

Benefits from the Implementation and Application of a Performance Measurement System

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Abstract: The performance measurement system consists of methodologies, metrics, processes and software tools. It represents a link between operational, financial and strategic goals. Today, most of the organizational performance measurement systems have an integrated measurement approach and they take into account various perspectives of organizational performance.

Measurement is important for managers because it can determine the company's growth. Performance measuring refers to all parameters that are important for managers in decisions making processes. Managers want to have an overview of which activities are performed according to the planned, and which are not. Also, they need accurate and timely information to achieve their goals. The main need for implementation and application of a performance measurement system is the need for transparency in the performance of the company's goals. Performance measurement systems enable this. Through the application of such a system, managers and employees are enabled to have better control over the performance of the activities.

The main goal of this paper is to research the main benefits for the companies from the implementation and application of the performance measurement system. The research refers to companies from the food industry in the Republic of North Macedonia. The paper first elaborates the importance for measuring performance. After that it presents the results from the research and tests the relation between benefits from the implementation and application of a performance measurement system and the number of Key performance indicators that are used in the measurement process.

Key words: performance measurement systems, benefits, organizational performance.

Introduction

Today, companies operate in a dynamic, competitive and unpredictable business environment. Such a business environment requires from the managers of companies to have a multi-dimensional approach in their management and decision-making processes. The main goal of each company is to achieve profit and competitive advantage. Many companies in their operations implement a variety of management tools, methods, models and strategies in order to increase their competitive advantage, and thus achieve higher profits. In this direction is the implementation and application of systems for measuring organizational performance. In fact, managers need to be constantly provided with accurate information about the performance of the company's activities, from several aspects.

There are many systems for measuring and managing organizational performance, all designed to help managers in this complex business environment. Many of them are oriented only to financial performance. They are the so-called traditional performance measurement systems that are no longer effective in today's dynamic business environment. The focus today is on consumers and the quality of products and services offered to consumers. Globalization and rapid technological change have increased competition between companies, which makes the business environment more complex. Therefore, the need for measuring and non-financial performance is increasingly imposed. Because of this, significant researchers and practitioners are struggling to offer and promote a so-called balanced, integrated or multidimensional set of performance indicators that will be part of a single system. Such a performance measurement system is a major innovation in organizational performance and their measurements. In order to be effective, this measurement must be linked to the organizational strategy.

Why measurement is so important?

Organizational performance measurement systems are in the focus of research not only for the academics, but also for the businesses. Measurement is important for managers because it can determine the company's growth. Through the measurement of the various activities in the business, valuable information is obtained for all stakeholders of the company. The existence of a system for managing organizational performance, apart

from measuring them, can also provide the reasons for the changes in performance, which can be easily managed further. One of the key challenges they face is to determine (select) what to measure. Performance can be used to streamline organization to focus on real problems. When a company has the information needed to carry out certain activities or processes, management is more easily involved in the decision making process.

Measuring performance is an important means of decision making. It is used for (Parker, 2000):

- Identifying success
- Identifying whether the needs of consumers are met
- Help to understand the processes
- Identify is there a problem, and where improvements are needed
- Ensuring that decisions are made on the basis of facts rather than on the basis of emotions and intuition
- To show if the planned improvements really happen

Lebas (Lebas, 1995) goes even further and declares that management can hardly function without measuring performance. So performance measurement helps managers respond to five strategically important issues:

1. Where were we?
2. Where are we now?
3. Where do we want to go?
4. How will we get there?
5. How will we know we are there?

Sinclair and Zairi provide a more detailed summary of the meaning and the need for measuring performance in the following dimensions (Sinclair & Zairi, 1995):

- Performance measurement supports and increases the improvement in the performance of activities in companies
- Performance measurement can provide managers to create a long-term strategy and strategic goals
- Performance measurement makes the communication between all employees more precise
- Performance measurement helps the organization to allocate its resources to the most attractive activities
- Performance measurement is central for effective and efficient planning, control and evaluation of systems
- Performance measurement can affect the motivation of individuals and encourage positive organizational behavior
- Performance measurement can support management initiatives and change in management

Reasons why measurement is important according to Bitici, Turner and Mendibil (Bitici, Turner, & Mendibil, 2002):

- Monitor and control
- Make improvements
- Maximize effectiveness
- To achieve organizational goals
- To reward and discipline

According to the previously stated reasons for measuring organizational performance, where the importance of measuring the organizational performance in the companies is noted, it can be concluded that the measurement plays one of the key roles in the decision-making process. In this regard, measurement must be an integral part of management at every level in the company. Measurement is a major part of the control over the performance of activities and the achievement of strategic goals and strategy in general. It allows you to have an overview of the results achieved and identify problems if they occur.

