly utilises its specific internal resources. This theory focuses on the firm's resources and capabilities that would determine the performance of the ~~a~~ ~~f~~firm. Resources that comprise ~~which consist of~~ assets, skills, and capabilities will determine the empowerment process of the company ~~t~~towards the creation of the company's competitiveness. Teece et al. (1997) stated that a competitive advantage depends on the resources owned by the ~~a~~ firm. This is expanded by Barney (1986) who suggests ~~states~~ that resources can be generally defined as assets, organisational processes, firm attributes, information, or knowledge, all of which are ~~that are~~ controlled by a company and which can be used to develop and implement the company's business ~~ir~~ strategies. ~~Furthermore,~~ Barney et al. (2001) explained~~state~~ that a company is a collection of resources, competencies and capabilities. The d~~D~~ifference between companies can be noted by their respective ~~s in~~ resources, competencies and capabilities, all of which ~~of a company compared with its competitors~~ can ~~will~~ determine the firm's ~~its~~ competitive advantage. The firm's ~~management ability to effectively formulate and execute strategy in managing their~~ management accounting information systems~~s,~~ and business processes are ~~thetherefore, refore are~~ employed in this study as critical resources ~~in organisations~~ that would help firms to create a superior financial performance. ~~nce.~~

2.2 The Contingency Theory

Otley (1980) states that no single organisational design can be effectively ~~-~~applied universally under any condition or in any context. ~~anywhere or under any conditions effectively. A design can be only appropriate or fit for a certain context or condition.~~In this regard, the ~~Therefore, the~~ contingency approach ~~may~~ explains why the accounting system can differ from one ~~be different from one~~ condition to another. Otley's (1980) ~~Based on these~~ findings suggest that ~~, it is concluded that there are~~ three concepts ~~that~~ influence the effectiveness of an accounting system~~,~~ namely: (1) technology, (2) organis~~z~~ational structure, and (3) environment. Harash et al. (2014) has suggested that the ~~Applying~~ contingency approach is appropriate for ~~in~~ analysing and designing the control systems~~s~~, particularly in the field of management accounting system. ~~(Harash et al., 2014).~~

Researchers in the field of management accounting such as Chong and Chong (1997) have conducted studies to determine the relationship among the contextual variables (or contingent factors) such as environment uncertainty, tasks uncertainty, structure and organizational culture, strategy uncertainty, and management accounting information system design. The contingency approach is used to explain how the contingent factors could affect the competitive advantage or performance of a firm. Likewise, this study also employs the contextual or contingent variables of innovation strategy,

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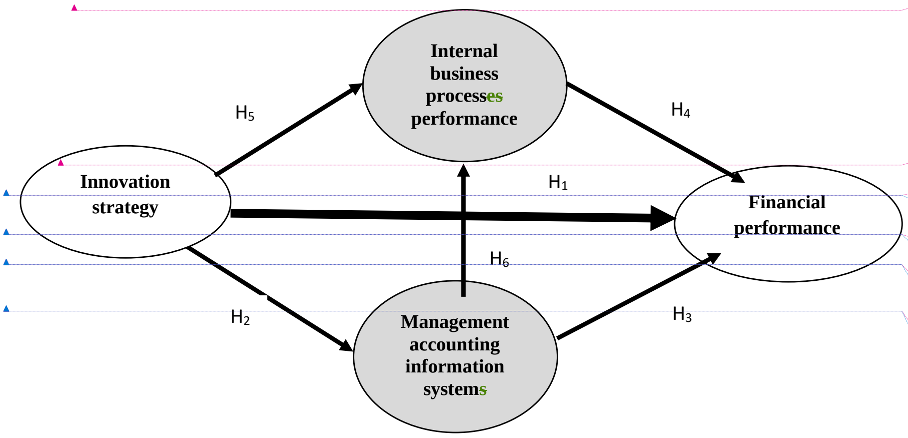
management accounting information system~~s~~, and internal business process performance as factors that would enable a firm to achieve excellent financial performance.

2.3 Theoretical Framework

A ~~Based on the theoretical review, a r~~research model is developed based on the theoretical reviews covered. This is ~~and~~ presented in F~~f~~igure 1. The model illustrates that financial performance is affected by innovation strategies which are ~~y~~ mediated by the management accounting information system~~s~~ and the internal business process performance.



H_7: management accounting information system~~s~~ mediate~~s~~ the innovation strategy-financial performance relationship

H_8: internal business process performance mediates the innovation strategy-financial performance relationship

H_9: management accounting information system~~s~~ and internal business process performance mediate the innovation strategy-financial performance relationship

Figure 1: Research model

2.4 The Relationship between Innovation Strategy and Financial Performance ~~Relationship~~

Financial performance is a critical aspect of a firm because it is the output of the management's efforts in utilizing the firm's resources to maximize shareholders' value. Financial performance reports can indicate whether a firm's strategy contributes to the bottom-line improvement or not. Kaplan (2009) states that the financial performance of a firm can be improved in two ways i.e., through growth strategy and productivity strategy. Organisations are able to generate profit by improving productivity through innovation - product innovation and process innovation. Improvements in productivity

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can be achieved by: (1) reducing direct and indirect expenses or by using financial and physical assets more efficiently; and (2) reducing the working and fixed capital needed to support a given business level. The linkage strategy in the financial perspective arises when organisations achieve a balance between growth and productivity. Three main indicators are used to measure financial performance namely: (1) revenue growth, (2) cost reduction or cost savings and increased asset utilisation and (3) increased customer value.

Innovation is defined as a process created in ~~in~~ an ~~organisation~~organization to look at ~~on~~ how skills and resources are utilized for the purpose of developing ~~to develop~~ new products and or services or to establish new production systems and operations so as to address the needs of customers (Jones, 2004). Innovation is necessary for ~~plays a critical role in~~ creating value~~,~~ for example, in ~~such as p~~penetrating new markets, in retaining existing market shares and in improving a competitive advantage. Innovation is an important element of a business strategy. Through ~~By having~~ innovations, organisations are better assured in ~~have more assurance to~~ winning the global competition. Innovation has also become the main focus of the academic and industrial research platform. Extensive studies (Hitt et al., 2001; Kuratko et al., 2005) have acknowledged the importance of innovation in achieving a sustainable competitive advantage in the global competition ~~(Hitt et al., 2001; Kuratko et al., 2005)~~. The goal of innovation is not only to reduce costs but also to ~~, as it would also~~ help firms to improve ~~in impr~~the ~~oving~~ quality of their products and services offered. This is important in the globalisation era as ~~the~~ products' lifecycle becomes shorter due to ~~and~~ customers who have developed a variety of needs and demands. ~~of customers come into play.~~ In sum, innovations are ~~very~~ crucial for developing new products and services, for creating organisational models and for marketing techniques.

Research ~~indicates that companies should be more innovative to remain competitive~~ (Evangelista et al., 1998)~~.~~ indicates that companies need to be more innovative in order to remain competitive. Global competition is not only forcing firms to enhance product innovation, but also to enhance their technological capabilities in ~~order to~~ producinge products or services at cheaper ~~production~~ costs. Firms therefore, need to manipulate the structure and organisation of their work process, improve their core competencies and develop new structures in the ~~an~~ effort to respond to new market conditions and customer demands (Ulusoy et al., 2001). The success or failure of a firm in achieving excellent performance is determined by its innovations (Hammel, 1999).

The influence of innovations on firm performance (e.g., customer satisfaction, productivity and competitiveness of technology) has been demonstrated by Terziovski (2002) who proposed using three (3) types of strategies namely: (1) integrated innovation strategy, (2) incremental innovation strategy, and (3) radical innovation strategy to increase firm performance. His research results indicate that among the three, integrated innovation strategy has small influence on performance. This is because firms in general have not reached the stage of system integration and the ability to operate in a network. In fact, incremental innovation strategy was found to be more appropriate as an incentive for continuous innovation while radical innovation strategy

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was appropriate for producing quick changes in products and processes. Based on this, the first hypothesis developed is as follows:

H₁: Innovation strategy positively affects financial performance

2.5 The Relationship between Innovation S~~s~~trategy and M~~—m~~anagement A~~a~~ccounting I~~i~~nformation S~~s~~ystem~~s~~

A~~s a~~ unique way to ~~in~~ achieve~~ing~~ excellent performance is to develop innovation ~~, s~~strategy. This ~~y becomes the center of management activities. S~~strategy can ~~y will~~ heavily affect the design of the management systems~~,~~ including management accounting information system~~s~~. Information is a very important element in the decision-making process thus, firm ~~,~~ ~~M~~management needs relevant, timely, accurate and complete information prior to making ~~to make~~ good decisions. The m~~M~~anagement accounting information system is a systematic presentation of useful information. It appears to be a ~~and appears as a~~ crucial tool that can ~~to~~ help the management to ~~in~~ achieve firm ~~ing~~ goals. ~~that are previously set.~~ In relation to this, the m~~M~~anagement accounting information system is able to ~~-~~produce ~~s~~ useful information that can ~~to~~ assist workers, managers, and executives to make better decisions.

Traditionally, the focus of information is dominated by financial information. However, the development of modern performance management balances the role of the ~~between~~ financial information and non-financial information. Chenhall and Morris (1986) prove that ~~the~~ characteristics of the management accounting information system such as ~~s~~ timeliness, aggregation and integration are useful for managers particularly when it covers a broad scope. M~~, timeliness, aggregation and integration.~~ anagers depend on the ~~Effectively executing innovation strategy needs~~ management accounting information system to be able to effectively execute the innovation strategy. ~~,~~ The more reliable the accounting information generated, ~~by the system,~~ the better the decisions taken by the organisation, and the higher the opportunity for the firm to remain competitive.

A broad scope of the management accounting information system~~s~~ refers to the dimension~~s~~ of focus, quantification, and time horizon (Gordon & Narayanan, 1984). Timeliness information refers to the period between a request for information and TT presenting the desired information, and the frequency of reporting information (Chenhall & Morris, 1986). Aggregation refers to the ~~a~~ form of information showing formal policies (such as discounted cash flow, cost-volume-profit analysis) or analytical models of information for functional areas (such as marketing, production) or time-based information (monthly and quarterly). Integration reflects the coordination between a sub-unit information with one another; it ~~. Integration~~ ~~in~~includes targets or activities that had ~~as the~~ resulted from the ~~of~~ interaction of the ~~among~~ sub-units within the ~~an~~ organization (Chenhall & Morris, 1986). A company or organisation that implements ~~ing~~ innovation strateg~~ies~~y will be exposing a ~~the~~ broad environmental domain hence, ~~. Therefo~~ it ~~re, managem~~ would require ~~ent needs~~ larger amount~~s~~s of information.

The management accounting information, as a product of the management accounting system, plays a critical role in helping the management to predict the possible consequences of the various alternative strategy that can be performed in a variety of activities such as planning,

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controlling and decision making. Information system is effective when it supports good management decisions. The quality of the information will improve the quality of the decision to be taken and ultimately, improve the performance of the company (Gerloff et al., 1991). In his work, Nazaruddin (1998) suggests that management accounting information system is only reliable if it can improve managerial performance. Chong and Chong (1997) asserts that the availability of the broad scope management accounting information is an important antecedent variable in improving firm's performance. Therefore, it can be concluded that management accounting information system must follow firm's strategy. Based on the argument, the second hypothesis developed is as follows:

H_2: Innovation strategy positively affects management accounting information system~~s~~

2.6 The Relationship between Management A~~a~~ccounting I~~i~~nformation S~~s~~ystems and~~–~~ Financial Performance

Information is one of the most critical components in ~~the~~ organisational planning and control. It plays a ~~decision~~ facilitating role in enhancing managerial performance (Sprinkle, 2003; Nguyen et al., 2017). Information quality is the result of a reliable system. The better the system, the higher the quality of the information generated by the system. High information quality leads to more effective decision making, further ~~, and furthermore it~~ driving ~~es~~ higher financial performance. A s~~S~~tudy by Rawasdeh and Al-namlah (2017) in Saudi Arabia revealed ~~s~~ the important role of adopting electronic data interchange in small and medium enterprises so as ~~in order~~ to ~~remain competitive and~~ improve performance and to remain competitive. M~~.~~ ~~M~~anagement accounting information system~~s~~ is also expected to affect the financial performance in terms of providing relevant, accurate and timely information. Based on the argument, the third hypothesis ~~is~~ developed is as follows:

H_3: M~~m~~anagement accounting information system~~s~~ positively affects financial performance

2.7 The Relationship between Internal B~~b~~usiness P~~p~~erformance and~~–~~ Financial Performance

As previously described, organisations must execute their strategies effectively so as to ensure good financial results. Strategies must be executed by conducting strategic activities or processes. Organisations must manage their internal business processes in order to achieve excellent operation management, customer management, innovation management, and regulatory management. To achieve excellent internal business process performance, organisations must be supported by skillful human resources, a reliable information system as well as a solid organisation capital. Kaplan and Norton (2009) classify internal business processes into four groups. The first group involves the operations management processes. This refers to activities in dealing with suppliers, producing products, distributing products to customers, and managing risks. The second involves customer management processes. This refers to how the firms broaden and deepen relationships with targeted customers. Customer management involves four issues such as the selection of targeted customers, the acquisition of targeted

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customers, the retention of customers, and the expansion of customers. The third group is the innovation management processes which involve four steps: identifying opportunities for new goods and services, managing a portfolio for research and development, designing and developing new products and putting the new products on the market. The fourth group is the regulatory and social processes which refer to activities that continually help organisations to have the right to operate in a specific community, to enjoy safety and health, promote employee practices as well as community development. Good internal business performance can lead to a healthy organisation thereby enabling it to achieve its objectives. In conclusion, internal business process performance affects firm's financial performance. Based on the argument, the fourth hypothesis developed is as follows:

2.8 The Relationship between Innovation S~~s~~trategy and~~-~~ I~~i~~nternal B~~b~~usiness P~~p~~rocess P~~p~~erformance

Innovation ~~A~~ strategy is a unique way for ~~of~~ a firm to reach its targeted performance. The m~~M~~anagement formulates and implements this ~~an~~ innovation strategy to achieve excellent~~ce~~ internal business performance. According to Verhoeven and Johnson (2017), ~~states that~~ firms need~~s~~ to have more dynamic views on their business model innovation. Doing so helps to enhance ~~, supporting~~ the ~~a~~ dynamic analysis of their strategic~~y~~ development and business model innovation processes~~s, innovation strategy~~. Chuang and Lin's (2017) ~~An~~ empirical study ~~by Chuang and Lin (2017~~of ~~) in~~ financial service firms in Taiwan revealed ~~s~~ that ~~an i~~innovation strategy ~~emphasis~~emphasizes on ~~ing~~ service innovation orientations which in turn, ~~to~~ examine the information-value offerings that can elevate the firms' ~~leads to~~ internal business process performance and their customer relationship performance, Gao, Hsu and Li (2018) provide~~s~~ ~~further~~ evidence which suggests that the ~~that~~ investment horizon is ~~the~~ key to explaining ~~explanation for~~ the different innovation strategies used by the ~~of~~ public and private firms in ~~to~~ improving their ~~e~~ business performance and in ~~to~~ remaining competitive. Based on the argument, the fifth hypothesis ~~is~~ developed is as follows:

H_5: Innovation strategy positively affects internal business process performance

2.9 The Relationship between Management Accounting Information Systems and~~-~~ Internal Business Process Performance

Kaplan (2009) states that information capital, including the management accounting information system, has a strategic role in building a company's competitive advantage in the era of knowledge-based economy. Using strategy maps, Kaplan and Norton's (2001) results showed that firm's learning and growth perspective have direct linkages with firm's internal business processes. The more excellent the information capital, the more significant the internal business process performance. This justifies the sixth hypothesis which is developed as follows:

H_6: M~~M~~anagement accounting information system~~s~~ positively affects internal business process performance

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2.10 Mediating the E~~e~~ffect of M~~m~~anagement A~~a~~ccounting I~~i~~nformation S~~s~~ystem~~s~~ on the R~~r~~elationship between I~~i~~nnovation S~~s~~trategy~~-~~ and F~~f~~inancial P~~p~~erformance ~~relationship~~

An i~~I~~nnovation strategy that is adopted by a company ~~will have an~~ impacts ~~on~~ the information that is needed to effectively implement the strategy. Bromwich (1990) argues that management accounting information can help managers to face challenges in a competitive market. Management accounting information system ~~systems~~ focuses on generating information to create value and to assist ~~helping~~ managers in ~~to~~ monitoring the ~~-~~performance. M~~M~~anagement accounting information also helps ~~plays a critical role in helping m~~managers to predict possible consequences of various alternative actions that can be performed on a variety of activities~~,~~ such as planning, controlling ~~,~~ and decision making.

As stated by Gerloff (1991), the information that is available in an organization is considered to be effective if it can support the users or decision-makers. The link~~age~~ between information needed and the decision makers is that good information will increase the quality of the decision; ultimately, this ~~,~~ improves the firm's financial performance. ~~and it can ultimately improve financial performance.~~ Every strategy taken by the firm, ~~,~~ including innovation strategy, ~~has~~ impacts on the characteristics of the information system~~s,~~ including management accounting information system~~s~~. As stated by Chenhall and Morris (1986), reliable accounting information must have the characteristics of broad scope, aggregation, timeliness, and integration. In conclusion, the ~~-~~implementation of an innovation strategy determines the need for a ~~of~~ reliable management accounting information system~~s~~, which in turn, ~~it will~~ affects the firm's financial performance. Based on the argument, the seventh hypothesis ~~is~~ developed is as follows:

H_7: Management accounting information system~~s~~ mediates the relationship between innovation strategy~~-~~ and financial performance ~~relationship~~

2.11 Mediating E~~e~~ffects of I~~i~~nternal B~~b~~usiness P~~p~~rocess P~~p~~erformance on I~~i~~nnovation S~~s~~trategy-F~~f~~inancial P~~p~~erformance R~~r~~elationship

The innovation strategy implemented will affect the firm's internal business process performance such as innovation, operation, and after-sales service processes. Innovation processes refer to the process of creating products and services that meet the needs of customers; it increases the use of technologies in new product development efforts. Operation processes are associated with efficient production process, timely delivery to customers, and after-sales service. Therefore, an efficient internal business process performance will affect customer relationship performance, increase market share, maintain existing customers, increase new customers, improve customer satisfaction as well as increase customers' value.

H_8: Internal business process performance mediates the relationship between innovation strategy~~-~~ and financial performance ~~relationship~~

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2.12 Mediating Effects of Management Accounting Information System and Internal Business Process Performance on the Relationship between Innovation Strategy and Financial performance

Each strategy performed by the firm leads to the different designs of the information system. Therefore, innovation strategy also influences the design of the ~~-~~management accounting information systems~~s~~. A ~~Furthermore, a~~ good management accounting information system ~~will~~ tends to enhance the internal business process performance, helping the company to achieve ~~, in term of achieving~~ better operation management processes (supply chain, production, distribution, risk management), better customer management processes (customer selection, acquisition, retention, growth), better innovation management processes, and better social and regulatory management processes. In this regard, it is evident that ~~Finally,~~ an excellent internal business process will improve firm's ~~-~~financial performance hence, accelerating ~~, in term of~~ revenue growth and cost efficiencies. Based on these~~ose~~ arguments~~s~~, the ninth hypothesis ~~is~~ ~~d~~developed is as follows:~~.~~

H_9: Management accounting information systems~~s~~ and internal business process performance mediate the relationship between innovation strategy and~~-~~ financial performance ~~relationship~~

3. Research Methodology

3.1 Operationalisation

To operationalise the construct of this study, the operational definitions and measures are ~~were~~ developed as follows. Financial performance is defined as the perception of the respondents towards ~~regarding~~ the current financial condition~~s~~ of the strategic business units as compared to previous years. To measure ~~the f~~financial performance, we used the financial indicators developed by Kaplan and Norton (1992)~~,~~ namely~~: (1)~~: improved cost structure, ~~(2)~~ increased asset utilisation, ~~(3)~~ expanded revenue opportunities~~,~~ and ~~(4)~~ enhanced customer value.

Innovation strategy is a means used by an entity to compete in its industry in a sustainable manner (Terziovski, 2002). In this study, innovation strategy is defined as the perception of the respondents regarding their unique ways in achieving a sustainable and competitive advantage and excellent performance. To measure innovation strategy, we used two indicators developed by Terziovski (2002) namely: product innovation and process innovation.

