

Effect of Financial and Nonfinancial Criteria of Performance Evaluation on Job Satisfaction and Productivity Based on Employees' View in Listed Firms in Stock Exchange

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Abstract

There is agreement on this issue that nonfinancial criteria remove defects of financial criterion for performance evaluation these days. Therefore, the nonfinancial criteria will be effective, when they have different effects from financial criteria, and these effects are significantly more important than financial criteria. It is assumed in this research which is descriptive-surveying research that the performance evaluation criteria influence on employees' job satisfaction. This effect occurs when employees believe on favorite procedures of performance evaluation and truth of bosses. According to 87 selected samples by clustering method, research results showed that using financial and nonfinancial criteria of performance evaluation influence on job satisfaction and effects of nonfinancial criteria on job satisfaction are not so different from effects of financial criteria.

Keywords: financial and nonfinancial criteria of performance measures, favorability of performance evaluation procedures, bosses truth, job satisfaction

Introduction

One of valuable resources for each organization is “human resource”. Job satisfaction of human resources is fulfilled, when their expectation and will are adapted with their job rewards. In all communities, job means the most dominating activity in people lives with the most attributed time to itself by which human will be able to provide their survivals and welfare. All communities had simple job division, but “job division” has been made more sophisticated than what were in previous economic systems in the past by industry development. Today, job division means specializing job tasks. Regardless of types of jobs, people have emotions to their jobs and sometimes they have favorite or non-desirable emotion about their occupations, and they have general idea about their activity field. Job alienation and job satisfaction are tools to measure people job. In initial studies, one of the main reasons of job dissatisfaction is the boring and routine or stressful jobs. However, according to next studies, job may be routine and boring, yet is satisfied individually, or job satisfaction in people are in the highest level for stressful job employees. Many managers in organizations redesigned jobs by obtained results (4900-1940) and changed jobs from routine and simple form to rich and full forms and provide freedom of action, self-control, and responsibility of that job for employees. On the other hand, one way to create motivations for managers and employees to leader activities is measuring their performances along with obtaining organization objective. Such measurements can be basis of appraising, promoting, or giving financial rewards. For example, some parts of non-profit units determine and pay part of senior managers’ financial advantages according to their under controlled units. These evaluations help to managers of various units to reach their highest possible performance level. In addition, these evaluations can be used in economic justifications and investments of evaluation designs.

Importance of Research

Employees’ job satisfaction has significant effect on creating value for firm, and identification the creator factors of job satisfaction is important for all firms. One effective factor on job satisfaction is how to measure it, because performance evaluation influences employees reward. According to traditional methods of performance measures, financial criterions are used. These

criteria have many disadvantages; however, many firms have used nonfinancial criteria to cover the mentioned disadvantages all over the world. As it was mentioned, investigating the effect of financial and nonfinancial criteria of performance evaluation is so important on job satisfaction and workforce productivity.

Problem Statement

Today, the authorities of management and development field emphasize on importance and status of performance management and evaluation models as the prior indexes of development for communities and organizations and also as a vital key to accomplish development objectives in social and individual dimensions. This issue becomes more important, when increasing employees' performance and its relationship with job satisfaction is proposed. Therefore, investigating dimensions of performance evaluation and employees' job satisfaction is proposed in order to identify the relationship between 2 organizational variables (job satisfaction and financial and nonfinancial criteria to evaluate performance); therefore, the main proposed problems for listed firms in Tehran Stock Exchange is to know whether there is a relationship between financial and nonfinancial criteria of performance evaluation with job satisfaction and workforce productivity or not.

Objectives

The main objectives of this research are as following:

- 1- Effect of financial and nonfinancial criteria of performance evaluation on job satisfaction
- 2- Effect of financial and nonfinancial criteria of performance evaluation on workforce productivity
- 3- The individual interest and intention to investigate the effect of financial and nonfinancial criteria of performance evaluation on job satisfaction
- 4- Documented and scientific contexts for future studies

Subject and Locational Realm

The locational realm of this research is limited to listed firms in Tehran Stock Exchange. The subject realm of this research is investigating the effect of financial and nonfinancial criteria