According Simons (Simons, 2000) performance measurement systems as a tool for balancing 5 main things in the company:

- Balancing profit, growth and control
- Balancing short-term outcomes versus long-term capacities and development opportunities
- Balancing the expectations of performance from different stakeholders
- Balancing opportunities and attention
- Balancing the motives of human behavior
- Development of the performance measurement system

Performance measurement systems are part of the performance management and decision-making process. Measurement is the first step leading to control or eventual improvement. As mentioned earlier, if something can be measured, it can be understood. If something cannot be understood, it cannot be controlled.

Performance measurement systems are an important part of the decision-making process and performance improvements. It provides information that is crucial in making the right decisions. Making wrong decisions affects overall business and its performance, such as low sales growth, profitability, consumer satisfaction, employee satisfaction, social responsibility, and so on. In this direction, the main thesis is that the measurement of performance from a multidimensional aspect improves the performance of businesses in the long run.

Managers need accurate and timely information at any time to achieve their goals. They want to have an overview of which activities are performed according to the planned, and which are not. This is what enables the systems to measure organizational performance. The main need for implementation and application of a performance measurement system is the need for transparency in the performance of the company's goals. Through the application of such a system managers and employees are also enabled to have better control over the performance of the activities.

The challenge of implementing a performance measurement system is seen in the following areas:

- Technically - to provide the required data quality, create an easy-to-use application, make it easy to visualize data
- Organizational - to create a business culture that will enable the implementation of systems for measuring organizational performance, to adapt the processes, to ensure proper strategic control of the processes.
- Individually - to reduce prejudices in terms of systems for measuring organizational performance, to train staff for the proper implementation and application of systems for measuring organizational performance, to increase the decision-making ability based on system information.

Research findings

The research is primarily realized through a systematic review of literature in the field of performance management, integrated management, operations management, financial management, risk management, strategic management. This is done in order to find as many studies as possible related to this issue and to determine the current offer of models and performance measurement solutions. In order to achieve the goal, a search on all published works in this area was made. Several electronic libraries and web pages are used, which enable access to the published works.

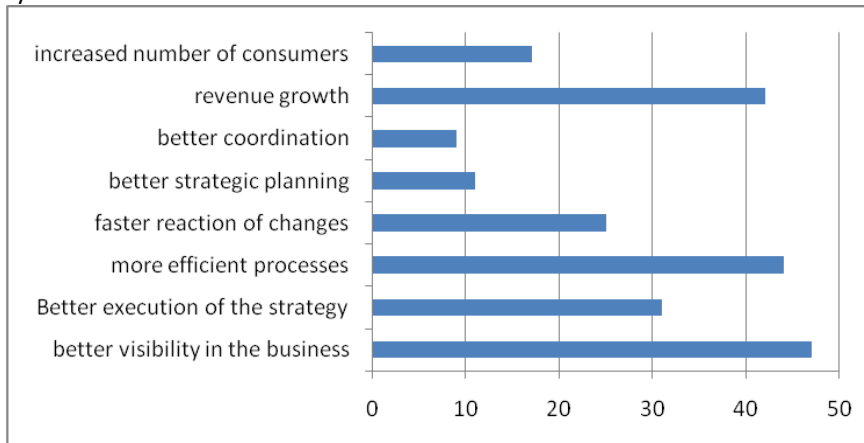
For the collection of primary data, the survey method is used through an interview with a structured questionnaire intended for managers and employees from the companies in the food industry in the Republic of North Macedonia. For this purpose, a questionnaire with 26 questions was prepared, which was first electronically disseminated to the food industry companies randomly selected, and then with the same questionnaire, a personal interview with employees and company managers was made.

The data are processed mainly with mathematical-statistical methods and the statistical package SPSS. Data processing is performed through descriptive data analysis, correlation analysis of data, and testing the dependency between certain variables using the χ^2 tests. Descriptive statistics involve measuring frequency, percentages, measuring the central tendency and standard deviation. In order to detect the relationship

between the obtained data, a relational data analysis was performed. Using relational analysis, it is possible to test the hypotheses and make conclusions from the research. This analysis covers the application of correlation analysis and Hi-square test.

The greatest benefit to managers from the implementation and use of the performance measurement system is to measure their performance through financial and non-financial integration. The research resulted in certain information regarding the benefits that respondents expect from the implementation and the application of the system for measuring organizational performance. They are presented in Chart 9: Benefits from the implementation and application of the system for measuring organizational performance in the companies from the food industry in the Republic of Macedonia.