Management accounting information system is defined as the perception of the respondents towards ~~regarding~~ the design of the ~~-~~accounting system which generates the ~~ing m~~management accounting information needed by management so as to make better decisions, in its effort ~~especially~~ to support the formulation and execution of innovation strategy. ~~formulation and execution.~~ To measure ~~the m~~management accounting information system, ~~s~~ we adopted the ~~an~~ instrument developed by Chenhall and Morris (1986) which include ~~. These items covered~~ four aspects: ~~as follows: (1)~~ broadscope, ~~(2)~~ aggregation, in~~ine,(3) in~~tegration~~,~~ and (2) timeliness. ~~ess.~~

Internal business process performance is defined as the perception of the respondents towards ~~regarding~~ the performance of the value chain or the strategic activities that were ~~are~~ conducted

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in SBUs so as to support customer satisfaction and/or productivity strategy which increases financial performance. To measure internal business process performance, we used four indicators developed by Kaplan and Norton (1992) namely: operation management processes, customer management processes, innovation management processes and regulatory and social management processes. Respondents were asked to rate their perceptions on a 5-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree).

3.2 Data Collection

This study is designed as a causal study (Cooper & ~~and~~ Emory, 1995)~~,~~ using data collected from a questionnaire survey. The unit of analysis is strategic business unit and the ~~,~~ r~~R~~espondents recruited comprise ~~were~~ ~~m~~managers of these strategic business units in manufacturing companies located in ~~the~~ the East Java Province of ~~,~~ Indonesia. The sampling frame ~~for this study~~ was drawn from the list of manufacturing firms located in the province and ~~East Java that were~~ registered with the Ministry of Industry, the Republic of Indonesia as of ~~at~~ 2016. The entire ~~total~~ population~~s~~ ~~of this study~~ was~~ere~~ 398 and so a total of ~~. A total of~~ 398 questionnaires were distributed using several channels ~~ways,~~ including emails, snail mails, and personal visits. However, our study drew only 34 percent response rate, resulting in only ~~1~~135 respondents who participated. ~~participated, resulting in 34 per cent of response rate.~~ Based on the Law Number 20 Year 2008 report which describes ~~regarding~~ Micro, Small, Medium, and Large Enterprises, it was observed that many of these companies (107 companies or 79%) were ~~table 1 shows that most~~ manufacturing companies that were also mainly ~~are~~ medium enterprises, ~~(107 companies or 79%)~~as illustrated in Table 1. ~~.~~ Most (74%) ~~companies~~ have been in the business between ~~in the range of~~ six ~~6~~ to 15 years and the ~~(74%). The~~ type of company~~ies~~ varies in terms of products produced.

Table 1: Profile of Respondents

Demographic Variables	**Category**	**Frequency (n=135)**	**Percentage (%)**
Firm category	Small Enterprises	0	0 %
	Medium Enterprise	107	79 %
	Large Enterprise	28	21 %
Age of companies	0 – 5	25	19 %
	6 – 10	40	30 %
	11 – 15	60	44 %
	Between 15 to 20	10	7 %
Type of company	Jewelry / Gem	6	4.44 %
	Fat & animal / vegetable oil	12	8.88 %
	Wood, Articles of Wood	18	13.33 %
	Fish and Shrimp	11	8.15 %
	Paperboard	17	12.59 %

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	Organic chemicals	16	11.85 %
	Copper	11	8.16 %
	Meat and Processed Fish	11	8.16 %
	Furniture, home lighting	17	12.59 %
	Footwear and shoes	16	11.85 %

4 Data Analysis and F~~f~~indings

4.1 Measurement M~~m~~odel A~~a~~nalysis

Partial Least Square (PLS) was used to examine the hypothesised model. Prior to the~~-~~ structural model analysis, a measurement model analysis was first performed to determine the validity and reliability of the model used. T~~In this study, t~~his was determined ~~e validity and reliability of the model was determined~~ by examining the convergent validity and discriminant validity. The former ~~convergent validity~~ was assessed through factor loadings, average variance extracted (AVE) and composite reliability (Hair et al., 2014). The latter was assessed by comparing the squared correlations between the constructs and the AVE for the particular construct (Fornell & Lacker, 1981).

T~~As indicated in T~~able 2 highlights the ~~, the~~ loadings of all the ~~-~~items which exceeded the threshold value of 0.5 (Bagozzi & Yi, 1991). The composite reliability values ranged between 0.748 to 0.93, exceeding~~ed~~ the recommended value of 0.7 (Hair et al. 2014). Additionally, the AVE values were in the range of 0.539 to 0.768, which exceeded the recommended value of 0.5 (Hair et al. 2014).

Table 3 depicts the results of the discriminant validity. It is deemed to exist only if the value of the AVE for a particular construct is higher than its correlation with other constructs. As can be noted in Table 3, all the constructs appear to have a substantially higher AVE as compared to the correlation with other constructs. This evidence indicates that there was discriminant validity.

Table 2: Convergent validity analysis

Constructs	Items	Factor Loadings	Composite Reliability	AVE
Innovation strategy	STR 1	0.92	0.917	0.847
	STR 2	0.92		
Management Accounting Information System~~s~~	MAIS 1	0.771	0.748	0.539
	MAIS 2	0.552		
	MAIS 3	0.650		
	MAIS 4	0.809		
Internal	IBP1	0.837	0.918	0.737

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Business Process Performance	IBP2	0.844		
	IBP 3	0.897		
	IBP 4	0.855		
Financial Performance	FP1	0.836	0.930	0.768
	FP2	0.855		
	FP3	0.917		
	FP4	0.895		

Table 3 : Discriminant validity analysis

	Mean	SD	**STR**	**MAIS**	**IBP**	**FP**	**Root of AVE**
Innovation Strategy (STR)	4.33	0.66	**0.77**				0.920
Management Accounting Information System~~s~~ (MAIS)	4.13	0.55	0.42	**0.79**			0,721
Internal Business Process Performance (IBP)	4.38	0.64	0.57	0.51	**0.73**		0.858
Financial Performance (FP)	4.31	0.63	0.52	0.25	0.32	**0.71**	0.876

Note: The numbers in bold in the diagonal row are square roots of the AVE, SD =standard deviations

4.2 Structural M~~m~~odel A~~a~~nalysis

Assuming that the measurement model satisfies~~d~~ the validity and reliability assessment, this study proceeded with the structural model analysis. The predictive accuracy of the model was evaluated in terms of the portion of variance explained. The results revealed that the model is capable of explaining 52.3 percent of the variance in financial performance. The significance of the direct effect~~s~~ as specified by the research model was evaluated (Table 5). The results revealed ~~that~~ that the effects of innovation strategy on financial performance (β = 0.73, p < 0.01) and management accounting information system~~s~~ (β = 0.481, p < 0.01) were ~~are~~ positive and significant. Hence, H_1 and H_2 are supported. Additionally, this study also demonstrated ~~reported~~ that the effect of management accounting information system~~s~~ on financial performance wa~~a~~s significantly positive (β = 0.548, p < 0.01)~~,~~ thereby, supporting ~~providing support for~~ H_3. The relationship between internal business performance and financial performance (H_4) was ~~is~~ also supported (β = 0.485, p < 0.01). This study ~~Furthermore, this st~~also ~~udy also~~ reported that the effect of innovation strategy on internal business performance was significantly positive (β = 0.687, p < 0.01)~~,~~ hence, ~~providing support~~supporting ~~for~~ H_5. Finally, this study also revealed that the effect of management accounting information system~~s~~ on internal business process performance was significantly positive ~~as well~~ (β = 0.550, p < 0.01), thereby, ~~providing~~ supporting ~~for~~ H_6~~.)~~.

Table 4 : Direct Effect

Hypothesis	Relationships	Path Coefficients	Decision	T-value	Standard Error
H_1	Innovation Strategy--→Financial Performance	0.730***	Supported	11.6364	0.083575
H_2	Innovation Strategy →Management Accounting Information Systems	0.481***	Supported	2.8717	0.003457
H_3	Management Accounting Information Systems→ Financial Performance	0.548***	Supported	3.0411	0.066986
H_4	Internal Business Process Performance -→Financial Performance	0.485***	Supported	2.9974	0.161882
H_5	Innovation Strategy →Internal Business Process Performance	0.687***	Supported	11.2873	0.060652
H_6	Management Accounting Information Systems→Internal Business Process Performance	0.550***	Supported	10.2873	0.067652

4.3 Indirect ~~E~~effect

~~This study follows~~ Baron and Kenny's (1986) procedure was applied in this study to analyse the mediating effect of management accounting information system~~s~~ and internal business process performance on financial performance. Four conditions must be satisfied to establish a mediating effect. First, a direct link ~~must be established~~ between the independent and dependent variable~~;~~ must be established; ~~-~~second, the independent variable must be associated to the mediating variable; third, the mediator must be significantly related to the dependent variable when both the mediating variables are predictors of the dependent variable; and fourth, the relationship between the independent and dependent variable must be significantly reduced when the mediator is added.

As indicated in Appendix 2, ~~–~~innovation strategy has a significant relationship with management accounting information system~~s~~ (H_2) and financial performance (H_1). This ~~,~~ satisfies ~~ying~~ the first and second requirements. The mediator variable ~~of~~ management accounting information system~~s~~ has a positively significant relationship with financial performance (H_3). This satisfies ~~, satisfying~~ the third requirement. ~~condition.~~ The fourth step was ~~is~~ to incorporate the mediator into the model. It was found that including ~~the inclusion of~~ management accounting information system~~s~~ into the model ~~has~~ reduced the effect. T~~, as t~~he β

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value dropped from 0.73 to 0.56, indicating the existence of a mediator. Thus, H_7 was supported.

This study also examined the impact of internal business process performance as a mediator between innovation strategy and financial performance. As indicated in Table 4, innovation strategy has ~~d~~ a positive effect on financial performance (H_1) hence, satisfying the first condition. Innovation strategy has a positive and significant relationship with internal business process performance (H_5)~~,~~ thus, satisfying the second condition. I~~The i~~nternal business process performance has a positive relationship with financial performance (H_4)~~,~~ therefore, satisfying the third condition. The fourth step wa~~i~~s to incorporate the mediator into the model. It wa~~i~~s found that by including ~~the inclusion of~~ internal business process performance into the model, ~~has reduced~~ the effect had reduced, as the β value dropped from 0.73 to 0.56, thereby, indicating the ~~an~~ existence of a mediator. Thus, H_8 was supported.

Similar to ~~From~~ previous studies, ~~result,~~ this study also revealed~~s~~ the significant impact of management accounting information system~~s~~ on internal business process performance (H_6). In that regard, it ~~Hence, this study also provides~~ supports ~~for~~ H_9, ~~H9~~ showing the ~~path of~~ innovation strategy-management accounting information system~~s~~-internal business process performance-financial performance relationship.

5. Discussion

This study provides empirical evidence that support the contingency theory. The results indicate that the financial performance of the manufacturing firms in the East Java Province was affected by contingent factors such as innovation strategy, management accounting information system, and internal business process performance This outcome is in line with extensive previous studies (Evangelista et al., 1998; Hammel, 1999; Hitt et al. 2001; Ulusoy et al., 2001; Terziovski (2002); Kuratko et al., 2005; Kaplan, 2009).

Recently, there wa~~i~~s an extensive movement made by the ~~from the G~~government of Indonesia to boost innovation-based industry in the East Java Province. The government encouraged the manufacturing companies to ~~by~~ collaborate with ~~ing~~ universities as one measurement ~~with manufacturing companies. This movement aims~~ to help these companies to improve their competitive edge ~~advantage~~ and performance ~~of companies~~ in response to global competition, especially those coming from China, ~~and~~ in the era of the Asean Economic Community (AEC). This movement reflects the government's ~~indicates the~~ recognition of innovation strategy as a critical factor for achieving ~~to achieve~~ good financial performance in view of ~~the era of~~ global competition (ristekdikti.go.id).

The findings of this study support~~s~~ the outcome noted by Chenhall and Morris (1986) where it was evident that ~~that~~ strategy affects the design of the management accounting information system~~s~~. In the context of this study, t~~T~~he respondents were ~~of this study are~~ managers of medium and large manufacturing companies which use ~~that use~~ extensive information communication technology. As mentioned earlier, m~~M~~odern performance management requires both the financial and non-financial information so as ~~in~~ to be able to e~~e~~ffectively formulate and execute the strategy. ~~formulation and execution. As proven by~~ Chenhall and Morris (1986) had shown that ~~,~~ management accounting information system is ~~are~~ useful for

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managers when it covers a broad scope, timeliness, aggregation and integration. The outcome gathered from the current study also explains why management accounting information system is required by the managers of the manufacturing companies in the East Java Province. Nonetheless, different strategies require different designs in management accounting information system, thus companies need to be more innovative in their approach.

The outcome drawn from the current study ~~is study~~ also supports the findings of previous studies conducted by ~~by~~ Gerloff et al. (1991), Chong and Chong (1997) and Nazarruddin (1998) whose studies had highlighted ~~the regarding~~ relationship between information needs of decision-making and performance. Managers of companies in the East Java Province realized that they were ~~are~~ entering a knowledge-based competition ground where innovation and the use of information communication technology are crucial for ~~factors in~~ achieving excellent ~~good~~ financial performance. The difficulty of competing against cheap products from China had~~s~~ driven the~~o~~se managers to innovate and they would ~~, and they~~ require strong strategic information in order to make good ~~to make~~ decisions. In this regard, the ~~Therefore,~~ managers perceived that they would ~~can~~ achieve excellent ~~good~~ financial results if they had the ~~ve~~ strategic and useful information that was generated by the management accounting information system~~s~~.

The results of the current study also endorsed the study of Kaplan and Norton (2009) who stated that excellent financial performance is the result of excellent internal business process performance which comprises operation management, customer management, innovation management and regulatory management processes. Due to the global competition offered by China and other Asean countries, there is no choice for the managers in the East Java Province but to find better ways of improving their internal processes. These processes should also include aggressive marketing and cost reduction schemes so that they can still remain competitive. The current study provides empirical evidence which showed that the managers of the manufacturing companies in the East Java Province have the perception that excellent internal business process performance will directly affect their financial performance (revenue growth and cost efficiencies).

The results of this study also support~~s~~ the outcome of previous studies ~~showing the important role of innovation on internal business process excellence~~ (Lichtenthaler et al., 2011; Dorweiler &~~and~~ Yakhou, 2005, Chen et al., ~~–~~2006) which showed the important role innovation has on internal business process excellence. ~~Competition from cheaper products from China have driven managers in the East Java Province to innovate or to give more values to their products in order to differentiate from competitors.~~ ~~This justifies why they perceive innovation strategy will affect internal business process performance.~~ Innovation is ~~considered as~~ a source enhancing ~~of~~ added-values and profits hence, ~~and~~ vital for improving ~~vital aspect in enhancing~~ performance and competitiveness.

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The results of this study also endorsed the observations of Chenhall and Morris (1986) and Kaplan (2009) who stated that management accounting information system has a strategic role in building a firm's competitive advantage in the era of knowledge-based economy. In the context of this study, the managers of the manufacturing companies in the East Java Province use massive computerised-based information system to generate more accurate information that can support better decision making. The better the information they get, the better the internal business process performance they achieve (operation management processes and customer management processes). This justifies why the managers of the manufacturing companies in the East Java Province had perceived that management accounting information system affects internal business process performance.

This study provides empirical support~~s~~ which shows the ~~for the~~ mediating roles of management accounting information system~~s~~ and internal business process performance on the relationship between innovation strategy~~-~~ and financial performance ~~relationship~~. This study also ~~has~~ confirmed previous studies conducted by Gordon and Narayanan (1984), Chenhall and Morris (1986), Gerloff et al. (1991), Chong and Chong (1997) with regards to ~~regarding~~ the importance of management accounting information system~~s~~ in relation to organis~~z~~ational performance. In addition, ~~Furthermore,~~ this study also supported ~~s studies conducted by~~ Kaplan and Norton (2001, 2009) who stated ~~stating~~ that strategy must be translated in~~-~~to internal business processes so as ~~-~~to create excellent customer relationship performance and financial performance. This internal business processes include operations management processes, customer management processes, innovation management~~,~~ as well as regulatory and social processes.

Based on the above discussions, this study thus concludes that strategy affects the design of management accounting information system; management accounting information system influences internal business performance; and internal business performance affects financial performance. The path test also revealed that the managers were aware that they should align the design of their management accounting information system to strategy. The better the quality of their management accounting information system, the better it will support their internal business processes. Further, the higher the internal business performance, the better it supports financial performance. The findings of this study also confirmed the results of other studies conducted by Clemons and Row (1991), Mahmod and Mann (1993), Kettinger et al. (1994), Mata et al. (1995), Ross et al. (1995) all of whom had concluded that management accounting information system offers a big opportunity for firms to improve their coordination and control. Alternatively, the findings of this study can be used by the respective companies to innovate and to gain a competitive advantage in the world market.

6. Conclusion

From the ~~previous~~ discussions noted above, several conclusions can be deduced. ~~, it can be concluded the following: F~~First,

This study has important future implications on ~~to~~ manufacturing companies in the East Java Province, Indonesia. The outcome suggests ~~First, it suggests~~ that ~~the~~ manufacturing firms in

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the East Java Province need to be more innovative, both in product innovation and process innovation so as to remain competitive in the marketplace. The findings also implied that these manufacturing companies need to focus on the development of intangible assets, among others, its management accounting information system. This manifestation is very crucial because without a reliable information system, innovative strategy cannot be executed properly, and so, it cannot drive excellent internal business process performance. Moreover, bad internal process performance may result in unhappy customers causing firms to lose their customer base. All these outcomes can affect the companies' financial performance badly. In conclusion, this research had offered an adequate explanation on how contextual variables or contingent factors can affect the financial performance of manufacturing firms in the East Java Province.

The results of this study have important implications on ~~to~~ the management of manufacturing firms in the East Java Province. Clearly, the management ~~They~~ must improve its awareness of products as well as its process of innovation strategy in order to achieve excellent performance. Furthermore, the management must increase its ~~their~~ concerns in the development of its management accounting information system~~s~~ because the system ~~it~~ plays a strategic role in helping the managers to make~~ing~~ good decisions and to improve~~ing~~ internal business performance.

This study has several limitations, including: (1) it does not consider product life cycle, and ~~;~~ (2) it is limited to the manufacturing industry in the East Java Province, Indonesia only. T~~, and t~~herefore, the results cannot be generalized. Future ~~rther~~ research should consider using other contextual variables~~,~~ such as human capital, organis~~z~~ation capital, and customer relationship performance as new contingent factors in the model.

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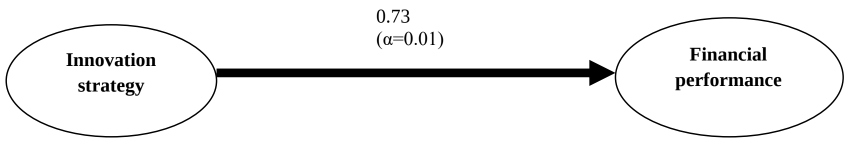
APPENDIX

DIRECT EFFECT



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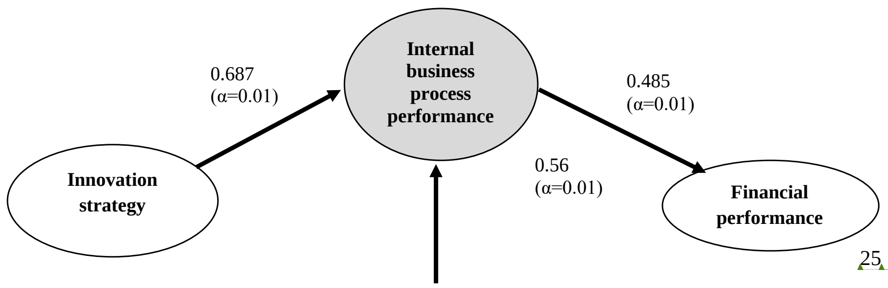

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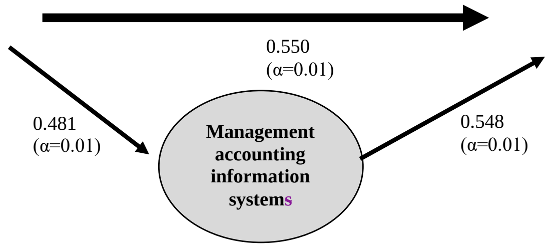

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CONTINGENT FACTORS AFFECTING THE FINANCIAL PERFORMANCE OF MANUFACTURING COMPANIES: THE CASE OF EAST JAVA, INDONESIA

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Hariyati* and BambangTjahjadi

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ABSTRACT

Manuscript type: Research paper

Research aims: This study aims to examine how contextual variables which include innovation strategy, management accounting information system and internal business process performance affect the financial performance of manufacturing companies in East Java, Indonesia.