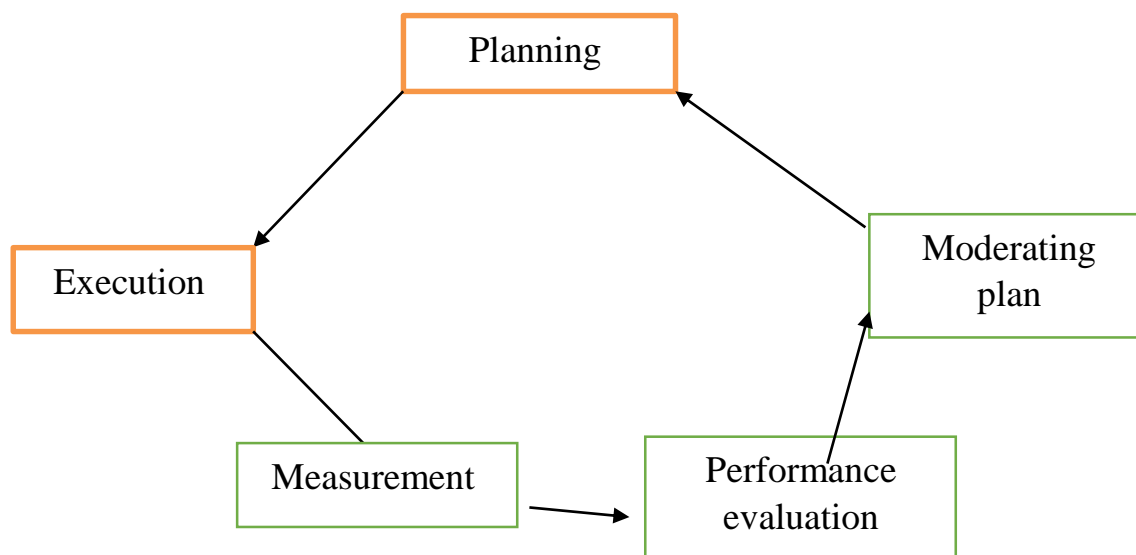
of performance evaluation on job satisfaction and workforce productivity from employees' view of listed firms in Tehran Stock Exchange.

Research Background

Generally, features of all organizations can be classified and summarized as following:

- They should have pre-determined objectives.
- They should be pre-planned to reach their objectives.
- They face with resources restrictions.

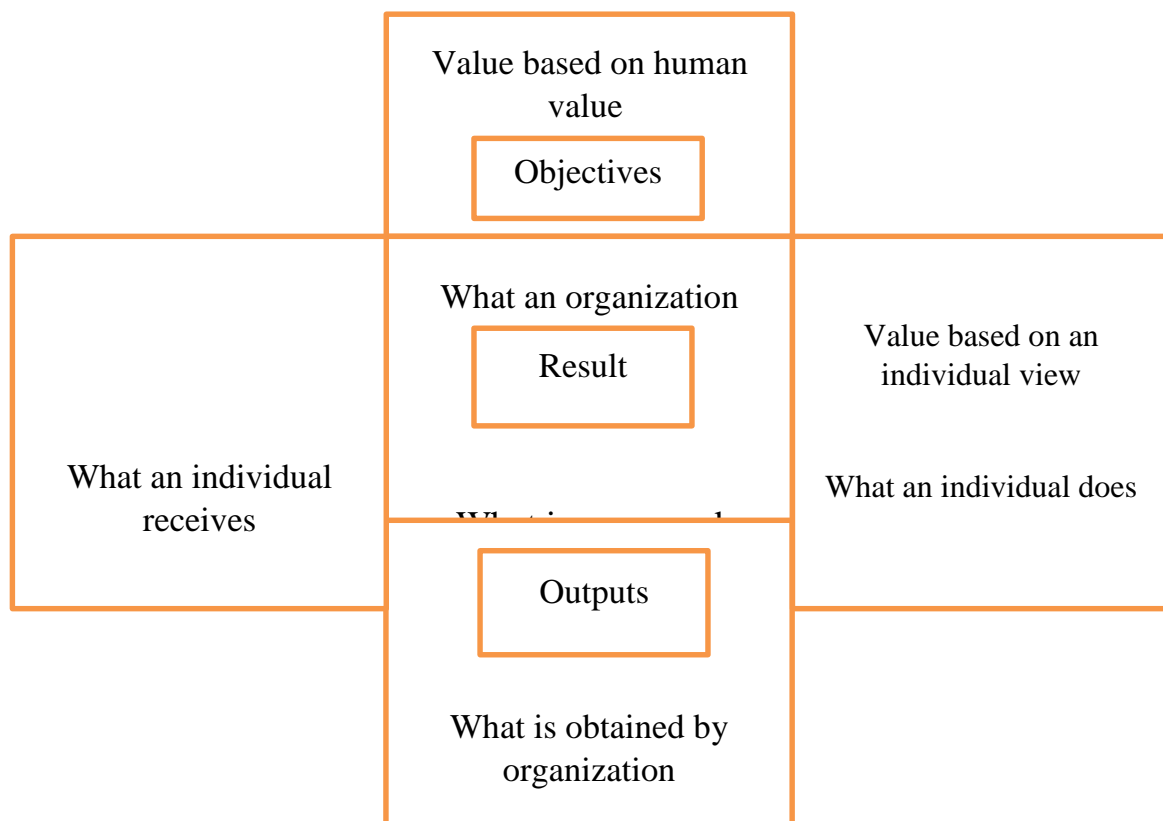
The main role and responsibility of management is optimum usage of resources to reach the mentioned objectives leaning on plan. In planning, execution, and control cycle, performance evaluation have very important role. Diagram (1) shows the status of performance evaluation in planning and control cycle of organization.



