

Week 6 Notes

Chap 14: Contemporary approaches to measuring & managing performance (Non-financial)

Why measure performance?

- Feedback
- Rewards (can only reward when performance is known esp for incentive-based pay)
- Communication tool e.g. how the unit performs
- Alignment of goals (Does the manager's personal goals align with the org. goals?)

Problems with traditional financial performance measures in isolation

- × Only emphasise the financial perspective of business
- × Only focus on past events and not causes. E.g. what has happened and not why it has happened or what fixing has to be done
- × Don't allow managers to assess areas that needs to be developed in long term (limited guidance for future actions)
- × Encourage short-term performance. E.g. Reducing expenses on HR development > increase in profits > erode future profit & growth > Decrease shareholder value

Solution:

- Include non-financial measures

Advantages of non-financial measures	<ul style="list-style-type: none"> ✓ Emphasise strategy. E.g. Coy's business strategy to provide excellent customer service > Measure level of customer satisfaction ✓ Drive future financial performances. E.g. Measure product quality & customer service > Improved financial performance ✓ More actionable ✓ More timely > immediate correction of problems ✓ More understandable & easier to relate to
Disadvantages of non-financial measures	<ul style="list-style-type: none"> × Too many non-financial measures to choose from × Can be ad hoc & undirected × Managers must make trade-offs × Some measures lack integrity. Difficult to verify accuracy of data or measures can be incomplete/ manipulated > Data should be gathered in variety of ways e.g. manually, computerised, by external party × Some measures may not easily translate into financial outcomes. E.g. improving measures e.g. customer satisfaction may not lead to increased profits

Examples of non-financial measures

- Customer satisfaction expressed as a percentage
- Number of defects
- Quality of products
- Productivity: Ratio of outputs produced per unit of input
 - Labour product.: No. of units produced/ No. of DLH
 - Total factor produc.: No of units produced/ Cost of all inputs to production
- Stock status: Balance of inventory on hand
- Number of accidents
- Multi-skilling: Measures no. of employees that finished training & acquired skills which allow them to undertake their work and the tasks of other workers
- Number of hours that machines are unable to operate
 - Set-up time: Time taken to get the machine & materials ready to start producing a product
- Percentage of orders delivered on time

The balanced scorecard

Define:

Tool that translates org's mission, objectives & strategies into performance measures that can be used to monitor & manage performance

- Identifies cause & effect relationships bw these measures in different perspectives
- Many coys use balanced scorecard to manage implementation of their strategies
- Called balanced scorecard: Balances use of financial & non-financial performance measures to evaluate performance

Vision: Desired future state of org.

Mission: Outlines goals of org.

Strategy: Sets out future objectives for org. to achieve its mission & vision

- Must understand industry

Corporate strategy: Focus on what kind of business (Broader view)

Business strategy: Focus on how industry performs in specific market

Types of business strategies

Product differentiation	Offer products/ services to be superior & unique compared to competitors' products/ services <ul style="list-style-type: none"> • Result in brand loyalty & customers willing to pay high prices • E.g. Apple
Cost leadership	Achieve lower costs compared to competitors through productivity & efficiency improvements, elimination of waste & tight cost control

	<ul style="list-style-type: none"> • Lead to lower selling prices • E.g. Homebrand items, Aldi
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4 perspectives of balanced scorecard

<u>Financial perspective</u>	<p>Define: Reflect perspective of shareholder/ other stakeholders in org.</p> <ul style="list-style-type: none"> • Summarise financial outcomes of decisions & activities • E.g. Cost & profit measures, ROI, CF measures & shareholder value measures, revenue growth, gross margin percentage
<u>Customer perspective</u>	<p>Define: Focus on market/ sales performance</p> <ul style="list-style-type: none"> • Lag: Customer profitability, market share, no. of new customers • Lead: On-time delivery, no. of defects
<u>Internal business processes</u>	<p>Define: Specific & critical processes that contribute to customer & financial objectives</p> <ul style="list-style-type: none"> • In areas of product design, operations, marketing, sales, distribution & customer service • E.g. Cost measures, product quality, time-based measures, new product development, defect rates
<u>Learning & growth</u>	<p>Define: Focus on capabilities of org. to achieve superior internal processes that create both customer & shareholder value</p> <ul style="list-style-type: none"> • To deliver long-term growth & improvement • E.g. Employee satisfaction measures, training measures, skills measures, no. of employee suggestions made & implemented, no. of employees whose goals align with org's goals