Design/ Methodology/ Approach: This study employs a quantitative approach to explain the relationship among the variables. The data of 135 managers were collected and then analysed through the partial least squared (PLS) approach.

Research findings: Results show that management accounting information system and business process performance partially mediate the innovation strategy-financial performance relationship.

Theoretical contributions/ Originality: This study expands on previous works; it investigates the roles of management accounting information system and internal business process performance as mediating variables between innovation strategy and firm's financial performance.

Practitioner/ Policy implications: This study provides insights into on how management accounting information system and internal business process performance impact innovation strategy on financial performance. The results imply that managers need to improve the design and implementation of their accounting system and their internal business process performance. This initiative can support the firm's innovation strategy which has an impact on the firm's financial performance. The implications drawn from this study justify two things: (1) firms need to be more proactive in their product innovation and process innovation so as to remain competitive in the global market; and (2) managers need to develop intangible assets such as a management accounting information system in the era of knowledge economy.

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Response : This study provides insights into on how management accounting information system and business process performance mediate innovation strategy and firm's financial performance

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Research limitations/ Implications: This study focuses on the manufacturing companies of the East Java Province of Indonesia therefore, generalisability of the findings may be restricted. Future studies need to incorporate larger and more diverse samples. This study did not consider the companies' business life cycle hence, the full impact of the firms' financial performance may not have been captured.

Keywords: Financial Performance, Innovation Strategy, Internal Business Process Performance, Management Accounting Information System

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JEL Classification: M41

1. Introduction

The prevalence of globalisation is widespread and impactful, particularly in the world of commerce and business. Organisations are facing more challenging competitions thus many are striving to look for a sustainable and competitive advantage that would help them to achieve better performance. Each organisation must formulate and execute the appropriate strategies to build its competitive advantage (Bowen et al., 2009; Mazanai & Fatoki, 2011). In an effort to effectively execute the strategies chosen, the management of these organisations needs to implement strategy-based performance management. Performance management should be multidimensional in nature, covering both financial and non-financial information. These two types of performance information must be aligned so that organisations are able to monitor, control, and achieve a comprehensive performance (Davis & Cobb, 2010; Dowling & Helm, 2006; Juhl et al., 2002; Petersen & Schoeman, 2008; Sacristan-Navarro et al., 2011; Selvarajan et al., 2007; Thrikawala, 2011; Arora, 2016).

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A multi-dimensional performance management provides comprehensive performance information which is very crucial in supporting the execution of effective strategies. A single aspect of performance management is insufficient in providing comprehensive information to managers (Bhargava et al., 1994; Chen & Tang, 2015). For example, to gain lowest cost in operations, the management needs to have an excellent business process performance, in terms of operation management process and customer management process. Financial performance relies on how non-financial performance is addressed in a firm. An excellent business process performance, in turn, would also need the support of human capital management, information capital management, and the organisation's capital management. Performance management must provide all aspects of these critical information to support the managers at every level in the organisation (Bhargava et al., 1994; Venkatraman & Ramunajam, 1986; Chen & Tang, 2015). This study focuses on how excellent internal business process performance can improve firm's financial performance, the outcome of which is dependent on the business process performance. As suggested by Bhargava et al. (1994) and Venkatraman and Ramunajam (1986), the firm's management needs to use integrated diverse measurements to accomplish this outcome. When the firm's business process performance is excellent, the firm's financial

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performance would also improve. The Balanced Scorecard (BSC) is a well-known example of a multidimensional model which is used to assess performance measurement and management. The BSC appears to be one of the "best practices" of performance management; it has been implemented in various types of organisations worldwide (Kaplan &Norton, 1997). The BSC combines two important performance measurements such as non-financial and financial performance indicators within a cause-effect relationship. The BSC also consists of four perspectives: financial, customer, internal business process and learning and growth.

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To determine the factors that would affect the firm's financial performance, this study adopts two approaches: the resource-based view and the contingency theory. According to the resource-based view, the key to improve a firm's performance is to look at the firm's internal characteristics (Barney, 2001; Afrifa, 2015). Any difference noted in the firm's performance is explained primarily by the organisation's resources which should be valuable, rare and not easily imitated or substitutable by rivals. The contingency theory helps to explain how the design of an organisation would only be effective and universally applicable when certain conditions are met and in certain environments (Otley, 1980; Uyar, 2016). Since the condition and environment of each organisation is different, its design must also be unique. In this study, we highlight that innovative strategy, management accounting information system and internal business process management can act as contingent factors that affect firm's financial performance.

Prior empirical works (Hammel, 1999; Thrikawala, 2011; Daisy & Deqing, 2014; Mbizi et al, 2013; Roxas et al, 2014; Saunila & Ukko, 2013; Saunila, 2014) have illustrated that success in business is determined by innovation strategy. An innovation is a process that utilises resources (assets, skills, and capabilities) to accomplish something. Innovations are necessary in order to develop new products or services and innovations are achieved by building new production systems and operations that address the needs of customers (Jones, 2004; Lopez et al., 2015). The influence of innovation on performance indicators (such as, customer satisfaction, productivity and technological competitiveness) has been demonstrated by Terziovski (2002). In his research, Terziovski (2002) suggests three types of innovation strategy: (1) integrated innovation strategy, (2) incremental innovation strategy, and (3) radical innovation strategy. He further asserts that incremental innovation strategy consists of product innovation and process innovation; it is more appropriate to be used as an incentive for continuing an innovation. This is because it does not take much time to implement an innovation. It also does not involve revolutionary changes which have higher risks of failure. In that regard, this study thus focuses on incremental innovation strategy.

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The implementation of all types of innovation strategy however, requires a reliable management accounting information system. According to Chenhall and Morris (1986), reliable and accurate information comes from a reliable management accounting information system which carries the following criteria: broad scope, timeliness, aggregation and integration. Managerial performance is influenced by the interaction between management accounting information system and business strategy (Abdallah, 2014; Ali et al., 2012; Almajali et al, 2015). The information provided by the management accounting information system plays a critical role in the managerial's decision making. Nonetheless, a reliable

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management accounting information system needs the readiness of information technology (Abernethy & Guthrie, 1994; Masa'deh, 2013; Mas'deh et al, 2016).

To advance the firm, its innovation strategy must be implemented together with its business process. The firm's internal business process is related to its operation management, customer management, innovation, as well as regulatory and social processes (Kaplan & Norton, 1997; Erhemjamts & Venkateswaran; 2013). In that regard, process innovation is associated with efficient production process, timely delivery to customers, and after-sales service. Excellent business process performance has an impact on cost efficiencies and product quality improvement. It accelerates asset utilisation, which in turn, has a positive impact on firm's financial performance. To create value in these processes, the firm's accounting information system~~s~~ and business process performance need to play important roles. The effective implementation of the firm's innovation strategy can affect the firm's financial performance thus, it should be supported by a reliable management accounting information system and an excellent business process (Davis & Cobb, 2010; Emeka, 2012; Grande et al., 2011; Masa'deh, et al, 2017). Although those studies have demonstrated the importance of the management accounting information system and internal business process performance, little work has been done to explore this issue from the perspective of manufacturing companies in East-Java, Indonesia. Attempting to fill in the gap, this study was conducted based on a number of reasons. First, theories, concepts and practices developed in different contexts are not necessarily applicable to the context being studied. Moreover, firm's resources and capabilities which include its management accounting information system~~s~~, internal business processes and innovation strategy, ~~-~~are regarded as unique factors. These may be used to explain the differences in the firms' performance of manufacturing companies based in East-Java. Scholars (Lussier & Pfeifer, 2001; Mazzucato & Donovan, 2016; Mazzucato & Pena, 2016a) have argued that the determinants of firm's performance need to be based on the context of research, as performance may differ from one context to another, thus the relevance of the current study.

The manufacturing companies of the East Java Province of Indonesia contributes to 10.04 per cent of Indonesia's export. The same area also contributes to 20.85 per cent of the nation's GDP (Industry Magazine, 2013). However, the growth of the manufacturing industry in the East Java Province has been fluctuating since 2012. With the level of competition from foreign manufacturers such as China, getting sharper, the phenomenon for the East Java Province may worsen. Therefore, it is necessary to conduct a study that can examine which contingent factors are likely to affect the financial performance of these manufacturing companies, in the midst of a global competition.

This study contributes to the body of knowledge by providing additional evidence from the East Java Province that shows the mediating effect of management accounting information system and internal business process performance on innovation strategy-financial performance relationship. The findings may be useful to policy decision makers and managers who can use the outcome to improve the financial performance of the manufacturing sector of the East Java Province. The rest of this paper is organised as follows. Section 2 presents the literature review. Section 3 explains the research methodology. Sections 4 reports on the

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findings and section 5 discusses the empirical results. Finally, section 6 provides the conclusion of the study.

~~3.1~~2.1 The Industry-Organization (I/O) Paradigm versus The Resource-Based Theory

The issue on how an organisation pursues its competitive advantage and achieves above-average returns is still not settled and it requires further research. The Industry-Organisation (I/O) paradigm states that external environment factors~~,~~ especially, industry factors, significantly affect firm's performance. The first empirical study supporting this paradigm was conducted by Schmalensee (1985) who revealed that industry factors affect firm's performance by approximately 20 per cent while in the case of McGahan and Porter (1997), industry factors affect firm's performance by 19 per cent. To achieve a competitive edge within the industry, an organisation needs to have a good strategy. However, the formulation of a good strategy may be influenced by external factors such as industry factors. These are usually beyond the control of the management as they are independent from the organisation (Morrison & Teixeira 2004). In contrast, internal factors reveal how management preferences and company characteristics can influence the resolution of company issues or the expansion plans of company products, services or processes (Makhija, 2003). Unlike external factors that are out of the company's control, internal factors are unique to the company. They include the firm's resources and capabilities both of which can be controlled (Galbreath, & Galvin, 2008). Based on this, the current study focuses only on the internal aspects of the firms being investigated.

The resources-based view (RBV) states that a sustainable and competitive advantage depends on how a firm controls and properly utilises its specific internal resources. This theory focuses on the firm's resources and capabilities that would determine the performance of the firm. Resources that comprise assets, skills, and capabilities will determine the empowerment process of the company towards the creation of the company's competitiveness. Teece et al. (1997) stated that a competitive advantage depends on the resources owned by the firm. This is expanded by Barney (1986) who suggests that resources can be generally defined as assets, organisational processes, firm attributes, information, or knowledge, all of which are controlled by a company and which can be used to develop and implement the company's business strategies. Barney et al. (2001) explained that a company is a collection of resources, competencies and capabilities. The difference between companies can be noted by their respective resources, competencies and capabilities, all of which can determine the firm's competitive advantage. The firm's management accounting information system~~s,~~ and business processes are therefore, employed in this study as critical resources that would help firms to create a superior financial performance.

~~3.2~~2.2 The Contingency Theory

Otley (1980) states that no single organisational design can be effectively applied universally under any condition or in any context. In this regard, the contingency approach explains why the accounting system can differ from one condition to another. Otley's (1980) findings suggest that three concepts influence the effectiveness of an accounting system namely: (1) technology, (2) organisational structure, and (3) environment. Harash et al. (2014) has

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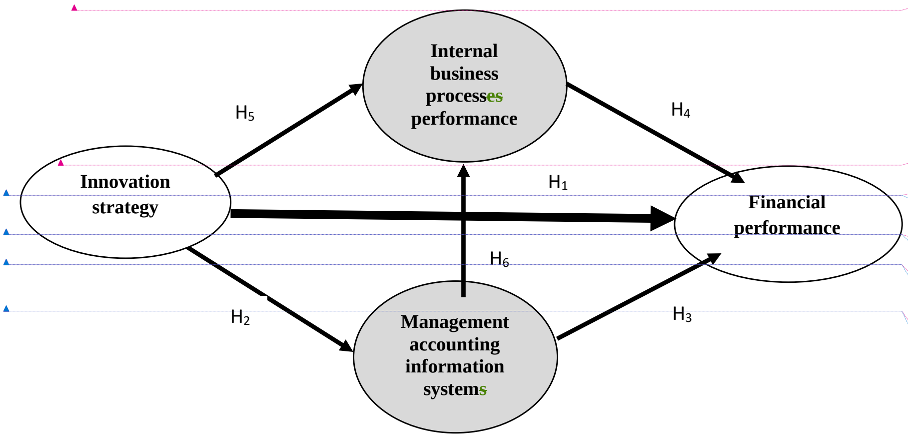
suggested that the contingency approach is appropriate for analysing and designing the control system~~s~~, particularly in the field of management accounting system.

Researchers in the field of management accounting such as Chong and Chong (1997) have conducted studies to determine the relationship among the contextual variables (or contingent factors) such as environment uncertainty, tasks uncertainty, structure and organizational culture, strategy uncertainty, and management accounting information system design. The contingency approach is used to explain how the contingent factors could affect the competitive advantage or performance of a firm. Likewise, this study also employs the contextual or contingent variables of innovation strategy, management accounting information system, and internal business process performance as factors that would enable a firm to achieve excellent financial performance.

~~3.3~~2.3 Theoretical Framework

A research model is developed based on the theoretical reviews covered. This is presented in Figure 1. The model illustrates that financial performance is affected by innovation strategies which are mediated by the management accounting information system and the internal business process performance.



H_7: management accounting information system mediates the innovation strategy-financial performance relationship
H_8: internal business process performance mediates the innovation strategy-financial performance relationship
H_9: management accounting information system and internal business process performance mediate the innovation strategy-financial performance relationship

Figure 1: Research model

3.42.4 The Relationship between Innovation Strategy and Financial Performance

Financial performance is a critical aspect of a firm because it is the output of the management's efforts in utilizing the firm's resources to maximize shareholders' value. Financial performance reports can indicate whether a firm's strategy contributes to the bottom-line improvement or not. Kaplan (2009) states that the financial performance of a firm can be improved in two ways i.e., through growth strategy and productivity strategy. Organisations are able to generate profit by improving productivity through innovation - product innovation and process innovation. Improvements in productivity can be achieved by: (1) reducing direct and indirect expenses or by using financial and physical assets more efficiently; and (2) reducing the working and fixed capital needed to support a given business level. The linkage strategy in the financial perspective arises when organisations achieve a balance between growth and productivity. Three main indicators are used to measure financial performance, namely: (1) revenue growth, (2) cost reduction or cost savings and increased asset utilisation, and (3) increased customer value.

Innovation is defined as a process created in an organization to look at how skills and resources are utilized for the purpose of developing new products and or services or to establish new production systems and operations so as to address the needs of customers (Jones, 2004). Innovation is necessary for creating value for example, in penetrating new markets, in retaining existing market shares and in improving a competitive advantage. Innovation is an important element of a business strategy. Through innovations, organisations are better assured in winning the global competition. Innovation has also become the main focus of the academic and industrial research platform. Extensive studies (Hitt et al., 2001; Kuratko et al., 2005) have acknowledged the importance of innovation in achieving a sustainable competitive advantage in the global competition. The goal of innovation is not only to reduce costs but also to help firms to improve the quality of their products and services offered. This is important in the globalisation era as products' lifecycle becomes shorter due to customers who have developed a variety of needs and demands. In sum, innovations are crucial for developing new products and services, for creating organisational models and for marketing techniques.

Research (Evangelista et al., 1998). indicates that companies need to be more innovative in order to remain competitive. Global competition is not only forcing firms to enhance product innovation, but also to enhance their technological capabilities in producing products or services at cheaper costs. Firms therefore, need to manipulate the structure and organisation of their work process, improve their core competencies and develop new structures in the effort to respond to new market conditions and customer demands (Ulusoy et al., 2001). The success or failure of a firm in achieving excellent performance is determined by its innovations (Hammel, 1999).

The influence of innovations on firm performance (e.g., customer satisfaction, productivity and competitiveness of technology) has been demonstrated by Terziovski (2002) who proposed using three (3) types of strategies namely: (1) integrated innovation strategy, (2) incremental innovation strategy, and (3) radical innovation strategy to increase firm performance. His research results indicate that among the three, integrated innovation strategy has small

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influence on performance. This is because firms in general have not reached the stage of system integration and the ability to operate in a network. In fact, incremental innovation strategy was found to be more appropriate as an incentive for continuous innovation while radical innovation strategy was appropriate for producing quick changes in products and processes. Based on this, the first hypothesis developed is as follows:

H_1: Innovation strategy positively affects financial performance

~~3.5~~2.5 The Relationship between Innovation Strategy and Management Accounting Information System~~s~~

A unique way to achieve excellent performance is to develop innovation strategy. This strategy can heavily affect the design of the management systems including management accounting information system. Information is a very important element in the decision-making process thus, firm management needs relevant, timely, accurate and complete information prior to making good decisions. The management accounting information system is a systematic presentation of useful information. It appears to be a crucial tool that can help the management to achieve firm goals. In relation to this, the management accounting information system is able to produce useful information that can assist workers, managers, and executives to make better decisions.

Traditionally, the focus of information is dominated by financial information. However, the development of modern performance management balances the role of the financial information and non-financial information. Chenhall and Morris (1986) prove that characteristics of the management accounting information system such as timeliness, aggregation and integration are useful for managers particularly when it covers a broad scope. Managers depend on the management accounting information system to be able to effectively execute the innovation strategy. The more reliable the accounting information generated, the better the decisions taken by the organisation, and the higher the opportunity for the firm to remain competitive.

A broad scope of the management accounting information system refers to the dimension~~s~~ of focus, quantification, and time horizon (Gordon & Narayanan, 1984). Timeliness information refers to the period between a request for information and time presenting the desired information, and the frequency of reporting information (Chenhall & Morris, 1986). Aggregation refers to the form of information showing formal policies (such as discounted cash flow, cost-volume-profit analysis) or analytical models of information for functional areas (such as marketing, production) or time-based information (monthly and quarterly). Integration reflects the coordination between a sub-unit information with one another; it includes targets or activities that had resulted from the interaction of the among sub-units within the organization (Chenhall & Morris, 1986). A company or organisation that implements innovation strategy will be exposing a broad environmental domain hence, it would require larger amounts of information.

The management accounting information, as a product of the management accounting system, plays a critical role in helping the management to predict the possible consequences of the

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various alternative strategy that can be performed in a variety of activities such as planning, controlling and decision making. Information system is effective when it supports good management decisions. The quality of the information will improve the quality of the decision to be taken and ultimately, improve the performance of the company (Gerloff et al., 1991). In his work, Nazaruddin (1998) suggests that management accounting information system is only reliable if it can improve managerial performance. Chong and Chong (1997) asserts that the availability of the broad scope management accounting information is an important antecedent variable in improving firm's performance. Therefore, it can be concluded that management accounting information system must follow firm's strategy. Based on the argument, the second hypothesis developed is as follows:

H_2: Innovation strategy positively affects management accounting information system

~~3.6~~2.6 The Relationship between Management Accounting Information System~~s~~ and Financial Performance

Information is one of the most critical components in organisational planning and control. It plays a facilitating role in enhancing managerial performance (Sprinkle, 2003; Nguyen et al., 2017). Information quality is the result of a reliable system. The better the system, the higher the quality of the information generated by the system. High information quality leads to more effective decision making, further driving higher financial performance. A study by Rawasdeh and Al-namlah (2017) in Saudi Arabia revealed the important role of adopting electronic data interchange in small and medium enterprises so as to improve performance and to remain competitive. Management accounting information system is also expected to affect the financial performance in terms of providing relevant, accurate and timely information. Based on the argument, the third hypothesis developed is as follows:

H_3: Management accounting information system~~s~~ positively affects financial performance

~~3.7~~2.7 The Relationship between Internal Business Performance and Financial Performance

As previously described, organisations must execute their strategies effectively so as to ensure good financial results. Strategies must be executed by conducting strategic activities or processes. Organisations must manage their internal business processes in order to achieve excellent operation management, customer management, innovation management, and regulatory management. To achieve excellent internal business process performance, organisations must be supported by skillful human resources, a reliable information system as well as a solid organisation capital. Kaplan and Norton (2009) classify internal business processes into four groups. The first group involves the operations management processes. This refers to activities in dealing with suppliers, producing products, distributing products to customers, and managing risks. The second involves customer management processes. This refers to how the firms broaden and deepen relationships with targeted customers. Customer management involves four issues such as the selection of targeted customers, the acquisition of targeted customers, the retention of customers, and the expansion of customers. The third

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group is the innovation management processes which involve four steps: identifying opportunities for new goods and services, managing a portfolio for research and development, designing and developing new products and putting the new products on the market. The fourth group is the regulatory and social processes which refer to activities that continually help organisations to have the right to operate in a specific community, to enjoy safety and health, promote employee practices as well as community development. Good internal business performance can lead to a healthy organisation thereby enabling it to achieve its objectives. In conclusion, internal business process performance affects firm’s financial performance. Based on the argument, the fourth hypothesis developed is as follows:

~~3.8~~2.8 The Relationship between Innovation Strategy and Internal Business Process Performance

Innovation strategy is a unique way for a firm to reach its targeted performance. The management formulates and implements this innovation strategy to achieve excellent internal business performance. According to Verhoeven and Johnson (2017), firms need~~s~~ to have more dynamic views on their business model innovation. Doing so helps to enhance the dynamic analysis of their strategic development and business model innovation processes. Chuang and Lin’s (2017) empirical study of financial service firms in Taiwan revealed that innovation strategy emphasizes on service innovation orientations which in turn, examine the information-value offerings that can elevate the firms’ internal business process performance and their customer relationship performance. Gao, Hsu and Li (2018) provide evidence which suggests that the investment horizon is key to explaining the different innovation strategies used by the public and private firms in improving their business performance and in remaining competitive. Based on the argument, the fifth hypothesis developed is as follows:

H_5: Innovation strategy positively affects internal business process performance

~~3.9~~2.9 The Relationship between Management Accounting Information Systems and Internal Business Process Performance

Kaplan (2009) states that information capital, including the management accounting information system, has a strategic role in building a company’s competitive advantage in the era of knowledge-based economy. Using strategy maps, Kaplan and Norton’s (2001) results showed that firm’s learning and growth perspective have direct linkages with firm’s internal business processes. The more excellent the information capital, the more significant the internal business process performance. This justifies the sixth hypothesis which is developed as follows:

H_6: Management accounting information system positively affects internal business process performance

~~3.10~~2.10 Mediating the Effect of Management Accounting Information Systems on the Relationship between Innovation Strategy and Financial Performance

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An innovation strategy that is adopted by a company impacts the information that is needed to effectively implement the strategy. Bromwich (1990) argues that management accounting information system can help managers to face challenges in a competitive market. Management accounting information system focuses on generating information to create value, to assist managers in monitoring the performance, and to predict possible consequences of various alternative actions that can be performed on a variety of activities.