Dig (1). Status of performance evaluation in planning and control cycle

Since performance evaluation influence on employees' reward, the manner of performance evaluation and evaluation criterions will be so important. Hornqren et al. stated that

performance evaluation is important according to organization and individual view. The objective according to organization view includes what organization wants and results of what should be done, while according to individual view, it is attempt of doing what he wants, result of his attempts, and what he expect to receive for this attempt is reward. Therefore, value connection ring according to individual and organizational view is result or performance. This issue is described in diagram (2).



Dig (2) – investigating an organization and employees’ objectives

The public agreement about nonfinancial criterions is that they are complementary of financial criterions defects and remove limitations of financial criterions. Nonfinancial criterion of

performance evaluation are long-term objectives such as customer-orientation view, internal processes, employees' growth and learning, and have benefits for future, and they don't have significant effect for the present time.

There are few studies about nonfinancial criteria of performance evaluation and relative relationship between financial and nonfinancial criteria; therefore, this research studies behavioral effects of using performance evaluation based on criteria in Hopwood and Otley studies, which include:

1. Favorability of performance evaluation procedures according to employees' view
2. Relying on truth of bosses

The reliance among organization members is an important factor in process of performance measures, because it leads to increase relation and sharing information among organization's employees.

In management accounting texts, several studies show the relationship between performance evaluation and employees reliance on bosses.

The following studies are quoted by Khodad Hosseini et al. and Haji Karimi et al.:

Haji Karimi quoted from Paul Fellen and Jim Brown (2005) that they divided evolution of organizational performance evaluation to 4 sectors: recommendations, systems, and inter-organizational performance measures. (2003) Jose Flavio Guerra Kuelhu and Mary combined a new methodology to provide performance evaluation by management systems. Bassi and Bitsy (2006) in a research about performance management by focus on collaborative partnership, studied performance management as interdisciplinary dimension. Sa'ad (2001) investigated this issue how can be sure of performance evaluation effectiveness of public services units, because the problem of public organizations is to provide services discretely and the main purpose is not profit, but providing the best services to public.

The relationship between financial and nonfinancial criteria of performance evaluation by performance evaluation procedures, reliance on bosses, and job satisfaction are studies based on model Lowe and Shu Lin (2005) in the listed firms in Tehran Stock Exchange in this research.

Theoretical Bases

Criteria of Performance Evaluation and Job Satisfaction

Most organizations accept the balanced measures, because nonfinancial criteria are used in this model with financial criteria for performance measures. Kaplan and Norton (1998) proposed that the annual profit for performance evaluation had many problems and other criteria such as product innovation, production management, employees' satisfaction, employees' skill, and customer-orientation have better future resources than annual profit and make motivations in managers and employees. On the other hand, annual profit can't measure all economic activities of firm.

According to Kaplan and Norton idea, multiple performance evaluation is a way to obtain further successes. Hoque et al. stated that using the multiple performance evaluation system is motivator of important tasks and activities in organization. Therefore, multiple performance evaluation makes job satisfaction and positive behavioral consequences.

