

# Relationship of Organizational Size and Reward System on Organization Performance of Higher Educational Institution in Palestine

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## Abstract

The environment today has become increasingly uncertain for higher learning institutions, execution strategies are very important for any organization in any sector. The success or failure of the learning institutions is very much depending on its ability to understand internal and external forces. The total respondents for this study were 255 from different groups, i.e. high, medium and low management levels from the higher educational institutions in Palestine. A questionnaire was used as a research instrument and for the data collection. The partial least squares-Structural equation model PLS-SEM was used in this study to analyze the data.

**Keywords:** Strategy Execution, Organizational Size, Reward System, Performance

## 1. Introduction

Execution is the great unaddressed issue in the business world today. Its absence is the single biggest obstacle to success (Bossidy and Charan, 2002), and they point to the requirement of paying close attention to both strategy formulation and strategy execution, because these two processes often fail and disturb business performance (Brenes, Mena, and Molina, 2008). The first serious discussion leads to the conclusion that without proper execution through appropriate methods and mechanisms, organizations would not be able to achieve their objectives, mission and vision (Rahimnia, Polychronakis, & Sharp, 2009). The global revolution of open markets and the appearance of e-commerce have made almost all businesses impossible to escape from the hyper competitive competition (Charan&Colvin, 1999). Furthermore, the dynamic environment nowadays has become increasingly risky for higher learning institutions, execution strategies successfully are very important for any organization in any sector. The success or failure of learning institutions is very much dependent on its ability to understand internal and external forces. This study was conducted in Palestine, on a specific group of respondents' i.e. top management level of the higher educational institutions and the total number of respondents was 255. For the research instrument and data collection a questionnaire has been conducted. Prior to the study, the instrument was used as a pre-test for reliability and was based on the 7-point Likert scale continuum, and the partial least squares-Structural equation model (PLS-SEM) was used to analyze the data.

### 1.2 Statement of Problem

Earlier researches have addressed several aspects of strategy execution dimensions such as the Organizational Size which identifies that the factor can influence the strategic decision process (Elbanna, Child, and Dayan, 2013). Similarly, the reward system defines as the related set of processes through which behaviors are directed and motivated to achieve individual and collaborative performance (Shaap, Stedham, and Yamamura, 2008) on organizational performance (Al-Gamdi, 1998; Al-Mishari and Zairi, 1999; Alton and Ikavako, 2002; Okumas, 2001; Raps, 2004, Alashloo, Castka, Sharp, 2005; Hrebiniak, 2006; Delisi, 2006, Rahimnia, *et al*, 2009). Although prior studies contributed with valuable information to the body of knowledge. However, studies which integrate these two variables in one framework are still insufficient.

Over the year, there is growing realization of the significant contribution of strategy execution (Mieso, 2010; Malik, 2007; Johnson, 2002) organizational size (Elbanna, Child & Dayan, 2013; Parnell, 2008; Harrington, 2006) and reward system (Hill, 2011; Baily, 2008; Neilson, Martin, & Power, 2008; Hrebiniak, 2008; Higgins, 2006; Okumas, 2003, 2001) on performance. Therefore, in order to fill in the research gap, this study will investigate the link of organizational size and reward system on performance of higher educational institutions in Palestine. The current study strengthens some previous studies that have been done by several researchers (Alamsjah, 2011; Wawaru, 2011; Rahimian, *et al*, 2009; Kazmi, 2008; Sedlemayer, 2008; Thorpe and Morgan, 2007; Bannen, 2002; Zaggota and Robinson, 2002).

### 1.3 Purpose of Study

The purpose of this study is to investigate the context of research more holistically from strategic management outlook, for the best decision making process, to achieve superior performance and best results of strategy

execution among higher learning institutions in Palestine. Thus, the present study will investigate the use of Organizational Size and reward system as an independent variable on Organizational Performance as a dependent variable. This study will also identify the strategy execution type of universities, based on their use of dimensions of the strategy execution organizational level in pure form. Then, it will examine if specific Organizational Size is associated with reward system and Organizational Performance. Finally, the rationale for conducting this study is the necessity to investigate the interrelationship between these two variables because there were inconclusive findings in previous studies.