As stated by Gerloff (1991), the information that is available in an organization is considered to be effective if it can support the users or decision-makers. The link between information needed and the decision makers is that good information will increase the quality of the decision; ultimately, this improves the firm's financial performance. Every strategy taken by the firm, including innovation strategy, impacts on the characteristics of the information system including management accounting information system. As stated by Chenhall and Morris (1986), reliable accounting information must have the characteristics of broad scope, aggregation, timeliness, and integration. In conclusion, the implementation of an innovation strategy determines the need for a reliable management accounting information system, which in turn, affects the firm's financial performance. Based on the argument, the seventh hypothesis developed is as follows:

> *H_7: Management accounting information system mediates the relationship between innovation strategy and financial performance*

2.11 Mediating Effects of Internal Business Process Performance on Innovation Strategy-Financial Performance Relationship

The innovation strategy implemented will affect the firm's internal business process performance such as innovation, operation, and after-sales service processes. Innovation processes refer to the process of creating products and services that meet the needs of customers; it increases the use of technologies in new product development efforts. Operation processes are associated with efficient production process, timely delivery to customers, and after-sales service. Therefore, an efficient internal business process performance will affect customer relationship performance, increase market share, maintain existing customers, increase new customers, improve customer satisfaction as well as increase customers' value. Terziovski (2002) in his study provided evidence to suggests that innovation strategy affects internal business process performance, customer relationship performance, and financial performance. Based on the argument, the eighth hypothesis developed is as follows:

> *H_8: Internal business process performance mediates the relationship between innovation strategy and financial performance*

2.12 Mediating Effects of Management Accounting Information System and Internal Business Process Performance

Each strategy performed by the firm leads to the different designs of the information system. Therefore, innovation strategy also influences the design of the management accounting information system. A good management accounting information system tends to enhance the

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internal business process performance, helping the company to achieve better operation management processes (supply chain, production, distribution, risk management), better customer management processes (customer selection, acquisition, retention, growth), better innovation management processes, and better social and regulatory management processes. In this regard, it is evident that an excellent internal business process will improve firm's financial performance hence, accelerating revenue growth and cost efficiencies. Based on the argument, the ninth hypothesis developed is as follows:

> *H_9: Management accounting information system and internal business process performance mediate the relationship between innovation strategy and financial performance*

3. Research Methodology

3.1 Operationalisation

To operationalise the construct of this study, the operational definitions and measures are developed as follows. Financial performance is defined as the perception of the respondents towards the current financial condition of the strategic business units as compared to previous years. To measure financial performance, we used the financial indicators developed by Kaplan and Norton (1992)~~,~~ namely: improved cost structure, increased asset utilisation, expanded revenue opportunities and enhanced customer value.

Innovation strategy is a means used by an entity to compete in its industry in a sustainable manner (Terziovski, 2002). In this study, innovation strategy is defined as the perception of the respondents regarding their unique ways in achieving a sustainable and competitive advantage and excellent performance. To measure innovation strategy, we used two indicators developed by Terziovski (2002)~~,~~ namely: product innovation and process innovation.

Management accounting information system is defined as the perception of the respondents towards the design of the accounting system which generates the management accounting information needed by management so as to make better decisions, in its effort to support the formulation and execution of innovation strategy. To measure management accounting information system, we adopted the instrument developed by Chenhall and Morris (1986) which include four aspects: broadscope, aggregation, integration~~,~~ and (2) timeliness.

Internal business process performance is defined as the perception of the respondents towards the performance of the value chain or the strategic activities that were conducted in strategic business units (SBUs) so as to support customer satisfaction and/or productivity strategy which increases financial performance. To measure internal business process performance, we used four indicators developed by Kaplan and Norton (1992) namely: operation management processes, customer management processes, innovation management processes and regulatory and social management processes. Respondents were asked to rate their perceptions on a 5-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree). Questionnaire was prepared in Indonesian language. The items of measurement is presented in Appendix 1.

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3.2 Data Collection

This study is designed as a causal study (Cooper & Emory, 1995) using data collected from a questionnaire survey. The unit of analysis is strategic business unit and the respondents recruited comprise managers of these strategic business units in manufacturing companies located in the East Java Province of Indonesia. The sampling frame was drawn from the list of manufacturing firms located in the province and registered with the Ministry of Industry, the Republic of Indonesia as of 2016. The entire population was 398 and so a total of 398 questionnaires were distributed using several channels including emails, snail mails, and personal visits. However, our study drew only 34 percent response rate, resulting in only 135 respondents who participated. Based on the Law Number 20 Year 2008 report which describes Micro, Small, Medium, and Large Enterprises, it was observed that many of these companies (107 companies or 79%) were manufacturing companies that were also mainly medium enterprises, as illustrated in Table 1. Most (74%) have been in the business between six to 15 years and the type of company varies in terms of products produced.

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Table 1: Profile of Respondents

Demographic Variables	**Category**	**Frequency (n=135)**	**Percentage (%)**
Firm category	Small Enterprises	0	0 %
	Medium Enterprise	107	79 %
	Large Enterprise	28	21 %
Age of companies	0 – 5	25	19 %
	6 – 10	40	30 %
	11 – 15	60	44 %
	Between 15 to 20	10	7 %
Type of company	Jewelry / Gem	6	4.44 %
	Fat & animal / vegetable oil	12	8.88 %
	Wood, Articles of Wood	18	13.33 %
	Fish and Shrimp	11	8.15 %
	Paperboard	17	12.59 %
	Organic chemicals	16	11.85 %
	Copper	11	8.16 %
	Meat and Processed Fish	11	8.16 %
	Furniture, home lighting	17	12.59 %
	Footwear and shoes	16	11.85 %

4 Data Analysis and Findings

4.1 Measurement Model Analysis

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Partial Least Square (PLS) was used to examine the hypothesised model. Prior to the structural model analysis, a measurement model analysis was first performed to determine the validity and reliability of the model used. This was determined by examining the convergent validity and discriminant validity. The former was assessed through factor loadings, average variance extracted (AVE) and composite reliability (Hair et al., 2014). The latter was assessed by comparing the squared correlations between the constructs and the AVE for the particular construct (Fornell & Lacker, 1981).

Table 2 highlights the loadings of all the items which exceeded the threshold value of 0.5 (Bagozzi & Yi, 1991). The composite reliability values ranged between 0.748 to 0.93, exceeding~~ed~~ the recommended value of 0.7 (Hair et al. 2014). Additionally, the AVE values were in the range of 0.539 to 0.768, which exceeded the recommended value of 0.5 (Hair et al. 2014).

Table 3 depicts the results of the discriminant validity. It is deemed to exist only if the values of the AVE for a particular construct is higher than its correlation with other constructs. As can be noted in Table 3, all the constructs appear to have a substantially higher AVE as compared to the correlation with other constructs. This evidence indicates that there was discriminant validity.

Table 2: Convergent validity analysis

Constructs	Items	Factor Loadings	Composite Reliability	AVE
Innovation strategy	STR 1	0.92	0.917	0.847
	STR 2	0.92		
Management Accounting Information System~~s~~	MAIS 1	0.771	0.748	0.539
	MAIS 2	0.552		
	MAIS 3	0.650		
	MAIS 4	0.809		
Internal Business Process Performance	IBP1	0.837	0.918	0.737
	IBP2	0.844		
	IBP 3	0.897		
	IBP 4	0.855		
Financial Performance	FP1	0.836	0.930	0.768
	FP2	0.855		
	FP3	0.917		
	FP4	0.895		

Table 3 : Discriminant validity analysis

	Mean	SD	**STR**	**MAIS**	**IBP**	**FP**	**Root of**

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							AVE
Innovation Strategy (STR)	4.33	0.66	**0.77**				0.920
Management Accounting Information System~~s~~ (MAIS)	4.13	0.55	0.42	**0.79**			0,721
Internal Business Process Performance (IBP)	4.38	0.64	0.57	0.51	**0.73**		0.858
Financial Performance (FP)	4.31	0.63	0.52	0.25	0.32	**0.71**	0.876

Note: The numbers in bold in the diagonal row are square roots of the AVE, SD =standard deviations

4.2 Structural Model Analysis

Assuming that the measurement model satisfies the validity and reliability assessment, this study proceeded with the structural model analysis. The predictive accuracy of the model was evaluated in terms of the portion of variance explained. The results revealed that the model is capable of explaining 52.3 percent of the variance in financial performance. The significance of the direct effect as specified by the research model was evaluated (Table 5). The results revealed that the effects of innovation strategy on financial performance ($\beta = 0.73$, $p < 0.01$) and management accounting information system~~s~~ ($\beta = 0.481$, $p < 0.01$) were positive and significant. Hence, H_1 and H_2 are supported. Additionally, this study also demonstrated that the effect of management accounting information system~~s~~ on financial performance was significantly positive ($\beta = 0.548$, $p < 0.01$) thereby, supporting H_3. The relationship between internal business performance and financial performance (H_4) was also supported ($\beta = 0.485$, $p < 0.01$). This study also reported that the effect of innovation strategy on internal business performance was significantly positive ($\beta = 0.687$, $p < 0.01$) hence, supporting H_5. Finally, this study also revealed that the effect of management accounting information system~~s~~ on internal business process performance was significantly positive ($\beta = 0.550$, $p < 0.01$), thereby, supporting H_6.

Table 4 : Direct Effect

Hypothesis	Relationships	Path Coefficients	Decision	T-value	Standard Error
H_1	Innovation Strategy--→Financial Performance	0.730***	Supported	11.6364	0.083575
H_2	Innovation Strategy →Management Accounting Information System~~s~~	0.481***	Supported	2.8717	0.003457
H_3	Management Accounting Information System~~s~~→ Financial Performance	0.548***	Supported	3.0411	0.066986

H_4	Internal Business Process Performance -→Financial Performance	0.485***	Supported	2.9974	0.161882
H_5	Innovation Strategy →Internal Business Process Performance	0.687***	Supported	11.2873	0.060652
H_6	Management Accounting Information System~~s~~→Internal Business Process Performance	0.550***	Supported	10.2873	0.067652

4.3 Indirect Effect

Baron and Kenny's (1986) procedure was applied in this study to analyse the mediating effect of management accounting information system~~s~~ and internal business process performance on financial performance. Four conditions must be satisfied to establish a mediating effect. First, a direct link between the independent and dependent variable must be established; second, the independent variable must be associated to the mediating variable; third, the mediator must be significantly related to the dependent variable when both the mediating variables are predictors of the dependent variable; and fourth, the relationship between the independent and dependent variable must be significantly reduced when the mediator is added.

As indicated in Appendix 2, innovation strategy has a significant relationship with management accounting information system~~s~~ (H_2) and financial performance (H_1). This satisfies the first and second requirements. The mediator variable of management accounting information system~~s~~ has a positively significant relationship with financial performance (H_3). This satisfies the third requirement. The fourth step was to incorporate the mediator into the model. It was found that including management accounting information system~~s~~ into the model reduced the effect. The β value dropped from 0.73 to 0.56, indicating the existence of a mediator. Thus, H_7 was supported.

This study also examined the impact of internal business process performance as a mediator between innovation strategy and financial performance. As indicated in Table 4, innovation strategy has a positive effect on financial performance (H_1) hence, satisfying the first condition. Innovation strategy has a positive and significant relationship with internal business process performance (H_5) thus, satisfying the second condition. Internal business process performance has a positive relationship with financial performance (H_4) therefore, satisfying the third condition. The fourth step was to incorporate the mediator into the model. It was found that by including internal business process performance into the model, the effect had reduced, as the β value dropped from 0.73 to 0.56, thereby, indicating the existence of a mediator. Thus, H_8 was supported.

Similar to previous studies, this study also revealed the significant impact of management accounting information system~~s~~ on internal business process performance (H_6). In that regard,

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it supports H_9, showing the innovation strategy-management accounting information system-internal business process performance-financial performance relationship.

~~6.~~5. Discussion

This study provides empirical evidence that support the contingency theory. The results indicate that the financial performance of the manufacturing firms in the East Java Province was affected by contingent factors such as innovation strategy, management accounting informa~~n~~tion system~~s~~, and internal business process performance This outcome is in line with extensive previous studies (Evangelista et al., 1998; Hammel, 1999; Hitt et al. 2001; Ulusoy et al., 2001; Terziovski (2002); Kuratko et al., 2005; Kaplan, 2009).

Recently, there was an extensive movement made by the government of Indonesia to boost innovation-based industry in the East Java Province. The government encouraged the manufacturing companies to collaborate with universities as one measurement to help these companies to improve their competitive edge and performance in response to global competition, especially those coming from China, in the era of the Asean Economic Community (AEC). This movement reflects the government's recognition of innovation strategy as a critical factor for achieving good financial performance in view of global competition (ristekdikti.go.id).

The findings of this study support the outcome noted by Chenhall and Morris (1986) where it was evident that strategy affects the design of the management accounting information system~~s~~. In the context of this study, the respondents were managers of medium and large manufacturing companies which use extensive information communication technology. As mentioned earlier, modern performance management requires both the financial and non-financial information so as to be able to effectively formulate and execute the strategy. Chenhall and Morris (1986) had shown that management accounting information system is ~~are~~ useful for managers when it covers a broad scope, timeliness, aggregation and integration. The outcome gathered from the current study also explains why management accounting information system is required by the managers of the manufacturing companies in the East Java Province. Nonetheless, different strategies require different designs in management accounting information system thus companies need to be more innovative in their approach.

The outcome drawn from the current study also supports the findings of previous studies conducted by Gerloff et al. (1991), Chong and Chong (1997) and Nazarruddin (1998) whose studies had highlighted the relationship between information needs of decision-making and performance. Managers of companies in the East Java Province realized that they were entering a knowledge-based competition ground where innovation and the use of information communication technology are crucial for achieving excellent financial performance. The difficulty of competing against cheap products from China had driven these managers to innovate and they would require strong strategic information in order to make good decisions. In this regard, the managers perceived that they would achieve excellent financial results if they had the strategic and useful information that was generated by the management accounting information system.

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The results of the current study also endorsed the study of Kaplan and Norton (2009) who stated that excellent financial performance is the result of excellent internal business process performance which comprises operation management, customer management, innovation management and regulatory management processes. Due to the global competition offered by China and other Asean countries, there is no choice for the managers in the East Java Province but to find better ways of improving their internal processes. These processes should also include aggressive marketing and cost reduction schemes so that they can still remain competitive. The current study provides empirical evidence which showed that the managers of the manufacturing companies in the East Java Province have the perception that excellent internal business process performance will directly affect their financial performance (revenue growth and cost efficiencies).

The results of this study also support the outcome of previous studies (Lichtenthaler et al., 2011; Dorweiler & Yakhou, 2005, Chen et al., 2006) which showed the important role innovation has on internal business process excellence. Innovation is a source enhancing added-values and profits hence, vital for improving performance and competitiveness.

The results of this study also endorsed the observations of Chenhall and Morris (1986) and Kaplan (2009) who stated that management accounting information system~~s~~ has a strategic role in building a firm's competitive advantage in the era of knowledge-based economy. In the context of this study, the managers of the manufacturing companies in the East Java Province use massive computerised-based information system~~s~~ to generate more accurate information that can support better decision making. The better the information they get, the better the internal business process performance they achieve (operation management processes and customer management processes). This justifies why the managers of the manufacturing companies in the East Java Province had perceived that management accounting information system~~s~~ affects internal business process performance.

This study provides empirical support~~s~~ which shows the mediating roles of management accounting information system~~s~~ and internal business process performance on the relationship between innovation strategy and financial performance. This study also confirmed previous studies conducted by Gordon and Narayanan (1984), Chenhall and Morris (1986), Gerloff et al. (1991), Chong and Chong (1997) with regards to the importance of management accounting information system~~s~~ in relation to organisational performance. In addition, this study also supported Kaplan and Norton (2001, 2009) who stated that strategy must be translated in~~-~~to internal business processes so as to create excellent customer relationship performance and financial performance. This internal business processes include operations management processes, customer management processes, innovation management~~,~~ as well as regulatory and social processes.

Based on the above discussions, this study thus concludes that strategy affects the design of management accounting information system; management accounting information system influences internal business performance; and internal business performance affects financial performance. The path test also revealed that the managers were aware that they should align the design of their management accounting information system to strategy. The better the

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quality of their management accounting information system, the better it will support their internal business processes. Further, the higher the internal business performance, the better it supports financial performance. The findings of this study also confirmed the results of other studies conducted by Clemons and Row (1991), Mahmod and Mann (1993), Kettinger et al. (1994), Mata et al. (1995), Ross et al. (1995) all of whom had concluded that management accounting information system offers a big opportunity for firms to improve their coordination and control. Alternatively, the findings of this study can be used by the respective companies to innovate and to gain a competitive advantage in the world market.

~~7.~~6.Conclusion

From the discussions noted above, several conclusions can be deduced. First, innovation strategy significantly affects financial performance. Second, management accounting information system~~s~~ and internal business process performance partially mediate~~s~~ the relationship between innovation strategy and financial performance. Third, management accounting information system~~s~~ mediates the relationship between innovation strategy and business process performance. Fourth, internal business process performance mediates the relationship between management accounting information system and financial performance.

This study has important future implications on manufacturing companies in the East Java Province, Indonesia. The outcome suggests that ~~the~~ manufacturing firms in the East Java Province need to be more innovative, both in product innovation and process innovation so as to remain competitive in the marketplace. The findings also implied that these manufacturing companies need to focus on the development of intangible assets, among others, ~~–~~its management accounting information system~~s~~. This manifestation is very crucial because without a reliable information system, innovative strategy cannot be executed properly, and so, it cannot drive excellent internal business process performance. Moreover, bad internal process performance may result in unhappy customers causing firms to lose their customer base. All these outcomes can affect the companies' financial performance badly. In conclusion, this research had offered an adequate explanation on how contextual variables or contingent factors can affect the financial performance of manufacturing firms in the East Java Province.

The results of this study have important implications on the management of manufacturing firms in the East Java Province. Clearly, the management must improve its awareness of products as well as its process of innovation strategy in order to achieve excellent performance. Furthermore, the management must increase its concerns in the development of its management accounting information system~~s~~ because the system plays a strategic role in helping the managers to make good decisions and to improve internal business performance.

This study has several limitations, including: (1) it does not consider product life cycle, and (2) it is limited to the manufacturing industry in the East Java Province, Indonesia only. Therefore, the results cannot be generalized. Future research should consider using other contextual variables such as human capital, organisation capital, and customer relationship performance as new contingent factors in the model.