Nonfinancial Criteria for Performance evaluation and Favorability of Performance evaluation Process and Productivity

The favorability of performance evaluation process is favorability for all organizational processes and procedures, performance feedback, and determination employees' reward such as promotion and increase.

The nonfinancial criterion for performance evaluation will most probably have favorability according to employees' view. The extension and variety of nonfinancial evaluation is different according to employees' functional environment. Since the nonfinancial criteria cover the extensive range of employees' breakthroughs and performance, they are so important for them, and evaluation based on these criteria will be favorite for them.

Favorability of Procedures, Job Satisfaction, and Productivity

In various legal, political, management, and accounting texts, this notion is mentioned that procedures favorability influences people attitude and behavior. Tang and Sarfield referred to this notion if managers do their responsibilities for employees desirably and fairly and appraise them according to their performances (without considering personal ideas), then employees will find positive idea about favorability of performance evaluation procedures which makes job satisfaction, organizational commitment, and their sense of responsibility.

Lissak and Alaxander and Radman concluded that favorability of performance evaluation procedures influences on job satisfaction. Berker and Sigel stated that effect of performance evaluation procedural favorability is justifiable on job satisfaction.

1. Personal benefit theory: according to this theory, employees prefer favorite procedure, because they have enough motivation to check results of short-term and long-term tasks.
2. The team evaluation model: this model says that employees prefer favorite procedures, because they don't consider team work just for economic issues and social and physiological issues are important for them, too.

Nonfinancial Criteria for Performance Evaluation and Belief on Bosses' Truth

Hopwood conceptualized the existence of truth and stated that truth is one of important cases in relationship with bosses. Otley and Ross similarly conceptualized inner reliance and truth and stated that sense of truth should exist in all organizational hierarchies.

Whitener et al. deducted that performance and reward evaluation system can make reliance of employees on bosses. Zand stated that if an organization reward system is based on team and participatory tasks, it increase reliance on bosses truth.

If performance evaluation is based on nonfinancial multiple criterions, it increase employees' reliance on bosses truth, while some other criterions for employees' performance measures, such as financial criterions, may cause dissatisfaction. Indexes such as customer-orientation, innovation, and expansion make their satisfaction.

Hopwood and Otley also found that nonfinancial criterions of performance evaluation make reliance of employees on bosses. Therefore, there is positive relationship between using nonfinancial criterions of performance evaluation and employees' reliance on bosses.

Reliance on Bosses' Truth and Job Satisfaction

The optimistic behavior can improve decision making quality and reliance among various organizational members improves performance and solves problems. If employees rely on bosses' truth, the performance evaluation increases job satisfaction. Therefore, it can be concluded that there is relationship between nonfinancial criterions of performance evaluation and job satisfaction because of employees' reliance on bosses.

The Favorability of Performance evaluation Procedures and Reliance on Bosses' Truth

According to theoretical reasons and empirical evidences, there is positive relationship between favorability of performance evaluation procedures and employees' reliance on bosses' truth. Whitener et al. deduced that one characteristic of bosses is reliable and altruistic behavior to notice employees needs and interests. Employees' don't rely on bosses with improper procedures who definitely won't have altruistic behaviors. Alexander and Ruderman, (1987) empirically found that favorite procedures influence on bosses' vale and managerial truth.

Performance evaluation by Financial Criterions

According to the mentioned discussions, the nonfinancial criterion of performance evaluation lead to job satisfaction by favorability of evaluation procedures and employees' reliance on bosses' truth. Some researchers (Hopwood, Ross) deduced that it doesn't means financial criterions will have reverse results, but they may be useful, because they have more reliance and objectivity than nonfinancial criterions.

According to Ross idea, accounting criterions may make more favorite behaviors, because the nature of the used criterions in nonfinancial performance evaluation style are in a way to be influenced by managers personal and mental features and discriminations, while accounting information can be proved and objective and managers can always doubt about mental criterions of performance measures.

Hopwood studied using financial criterions of employees' attitude and performance about job satisfaction. According to Hopwood research, financial criterions can lead to employees' favorite behaviors, because these criterions have objectivity, non-relying on them is reduced, and referred to budgeting responsibility method (responsibility evaluation accounting) to describe and confirm his findings. The accountability of responsibility evaluation is called to an accounting system, which evaluation and plans organizational performance according to responsibility lines, and costs and incomes are collected and reported based on responsibility centers.