## **2.0 Theoretical Underpinning**

Bertalanffy (1968) when he introduced the general system theory mentioned that each element in the system would be interrelated with each other, changing an element would cause other elements to change. In this case, the reward system has been studied by many researchers and its role accompanied by the Organizational Size to get high level of Organizational Performance. So, the Organizational Size and reward system will be embedded in the general system theory (Bertalanffy, 1968). The contingency theory also embeds both the Organizational Size and reward system because it was studied in a turbulent environment such as in Palestine, and it's a very dynamic environment (Lawrence and Lorch, 1967; Burrell, and Morgan, 1979).

## **3.0 Literature Review**

### **3.1 Organizational Size (OS)**

Maas (2008) organization size is defined as the number of organizational members within an organization. Saunders (2005) describes The organization size as the number of all staff in one organization. Ultimately. The new organizational size definition that a factor can influence strategic decision processes and affect the formulation and implementation process Elbanna, *et al.*, (2013).

Small organizations often have more problems when compared to the larger organization. A small organization size was found to have several possible consequences for strategy implementation. Some researchers concluded that lack of required and sufficient competent human resources to execute strategy will make small organization suffer larger effects (Elbanna, *et al.*, 2013; Parnell, 2008; Saunders, 2005).

### **3. Reward System (RS)**

In the field of strategy execution, many scholars associate reward systems as a critical factor in strategy execution (Bhatti, 2011; Higgins, 2006; Okumas, 2003, 2001). Higher education institutions use a reward system as an important tool to screen progress of strategy execution (Hrebiniak, 2005). Incentive or Reward systems are necessary to motivate staff (Hrebiniak and Joyce, 1984). Commitment to a strategy can be furthered by realigning rewards so that they represent the planned strategy (Li, Guohui, & Eppler, 2008). The prominence of empowering people has been acknowledged as a mean of achieving success in strategy execution (Stonich, 1981). Performance based reward will make people know what is important, valued and recognized in an organization, and this will serve as motivation for people to engage in the process (Bossidy and Charan, 2002).

## **4.0 Organizational Performance**

Many organizations try to develop and adopt a variety of organizational performance measurement systems to monitor and drive their improvement of specified results and communicate their vision, goals, objectives, measures, aims, and outcomes to human resources and component in a coherent fashion. This system is the balance score card BSC (Brown, 2010).

The Balance Scorecard (BSC) is one such tool that provides a mix of financial and non-financial means to monitor and manage organizational performance. The Balanced Scorecard developed by Kaplan and Norton (1996, 1992) emerged as a method to explicate organizational performance, and to have a clear and traceable means to manage it based on four perspectives: financial, internal, customer, and learning and growth.

The financial perspective provides a combination of both traditional accounting measures and identification of leading financial indicators of future performance. The internal process focuses on metrics that reveal internal operating performance. The customer measures often focus on satisfaction, loyalty, and profitability to ensure the right customers are receiving the right response. The learning and growth perspective focuses on how well- learning and knowledge are managed and cultivated to support strategic goals. The financial perspective measures the portfolio and profit for the organization (Fuentes, 2008).

### **4.1 The Organizational Size and Organizational Performance**

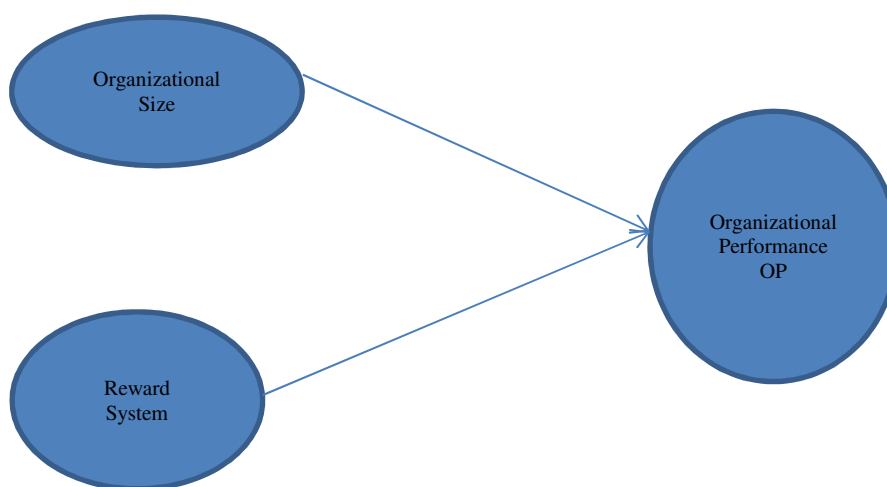
According to studies on strategy execution, many researches focused on organizational size, Maas (2008), Parnell (2008), and Hrrington (2006), investigated the role of organizational size on the strategy execution and its effect on the organizational performance. Parnell (2008) found that the organizational size is a success factor in the strategy execution process. He recommended studying the organizational size as a critical success factor in