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APPENDIX 1 :

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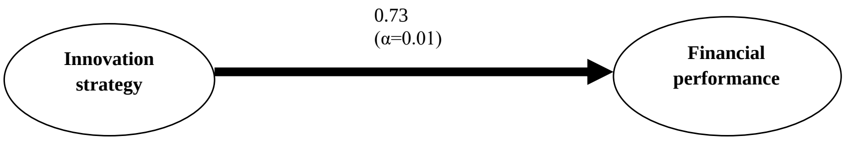
ITEMS OF MEASUREMENT

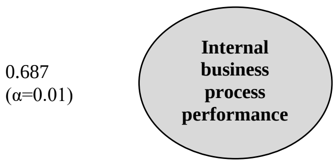
No	Name of Variable	Indicator
1	Innovation Strategy	1. Innovation 2. Technology
2	Internal Business Process Performance	1. Operations Management Process 2. Customer Management Process 3. Innovation Process 4. Regulatory and Social Processes
3	Management Accounting Information System	1. Broadscope 2. Timeliness 3. Integration 4. Aggregate
4	Financial Performance	1. Cost Reduction 2. Improvement in Asset Utilisation. 3. Revenue Growth, 4. Improvement in Customer Value

APPENDIX 2 :

DIRECT EFFECT



INDIRECT EFFECT



CONTINGENT FACTORS AFFECTING FINANCIAL PERFORMANCE OF MANUFACTURING COMPANIES IN THE EAST JAVA, INDONESIA

-

Hariyati* and BambangTjahjadi

ABSTRACT

Manuscript type: Research paper

Research aims: This study aims to examine the effect of contextual variables which include innovation strategy, management accounting information systems and internal business process performance on financial performance of manufacturing companies in the East Java Province, Indonesia.

Design/ Methodology/ Approach: The study employed quantitative study to explain the relationship among variables. Data collected from 135 managers were analysed using the partial least squared (PLS).

Research findings: The result shows that management accounting information systems and business process performance partially mediate innovation strategy-financial performance relationship.

Theoretical contributions/ Originality: This study expands on previous work done by investigating the roles of management accounting information systems and internal business process performance as mediating variables between innovation strategy and firm's financial performance.

Practitioner/ Policy implications: This study provides insights on how management accounting information systems and internal business process performance affect the impact of innovation strategy on financial performance. The results imply that managers need to improve the design and implementation of accounting systems and internal business process performance to support innovation strategy which has an impact on financial performance among the East Java manufacturing firms.This study implies (1) the importance of being more innovative in product innovations well as process innovations to remain competitive in the

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global market; and (2) in the era of knowledge economy, managers need to develop intangible assets, such as management accounting information systems.

Research limitations/ Implications: This study is conducted on manufacturing companies in the East Java Province, Indonesia, thus the generalis-ability of this study may be restricted. Future studies may be carried out to incorporate larger and more diverse sample. Moreover, as this study did not consider business life cycle, the full impact of financial performance may not be captured.

Keywords: innovation strategy, management accounting information systems, internal business process performance, financial performance

JEL Classification: M41

1. Introduction

In the era of globalisation, organisations are facing more challenging competition, forcing them to have a sustainable competitive advantage that would help in achieving performance. Each organisation must formulate and execute appropriate strategies to build their competitive advantage (Bowen et al., 2009; Mazanai & Fatoki, 2011). In an effort to effectively execute the strategy chosen, management needs to implement strategy-based performance management, which includes performance measurement and management. The performance measurement should be multidimensional in nature, covering both financial and non-financial performance aspects. These two types of performance measurement must be aligned so that organisations are able to monitor, control, and achieve a comprehensive performance (Davis & Cobb, 2010; Dowling & Helm, 2006; Juhl et al., 2002; Petersen & Schoeman, 2008; Sacristan-Navarro et al., 2011; Selvarajan et al., 2007; Thrikawala, 2011; Arora, 2016).

A multi-dimensional performance measurement provides a comprehensive performance information which is very crucial in supporting effective strategy execution. A single aspect of performance measurement would not be able to provide comprehensive information to managers (Bhargava et al., 1994; Chen & Tang, 2015). For example, in order to gain lowest cost, management should have excellence business process performance, in terms of operation management processes and customer management processes. Hence, financial performance does rely on how non-financial performance is addressed in a firm. An excellent business process performance, in turns would also needs supports from human capital management, information capital management, and organisation capital management. Performance measurement and management must provide all aspects of critical information to support managers at every level in organisation (Bhargava et al., 1994; Venkatraman and Ramunajam, 1986; Chen & Tang,

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Answer : This statement is correct. For example, the Balanced Scorecard is a kind of strategy-based performance management system that is widely used to effectively execute strategy

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Commented [AJBA3]: Is it performance management or meassurment?

Answer: measurement is better

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2015).This study, therefore focuses on how excellence internal business process performance would improve financial performance. Financial performance is the outcome of business process performance. As suggested by Bhargava et al. (1994) and Venkatraman and Ramunajam (1986), management must use integrated diverse measurements. Therefore, when business process performance is excellent, it is expected that financial performance would improve as well. The Balanced Scorecard (BSC) is a well-known example of a multidimensional model of performance measurement and management. The BSC appears to be one of the "best practice" performance management implemented in various types of organisations around the world (Kaplan &Norton, 1997). The BSC combines two important performance measurements both non-financial and financial performance indicators in a cause-effect relationship. It consists of four perspectives, namely financial, customer, internal business process, as well as learning and growth.

In determining the factors that would affect the financial performance of the manufacturing companies, this study adopted the resource-based view and contingency theory. According to the resource based view, the key to improve a firm's performance is based on the firm's internal characteristics (Barney, 2001; Afrifa, 2015). The differences in performance are explained primarily by the existence of an organisation resources which are valuable, rare and not easily imitated and substitutable by rivalry. Meanwhile, the contingency theory explains that the design of an organization would only be effective and universally applicable on certain conditions and environment (Otley, 1980; Uyar, 2016). Since the condition and environment of each organisation is different, the organisational design must also be unique for each organisation. In this study, we highlight that an innovative strategy, management accounting systems, and internal business process management could be the contingent factors that would affect financial performance of organisations.

Prior empirical works have illustrated that success in business is determined by innovation strategy (Hammel, 1999; Thrikawala, 2011; Daisy & Deqing, 2014; Mbizi et al, 2013; Roxas et al, 2014; Saunila & Ukko, 2013; Saunila, 2014). Innovation is a process that utilises resources (assets, skills, and capabilities). Innovations are needed to develop new products or services by building new production systems and operations to address the needs of customers (Jones, 2004; Lopez et al, 2015). The influence of innovation on performance indicators (such as, customer satisfaction, productivity and technological competitiveness) has been demonstrated by Terziovski (2002). In his research, Terziovski (2002) suggests three types of innovation strategies, namely (1) integrated innovation strategy, (2) incremental innovation strategy, and (3) radical innovation strategy. The result indicates that incremental innovation strategy which consists of product innovation and process innovation is more appropriate to be used as an incentive for continuing innovation because it does not take long to implement and does not involve revolutionary changes which have higher risk of failure. Based on this argument, this study only focuses on incremental innovation strategy.

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Commented [AJBA6]: Can we use "internal business process performance" and "business process performance" interchangeably?

Answer: actually the specific terminology is "internal business process performance" as developed by Kaplan and Norton. We added the word of "internal"

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The implementation of all types of innovation strategy, however require reliable management accounting information systems. According to Chenhall and Morris (1986), reliable and accurate information comes from reliable management accounting system that has the following criteria: (1) broad scope, timeliness, aggregation and integration. Managerial performance is influenced by the interaction between management accounting information system and business strategy (Abdallah, 2014; Ali et al., 2012; Almajali et al, 2015). The information provided by the management accounting information systems plays a critical role in managerial decision making. A reliable management accounting information systems needs the readiness of information technology (Abernethy & Guthrie, 1994; Masa'deh, 2013; Mas'deh et al, 2016).

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Innovation strategy must be implemented along business process within a firm. Internal business processes relate to operation management, customer management, innovation, as well as regulatory and social processes (Kaplan & Norton, 1997; Erhemjamts & Venkateswaran; 2013). Process innovation is associated with more efficient production process, timely delivery to the customer, and after-sales service. Excellent business processes performance will have an impact on cost efficiencies and improve product quality. Furthermore, it drives asset utilisation, which in turn would lead to positive impact on financial performance. Hence, management accounting information systems and business process performance are argued to play important roles in value creating processes. Effective implementation of innovation strategy would affect financial performance if it is supported by reliable management accounting information systems and excellent business processes (Davis & Cobb, 2010; Emeka, 2012; Grande et al., 2011; Masa'deh, et al, 2017). While previous studies have demonstrated the importance of management accounting information systems and internal business process performance, little work has been done to explore this issue from the perspective of manufacturing companies in East-Java Indonesia. Theories, concepts and practices developed in different contexts are not necessarily applicable to the context studied. Moreover, firms' resources and capabilities which include management accounting information systems, internal business processes and innovation strategy are regarded as unique factors that may explain the differences in firms' performance. Moreover, scholars argue that the determinants of performance should be based on the context of research, as they may be different from another context (Lussier & Pfeifer, 2001; Mazzucato & Donovan,2016; Mazzucato & Pena, 2016a).

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This study focuses on the East Java Province since the manufacturing sector from this area contributed to 10.04 per cent of Indonesia's export. The area also contributed to 20.85 per cent of the nation's GDP (Industry Magazine, 2013). However, the growth of its manufacturing industry fluctuates since 2012. With the level of competition getting sharper due to foreign manufacturers particularly in China, this phenomenon may worsen. Therefore, a study on contingent factors affecting financial performance of manufacturing companies in the era of global competition is needed.

This research contributes to the body of knowledge by providing additional evidence on the mediating effect of management accounting information systems and internal business process performance on innovation strategy-financial performance relationship, in the context of manufacturing companies in the East Java Province. The results of the findings may be useful to policy decision makers and managers to improve the financial performance of firms in the manufacturing sector in East Java Province. The organisation of the paper is as follows. Section 2 presents the literature review on the conceptual development. Section 3 explains the research methodology employed, while sections 4 and 5 report the findings and discusses empirical results. Section 6 provides conclusion of the study.

2. Literature review

2.1 The Industry-Organization (I/O) Paradigm versus The Resource-Based Theory

The issue of how an organisation pursues its competitive advantage and achieves above-average returns is still not settled and requires further research. The Industry-Organization (I/O) paradigm states that external environment factors, especially industry factor significantly affect firm's performance. The first empirical study supporting this paradigm is conducted by Schmalensee (1985) revealing that industry factor affects firm's performance approximately by 20%. Another study by McGahan and Porter (1997) also indicates that industry factor affects firm's performance by 19%. To achieve competitive advantage within industry, an organisation needs to have a good strategy. A strategy formulation is influenced by external factors, especially industry factor. Despite the influence of external factors on the strategy and performance of a firm, these factors are hardly controllable by management as they are in reality independent from organisations (Morrison & Teixeira 2004). Internal factors on the other hand, reveal how management preference and company characteristics influence the resolution of company issues or expansion plan of company's products, services or processes (Makhija, 2003). Moreover, internal factors could also be regarded as unique to the firm, and they include the firm's resources and capabilities that can be controlled (Galbreath, & Galvin, 2008). Based on these arguments, this study therefore~~,~~ only focuses on the internal aspects of firms.

The resources based view (RBV) states that sustainable competitive advantage depends on how a firm could control and properly utilise its specific internal resources. This theory focuses on resources and capabilities that would determine the performance of a firm. Resources which consist of assets, skills, and capabilities will determine the empowerment process towards the creation of company's competitiveness. Teece et al. (1997) state that competitive advantage depends on resources owned by a firm. Barney (1986) states that resources can be generally defined as assets, organisational processes, firm attributes, information, or knowledge that are controlled by a company which can be used to develop and implement their strategies. Furthermore, Barney et al. (2001) state that a company is a collection of resources, competencies and capabilities. Differences in resources, competencies and capabilities of a company compared with its competitors will determine its competitive advantage. The management ability to effectively formulate and execute strategy in managing their management accounting

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information systems, and business process therefore are employed in this study as critical resources in organisations that would help to create superior financial performance.

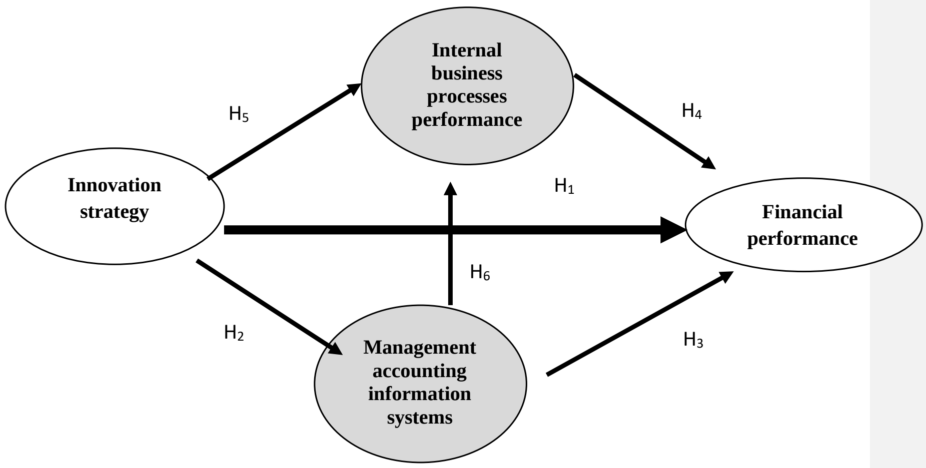
2.2 The Contingency Theory

Otley (1980) states that no single organisational design can be applied universally anywhere or under any conditions effectively. A design can be only appropriate or fit for a certain context or condition. Therefore, the contingency approach may explain why the accounting system can be different from one condition to another. Based on these findings, it is concluded that there are three concepts that influence the effectiveness of an accounting system, namely: (1) technology, (2) organizational structure, and (3) environment. Applying contingency approach is appropriate in analysing and designing control systems, particularly in the field of management accounting system (Harash et al., 2014).

Most researchers in the field of management accounting have conducted studies to determine the relationship among the contextual variables or contingent factors, such as environment uncertainty, tasks uncertainty, structure and organizational culture, strategy uncertainty, and management accounting information system design (Chong and Chong, 1997). The contingency approach is also used to explain the contingent factors that would affect the competitive advantage or performance of a firm. This study employs contextual or contingent variables of innovation strategy, management accounting information systems, and internal business process performance as factors that would achieve excellent financial performance.

2.3 Theoretical Framework

Based on the theoretical review, a research model is developed and presented in figure 1. The model illustrates that financial performance is affected by innovation strategy mediated by management accounting information systems and internal business process performance.



$H_{7:}$ management accounting information systems mediate innovation strategy-financial performance relationship

$H_{9:}$ management accounting information systems and internal business process performance mediate innovation strategy-financial performance relationship

2.4 The Innovation Strategy – Financial Performance Relationship

Financial performance is critical aspect of a firm because it shows the financial result of management's efforts. Financial performance indicates whether a firm's strategy contributes to the bottom-line improvement. According to Kaplan (2009), excellent financial performance of a firm can be improved in two ways, namely the growth strategy and the productivity strategy. Organisations are able to generate profit by improving productivity through innovation, both product innovation and process innovation. Improvements in productivity can be achieved by: (1) reducing direct and indirect expenses or using financial and physical assets more efficiently; and (2) reducing the working and fixed capital needed to support a given business level. The linkage strategy in the financial perspective arises when organisations achieve a balance between growth and productivity. There are three main indicators used to measure financial performance, namely: (1) revenue growth, (2) cost reduction or cost savings and increased asset utilisation, and (3) increase in~~g~~ customer value.

Innovation is defined as a process in an organisation on how skills and resources are utilized to develop new products and or services or to establish new production systems and operations so as to address the needs of customers (Jones, 2004). Innovation plays a critical role in creating value, such as penetrating new markets, retaining existing market share and improving competitive advantage. Innovation is an important element of a business strategy. By having innovations, organisations have more assurance to win the competition. Innovation has also become the main focus of academic and industrial research. Extensive studies have acknowledge the importance of innovation in achieving sustainable competitive advantage in the global competition (Hitt et al., 2001; Kuratko et al., 2005). The goal of innovation is not only to reduce costs, as it would also help firms in improving quality of products and services offered. This is important in the globalisation era as the product lifecycle becomes shorter and variety of needs and demands of customers come into play. In sum, innovations are very crucial for developing new products and services, organisational models and marketing techniques.

Research indicates that companies should be more innovative to remain competitive (Evangelista et al., 1998). Global competition is not only forcing firms to enhance

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product innovation, but also to enhance their technological capabilities in order to produce products or services at cheaper production cost. Firms therefore, need to manipulate the structure and organisation of their work process, improve the core competencies and develop new structures in an effort to respond to new market conditions and customer demand (Ulusoy et al., 2001), The success or failure in achieving excellent performance is determined by innovation (Hammel, 1999).

The influence of innovations on firm performance (e.g., customer satisfaction, productivity and competitiveness of technology) has been demonstrated by Terziovski (2002). In his research, Terziovski (2002) suggests three (3) types of strategies, namely (1) integrated innovation strategy, (2) incremental innovation strategy, and (3) ~~a~~ radical innovation strategy. His research results show that an integrated innovation strategy has small influence on performance. This is because firms in general have not reached the stage of system integration and the ability to operate in a network. Incremental innovation strategy is more appropriate to be used as an incentive for continuous innovation, while the more radical innovation strategies is appropriate for producing quick changes in products and processes. Based on the arguments, the first hypothesis is developed as follows:

H_1: Innovation strategy positively affects financial performance

2.5 Innovation strategy - management accounting information systems

As a unique way in achieving excellent performance, strategy becomes the center of management activities. Strategy will heavily affect the design of management systems, including management accounting information systems. Information is a very important element in decision-making process. Management needs relevant, timely, accurate and complete information to make good decisions. Management accounting information system is a systematic presentation of useful information and appears as a crucial tool to help management in achieving goals that are previously set. Management accounting produces useful information to assist workers, managers, and executives to make better decisions.

Traditionally, the focus of information is dominated by financial information. However, the development of modern performance management balances the role between financial information and non-financial information. Chenhall and Morris (1986) prove that the characteristics of management accounting information systems are useful for managers when it covers a broad scope, timeliness, aggregation and integration. Effectively executing innovation strategy needs management accounting information system. The more reliable accounting information generated by the system, the better the decisions taken by the organisation, and the higher the opportunity to remain competitive.

A broad scope of management accounting information systems refers to the dimensions of focus, quantification, and time horizon (Gordon & Narayanan, 1984). Timeliness information refers to the period between a request for information and TT presenting the desired information, and the frequency of reporting information (Chenhall & Morris, 1986). Aggregation refers to a form of information showing formal policies (such as discounted cash flow, cost-volume-profit analysis) or analytical model of information for functional areas (such as marketing, production) or time-based information (monthly and quarterly). Integration reflects coordination between a sub-unit information with one another. Integration includes targets or activities as the result of interaction among sub-units within an organization (Chenhall & Morris, 1986). A company or organisation implementing innovation strategies will be exposing the broad environmental domain. Therefore, management needs large amounts of information.