Kaplan and Atkinson believed that financial criterions are important and popular tools of management accounting and focus on these criterions are on factors with the most effect on firm profit. They support using financial criterions in 2 ways:

1. Financial criterions about organization objectives (such as firm benefit)
2. Financial criterions are classified based on profitability, liquidity, and functional activities

Comparing Relative Importance of Financial and Nonfinancial Criterions

When nonfinancial performance evaluation is greatly supported, there is no emphasis on non-using financial criterions. Kaplan and Atkinson stated that financial controls (organizational controls are done by financial criterions) is now one of important tools of management, because the nature of financial criterions are in relation with the main and initial objective of organization (profitability) Therefore, organizations shouldn't use financial and nonfinancial criterions alone, but they should use the combination of financial and nonfinancial criterions to design, control, and measure their performances. According to BSC model, Kaplan and Atkinson used financial criterions and nonfinancial criterions.

In addition, organizations that use financial and nonfinancial criterions to measure performance, they certainly face with this question which criterion relatively importance is more. In BSC, each financial and nonfinancial criterions has specific weight or score and status of each criterion is determined according to its importance.

In this research, the relative importance of financial and nonfinancial criterions is studied regarding to their effect on job satisfaction. Each leading to job satisfaction is more important than others, because nature of features of financial and nonfinancial criterions is different. The various combinations of financial and nonfinancial criterions make different behavioral effects in employees.

Hypotheses

The following hypotheses were formulated in order to study financial and nonfinancial criterion of performance evaluation on job satisfaction:

1. If employees ensure of favorite performance evaluation procedures, the nonfinancial criterions of performance evaluation lead to job satisfaction.
2. If employees ensure of bosses truth, the nonfinancial criterions of performance evaluation lead to job satisfaction.

3. If employees ensure of bosses truth, favorite performance evaluation procedures lead to job satisfaction.
4. If employees ensure of favorite performance evaluation procedures, the financial criterions of performance evaluation lead to job satisfaction.
5. If employees ensure of bosses truth, the financial criterions of performance evaluation lead to job satisfaction.
6. If employees ensure of favorite performance evaluation procedures, the nonfinancial criterion of performance measure influence on job satisfaction more than financial criterions.

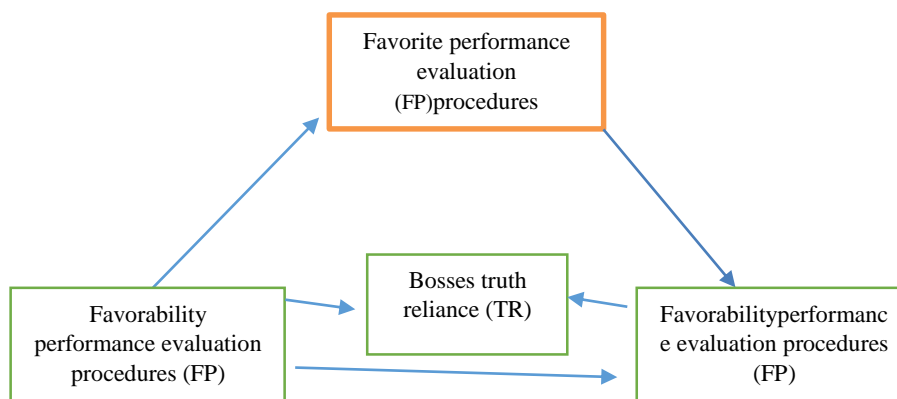


Fig (3). Conceptual model, adopted from (Lou & Sholihin)

Methodology

The methodology of this research is descriptive-surveying according to data collection way. On the other hand, this is an applied research. Since the objective of this research is studying financial and nonfinancial criterions of performance evaluation on job satisfaction and employees' productivity of the site firms in Tehran Stock Exchange; the statistical population of this study includes all listed firms in Tehran stock Exchange. According to statistics of stock exchange in 2009, 347 firms were selected which were classified in 15 industries (table (1)).

