22421

Management Decision Making

Note for FINAL exam

Good luck ☺

Question 1:
Why Citibank need a performance measurement system?

- ❖ **To implement and monitor strategy**: that was building a profitable franchise by providing relationship banking combined with a high level of service to its customers;
- ❖ **Support managerial decision making**: the system comprised different dimensions, which can provide different information to James and higher level managers (as the performance scorecard goals and performance data are a central management tool to implement strategy and evaluate performance) to make strategic adjustments to the current strategy;
- ❖ **Motivate managers and employees (via evaluation and rewards):** in order to align their goals and interests with that of the organization by measuring the achievement of the target;
- ❖ **Communicate with stakeholders**: internally with shareholders, higher level managers and employees, and externally with local community, customers and local government and regulator.

Overall objectives of Citibank: To build a profitable franchise by providing relationship banking combined with a high level of service to its customers (taken from the case)

Corporate strategy:
Leverage: with all financial products, all products are related => related diversifiers as Citibank provided a broad array of services including a dense network of ATM machine, 24 hours banking, home banking etc. (taken from the case)

Competitive strategy:
Differentiation by providing superior customer service quality with knowledgeable employees, broad selection of high quality financial products.

Define performance for Citibank:

Depends on the level

- ❖ Individual: knowledgeable
- ❖ Branch: high quality of services
- ❖ Whole company: profitability

➔ Achievement of objectives: profitable (high PM, revenue) and high quality of services (customer satisfaction rate, evaluation by internal auditor)

Question 2:
Describe Citibank's performance measurement system

Cybernetic loops

Pre-conditions of cybernetic control:
1. There are measures that enable the quantification of an underlying phenomenon activity or system

2. There are standards of performance or targets to be met

3. There is a feedback process

4. There is a comparison of the outcome to the standard

5. There is the ability to modify the phenomenon, activity or system

1. Establish standard or targets

2. Measure actual performance

- Finance
- Strategy implementation
- Internal Process
- Learning and Growth

3. Compare actual to standard

4. Evaluate the variance

Customer satisfaction results: 66 1Q, 63 2Q, 54 3Q, 72 4Q throughout the year.

James and Lisa identified the reason for causing the variances between quarterly results of customer satisfaction. That is the adequacy of the survey. Customer rated not only their branch, but also other Citibank services such as ATM's that were out of the control of branch managers. Thus, it was possible that these centralized services were not providing adequate support to the sophisticated customers of James's branch. Reason for 3rd quarter: the branch ran short of one teller and desperately needs another two CBCs to offload the daytime traffic in the branch.

The performance measurement system allows James to utilize management-by-exception. That is he had the discretion to investigate the specific unfavourable variances to understand why expectations were not met and what courses of actions were required.

5. Take corrective action

Lecture 3. Financial measurement:

Question 3:
What financial measures does Citibank rely on to evaluate the performance of its divisions?

Revenue, expense, PM

Question 4:
Why do Citibank measure financial performance?

- ❖ To provide aggregated summary measures of results of economic activities
- ❖ Align to Citibank's financial objectives
- ❖ Well-developed history on how to design and use them

Question 5:
What type of responsibility centre would be most appropriate?

Responsibility centre is a unit in an organisation where the manager is held accountable for the unit's activities and performance.

- ❖ **Profit centre: as it generates both revenue and expense**
- ❖ Revenue centre
- ❖ Investment centre

Question 6:
What type of financial performance measurement would be most appropriate?

- ❖ % Profit margin growth
- ❖ Revenue growth
- ❖ Expense reduction (%)

Question 7:
Why is it problematic to rely purely on FPM to make managerial decisions?

- ❖ **Only measure one aspect of performance (e.g. not capture customer service quality, product quality, employee satisfaction, etc.):**

Citibank needs to manage the determinants of future financial performance, and this is where strategy plays a role. Senior management determines the strategies that will be implemented to enable the business to achieve long-term goals. Branch managers need a performance measurement system that accesses how well they perform across the full range of strategically important areas, quality, delivery and cost. As pointed out by top managers, financial measures were poor vehicles to communicate the high service strategy of the bank

- ❖ **Measures only the summary of historical outcomes:**

Measures of profit, and its components, costs and revenues describe the financial consequences of decisions and activities, not causes. They describe what has happened, not why it has happened. They are too aggregated and they do not tell managers what needs fixing. Also, summary of financial measures are often reported at the end of each financial period, so they are not timely

- ❖ **Not processes or drivers of performance**
- ❖ **Limited guidance of future action** (e.g. only see that PM is low by don't understand why and how to solve):

 Financial measures do not allow branch managers to assess areas that need to be developed for the organisation to be successful in the long term. Financial measures