Management accounting information as a product of management accounting systems plays critical role in helping management to predict the possible consequences of various alternative strategies that can be performed in a variety of activities such as planning, control and decision making. Information system is effective when it supports good management decisions. The quality of information will improve the quality of decisions to be taken and ultimately can improve the performance of the company (Gerloff et al., 1991). Nazaruddin (1998) suggests that management accounting information systems is reliable only if it can improve managerial performance. Chong and Chong (1997) find that the availability of broad scope of management accounting information is an important antecedent variable in improving firm's performance. Therefore, it can be concluded that management accounting information systems must follow strategy. Based on the arguments, the second hypothesis is developed as follows:

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Answer: rephrased

H2: Innovation strategy positively affects management accounting information systems

2.6 Management accounting information systems – Financial Performance

Information is one of the most critical components in the organisational planning and control. It plays a decision facilitating role in enhancing managerial performance (Sprinkle, 2003; Nguyen et al., 2017). Information quality is the result of a reliable system. The better the system, the higher the quality of information generated by the system. High information quality leads to more effective decision making, and furthermore it drives higher financial performance. Study by Rawasdeh and Al-namlah (2017) in Saudi Arabia reveals the important role of adopting electronic data interchange in small and medium enterprises in order to remain competitive and improve performance. Management accounting information systems is also expected to affect financial performance in term of providing relevant, accurate and timely information. Based on the argument, the third hypothesis is developed as follows:

H3: management accounting information systems positively affect financial performance

2.7 Internal business performance – Financial Performance

As previously described, organisations must execute their strategy effectively. Strategy must be executed by conducting strategic activities or processes. Organisations must manage internal business processes to achieve excellent operation management, customer management, innovation management, and regulatory management. To achieve excellent internal business process performance, organisation must be supported by skillful human resources, reliable information systems, as well as solid organisation capital. Kaplan and Norton (2009) classify internal business processes into four groups as follows: (1) Operations management processes refers to activities in dealing with suppliers, producing products, distributing products to customers, and managing risks; (2) Customer management processes refers to a process in broadening and deepening relationships with targeted customers. There are four main issues in customer management process, namely: selecting targeted customers, acquiring targeted customers, retaining customers, and growing customers; (3) Innovation management processes refer to four main processes including to identify opportunities for new goods and services, to manage a portfolio of research and development, to design and develop new products and bring them to market; and (4) Regulatory and social processes refer to activities in helping organizations to continually have the right to operate in specific community including safety and health, employee practices, and community development. In conclusion, internal business process performance affects financial performance. Based on the argument, the fourth hypothesis is developed as follows:

H4: Internal business process performance positively affects financial performance

2.8 Innovation strategy - internal business process performance

A strategy is a unique way of a firm to reach its targeted performance. Management formulates and implements an innovation strategy to achieve excellence internal business performance. Verhoeven and Johnson (2017) states that firms needs more dynamic view on business model innovation, supporting a dynamic analysis of strategy development and business model innovation processes, innovation strategy. An empirical study by Chuang and Lin (2017) in financial service firms in Taiwan reveals that an innovation strategy emphasising service innovation orientation to examine information-value offering leads to internal business process performance and customer performance. Gao, Hsu and Li (2018) provides further evidence that investment horizon is the key explanation for the different innovation strategies of public and private firms to improve business performance and to remain competitive. Based on the argument, the fifth hypothesis is developed as follows:

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H5: Innovation strategy positively affects internal business process performance

2.9 Management Accounting Information Systems – Internal Business Process Performance

Kaplan (2009) states that information capital, including management accounting information systems has strategic role in building company's competitive advantage in the era knowledge-based ecocomy. Using strategy maps, Kaplan and Norton (2001) show the result of their study that learning and growth perspective has direct linkage with internal business process perspective. The more excellent the information capital, the more significant it can drive the internal business process performance. This justifies the sixth hipothesis as follows:

H6::Management accounting information systems positively affects internal business process performance

2.10 Mediating effect of management accounting information systems on innovation strategy-financial performance relationship

Innovation strategy adopted by a company will have an impact on information needed to effectively implement the strategy. Bromwich (1990) argues that management accounting information can help managers to face challenges in a competitive market. Management accounting information systems focus on generating information to create value and helping managers to monitor performance. Management accounting information also plays critical role in helping managers to predict possible consequences of various alternative actions that can be performed on a variety of activities, such as planning, control, and decision making.

As stated by Gerloff (1991), information available in an organization is considered to be effective if it can support users or decision-makers. The linkage between information needed and decision makers will increase the quality of decision, and it can ultimately improve financial performance. Every strategy, including innovation strategy has impact on the characteristics of information systems, including management accounting information systems. As stated by Chenhall and Morris (1986), reliable accounting information must have characteristics of broad scope, aggregation, timeliness, and integration. In conclusion, implementation of innovation strategy determines the need of reliable management accounting information systems, which in turn it will affect financial performance. Based on the argument, the seventh hypothesis is developed as follows:

H7: Management accounting information systems mediate innovation strategy-financial performance relationship

2.11 Mediating effect of internal business process performance on innovation strategy-financial performance relationship

Innovation strategy will affect internal business process performance which relates to innovation, operation, and after-sales service processes. Innovation processes relate to the process of creating products and services that are suitable to the needs of customers as well as increased use of technologies in new product development efforts. Operation processes can be associated with efficient production process, timely delivery to customers, and after-sales service. Therefore, internal business process performance will affect customer performance, increase market share, maintain existing customers, increase new customers, improve customer satisfaction as well as increase customers'value.

Innovation is a process within organization to utilize skills and resources to develop new products and or services or to establish a new system of production and operations so that a company is able to respond to customer needs (Jones, 2004). Terziovski (2002) in his study provides evidence that innovation strategy affects internal business processes performance, and furthermore, it affects customer performance and financial performance. Based on the argument, the eigth hypothesis is developed as follows:

H8: Internal business process performance mediates innovation strategy-financial performance relationship

2.12 Mediating effect of management accounting information systems and internal business process performance on innovation strategy-financial performance relationship

Each strategy leads to different design of information system. Therefore, innovation strategy also influences the design of management accounting information systems. Furthermore, good management accounting information system will enhance internal business process performance, in term of achieving better operation management processes (supply chain, production, distribution, risk —management), customer management processes (customer selection, acquisition, retention, growth), innovation management processes, and social and regulatory management processes. Finally, excellent internal business process will improve financial performance, in term of revenue growth and cost efficiencies. Based on those arguments, the ninth hypothesis is developed as follows.

H9: Management accounting information systems and internal business process performance mediate innovation strategy-financial performance relationship

3. Research Methodology

3.1 Operationalisation

To operationalise the construct of this study, operational definitions and measures were developed as follows. Financial performance is defined as the perception of respondents regarding the financial conditions of the strategic business units as compared to previous years. To measure the financial performance, we used financial indicators developed by Kaplan and Norton (1992), namely: (1) improve cost structure, (2) increase asset utilisation, (3) expand revenue opportunities, and (4) enhance customer value.

Innovation strategy is a means used by the entity to compete in its industry in a sustainable manner (Terziovski, 2002). In this study, innovation strategy is defined as the perception of respondents regarding their unique ways to achieve sustainable competitive advantage and excellent performance. To measure the innovation strategy,

Commented [AJBA25]: "customer performance" or "sales performance in the following ways"?

Answer: the name of the construct is "customer performance" as developed by kaplan and norton and it is widely used in management accounting research

Commented [AJBA26]: Are you saying that management accounting information system has an impact on innovation strategy? Then, to relook at H2. To rephrase, see the development of H7.

Answer: Corrected and rephrased

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we used two indicators developed by Terziovski (2002), namely: (1) product innovation, and (2) process innovation.

Management accounting information system is defined as the perception of respondents regarding the design of accounting system generating management accounting information needed by management to make better decisions, especially to support innovation strategy formulation and execution. To measure the management accounting information systems we adopted an instrument developed by Chenhall and Morris (1986).These items covered four aspects as follows: (1) broadscope, (2) aggregate,(3) integration, and (2) timeliness.

Internal business process performance is defined as the perception of respondents regarding performance of value chain or strategic activities that are conducted in SBUs to support customer satisfaction and/or productivity strategy to gain financial performance. To measure internal business process performance, we used four indicators developed by Kaplan and Norton (1992), namely: (1) operation management processes, (2) customer management processes, (3) innovation management processes, and (4) regulatory and social management processes. Respondents were asked to rate their perceptions on a 5-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree).

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3.2 Data Collection

This study is designed as a causal study (Cooper and Emory, 1995), using data collected from questionnaire survey. The unit of analysis is strategic business unit. Respondents were managers of strategic business units in manufacturing companies in the East Java, Indonesia. The sampling frame for this study was drawn from the list of manufacturing firms located in the East Java that were registered with the Ministry of Industry, the Republic of Indonesia as at 2016. The total populations of this study were 398. .A total of 398 questionnaires were distributed using several ways, including email, mail, and personal visits. However, only 135 respondents participated, resulting in 34 per cent of response rate. Based on the Law Number 20 Year 2008 regarding Micro, Small, Medium, and Large Enterprises, table 1 shows that most manufacturing companies are medium enterprises (107 companies or 79%). Most companies have been in the business in the range of 6 to 15 years (74%). The type of companies varies in term of products produced.

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Answer: corrected 2016

Commented [AJBA30]: How do you categorise the companies into small, medium and large?

Table 1: Profile of Respondents

Demographic Variables	Category	Frequency (n=135)	Percentage (%)
Firm category	Small Enterprises Medium Enterprise Large Enterprise	0 107 28	0 % 79 % 21 %

Age of companies	0 – 5	25	19 %
	6 – 10	40	30 %
	11 – 15	60	44 %
	Between 15 to 20	10	7 %
Type of company	Jewelry / Gem	6	4.44 %
	Fat & animal / vegetable oil	12	8.88 %
	Wood, Articles of Wood	18	13.33 %
	Fish and Shrimp	11	8.15 %
	Paperboard	17	12.59 %
	Organic chemicals	16	11.85 %
	Copper	11	8.16 %
	Meat and Processed Fish	11	8.16 %
	Furniture, home lighting	17	12.59 %
	Footwear and shoes	16	11.85 %

Commented [AJBA31]: What about between 15 to 20?

Answer : this is age of companies

4 Data Analysis and findings

4.1 Measurement model analysis

Partial Least Square (PLS) was used to examine the hypothesised model. Prior to structural model analysis, a measurement model analysis was first performed to determine the validity and reliability of the model used. In this study, the validity and reliability of the model was determined by examining the convergent validity and discriminant validity. The convergent validity was assessed through factor loadings, average variance extracted (AVE) and composite reliability (Hair et al., 2014).
As indicated in Table 2, the loadings of all items exceeded the threshold value of 0.5 (Bagozzi & Yi, 1991). The composite reliability values ranged between 0.748 to 0.93, exceeded the recommended value of 0.7 (Hair et al. 2014). Additionally, the AVE values were in the range of 0.539 to 0.768, which exceeded the recommended value of 0.5 (Hair et al. 2014). Table 3 depicts the results of discriminant validity. In this study, the discriminant validity was assessed by comparing the squared correlations between the constructs and the AVE for the particular construct (Fornell and Lacker, 1981). The discriminant validity exists if the values of AVE for a particular construct is higher than its correlations with other constructs. As shown by Table 3, all the constructs appeared to have a substantially higher AVE as compared to the~~r~~ correlation with other constructs, providing evidence that there was discriminant validity.

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Answer : corrected 0.539

Table 2: Convergent validity analysis

Constructs	Items	Factor Loadings	Composite Reliability	AVE
Innovation strategy	STR 1	0.92	0.917	0.847
	STR 2	0.92		

Management Accounting Information Systems	MAIS 1	0.771	0.748	0.539
	MAIS 2	0.552		
	MAIS 3	0.650		
	MAIS 4	0.809		
Internal Business Process Performance	IBP1	0.837	0.918	0.737
	IBP2	0.844		
	IBP 3	0.897		
	IBP 4	0.855		
Financial Performance	FP1	0.836	0.930	0.768
	FP2	0.855		
	FP3	0.917		
	FP4	0.895		

Table 3 : Discriminant validity analysis

	Mean	SD	**STR**	**MAIS**	**IBP**	**FP**	**Root of AVE**
Innovation Strategy (STR)	4.33	0.66	**0.77**				0.920
Management Accounting Information Systems (MAIS)	4.13	0.55	0.42	**0.79**			0,721
Internal Business Process Performance (IBP)	4.38	0.64	0.57	0.51	**0.73**		0.858
Financial Performance (FP)	4.31	0.63	0.52	0.25	0.32	**0.71**	0.876

Note: The numbers in bold in the diagonal row are square roots of the AVE, SD =standard deviations

4.2 Structural model analysis

Assuming that the measurement model satisfied the validity and reliability assessment, this study proceed with the structural model analysis. The predictive accuracy of the model was evaluated in terms of the portion of variance explained. The results reveal that the model is capable of explaining 52.3 percent of the variance in financial performance. The significance of direct effects specified by the research model was evaluated (Table 5). The results reveal that the effects of innovation strategy on financial performance ($\beta = 0.73$, $p < 0.01$) and management accounting information systems ($\beta = 0.481$, $p < 0.01$) are positive and significant. Hence, H_1 and H_2 are supported. Additionally, this study also reported that the effect of management accounting information systems on financial performance as significantly positive ($\beta = 0.548$, $p < 0.01$), providing support for H_3. The relationship between internal business performance and financial performance (H_4) is also supported ($\beta = 0.485$, $p < 0.01$). Furthermore, this study also reported that the effect of innovation strategy on internal business performance as significantly positive ($\beta = 0.687$, $p < 0.01$), providing support for H_5 ~~)~~. Finally, this study revealed thatthe effect of management accounting information systems on internal business process performance as significantly positive as well ($\beta = 0.550$, $p < 0.01$), providing support for H6.).

Tabe 4 : Direct Effect

Hypothesis	Relationships	Path Coefficients	Decision	T-value	Standard Error

Commented [AJBA33]: Suggest limit to 3 decimal points.

Answer : corrected

H_1	Innovation Strategy--→Financial Performance	0.730***	Supported	11.6364	0.083575
H2	Innovation Strategy →Management Accounting Information Systems	0.481***	Supported	2.8717	0.003457
H3	Management Accounting Information Systems→ Financial Performance	0.548***	Supported	3.0411	0.066986
H4	Internal Business Process Performance -→Financial Performance	0.485***	Supported	2.9974	0.161882
H5	Innovation Strategy →Internal Business Process Performance	0.687***	Supported	11.2873	0.060652
H6	Management Accounting Information Systems→Internal Business Process Performance	0.550***	Supported	10.2873	0.067652

4.3 Indirect effect

This study follows Baron and Kenny's (1986) procedure to analyse the mediating effect of management accounting information systems and internal business process performance on financial performance. Four conditions must be satisfied to establish a mediating effect. First, a direct link must be established between the independent and dependent variable; second, the independent variable must be associated to the mediating variable; third, the mediator must be significantly related to dependent variable when both the mediating variables are predictors of the dependent variable; and fourth, the relationship between the independent and dependent variable must be significantly reduced when the mediator is added.

Commented [AJBA34]: Please recheck. Is gthere one or more than one mediating variables?

Answer: yes there are two mediating variables as stated in hypothesis 9

As indicated in Appendix, innovation strategy has a significant relationship with management accounting information systems and financial performance, satisfying the first and second requirements. The mediator variable - management accounting information systems has a positively significant relationship with financial performance, satisfying the third condition. The fourth step is to incorporate the mediator in the model. It was found that the inclusion of management accounting information systems into the model has reduced the effect, as the β value dropped from 0.73 to 0.56, indicating an existence of mediator. Thus, H7 was supported.

This study also examined the impact of internal business process performance as a mediator between innovation strategy and financial performance. As indicated in Table 4, innovation strategy had a positive effect on financial performance satisfying the first condition. Innovation strategy has a positive and significant relationship with internal business process performance, satisfying second condition. The internal business process performance has a positive relationship with financial performance, satisfying the third condition. The fourth step is to incorporate the mediator in the model. It is found that the inclusion of internal business process performance into the model has reduced the effect, as the β value dropped from 0.73 to 0.56, indicating an existence of mediator. Thus, H8 was supported.

From previous result, this study also reveals the significant impact of management accounting information systems on internal business process performance (H6). Hence, this study also provides support for H9 showing the path of innovation strategy-management accounting information systems-internal business process performance-financial performance relationship.

5. Discussion

This study provides empirical evidence of the contingency theory. Financial performance of manufacturing firms in the East Java Province is affected by contingent factors, especially innovation strategy, management accounting informantion systems, and internal business process performance It is also in line with extensive previous studies (Evangelista et al., 1998; Hammel, 1999; Hitt et al. 2001; Ulusoy et al., 2001; Terziovski (2002); Kuratko et al., 2005; Kaplan, 2009).

Commented [AJBA35]: What about the contingency theory?

Recently, there is an extensive movement from the Government of Indonesia to boost innovation-based industry in the East Java Province by collaborating universities with manufacturing companies. This movement aims to improve competitive advantage and performance of companies in response to global competition, especially from China and the era of Asean Economic Community (AEC). This indicates the recognition of innovation strategy as a critical factor to achieve good financial performance in the era of global competition (ristekdikti.go.id).

Commented [AJBA36]: Reference?

Answer : already explained

The findings of this study supports Chenhall and Morris (1986) that strategy affects the design of management accounting information systems. The respondents of this study are managers of medium and large manufacturing companies that use extensive information communication technology. Modern performance management requires both financial and non-financial information in effective strategy formulation and execution. As proven by Chenhall and Morris, management accounting information systems are useful for managers when it covers a broad scope, timeliness, aggregation and integration. This explains why management accounting information systems are required by managers of manufacturing companies in the East Java Province. Different strategies require different design of management accounting information systems that can assist them to more effectively execute their strategies.

This study also supports previous studies by Gerloff et al. (1991), Chong and Chong (1997) and Nazarruddin (1998) regarding relationship between information needs of decision-making and performance. Managers in the East Java Province realize that they are entering knowledge-based competition where innovation and the use of information communication technology are crucial factors in achieving good financial performance. The difficulty of competing against cheap product from China has driven those managers to innovate, and they require strong strategic information to make decisions. Therefore, managers perceived that they can achieve good financial results if they have strategic and useful information generated by management accounting information systems.

The study of Kaplan and Norton (2009) is also supported by the result of this study. As stated by Kaplan and Norton, excellent financial performance is the result of excellent internal business processes performance consisting of operation management, customer management, innovation management, and regulatory management processes. Due to gobal competition from China and other Asean countries, managers in the East Java Province have to find better ways to improve their internal processes, including aggressive marketing and cost reduction programmes to remain competitive. This study provides empirical evidence that managers of manufacturing companies in this area have the perception that excellent internal business process performance will directly affect their financial performance, both revenue growth and cost effciencies.

The result of this study also supports previous studies showing the important role of innovation on internal business process excellence (Lichtenthaler et al., 2011; Dorweiler and Yakhou, 2005, Chen et al. 2006). Competition from cheaper products from China have driven managers in the East Java Province to innovate or to give more values to their products in order to differentiate from competitors. This justifies why they perceive innovation strategy will affect internal business process performance. Innovation is considered as a source of added-values and profits and vital aspect in enhancing performance and competitiveness.

The result of this study also supports studies by Chenhall and Morris (1986) and Kaplan (2009) stating that management accounting information systems have a strategic role in building a firm's competitive advantage in the era knowledge-based economy. In the era of global competition, managers in the East Java Province have used massive computerised-based information systems to generate more accurate information to support better decision making. The better the information they get, the better the internal business process performance they achieve, such as operation management processes and customer management processes. This justifies why managers in the East Java Province perceive that management accounting information systems affect internal business process performance.

This study provides empirical supports for the mediating roles of management accounting information systems and internal business process performance on innovation strategy-financial performance relationship. This study has confirmed previous studies conducted by Gordon and Narayanan (1984), Chenhall and Morris (1986), Gerloff et al. (1991), Chong and Chong (1997) regarding the importance of management accounting information systems in relation to organizational performance. Furthermore, this study also supports studies conducted by Kaplan and Norton (2001, 2009) stating that strategy must be translated to internal business processes to create excellent customer performance and financial performance. This internal business processes include operations management processes, customer management processes, innovation management, as well as regulatory and social processes.

This study concludes that strategy affects the design of management accounting information systems, then management accounting information systems influence internal business performance, and finally, internal business performance affects financial performance. The path test also reveals that managers are aware that they should align the design of management accounting information systems to strategy. The better the quality of management accounting information systems, the better it supports internal business processes. Furthermore, the higher the internal business performance, the better it supports financial performance. These findings support other studies conducted by several researchers, among others, Clemons and Row (1991), Mahmod and Mann (1993), Kettinger et al. (1994), Mata et al. (1995), Ross et al. (1995) which conclude that management accounting information systems provides a big opportunity for firms to improve coordination and control, or it can be used to gain a competitive advantage in the world market due to its impact on business process performance.

6. Conclusion

From the previous discussions, it can be concluded the following:

(1) Innovation strategy significantly affects financial performance~~.~~;

(2) Management accounting information systems and internal business processes performance partially mediates the relationship between innovation strategy and financial performance;~~.~~

(3) Management accounting information systems mediate innovation strategy-internal business process performance relationship; and

(4) Internal business process performance mediates management accounting information systems-financial performance relationship

This study has important future implications to manufacturing companies in the East Java, Indonesia. First, it suggests that the manufacturing firms in the East Java, Indonesia need~~s~~ to be more innovative, both in product innovation and process innovation to remain competitive in the marketplace. Second, the firms must focus on the development of intangible assets, among others its management accounting information systems. This is very crucial because without a reliable information system, innovative strategy cannot be executed properly, and therefore, it cannot drive excellent internal business process performance. Furthermore, bad internal process performance may result in unhappy customers resulting in firms losing its customer base. As the final result, financial performance will be badly affected. In conclusion, this research provides explanation of contextual variables or contingent factors affecting financial performance of manufacturing firms in East Java.

The results of this study have important implications to the management of manufacturing firms in the East Java Province. They must improve awareness of product as well as process innovation strategy in order to achieve excellent performance. Furthermore, management must increase their concerns in the development of management accounting information systems because it plays strategic role in making good decisions and improving internal business performance.

