

Scope and aims of performance measurement practices

[Business](#), [Management](#)



This study provides empirical evidence on performance measures practices in Jordanian industrial companies. It identifies the type and extent of usage of a broad set of financial and non-financial measures. The results indicate that Jordanian companies place more emphasis currently on non-financial measures such as customer response time, on-time delivery, customer retention, employee training, number of new product launches and defect rates. Although Jordanian companies place more emphasis on the use of performance measures to evaluate organisational and managerial performance, they also use them for other reasons.

The results also indicate that Jordanian industrial companies still operate under significant institutional and government controls. Keywords:

Performance measurement diversity; Non-financial performance measures, Medium and large Industrial companies; Developing country; Jordan. Scope and Aims of Performance Measurement Practices: Evidence from Jordan

Introduction Performance measurement is an important management control tool for business firms in the currently competitive environment.

It is directly related to the formation of a firm's core competency and has a significant impact on the firm's growth (Xiong, Su & Lin, 2008). Different definitions for performance measurement system (PMS) exist. Neely (1994) defines PMS as the set of metrics used to quantify both the efficiency and effectiveness of actions (cited in Neely, Gregory & Platts, 2005, p. 1229).

In respect to performance measurement, Marshall, Wray, Epstein and Grifel (1999) define performance measurement as a development of indicators and collection of data to describe and analyse performance.

To be more precise, performance measurement refers to the use of a multi-dimensional set of performance measures. This set of measures is multi-dimensional if it includes both financial and non-financial performance measures. Both internal and external measures of performance are included and both measures quantify what has been achieved. These measures are used to help predict the future (Bourne, Neely, Mills & Platts, 2003, p. 3). However, Neely et al (2005, p. 1229) define performance measures as a metric used to quantify the efficiency and/or effectiveness of an action.

The usage of performance measures has two dimensions: the level of use or the frequency of use-that is the focus of this study-and the manner of use. The level and manner of performance measurement use relate respectively to an organisation's quantity and quality of application of the measures (Braam ; Nijssen, 2004). Improving the PMS is one of management accounting's major roles. However, an effective PMS should include the traditional financial measures and cost-accounting measures used by senior management and also the tactical-performance measures that are used in evaluating a firm's current level of performance (Chen, 2008).

Most of the empirical research that has focused on issues related to these measurements has overlooked the use of a non-financial dimension of PMS. In this context, Stivers, Covin, Hall and Smalt (1998) argued that although we know much about the use of financial measures, our knowledge of non-financial performance measures is limited. Performance measures usage differs from one managerial purpose to another (Ittner, Larcker ; Randallb,

2003). Veen-Dirks (2010) argued that performance measurement literature pays little attention to the purposes for using performance measures.

Thus, Franco-Santos et al. (2007) emphasised the importance of researches clarifying the different roles that performance measures play in the firms they were investigating. Franco-Santos (2007) argued that the importance of the relative benefits that firms obtain through using financial and non-financial performance measures has been of particular interest in management accounting research. The role of management accounting in Jordanian companies has become increasingly important and critical in providing management with appropriate information for decision-making.

Knowledge about how Jordanian companies design and use accounting systems is limited. This is because previous accounting research "... has focused on developed countries particularly Europe and northern America, while Jordan (and the Middle Eastern region) has been neglected despite recent changes in its economic and accounting regulatory environments" (Al-Akra, Ali ; Marashdeh, 2009, p. 164). Therefore, Jordan and other developing countries in the Middle East are in need of further studies to examine accounting systems such as PMS.

However, previous research conducted in Jordan (Zuriekat, 2007; Hawamdah, 2006; Hutaibat, 2005) indicated that Jordanian companies do use multiple performance measures both financial and non-financial. These studies, however, did not identify the relevant performance measurement instruments or measures in the context of Jordan or other developing

countries. This paper extends previous research by building an appropriate multiple performance measurement instrument relevant to the Jordanian business environment.

All the above arguments justify the need for this study which seeks to contribute to the development of knowledge in the field of PMS in Jordan as a developing country and to set out the basis for establishing key performance measures (Ahmad ; Dhafr, 2002) in Jordanian industrial companies and to encourage further research in the area. This study extends the previous performance measurement literature by investigating two issues related to performance measurement, namely, extent of use, and the purposes of use.