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Business Management
Teach Yourself Series
Topic 6: Performance Measurement

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Performance Measurement

All organisations set themselves a number of objectives that they hope to achieve. Success in achieving those objectives must be measured on a regular basis.
If success is to be measured then performance indicators are required to allow success to be measured.

Initial terminology

As it appears in Units 1 - 4

Performance measurement occurs in all areas of a business's activities and functions. Each functional area within an organisation will have set objectives as part of the overall objectives of an organisation. The functional areas that are measured in the Business management course are:

- Marketing
- Public relations
- Finance
- Operations
- Human resources

Why measure performance?

As it appears in Units 1 - 4

Performance measurement is important for a number of reasons. The majority of organisations discussed throughout the business management course are businesses referred to as 'for-profit' businesses – these are businesses whose aim is to make a profit, for distribution to owners and shareholders. Therefore it is important for these businesses to measure their performance in terms of profit.

It is also important that a business measures performance in other areas as well, to provide information to management to assist them further in achieving their objectives. The reasons why it is important to measure performance include:

- Identify areas of concern
- Provide information about how to correct problem areas
- Identify areas that require improvement
- Identify high performing staff
- Identify staff that may be eligible for promotion or reward
- Identify cost centres that are causing concern or have made improvement
- Identify how the business is performing in terms of the strategic, tactical and operational plans

Performance measurement is only effective if there are criteria available to measure performance against and/or standards to meet. The Business Management Study Design identifies performance indicators (discussed below) that are used to measure performance. In addition to these performance indicators (PI's) the concept of benchmarking is discussed regularly throughout the course.

A benchmark is a standard set by the organisation known to be the leader within a particular industry or area. Benchmarking is the process of measuring the performance of an organisation against this industry or market leader.

Review Questions

1. Why is it important to measure performance?

2. Explain what it means to be a market leader.

Performance Indicators

As it appears in Units 1 - 4

The Business Management Study Design refers to performance measurement through all 4 units of study. In Units 3& 4 there are 10 specific Performance Indicators (PI's) that are identified and that students are expected to be aware of.

However, it is important to understand the two key 'overriding' dimensions of performance:

- ✓ Effectiveness – the ability of an organisation to set and achieve stated objectives or outcomes. An organisation is seen to be effective if it achieves its objectives.

- ✓ Efficiency – the ability of an organisation to achieve its stated objectives utilizing resources in a manner that minimizes costs.

These two dimensions lead to the discussion of the ten key performance indicators. These are:

- Percentage of market share – each business operates within a market and generally has a number of competitors. The percentage of the total number of sales in that market made by a business is referred to as their market share. An increasing market share shows that a business is growing and is operating successfully.

- Net Profit figures – Net Profit is the final profit made by a business for a particular period. It is calculated by deducting all the costs or expenses incurred by a business from the revenue (sales and/or fees) made by the business in a particular period. An increasing net profit figure suggests that the business has earned more revenue and/or reduced its costs compared to the previous period.

- The rate of productivity growth – this measures the change in productivity from one year to the next. Productivity compares the volume of outputs produced from a certain amount of inputs. If productivity is increasing then the business has produced more outputs from the same amount of inputs, or it has produced the same amount of outputs from less inputs. This demonstrates a more efficient operation.

- The number of sales – the total number of products sold or services provided. This PI makes no claims about profit figures but suggests an increased customer base.

- The results of a staff satisfaction survey – these surveys provide information about how staff feels about the business – their attitude, commitment, level of job satisfaction, level of staff absenteeism, morale and motivation. Provides information to management about how staff feels about the organisation and what the organisation can do to improve staff satisfaction.

- The level of staff turnover – in a similar manner as the staff satisfaction survey, the level of staff turnover provides information about the relationship between staff and management. Staff leave an organisation for a number of reasons – retirement, promotion at another firm, to have children. This PI helps management understand why staff are leaving and what they may be able to do to retain staff.

Solutions to Review Questions

1. It is important to measure performance, so an organisation is performing in terms of its goals and objectives.

2. A market leader is an organisation within an industry that is known to be the best in that industry and against which all other organisations measure themselves.

3. If the number of customer complaints fall and the results of the survey show an improved attitude to the business, this should result in increased sales for the business.

4. Benchmarking is when a business sets its performance standards against the standards set by another organisation known as a leader in the industry.

5. The level of staff turnover will provide information about the effectiveness of the induction program. If staff are leaving because they feel unsupported or unwelcome in the organisation it may suggest the induction program did not do enough to welcome and familiarise new staff to the organisation...

6. The ratios are:

	2010	**2011**
Working Capital – CA/CL	148%	134%
Quick Asset – QA/QL	104%	91%
Gearing – TL/TE	63%	60%
Return on Owners Investment – NP/TE	33%	38%
Gross Profit Ratio - GP/Sales	50%	47%
Net Profit ratio – NP/Sales	23%	24%

7. Overall the performance of the business is difficult to determine. Three ratios have improved and three have deteriorated. On balance it is reasonable to suggest that performance has improved as net profit ratio and return on owner's investment have improved.

8. A marketing plan provides a strategy for a business to move from where it currently is to where it would like to be in terms of their strategic plan.

9. Evaluation of a marketing plan assists a business in determining if the plan was a success and what improvements or adjustments need to be made to ensure the business gets to where it wants to be.

10. Public Relations is the relationship between an organisation and its public. It is the practice of establishing goodwill and mutual understanding between an organisation and its public. Advertising is the process of paying to have non-personal messages communicated to the public through the media.

11. Good public relations is capable of creating favourable attitudes towards the business by customers and potential staff. This encourages and persuades customers to purchase from the business and potential employees to seek employment. It develops loyalty and can result in improved profits/achievement of business objectives.

12. PI's are measures that allow the business to compare actual statistical data against set standards, targets and/or previous results. Two PIs that could be used are:

- Profit
- Customer satisfaction
- Number of returns
- Levels of waste
- Productivity

13. A performance appraisal is the formal assessment of how efficiently and effectively an employee is performing in terms of assisting the organisation achieve its objectives.