This study has several limitations, including: (1) it does not consider product life cycle; (2) it is limited to the manufacturing industry in the East Java, Indonesia, and therefore, the results cannot be generalized. Further research should consider other contextual variables, such as human capital, organization capital, and customer performance as new contingent factors in the model.

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Commented [AJBA37]: To update references and include literature from 2015 to 2018. The most recent cited now is 2014. Further, please revise the reference format and include the DOI numbers.

Answer: Reference has been added and the number of DOI has been written but there are some references there is no information about DOI number

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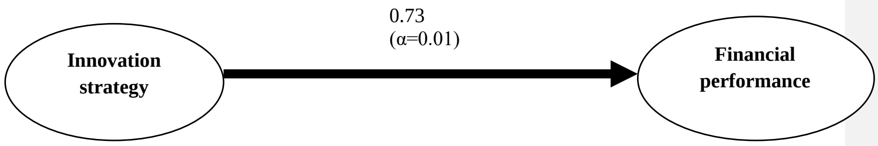
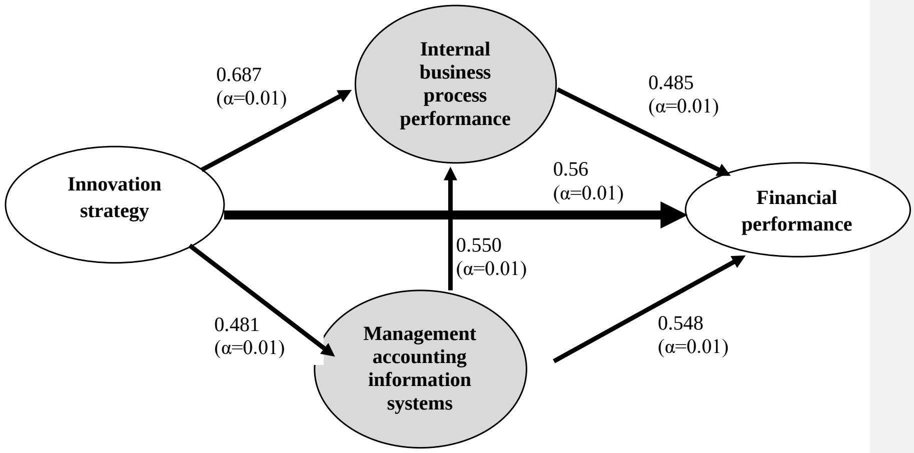
Shu-Hui Chuang , Hong-Nan Lin Performance implications of information-value offering in e-service systems: Examining the resource-based perspective and innovation strategy Journal of Strategic Information Systemss 26 (2017) 22–38

APPENDIX

DIRECT EFFECT



INDIRECT EFFECT



QUESTIONNAIRE

Dear Responden,

In the study entitled "CONTINGENT FACTORS AFFECTING FINANCIAL PERFORMANCE OF MANUFACTURING COMPANIES IN THE EAST JAVA, INDONESIA" please Mr / Ms to fill out the attached questionnaire. All information you give is only used for academic purposes and kept confidential in accordance with scientific principles. By completing this questionnaire, Mr. / Mrs has participated in efforts to improve business practices and accounting education in Indonesia. Thank you for your help and participation.

Surabaya, March 2015
Best regards

Hariyati

RESEARCH QUESTIONNAIRE

Respondent's data

1. Position of Mr / Ms :
2. Name of Business Unit / Division :
3. Location of Business Unit / Division :
4. Company name :
5. Brand Product :

A. Question the following questions please answer in accordance with the conditions in the Business Unit / Division Mr / Mrs by giving a cross (X) on the number box provided, with the following conditions: 1 = Strongly Disagree; 2 = Disagree; 3 = Neutral; 4 = Agree; 5 = Strongly Agree

A. ITEM PERTANYAAN

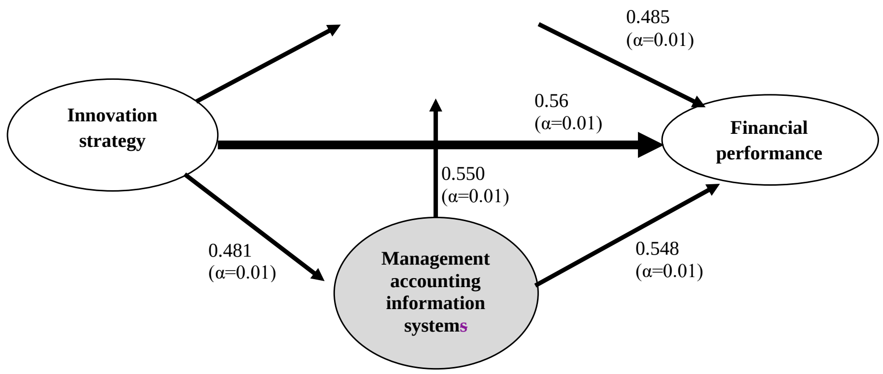
No	Question List	1	2	3	4	5
	IINOVATION					
1.	Perusahaan memperbaruhi produk produknya. .					
2.	Perusahaan harus menggunakan teknologi yang tinggi dalam proses produksi					
3.	Menurut catatan perusahaan, komplain dari pelanggan tidak ada karena pelanggan merasa puas dengan produk perusahaan					
4.	Perusahaan berhasil mengefisienkan waktu yang digunakan untuk memecahkan permasalahan pelanggan					
5.	Jumlah pelanggan semakin meningkat pada akhir tahun					

6.	Data mengenai umpan balik dari pelanggan selalu didesiminasikan ke seluruh pegawai					
7.	Perusahaan mewujudkan keinginan dan kebutuhan pelanggan dengan terus menerus membuat pelanggan merasa puas.					
8.	Perusahaan sering melakukan aktivitas /program baru untuk mengetahui keinginan para pelanggannya					
9.	Perusahaan berusaha mendapat umpan balik dari pelanggannya					
10.	Waktu yang digunakan membuat sampai dengan memasarkan produk merupakan waktu yang efisien diantara beberapa perusahaan.					
11.	Perusahaan selalu mengembangkan ide dan program/kegiatan baru yang lebih banyak dibandingkan dengan perusahaan perusahaan lain					
12.	Perusahaan merasa bangga kalau bisa beraktivitas secara efisien					
13.	Perusahaan memeiliki database yang memmpermudah mengakses informasi yang relevan.					
14.	Prosedur prosedur perusahaan jelas dalam mendukung proses inovasi					
15.	Informasi berhubungan dengan kejadian di masa yang akan datang mendukung proses inovasi					
16.	Informasi tentang perhitungan kemungkinan terjadinya suatu peristiwa di masa yang akan datang (misal: estimasi					

	probabilitas).					
17.	Informasi non ekonomis, misalnya selera pelanggan,sikap karyawan, relasi kerja, sikap pemerintah dan lembaga konsumen, ancaman pesaing).					
18.	Informasi faktor-faktor eksternal perusahaan, seperti kondisi ekonomi, pertumbuhan penduduk, perkembangan teknologi.					
19.	Informasi non finansial yang berkaitan dengan bidang berikut ini: (a) Informasi produksi seperti tingkat output, efisiensi mesin, tingkat kerusakan produk, absensi karyawan. (b) Informasi pasar seperti pangsa pasar, pertumbuhan dan sebagainya					
20.	Informasi yang diminta, ada dengan segera					
21.	Informasi yang diberikan adalah informasi yang ada dalam sistem informasi yang diproses dengan baik					
22.	Frekuensi laporan diberikan secara sistematis dan teratur.					
23.	Tidak ada keterlambatan akan kebutuhan informasi dengan penyampaian informasi					
24.	Terdapat informasi biaya dan harga dari departemen unit bisnis anda					
25.	Terdapat target biaya dan keuntungan untuk masing masing aktivitas yang dilakukan dalam semua bagian didepartemen anda					
26.	Informasi tiap bagian akan berpengaruh pada bagian lainnya					

27.	Terdapat informasi tentang dampak keputusan Bapak/Ibu pada kinerja keseluruhan bagian Bapak/Ibu					
28.	Informasi menunjukkan pengaruh kejadian pada fungsi yang berbeda, misalnya pemasaran atau produksi yang berkaitan dengan kegiatan					
29.	Terdapat pemisahan biaya tetap (*Fixed Cost*) dan biaya variabel (*Variable Cost*).					
30.	Informasi disediakan pada bagian bagian atau wilayah wilayah fungsional yang berlainan, seperti: marketing, produksi , pusat laba, pusat penjualan.					
31.	Informasi tentang dampak kejadian pada periode tertentu.					
32.	Format informasi memungkinkan untuk membuat model keputusan seperti analisis aliran kas, aliran tambahan biaya, analisis persediaan, dan analisis kebijakan perusahaan					
33.	Proses manajemen operasional bertujuan meningkatkan efisiensi					
34.	Proses manajemen perusahaan berorientasi ke pelanggan					
35.	Perusahaan selalu melakukan inovasi dalam hal proses operasionalnya untuk menghasilkan produk dan proses yang inovatif					
36.	Perusahaan memperhatikan regulasi (aturan) yang ada dan selalu melakukan proses sosial untuk kepentingan para pemangku kepentingan (masyarakat, pemerintah, pekerja dan lingkungan)					
37.	Perusahaan selalu melakukan penambahan dan perbaikan					

	atribut produk yang dihasilkan secara berkelanjutan					
38.	Perusahaan selalu melakukan hubungan baik dengan pelanggan untuk menurunkan komplain/keluhan pelanggan					
39.	Perusahaan selalu menjaga *brand image* atas produk yang dihasilkan untuk mempertahankan pelanggan lama dan menarik pelanggan baru.					
40.	Struktur biaya untuk membuat produk selalu dikaji ulang dan dilakukan perbaikan biaya dalam upaya meningkatkan efisiensi.					
41.	Peningkatkan penggunaan aset perusahaan diperhatikan dengan melihat kapasitas yang ada					
42.	Perusahaan selalu melakukan survei pasar untuk memperluas adanya peluang yang dapat meningkatkan pendapatan perusahaan.					
43.	Realisasi sama (atau diatas) dengan rencana terkait target pertumbuhan penjualan dengan mengedepankan nilai nilai yang diinginkan pelanggan					



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NIP : **196510011997022001**

NIDN : **0001106510**

TITLE : **CONTINGENT FACTORS AFFECTING THE FINANCIAL PERFORMANCE OF MANUFACTURING COMPANIES: THE CASE OF EAST JAVA, INDONESIA**

Asian Journal of Business and Accounting <ajba@um.edu.my> Sun, Dec 4, 2016, 12:35 PM

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Dear Hariyati,

Please let us have our reference number.

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Asian Journal of Business and Accounting <ajba@um.edu.my>
to me

Dec 6, 2016, 12:56 PM

Dear Haryati,

As per our record, we have emailed you on the 12 Nov 2016, asking for further clarifications on certain issues.

Hereby, i copied the message for you.

"We have going through your revised article and response document. Although the authors have addressed most of the concerns, there are still some issues highlighted earlier by the reviewers which have not been taken care by the authors.

1. Not mention the database/directory used to get respondents
2. Did not add table on respondent profile/background, as suggested
3. Implications for theoretical and academic was not added.
4. Did not provide analysis on industry types and etc.
5. Did not explain on the respondents of this study e.g. CEO, CFO, manager
6. Did not justify why innovation strategy was focusing on process innovation and not integrated, incremental and radical innovation strategy

We would appreciate if you could update us on these details and information "

Hope this would help.

regards,

Suhana Mohezar
Managing Editor

AJBA

100% 11:25 AM 7/19/2019

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ajba@um.edu.my

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"

Hariyati . <hariyati@unesa.ac.id>

to Asian

Dec 6, 2016, 2:32 PM

Ass.Wr.Wb

Dear . Suhana Mohezor (ManagingEditor)

I have submitted the revised article on December 4, 2016.
Here I send it back articles. Thank you

Regard

2.ARTICLE_HARIY...

Reply | Forward

11:27 AM
7/19/2019

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ajba@um.edu.my

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Hariyati . <hariyati@unesa.ac.id>

to Asian

Thu, Dec 15, 2016, 5:33 AM

Ass.Wr.Wb

Dear . Suhana Mohezor (Managing Editor AJBA)

I have submitted the revised article on December 4, 2016.
How my articles ? I hope information my article. Number of Referensi my article 20060116. I would be happy if my article is accepted and published in the AJBA Journal
Thank you for your attention

Regard

...

Asian Journal of Business and Accounting <ajba@um.edu.my>

to me

Sat, Dec 17, 2016, 7:31 PM

Dear Hariyati,

Will revert to you soonest.

thanks.

suhana.

...

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Asian Journal of Business & Accounting
Faculty of Business & Accountancy
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50603 Kuala Lumpur, Malaysia
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100% 11:29 AM 7/19/2019

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20 of 22

HOW MY ARTICLE ? Inbox ×

Hariyati . <hariyati@unesa.ac.id>
to Asian

Tue, Jan 3, 2017, 10:33 AM

Ass.Wr.Wb

Dear . Suhana Mohezor (Managing Editor AJBA)

I have submitted the revised article on December 4, 2016.
How my articles ? I hope information my article. Number of Referensi my article 20060116. I would be happy if my article is accepted and published in the AJBA Journal
Thank you for your attention

Regard

Asian Journal of Business and Accounting <ajba@um.edu.my>
to me

Tue, Jan 3, 2017, 12:07 PM

Dear Hariyati,

The article is in our to do list. Will revert soonest possible.

thanks,

Suhana

--

Asian Journal of Business & Accounting
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19 of 22

AJBA 20060116 Inbox x

Asian Journal of Business and Accounting <ajba@um.edu.my>
to me

Thu, Jan 26, 2017, 3:02 PM

Dear Hariyati,

Thank you for submitting the revised paper. I have gone through the paper and the comments made by the reviewers. I noticed that you have attempted to address the raised concerns and issues. However, there are still some issues which have not been addressed.

I have prepared the response document to facilitate you in addressing all the comments.

Please revert to us by 14th February, 2017.

Thanks

Suhana Mohezar
Managing Editor,
Asian Journal of Business & Accounting
Faculty of Business & Accountancy
University of Malaya
50603 Kuala Lumpur, Malaysia
http://ajba.um.edu.my

2 Attachments

response documen... | manuscript_revise...

Hariyati . <hariyati@unesa.ac.id> Fri, Jan 27, 2017, 5:35 PM

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Hariyati . <hariyati@unesa.ac.id> Jan 27, 2017, 5:35 PM
to Asian

Dear Suhana Mohezar

Thank you for the information . I will improve my articles.

Thanks

Hariyati . <hariyati@unesa.ac.id> Feb 6, 2017, 11:42 AM
to Asian

Dear Suhana

Thank you for improving my articles. I have tried to revise in accordance with the reviewer comments. I hope it satisfy you. Here I attached my revised paper.

Regards
Hariyati

1.manuscript_revis...

Asian Journal of Business and Accounting <ajba@um.edu.my> Feb 7, 2017, 3:33 PM

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Asian Journal of Business and Accounting <ajba@um.edu.my>
to me

Feb 7, 2017, 3:33 PM

Dear Haryati,

Thank you for the revised document. We will respond back to you soonest.

regards,

Suhana

--

Reply Forward

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AJBA 20060116 Inbox x

Asian Journal of Business and Accounting <ajba@um.edu.my>

to me

Tue, Feb 28, 2017, 12:11 PM

Dear Haryati,

Thank you for submitting the revised paper. We have gone through the paper and noticed that you have addressed majority of the comments. However, there are still some issues which have not been addressed.

1. Research Framework

For the second hypothesis "Management accounting information system and internal business process performance mediate innovation strategy - financial performance relationship, we have highlighted before that the relationships are not reflected in the argument. In order to address this we suggest

a. To split up the hypothesis. In order to establish the mediator - internal business process performance + management accounting information systems, first you need to have hypotheses of the direct effect. We suggest:
H2 innovation strategy and management accounting
H3 management accounting and financial performance
H4 internal business performance and financial performance
H5 innovation strategy and internal business process performance
H6 mediating effect of management accounting between IS and FP
H7 mediating effect of internal business performance between IS and FP

You have actually tested H2, H3, and H4 (direct effects), but you have not formulate the hypotheses. These need to be done. We have helped you redraw the figure to illustrate this point

b. Analysis and Results

The second comment which have not been addressed -

"The results should we rewritten appropriately. Currently, it is believed that the authors only copy and paste the analysis directly from the software used to run the SEM"

"Authors need to add discriminant validity results."

In the revised manuscript received recently, you have rewritten the table. However, the table is not clear. To help you in addressing this comment, we have redesigned the table. Currently, you have provided a separate analysis for the measurement model for both direct effect and indirect effect. However, this should be lump together, since the measurement model analysis is aim to examine the validity and reliability of the constructs used. We have helped you to create the table incorporating all these information.

After testing the measurement model, then only you proceed with the direct effect. A new table has also been redrawn to illustrate our point. However this table need to be tidied up with some of the values, which you have not reported earlier.

Then, only the indirect effect (mediator) is tested. This has been incorporated. However, you need to tidy up with some information, which have not provided in the previous revised manuscript.

We attached the edited manuscript. Please have a look and address the comments. We highlighted those bits using the track changes.

We hope to receive the revised manuscript by 28th March 2017

regards,

Suhana

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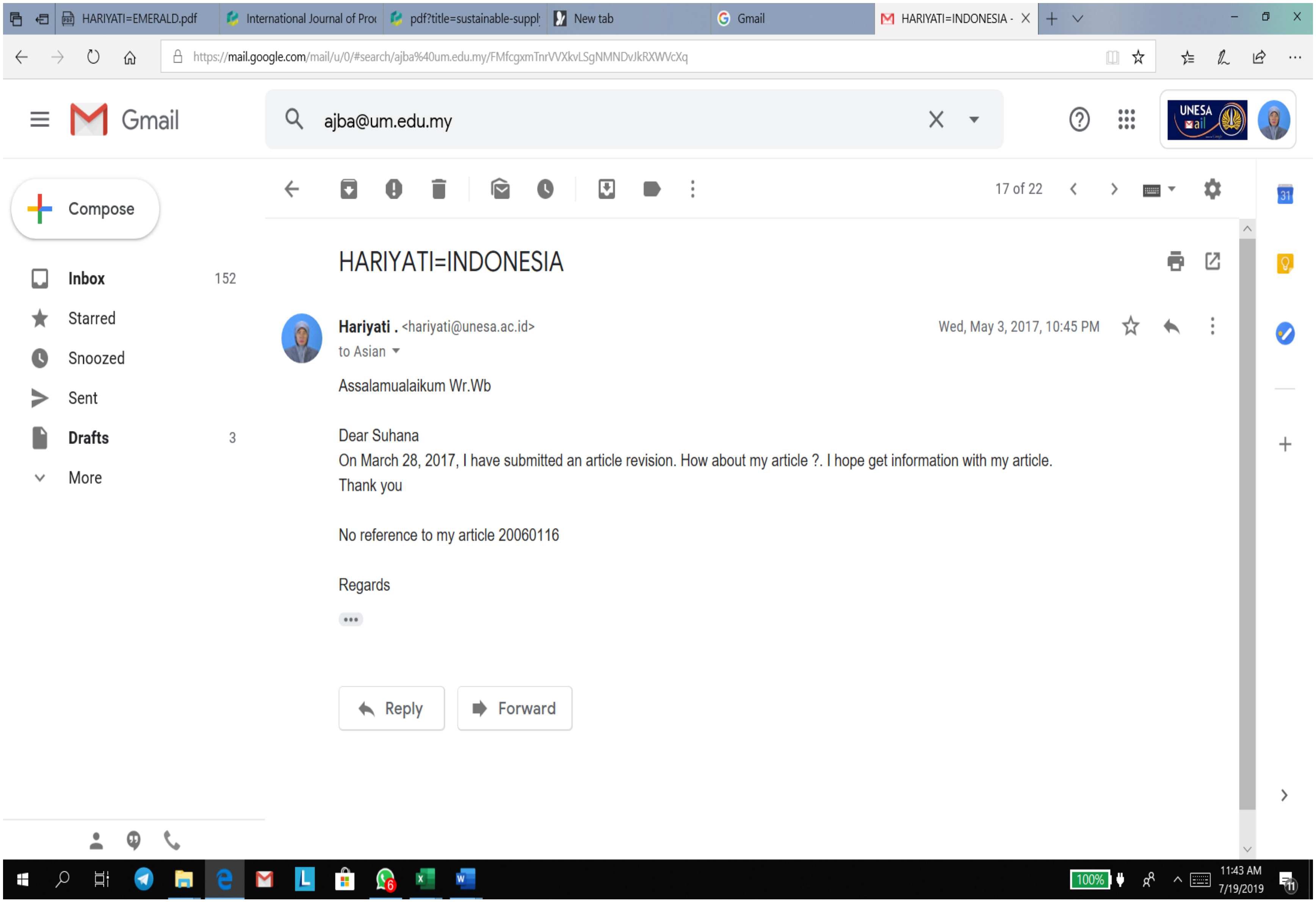

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HARIYATI=INDONESIA
Hariyati . <hariyati@unesa.ac.id>
to Asian
Wed, May 3, 2017, 10:45 PM
Assalamualaikum Wr.Wb
Dear Suhana
On March 28, 2017, I have submitted an article revision. How about my article ?. I hope get information with my article.
Thank you
No reference to my article 20060116
Regards
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7/19/2019

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Hariyati . <hariyati@unesa.ac.id>

to Asian

Tue, Mar 28, 2017, 5:20 PM

Dear Suhana

Thank you for improving my articles. I have tried to revise in accordance with the reviewer comments. I hope it satisfy you. Here I attached my revised paper.