| Row | Industry type | Statistical population | Row | Industry type | Statistical population |
|-----|----------------|------------------------|-----|-----------------|------------------------|
| 1 | Pharmaceutical | 22 | 9 | sugar Loaf | 17 |
| 2 | Cement | 19 | 10 | Home Appliances | 20 |

| | | | | | |
|---|----------------------|----|----|---------------------------------------|-----|
| 3 | Wood | 16 | 11 | equipment and machinery | 18 |
| 4 | Chemical and oil | 32 | 12 | Mining and mineral products and metal | 33 |
| 5 | Electrical Equipment | 11 | 13 | Textile | 28 |
| 6 | Food | 27 | 14 | Motor vehicles | 25 |
| 7 | Metals | 29 | 15 | investment | 35 |
| 8 | rubber and plastic | 15 | 16 | total | 247 |

Because of heterogeneity of listed firms in Tehran Stock Exchange, the statistical population should be classified. The stratified sampling method was used to show statistical sample as a good representative of population.

Sample Volume and Its Determination

Since statistical population is limited and sampling is without replacement. In this research, Cochran formula was used to determine sample volume. Of course, δ^2X should be calculated before using the above formula. Since the standard deviation is indefinite, first, an elementary sample including 20 firms were selected and their standard deviation was obtained and put in formula of sample volume. Error level was considered 95%. Based on $a_x = 0.3571$, error level a-5%, and $N=347$, the volume is as following:

$$n = \frac{347 (1.96)^2 (0.291)^2}{(0.05)^2 (347 - 1) + (1.96)^2 (0.291)^2} = 95$$

Finally, sample volume number was 95 firms and each industry sharing from the mentioned sample was determined according to ratio of firms of each industry to total firms and the research firms were selected randomly. The manner of statistical population distribution and the selected sample distribution was proposed according to each industrial groups in table (1).

Research Instrument

The questionnaire an interview was used to collect needed data for research. The questionnaire includes 20 questions with Likert five-point spectrum which were collected in three steps as following: in the first step, 95 questionnaires were sent to employees of sample firms, 54

questionnaires were filled and returned. Consequently, questionnaire was sent to 42 firms. In the second step, questionnaire from 28 firms were received. In the third step, questionnaire was sent to 13 firms that 5 one of them were returned. Finally, 8 firms didn't fill questionnaire. Two questionnaires from the received questionnaires were not usable for defects. Therefore, generally 87 firms from questionnaire were use as research data (Table (2)).

Table (2) – the statistics of sent and received questionnaires

| Description | Sent no. | Received no. | Non-received no. |
|-------------|----------|--------------|------------------|
| First step | 85 | 54 | 41 |
| Second step | 41 | 28 | 13 |
| Third step | 13 | 5 | 8 |

Reliability and Validity

In order to determine validity, first questionnaires were distributed among professors and experts that their validity was confirmed by content-face validity. In addition, in order to determine reliability, re-test method was used. In other words, questionnaires were distributed among elementary members two times in different times and it was indicated by comparing its results that there is no significant deviation. Cronbach alpha coefficient was obtained 90.06% according to elementary sample using SPSS software which indicated high reliability of this research instrument (questionnaire).

Findings

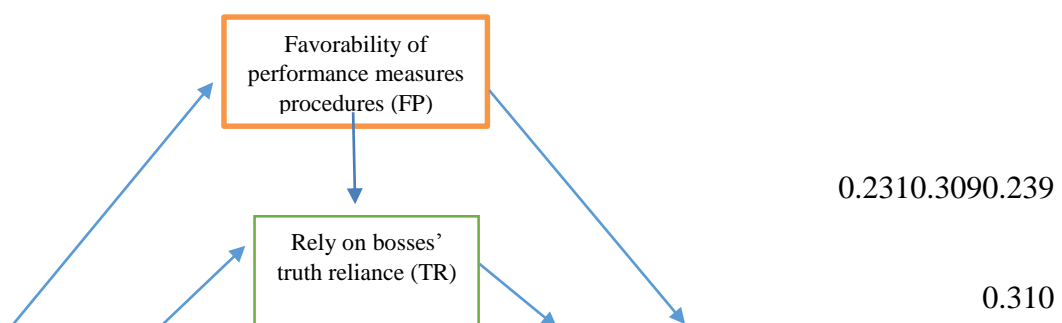




Table (3) and diagram (4) shows various correlation coefficient among research variables in nonfinancial models