the organization. In another study Maas (2008) found that the organizational size is one of the factors that was recurrent by given the respondents as a success factor improving the strategy execution and affect positively on the organizational performance. Harrington (2006) recommended in his study to investigate the relation between organizational size (small and large) with organizational culture and reward system and their influence on the organizational performance.

#### 4.2 The Relationship between the Reward System and Organizational Performance

Delisi (2006) stated that the most difficult thing in organization is when the management neglects to reward people or measure their work performance. It is rare to find a study that discusses a success in strategy execution that does not mention or consider reward system (Hill, 2011; Waweru, 2011; Schaap, Stedham, & Yamamura, 2008; Sedlemayer, 2008). Rahimnia *et al*, (2009) mentioned that if the reward system is not considered during the execution of the plan, it will be an impediment and hinder the fostering in the organization especially in the higher education institutions. Hrebiniak (2006) mentioned in his study that there will be no success if the staffs are not rewarded for their good work performance and this will impact the organizational performance.

#### 5.0 The study framework



**Figure 1**  
*The research framework and hypothesis*

#### 6.0 Hypothesis of the study

- H<sub>1</sub>) There is a relationship between Organizational Size and the Organizational Performance.
- H<sub>2</sub>) There is a relationship between Reward System and the Organizational Performance.

#### 7.0 Methodology and Research Design

This study chose a quantitative cross-sectional survey method. And it is aimed to investigate the influence of organizational size, Reward System and performance relationship.

#### 7.1 The Sample

The unit of analysis of this study is organizations (higher learning institution). This study examined the higher learning institutions which registered under the Ministry of Higher Education- Palestine (MOHE). The directory of Ministry of Higher education- Palestine 2012 indicated that currently there are 13 higher learning institutions in the Gaza strip. The sample size derived from Krejcie and Morgan (1970) table which will be 13 higher learning institutions. The stratified random sampling technique was used to select the samples. The potential respondents were from universities top management officers until the head of departments who are actively involved in the strategy execution process and possess adequate knowledge to answer the questionnaire.

#### 7.2 Research Instrumentation and Measurement

This study adapted instruments which have been previously tested and validated. Organizational size measures consist of four items, Reward System measures consist of 7 items and it's adapted and adopted from Maas (2008) study. All of the items were measured through seven-point Likert scale (1= strongly disagree to 7= strongly agree). Organizational performance was measured through balance score card BSC with four perspectives

(Kaplan & Norton, 2006) all the items of organizational performance measures consist of 22 items. Seven-point Likert scale will be used to measure the performance (1= extremely disagree to 7= extremely agree).

### 7.3 Data Analysis Procedures

This study was used PLS version 2.00 to analyze the data. First, the data were screened and cleaned through an assessment of missing values, Outliers (Mahalanobis distance test) and normality (Kolmogorov-Smirnov and Shapiro-Wilk). Cronbach Alpha and composite reliability will be used to determine the reliability of the instrumentation. The validity of the instrumentation was measured through face validity, content validity, construct validity, convergent validity and discriminative validity. The direct relationship of organizational size, reward system on organizational performance measured through PLS-SEM.