Regards

Hariyati

CONTINGENT FACTORS AFFECTING FINANCIAL PERFORMANCE OF MANUFACTURING COMPANIES IN THE EAST JAVA, INDONESIA

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Asian Journal of Business and Accounting <ajba@um.edu.my>

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Wed, Mar 29, 2017, 3:06 PM

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Asian Journal of Business and Accounting <ajba@um.edu.my>
to me

Mar 29, 2017, 3:06 PM

Dear Haryati,

Thank you for submitting the revised manuscript. We will update you soonest.

Regards,

Suhana

--

Asian Journal of Business & Accounting
Faculty of Business & Accountancy
University of Malaya
50603 Kuala Lumpur, Malaysia
http://ajba.um.edu.my

Hariyati . <hariyati@unesa.ac.id>

May 7, 2017, 11:50 PM

University of Malaya
50603 Kuala Lumpur, Malaysia
http://ajba.um.edu.my

Hariyati . <hariyati@unesa.ac.id> May 7, 2017, 11:50 PM

to Asian

Dear Suhana

On March 28, 2017, I have submitted an article revision. How about my article ?. I hope get information with my article.

Thank you

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Regards

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1.A.Manuscript_revisi28March 2017=HARIYATI_INDONESIA

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Hariyati . <hariyati@unesa.ac.id>

to Asian

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Regards

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Suhana

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50603 Kuala Lumpur, Malaysia
http://ajba.um.edu.my

Hariyati . <hariyati@unesa.ac.id> May 7, 2017, 11:50 PM

to Asian

Dear Suhana
On March 28, 2017, I have submitted an article revision. How about my article ?. I hope get information with my article.
Thank you

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Regards

Reply | Forward

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Question my article {Hariyati}

Hariyati . <hariyati@unesa.ac.id>

Tue, May 16, 2017, 6:28 PM

to Asian

Dear Suhana

On March 28, 2017, I have submitted an article revision. How about my article ?. I hope get information with my article.

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Regards

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HARIYATI , INDONESIA

Hariyati . <hariyati@unesa.ac.id>
to Asian

Sun, Jun 11, 2017, 9:50 PM

Dear Suhana
On March 28, 2017, I have submitted an article revision. How about my article ?. I hope get information with my article.
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Regards

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AJBA 20060116 Inbox x

Asian Journal of Business and Accounting <ajba@um.edu.my>
to me

Mon, Jun 12, 2017, 12:01 PM

Dear Haryati,

Sorry for keep you waiting. First of all, thank you for submitting the revised manuscript. We have gone through your revised manuscript and found that it reads much better now. However, our editors found that the discussion and conclusion part are quite lacking and still have room for improvement.

For the discussion part, you need to discuss the findings and compare with the previous literature, whether it supports or not. Building on these findings, you also need to relate back to the Indonesian context. Why these results are supported or rejected in the Indonesian context. This would help to add values to the paper, since the author(s) state that this study expands prior empirical works by conducting the study in East Java. What are the characteristics of East Java (e.g., culture and etc) that would lead to the findings. Please discuss more on this.

For the conclusion part, please convert those in bulleted point to paragraph. On another note, we also notice that the implications are only related to the managers. How about the theoretical implications. In the abstract you have mentioned that "Unlike prior empirical research, this study focuses on the roles of management accounting information systems and business performance as mediating variables between innovation strategy and firm's financial performance". Therefore, please expand on this in the conclusion part. What is the importance of including the variables as mediator; and the integration of the two theories. These would be you theoretical implications.

We hope to receive the revised manuscript by 15 July 2017.

regards,

Suhana.
--

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to bambang

Hariyati . <hariyati@unesa.ac.id> Mon, Jun 12, 2017, 9:51 PM
to Asian

Thank you

Hariyati . <hariyati@unesa.ac.id> Sun, Jul 16, 2017, 5:48 AM
to Asian

Dear Suhana

Thank you for improving my articles. I have tried to revise in accordance with the reviewer comments. I hope it satisfy you. Here I attached my revised paper.

Regards
Hariyati

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12 of 22

Manuscript =HARIYATI - INDONESIA

Hariyati . <hariyati@unesa.ac.id>
to Asian

Sun, Jul 16, 2017, 12:25 PM

Dear Suhana

Thank you for improving my articles. I have tried to revise in accordance with the reviewer comments. I hope it satisfy you. Here I attached my revised paper.

Regards
Hariyati

0.Manuscript_final...

Hariyati . <hariyati@unesa.ac.id>
to Asian

Mon, Jul 24, 2017, 5:44 PM

Dear Suhana
On July 16, 2017, I have submitted an article revision. How about my article ?. I hope get information with my article.
Thank you

Regard

Hariyati . <hariyati@unesa.ac.id>
to Asian

Tue, Aug 8, 2017, 8:03 PM

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11 of 22

Re: AJBA 20060116 Inbox x

Asian Journal of Business and Accounting <ajba@um.edu.my>
to me

Tue, Aug 15, 2017, 1:56 PM

Dear Hariyati,

Dr Suhana is currently away, and I will be following up on your file.

I hope to revert to you within the next 2 weeks.

Chan Wai Meng, PhD
Deputy Chief Editor
AJBA

On Sun, Jul 16, 2017 at 6:48 AM, Hariyati . <hariyati@unesa.ac.id> wrote:

Dear Suhana

Thank you for improving my articles. I have tried to revise in accordance with the reviewer comments. I hope it satisfy you. Here I attached my revised paper.

Regards
Hariyati

On Mon, Jun 12, 2017 at 9:51 PM, Hariyati . <hariyati@unesa.ac.id> wrote:

Thank you

On Mon, Jun 12, 2017 at 9:49 PM, Hariyati . <hariyati@unesa.ac.id> wrote:

---------- Forwarded message ----------
From: **Asian Journal of Business and Accounting** <ajba@um.edu.my>
Date: Mon, Jun 12, 2017 at 12:01 PM
Subject: AJBA 20060116
To: "Hariyati ." <hariyati@unesa.ac.id>

Dear Haryati,

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AJBA

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Date: Mon, Jun 12, 2017 at 12:01 PM
Subject: AJBA 20060116
To: "Hariyati ." <hariyati@unesa.ac.id>

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We hope to receive the revised manuscript by 15 July 2017.

regards,

Suhana.
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Hariyati . <hariyati@unesa.ac.id> Aug 15, 2017, 3:13 PM
to Asian

Dear Chan Wai Meng, PhD

Thank you for your attention

Regard,
Hariyati

Hariyati . <hariyati@unesa.ac.id> Sep 3, 2017, 8:01 PM
to Asian

Dear Chan Wai Meng, PhD

How about my article ?. I hope get information with my article.
Thank you

Regard,
Hariyati

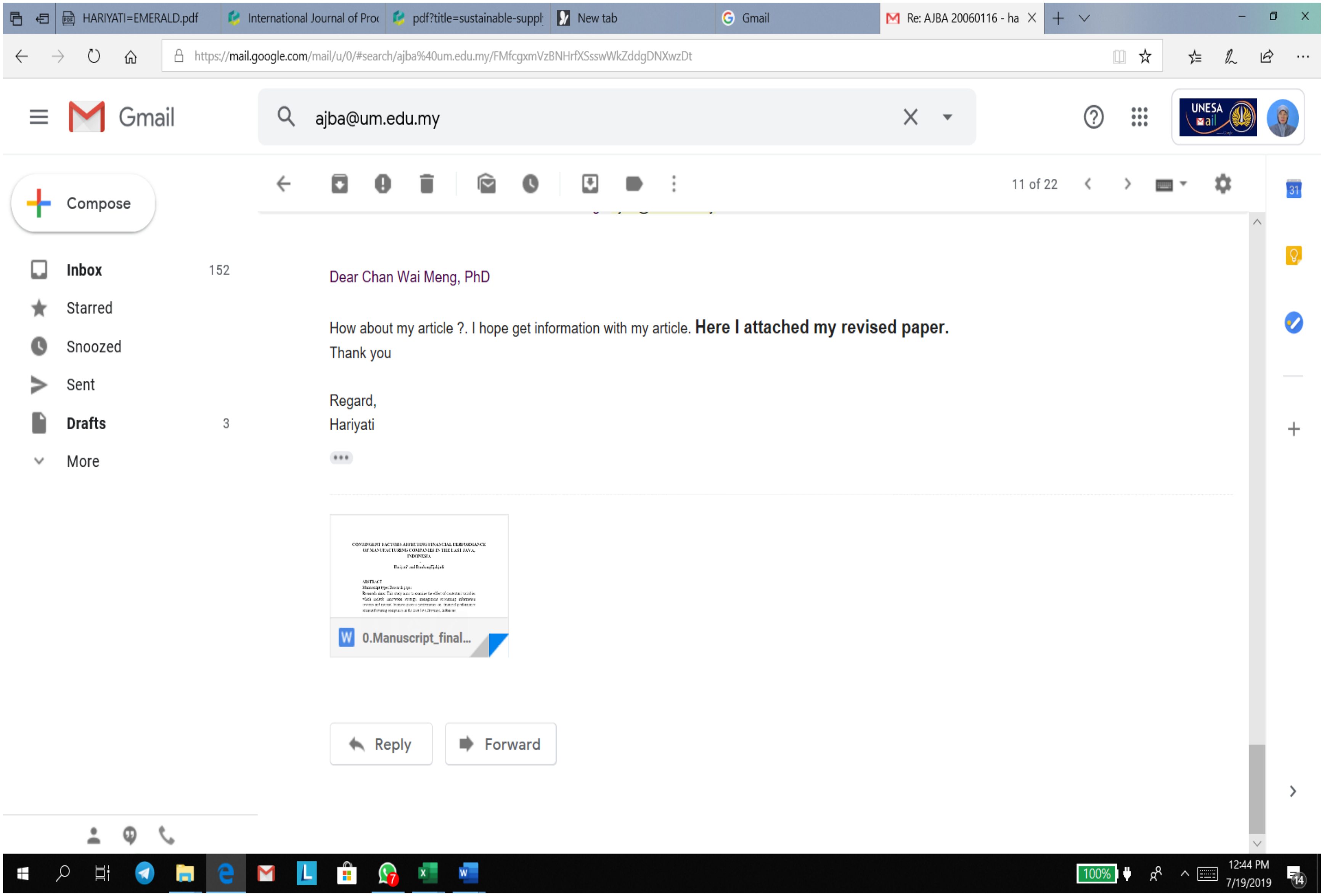
Hariyati . <hariyati@unesa.ac.id> Sep 12, 2017, 2:00 PM
to Asian

Dear Chan Wai Meng, PhD

How about my article ?. I hope get information with my article.
Thank you

Regard,
Hariyati
---------- Forwarded message ---------
From: **Hariyati .** <hariyati@unesa.ac.id>
Date: Sun, Sep 3, 2017 at 8:01 PM
Subject: Re: AJBA 20060116
To: Asian Journal of Business and Accounting <ajba@um.edu.my>

100% 12:42 PM 7/19/2019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11 of 22
Dear Chan Wai Meng, PhD
How about my article ?. I hope get information with my article. Here I attached my revised paper.
Thank you
Regard,
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10 of 22

AJBA 20060116 Inbox ×

Asian Journal of Business and Accounting <ajba@um.edu.my>
to me

Sun, Sep 24, 2017, 11:44 AM

Dear Hariyati,

Thank you for your email.

I have gone through the revised paper. I noted some gaps. Nevertheless, i am forwarding it to the Area Editor for recommendation before a decision is made.

Thank you.

Chan WM

On Tue, Sep 12, 2017 at 3:00 PM, Hariyati . <hariyati@unesa.ac.id> wrote:

> Dear Chan Wai Meng, PhD
>
> How about my article ?. I hope get information with my article.
> Thank you

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9 of 22

QUESTION ABOUT MY ARTICLE

Inbox ×

Hariyati . <hariyati@unesa.ac.id> Sun, Oct 15, 2017, 4:13 PM
to Asian

Dear Chan Wai Meng, PhD

How about my article ? I hope get information with my article. The title of the article that I improve is CONTINGENT FACTORS AFFECTING FINANCIAL PERFORMANCE OF MANUFACTURING COMPANIES IN THE EAST JAVA, INDONESIA
Thank you

Regard,
Hariyati

Hariyati . <hariyati@unesa.ac.id> Sun, Dec 3, 2017, 1:56 PM
to Asian

Dear Chan Wai Meng, PhD

How about my article ? I hope get information with my article. The title of the article that I improve is CONTINGENT FACTORS AFFECTING FINANCIAL PERFORMANCE OF MANUFACTURING COMPANIES IN THE EAST JAVA, INDONESIA

My article has been submitted since December 2015 and has gone through a revision process. The last revision of July 16, 2017 and already responded on 24 September 2017. I want to know the progress of my article

Thank you

Regard,
Hariyati

...

Asian Journal of Business and Accounting <ajba@um.edu.my> Fri, Dec 15, 2017, 4:05 PM

88% 1:35 PM 7/19/2019

Gmail

ajba@um.edu.my

Hariyati . <hariyati@unesa.ac.id> Dec 3, 2017, 1:56 PM
to Asian

Dear Chan Wai Meng, PhD

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My article has been submitted since December 2015 and has gone through a revision process. The last revision of July 16, 2017 and already responded on 24 September 2017. I want to know the progress of my article

Thank you

Regard,
Hariyati

Asian Journal of Business and Accounting <ajba@um.edu.my> Dec 15, 2017, 4:05 PM
to me

Dear Hariyati,

I have obtained feedback from the Area Editor and now awaiting the Board's decision.

I hope to revert to you soon.

Have a great weekend.

Chan WM

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More

8 of 22

(no subject)

Hariyati . <hariyati@unesa.ac.id>
to Asian

Mon, Jan 29, 2018, 11:02 AM

Dear Chan Wai Meng, PhD

How about my article ? I hope get information with my article. The title of the article that I improve is CONTINGENT FACTORS AFFECTING FINANCIAL PERFORMANCE OF MANUFACTURING COMPANIES IN THE EAST JAVA, INDONESIA

My article has been submitted since December 2015 and has gone through a revision process. The last revision of July 16, 2017 and already responded on 24 September 2017. I want to know the progress of my article.

Thank you

Regard,
Hariyati

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7 of 22

AJBA 20060116 Inbox ×

Asian Journal of Business and Accounting <ajba@um.edu.my>
to me

Mon, Jan 29, 2018, 1:20 PM

Dear Hariyati,

We have just received feedback and i will be compiling them soon.

Meanwhile, please cite the reference number 20060116 in your correspondence with us.

Thanks.

Chan WM

On Mon, Jan 29, 2018 at 12:02 PM, Hariyati . <hariyati@unesa.ac.id> wrote:

> Dear Chan Wai Meng, PhD
>
> How about my article ? I hope get information with my article. The title of the article that I improve is CONTINGENT FACTORS AFFECTING FINANCIAL PERFORMANCE OF MANUFACTURING COMPANIES IN THE EAST JAVA, INDONESIA
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> My article has been submitted since December 2015 and has gone through a revision process. The last revision of July 16, 2017 and already responded on 24 September 2017. I want to know the progress of my article.
>
> Thank you
>
> Regard,
> Hariyati

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AJBA 20060116 Inbox ×

Asian Journal of Business and Accounting <ajba@um.edu.my>
to me

Sun, Feb 11, 2018, 3:55 PM

Dear Hariyati,

Thank you for submitting your revised paper.

The Board is happy to note that you have addressed most of the comments. Nevertheless, there are still some minor areas which require improvement. They are indicated on the manuscript, which is attached herewith.

The Board has agreed to accept the paper for publication provided you address adequately the comments embedded in the document and submit the revised paper by 11 March 2018.

Thank you, and all the best.

Chan Wai Meng, PhD
Deputy Chief Editor
Asian Journal of Business & Accounting
Faculty of Business & Accountancy
University of Malaya
50603 Kuala Lumpur, Malaysia
http://ajba.um.edu.my

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6 of 22

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Hariyati . <hariyati@unesa.ac.id>
to Asian

Feb 13, 2018, 6:24 AM

Dear. Chan Wai Meng, PhD
Deputy Chief Editor
Asian Journal of Business & Accounting

Thank you for the information. And I will improve my article.

Regards

Hariyati . <hariyati@unesa.ac.id>
to Asian

Mar 11, 2018, 8:15 PM

Dear. Deputy Chief Editor
Asian Journal of Business & Accounting

here I submit my article that I have fixed

Regards
Hariyati - Indonesia

85% 1:42 PM 7/19/2019

ARTICLE_HARIYATI_REVISED 11 MARET 2018

Hariyati . <hariyati@unesa.ac.id>
to Asian

Sun, Mar 11, 2018, 8:18 PM

Dear. Deputy Chief Editor
Asian Journal of Business & Accounting

here I submit my article that I have fixed

Regards
Hariyati - Indonesia

AJBA_REVISED 11...

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Hariyati . <hariyati@unesa.ac.id>
to Asian

Sun, Apr 1, 2018, 10:42 AM

Dear. Deputy Chief Editor
Asian Journal of Business & Accounting

On March 11, 2018 I have fixed the article and submitted the article. My article is titled: CONTINGENT FACTORS AFFECTING FINANCIAL PERFORMANCE OF MANUFACTURING COMPANIES IN THE EAST JAVA, INDONESIA. My article reference number: 20060116.
I want to know the news about the article.

thank you

Regards

Reply Forward

1:44 PM
7/19/2019

AJBA 20060116 Inbox ×

Asian Journal of Business and Accounting <ajba@um.edu.my> Tue, Apr 3, 2018, 7:52 AM

to me

Thanks, Hariyati. We have received it. We would appreciate it it if you could in your future correspondence with us, indicate the reference in the subject matter.

Thanks, and have a great day.

Chan WM

On Sun, Apr 1, 2018 at 11:42 AM, Hariyati . <hariyati@unesa.ac.id> wrote:

> Dear. Deputy Chief Editor
>
> Asian Journal of Business & Accounting
>
> On March 11, 2018 I have fixed the article and submitted the article. My article is titled: CONTINGENT FACTORS AFFECTING FINANCIAL PERFORMANCE OF MANUFACTURING COMPANIES IN THE EAST JAVA, INDONESIA.
> My article reference number: 20060116.
> I want to know the news about the article.

Re: AJBA 20060116 Inbox

Asian Journal of Business and Accounting <ajba@um.edu.my> Sat, Jun 2, 2018, 7:38 PM

to me

Dear Hariyati,

I had sent you a proof copy on 25th May, for you to go through and advice whether its good to go for typesetting or not. However, I have not received any respond from you and was wondering whether you received the email or not. Hence, I forwarded the email and attachment. Hope that you could respond back by Monday, as we are working on a tight deadline.

thanks,

suhana

On Fri, May 25, 2018 at 12:45 PM, Asian Journal of Business and Accounting <ajba@um.edu.my> wrote:

> Dear Haryati,
>
> Attached is the proof copy for your article. Please go through it, and advice use whether it is good to go for typesetting or not.
>
> Any amendments that you would like to make, please use separate word file, as the proof copy is in the pdf format.
>
> As we are working with a tight deadline, we would appreciate if you could respond to us by Monday, 28th May, 2018.

ajba@um.edu.my

HARIYATI AND BAMBANG TJAHJADI

Hariyati . <hariyati@unesa.ac.id>
to Asian

Sun, Jul 1, 2018, 2:19 PM

Dear. AJBA team

Thank you for the publication of my article in AJBA (Asian Journal of Business and Accounting 11 (1), 2018). Hopefully for the next I am given another chance to write back on the next issue of edition.

thank you

Best regards
Hariyati

Reply   Forward