Table (3) – Correlation coefficients of nonfinancial criterions model

| Related paths | Observation correlation | Direct effect | Indirect effect | The apparent effect |
|--|-------------------------|---------------|-----------------|---------------------|
| Nonfinancial criterions/ procedures favorability | 0.239 | 0.239 | --- | ---- |
| Nonfinancial criterions/ relying on bosses | 0.338 | 0.231 | 0.107 | -- |
| Procedures favorability/ relying on bosses | 0.364 | 0.309 | ---- | 0.065 |
| Nonfinancial criterions/ job satisfaction | 0.212 | 0.064 | 0.148 | -- |
| Relying on bosses/ job satisfaction | 0.421 | 0.310 | 0.090 | 0.021 |
| | 0.408 | 0.231 | -- | 0.151 |

Results of research show the relationship between nonfinancial criterions of performance evaluation and job satisfaction of research first and second hypotheses (est=0.225, P<0.022, 1-tailed). First hypothesis states the relationship between nonfinancial criterion of performance evaluation and job satisfaction by moderating role of performance evaluation procedures. The second hypothesis shows the relationship between nonfinancial criterion of performance evaluation and job satisfaction by moderating role of relying on bosses' truth. In order to test the mentioned hypotheses, the described calculations in the following table were used.

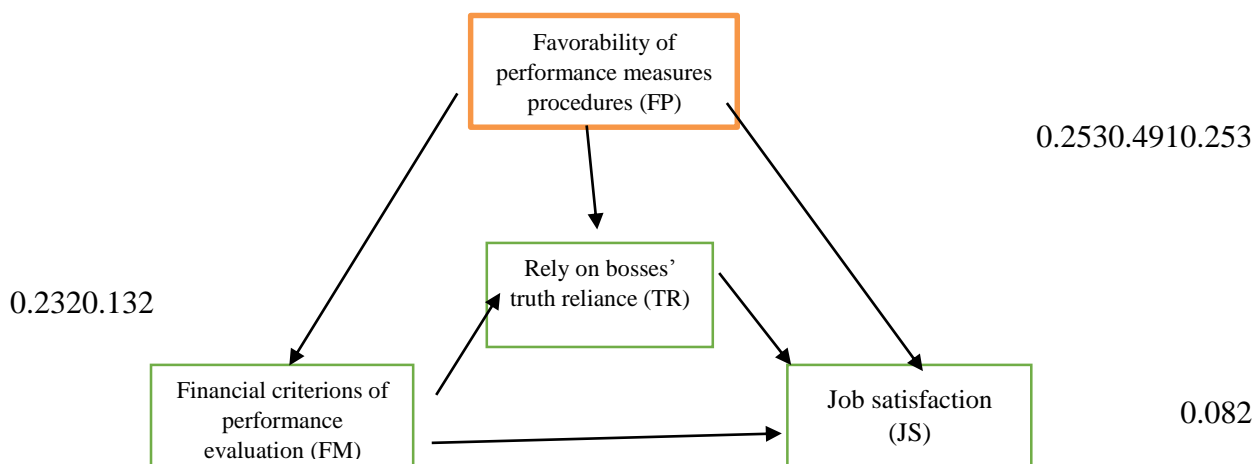
Table (4). Calculation of testing nonfinancial criterions hypothesis

| | | | |
|------------|--------------|-------------|-------|
| First path | NF – FP – JS | 0.249×0.292 | 0.072 |
|------------|--------------|-------------|-------|

| | | | |
|-----------------|-------------|-----------------------------------|-------|
| Second path | NF-FP-TR-JS | $0.249 \times 0.425 \times 0.246$ | 0.026 |
| Third path | NF-TR- JS | 0.172×0.246 | 0.042 |
| Indirect effect | | | 0.14 |

These results show two types of relationship between nonfinancial criterion of performance evaluation and job satisfaction. Direct relationship equals to 0.064 (based on dig (4)) and indirect relationship equals to 0.14. The role of performance evaluation procedures in indirect relationship is 0.072 and role of relying on bosses' truth is $0.026 + 0.042 = 0.068$. Since the mentioned values are bigger than 0.05. According to Bartol criterion (1983), this relationship is significant and results of first and second hypotheses are confirmed in this regard.

Diagram (4) shows that effect of favorability of performance evaluation procedures on job satisfaction by mediating role of bosses' truth is $0.309 \times 0.310 = 0.096$. According to its value, third hypothesis is confirmed.