### 8.0 Findings and Discussion

This study employed the Partial Least Squares Structural Equation Modeling (PLS-SEM) and assessed the outer measurement model as a prerequisite for the inner structural model assessment and hypothesis testing. Specifically, this study established the goodness of the outer model related to the constructs of this study, namely Organizational Size and reward system on the Organizational Performance OP (with components customer perspective, learning and growth perspective, internal process and financial perspective). Once the construct validity was established, the process examines the quality of the structural model. Thus, the results of the hypothesis testing procedures are reported.

#### 8.1 The Assessment of the Inner Model and Hypotheses Testing Procedures

After the goodness of the outer model has been confirmed, the next step was to test the hypothesized relationships among the constructs. Using the Smart PLS 2.0, the hypothesized model was tested by running the PLS Algorithm.

Table 1:  
*The Results of the Inner Structural Model*

Hypothesis	Hypothesized Path	Path Coefficient	Standard Error	T value	P value	Decision
H1	OS -> OP	0.152**	0.053	2.893	0.002	Supported
H2	RS -> OP	0.043	0.051	0.832	0.203	Not Supported

\*:p<0.1; \*\*:p<0.05; \*\*\*:p<0.01

#### 8.2 The Findings of the Study

This study aimed to analyze the effect of strategy execution organization level dimensions (Organizational Size and reward system) on organizational performance of service – based higher education. The framework explored the dimensions of each construct and their effect on organizational performance. The proposed constructs were strategy execution level factors (Organizational Size, and reward system).

##### 8.2.1 H<sub>1</sub>: Measuring the degree of the influence of the Organizational Size on the Organizational Performance

Based on the findings of this study, Hypothesis 1 was supported as stated the organizational size is has a positive influence on the organizational performance. This finding goes along with previous research findings in the literature. It shows the organizational size before in Maas's (2008) study that one of the critical success factors influence the organizational success, and according to studies on strategy execution, their focus was on organizational size, Parnell (2008), Harrington (2006), and Saunders (2005) investigated the role of organizational size as a success factor to execute the strategy and its effect on the organizational performance. Parnell (2008) and Harrington (2006) found that the organizational size is a success factor in the strategy execution process; they met the findings of this study that the organizational size has a critical success factor in the organization. In another study, Maas (2008) found that the organizational size is one of the factors that was recurrent by given the respondents as a success factor improving the strategy execution, and affect positively on the organizational performance. Furthermore, it was attributed by researches that the organizational size when it is small facing a lot of problems one of these problems is to get the competent human resources to execute the strategy excellently. Sometimes those competent HR are not provided by the department, which responsible about the strategy execution. There is a need to replace a staff with other staff regarding their age or illness or any emergent conditions. Large organizations can be found in other departments in an organization, and provide them with training for their positions.

##### 8.2.2) H<sub>2</sub>: Measuring the degree of influence of the Reward System on the Organizational Performance

Hypothesis 2 is also rejected. The results indicated that the reward system negatively influence the

organizational performance. These findings of the current study are inconsistent with those of (Slater, Olson, & Hult, 2010; Neilson, Martin, & Powers, 2008; Schaap, Stedham, & Yamamura, 2008; Higgins, 2006) who found that reward system is a critical factor in effective strategy execution, and the organizations do need a system of rewards such as (incentive or motivations, monetary or non-monetary, for the members who do well-performed or poorly- performed) to get best results of rising up the organizational performance and the organizations get success.

Most studies mention that the reward system is very important to get the strategy execution success. However, Delisi (2006) stated that the most difficult thing in organization is when the management neglects to reward people or measure their performance. It is rare to find a study that discusses a success in strategy execution that does not mention or consider the reward system. Rahimnian *et.al*, (2009) mentioned that if the reward system is not considered during the execution of the plan, it will be an impediment to the development of the organization, especially in the higher learning institutions. Hrebiniak (2006) mentioned in his study that there will be no success if the staff is not rewarded during execution of the strategy and this will impact the organizational performance. The justification for that is attributed to the political siege and closure in Palestine, which causes insufficiency in all parts of sources and moreover, cause lack of financial resources such as funds for the higher learning institutions especially in Gaza strip- Palestine. And the universities there are actually paying out a bigger amount of salaries as compared to other sectors in Palestine.

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