

Performance Measurement System Design, Competitive Capability, and Performance Consequences - A Conceptual Like

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Abstract

The recently days business environment requires management accounting information to provide relevant measures of performance, and reflect the strategic goals of a modern firms. The performance measurement system (PMS) developed as strategic orientation aimed at providing information to enhance the firm's strategic goals. It is interesting to introduce the PMS design which is externally and future oriented to overcome the weakness of traditional PMS and for strategic outcomes. Apparent gaps seem to be attributed to its various conceptualizations resulted from fragmented efforts on the development PMS. Furthermore, inherited by the scarcity of empirical studies, evidence had been exploratory and little is known about PMS design and its effects on strategic outcomes. The impact of PMS design on the performance is sparse significantly. In terms of essential characterization PMS, that might help to explain how the system has beneficial direct effects on firm's outcomes and indirect through the firm's competitiveness. Thus, based on in-depth review on existing literature on the PMS, this paper develops a proposed theoretical framework. Specifically, the objectives of this paper are three folds; Firstly, it attempts to unravel the various perspectives and define PMS design and suggest on how it might be further developed. Secondly, employing contingency theory as its underpinning theory this paper posits firm's competitiveness as Intervening variable to explain the relationship. Finally, its possible performance are put forth to legitimize the development as an important remedial to the traditional performance measurement system in aiding firm's long-term survival.

Keywords: Performance Measurement System, Information Characteristics, competitive advantage, Performance. *Field of Research:* Strategic Management Accounting.

Introduction

The modern business environment is characterized by radical changes due to technological developments, increase competition, and the developments of customer's needs. Recent studies in the management accounting systems have found that the formulation of a clear competitive strategy necessary, it must be supported by an appropriate organizational structure, and management accounting system, information systems to gain competitive advantages and ensure high performance (Chenhall & Langfield-Smith, 1998). Manufacturing firms were pressured to find ways to be more effectively balance between to objective; lower costs and high quality (Adler et al., 2000). Management accounting system is the provision of information to support strategic decisions in the long term, and performance by providing internal and external information for strategic purposes, i.e. it is defining the strategic position, formulating strategy and controlling the performance (Shank & Govindarajan, 1993).

Performance measurement system (PMS) described as an integral part of the management accounting system which provides information to encourage managers to think strategically about how their activities fit with other parts of the firms, and to assist them in managing their firm's operations (Lillis & Anne, 2002; Ittner, et al., 2003b; Malina & Selto, 2001; Fullerton & McWatters, 2002; Ullrich & Tuttle, 2004; Choe, 2003). The performance measurement process is focused now on managing intangible assets which are non-financial in nature, rather than managing tangible assets which are financial in nature (Kaplan & Norton, 2001). According to Jusoh (2006) the pressure from domestic and global competitors and customers, demands for quality and reliable products, a high expectation from the stakeholders and usage of new and advanced manufacturing technology. All of that contribute as major impetus for devising and designing a good performance measurement system for a firm which can provide what it requires in meeting its objectives.

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