Dig (5) – correlation coefficient (financial criteria model)

Testing the Fourth and Fifth Hypotheses

The fourth and fifth criterions of research are related to financial criterion of performance as first and second hypotheses.

| <i>Related paths</i> | <i>Observation correlation</i> | <i>Direct effect</i> | <i>Indirect effect</i> | <i>The apparent effect</i> |
|---|--------------------------------|----------------------|------------------------|----------------------------|
| financial criterions/ procedures favorability | 0.253 | 0.253 | -- | ---- |
| financial criterions/ relying on bosses | 0.247 | 0.132 | 0.115 | -- |
| Procedures favorability/ relying on bosses | 0.532 | 0.491 | ---- | 0.041 |
| financial criterions/ job satisfaction | 0.103 | 0.082 | 0.121 | -- |
| Favorability of procedures/ job satisfaction | 0.399 | 0.253 | 0.123 | 0.023 |
| Relying on bosses/ job satisfaction | 0.385 | 0.232 | -- | 0.153 |

Results of research show that there is relationship between financial criterions of performance evaluation and job satisfaction (est=0.213, P<0.023, 1-tailed). According to the determined coefficient in diagram (5), the calculations are as following:

Table (6). Calculation of testing financial criterions hypothesis

| | | | |
|-----------------|--------------|-------------------|-------|
| First path | FM – FP – JS | 0.253×0.253 | 0.058 |
| Second path | FM–FP–TR–JS | 0.253×0.491×0.232 | 0.028 |
| Third path | FM–TR- JS | 0.132×0.232 | 0.030 |
| Indirect effect | | | 0.117 |

Results show that there is relationship between financial criterions of performance evaluation and job satisfaction (directly and indirectly). The direct relationship equals to 0.082 (based on

dig (5)) and indirect relationship equals to 0.117. The favorite role of performance evaluation procedures is 0.058 in indirect relationship and relying on bosses' truth equals to $0.0289+0.030=0.0589$ indirectly. Since the mentioned value is more than 0.05, this relationship is significant according to Bartol (1983) criterion and fourth and fifth hypotheses are confirmed.

Testing the Sixth Hypothesis

The relative comparison of financial and nonfinancial criterions can be used to analyze this hypothesis and were obtained from results of previous hypotheses. In table (7), the mean division of financial criterions (NF/F) was calculated for each coefficient.

According to the determined coefficients in table (4), the calculations are as following:

Table (7). Calculation of relative comparison of financial and nonfinancial criterions

| | | | |
|-----------------|----------------|-----------------------------------|-------|
| First path | NF/F – FP – JS | 0.032×0.289 | 0.009 |
| Second path | NF/F–FP–TR–JS | $0.031 \times 0.372 \times 0.198$ | 0.002 |
| Third path | NF/F–TR- JS | 0.034×0.241 | 0.008 |
| Indirect effect | | | 0.019 |

Since the obtained coefficient from calculations of table (7) is 0.019 and less than 0.05, it can be concluded that sixth hypothesis is rejected. It means employees should rely on procedures favorability and bosses' truth. Nonfinancial criterions don't influence on job satisfaction more than financial criterions.

Discussion and Conclusion

Results of research show that using financial and nonfinancial criterion of performance evaluation influence on job satisfaction and effects of nonfinancial criterions won't be different from effect of financial criterions on job satisfaction. There are two direct and indirect relationships between nonfinancial criterions of performance evaluation on job satisfaction (direct and indirect relationships). Therefore, according to Bartol criterion, this model is significant and first and second hypotheses are confirmed based on these results.

In addition, the favorability effect of performance evaluation procedures is significant on job satisfaction by mediating role of relying on bosses' truth (Bartol) and third hypothesis is confirmed. Results show that there are direct and indirect relationships between financial criterions of performance evaluation and job satisfaction. Since the mentioned values are more than 0.05, this relationship is significant according to Bartol (1983) model and fourth and fifth hypotheses are confirmed. In addition, it can be concluded that sixth hypothesis is rejected, it means if employees rely on procedures favorability and bosses' truth, nonfinancial criterions don't influence on job satisfaction more than financial criterion.

It is suggested for further studies to study effect of financial and nonfinancial criterions on employees, organization, and organization commitment.

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