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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.

- The results of a customer satisfaction survey – as with a staff satisfaction survey, this survey provides information as to how customers feel about the organisation. It can provide information regarding customer service, quality of the product and the returns policy of the organisation. It can assist in identifying areas that require improvement and can comment on strategies introduced previously.

- The numbers of customer complaints – how satisfied are customers? What issues do customers complain about most? Have our strategies to deal with customer concerns been dealt with? If the number of complaints is falling from one period to the next then this suggests the organisation is listening to customers and acting on their concerns.

- The level of wastage – all organisations produce waste as a by-product of their operations system. Minimising waste is the ethical and socially responsible approach to take. If an organisation can reduce its waste levels then it is seen as a responsible organisation and may also lead to a reduction in production costs.

- The number of workplace accidents – an accident at work affects the injured employee and his/her family, other employees and the organisation. It costs the organisation money and time and can lower productivity. It will also alter the results of the staff satisfaction survey. By reducing this PI the business is improving staff morale and motivation and showing staff that their safety is the concern of management.

All Performance Indicators must be compared to previous PI data so that useful information is provided. A set of Performance Indicator data looked at in isolation provides little useable information for management and therefore little is able to be done in terms of improving the performance of the business in the future.

Review Questions

3. Explain how the number of customer complaints and the results of a customer satisfaction survey can improve sales.

4. Explain what is meant by the term ‘benchmarking’.

5. Suggest **one** performance indicator and explain how it could be used to assess the success of an induction program used by a business for new employees.