A study of the relationship between successful performance measurement and a firm's financial performance:

Case study of Thai listed companies

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Abstract - **Many organizations today realize the importance of a performance measurement system (PMS) and thus make a substantial investment in the design and implementation of a PMS. At the same time, there is no clear relationship between the success of a PMS and the financial performance of the organization. This research thus aims to present an analysis of the relationship between the level of success of a PMS and the financial performance of the organization. In the end, the study reveals no significant relationship between the success of a PMS and the financial success of a company. The lack of a discernable relationship may be the result of uncontrollable factors or time lag effect.**

Keywords – Performance measurement system, financial performance, Thai listed companies

I. INTRODUCTION

A performance measurement system (PMS) is very important in the management of an organization, as it helps managers discern whether their organization is successful and, if designed properly, it also plays an important role in the implementation of the organization's strategies. However, there is a danger lying in a PMS, especially when poorly designed and implemented: It can lead to dysfunctional behavior and in the end obstruct processes in the organization. In recognition of this fact, managers invest time and resources into the design and implementation of a PMS with the goal of using it to help achieve the organization's objectives.

Currently, there is no general agreement as to whether a successful PMS can eventually lead to an organization's financial success. This article is aimed at answering this question by investigating the relationship between these two variables, using Thai firms as case studies. However before these questions can be answered, "PMS" must be clearly defined.

Reference [1] suggests that a PMS can be classified into three perspectives: features, role, and process. Features in a PMS must include measures and infrastructure, which includes data collection and a reporting system. The role of a PMS is to measure performance, manage strategy,

communication, influence on behavior and learning and improvement. Finally a PMS has five main processes: selection and design of measures, data collection and manipulation, information management, performance evaluation and rewards and systems review.

This definition of PMS is used as the basis of this study. Organizations that claim to have a PMS must have both measures and infrastructure in place, apply it to all five roles and perform the five processes listed above.

II. MEASURING THE SUCCESS OF A PMS

Although many organizations claim to use a PMS successfully, each organization may have a different conception of the word "successfully". One might mean that the PMS is successful only when the organization's profit is increased. The other might define success as getting employees to use the PMS.

Reference [2] offers a method to evaluate a PMS. He says a PMS can be defined as "successful" when:

1. It has clearly stated objectives and everyone in the organization knows the objectives.

2. Every department has performance drivers that are consistent with the main organizational objective.

3. There is a continuous stream of training in the PMS

4. There is a monitoring system and performance data is consistently benchmarked against the target.

If any organization is found to use a PMS that covers all of these aspects, that organization can then claim that its PMS is successful. Reference [3] proposed a method of analyzing the PMS in three levels as follows:

1. *Individual measure*. This level will answer the questions about the objective of each measure, cost of data collection and benefit gained from each measure.

2. *A set of measures*. This level will answer questions about the coverage of measures, the relationship between performance results and