Table 1: Benefits that manager expect from the implementation and application of performance measurement system



Source: authors research

From the results of the research, most of the respondents expect better visibility of execution of all activates - 63.9%. The others benefits are as follows: more efficient processes 61.1%, revenue growth 58.3%. Among other benefits, they expect the system to increase the number of consumers, to enable faster reaction of the changes, better execution of the strategy, better strategic planning and better coordination between the departments and the employees. According to the answers received, generally the organizational performance measurement system should enable benefits mainly in the strategic planning and execution of the strategy, that is, alignment the strategy with the processes, and also to enable business visibility at any time, so that they can have data to perform the work from multiple perspectives, in order to have the ability to react quickly to the constant changes occurring in the dynamic environment.

In order to examine the dependence of benefits with some of the other variables, the following hypotheses have been tested.

H0: there is no dependence between the benefits that managers expect and the number of defined key performance indicators in companies in the food industry in the Republic of Macedonia

H1: there is dependence between the benefits that managers expect and the number of defined key performance indicators in companies in the food industry in the Republic of Macedonia.

		Number of Key performance indicators											
		none		From 1 to 5		From 6 to 10		From 11 to 20		From 21 to 50		Up 50	
		No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Benefits from the implementation and application of performance measurement system	Better visibility of the activities	5	50,0%	3	60,0%	12	66,7%	18	60,0%	7	87,5%	2	100,0%
	Better execution of the strategy	4	40,0%	2	40,0%	7	38,9%	10	33,3%	7	87,5%	1	50,0%
	More efficient process	4	40,0%	2	40,0%	11	61,1%	21	70,0%	4	50,0%	2	100,0%
	Better reaction of the change	3	30,0%	0	0,0%	3	16,7%	11	36,7%	6	75,0%	2	100,0%
	Better strategic planning	2	20,0%	1	20,0%	1	5,6%	4	13,3%	2	25,0%	1	50,0%
	Better communication between the teams	2	20,0%		0,0%	2	11,1%	3	10,0%	2	25,0%	0	0,0%
	Revenue growth	5	50,0%	3	60,0%	8	44,4%	19	63,3%	6	75,0%	1	50,0%
	Increasing number of the costumers	2	20,0%	0	0,0%	4	22,2%	8	26,7%	3	37,5%	0	0,0%

Pearson Chi-Square Tests

		Number of key performance indicators	
Benefits from the implementation and application of performance measurement system	Chi-square	45,762	
	df	40	
	Sig.	,245a,b	

On the basis of the obtained data in a table it can be seen that Asymp. Sig. (2-sided) or $p > 0.05$, which means that the zero hypotheses is accepted, and the alternative hypothesis is rejected. This means that there is a statistically significant link between the variables. That is, there is dependence between the benefits that managers expect and the number of defined key performance indicators in companies in the food industry in the Republic of Macedonia. From the obtained results it follows that the individual hypothesis H1 - is accepted.

The research further enables to be testing other hypothesis and research other dependences between the variables.

Conclusion

From the results obtained from the research we can conclude that there are a lot of benefits from the measurement of the organizational performance. The benefits can be seen in the following aspects:

- 1) Measurement of organizational performance ensures increased consumer satisfaction. The selection of Key Performance Indicators related to customer satisfaction, their loyalty enables them to obtain information about the extent of their satisfaction, their loyalty, the frequency of purchase. This information is further useful in creating strategies for increasing consumer satisfaction.
- 2) Measuring organizational performance ensures the efficiency of internal processes and operations in the organization and links them with organizational goals. Internal processes and operations in companies are among the most important ones that enable the acquisition of end product.
- 3) Measuring organizational performance improves the decision-making process. Performance measurement systems are designed to support the decision support system and they provide the necessary information for making appropriate decisions by all stakeholders.

4) Measuring organizational performance ensures achieving improved results at all organizational levels. Through the measurement of organizational performance, it is possible to achieve better results at all levels. It is particularly important that the systems for measuring organizational performance are available to all employees and they all participate in their creation. This also increases employee satisfaction.

5) Measuring performance makes it easier to implement the organizational strategy. The main purpose of the systems for measuring organizational performance, especially further with their management, is to enable the realization of the organizational strategy. This is achieved by selecting key performance indicators from the strategy of the company and its strategic goals. In such a way, its execution is guaranteed, that is, its actual execution is measured.

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