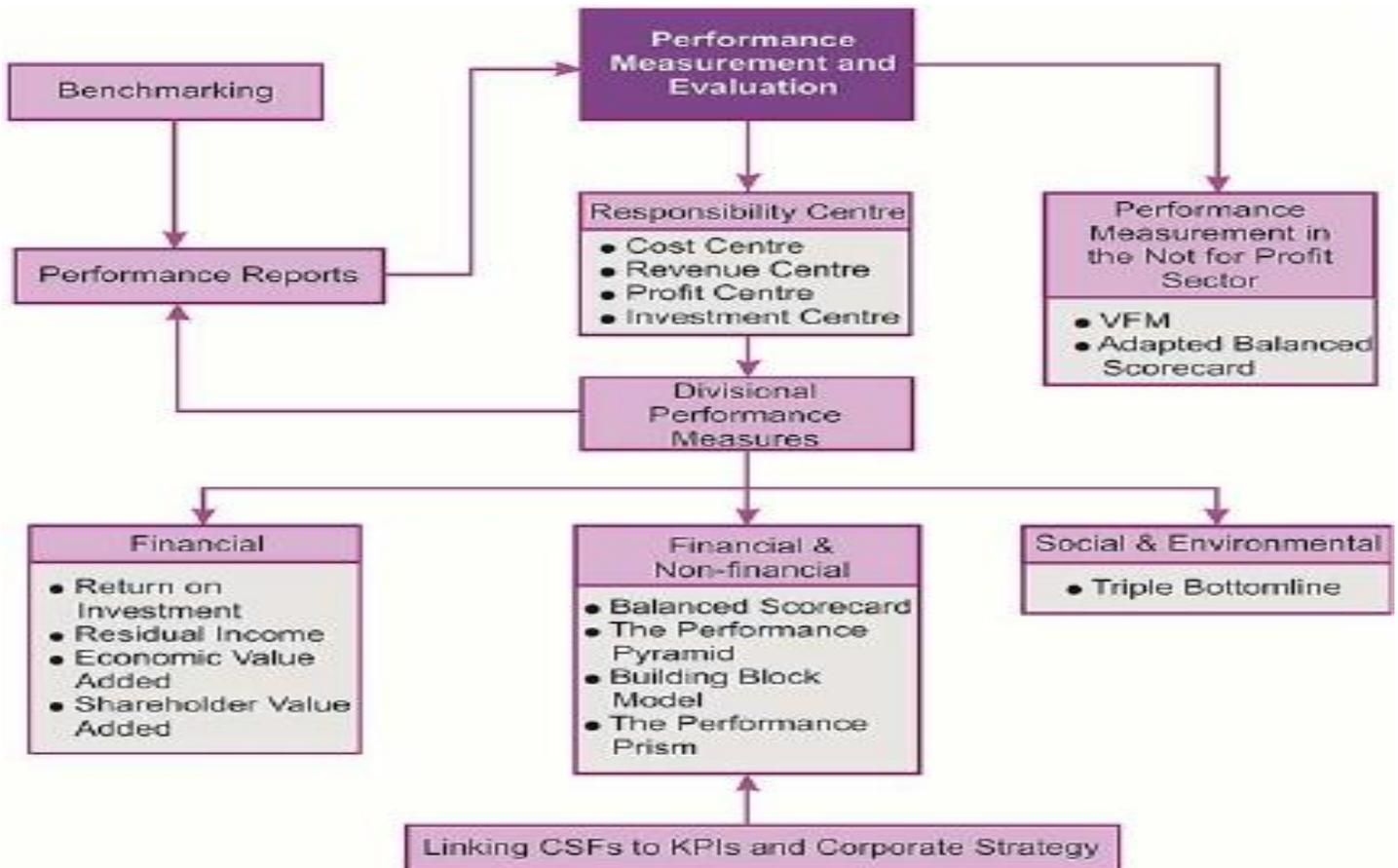


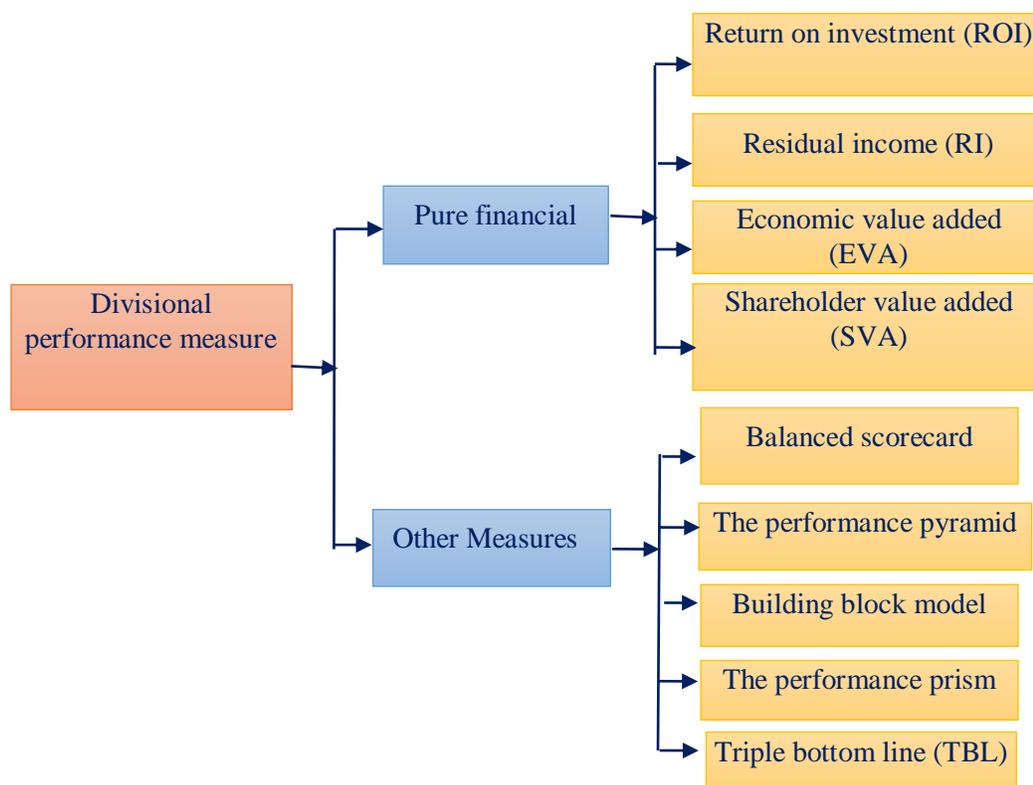
## REVISION CLASS NO- 5 NOTES

### Chapter-8 Performance Measurement & Evaluation

#### Performance Measurement & Evaluation



#### Divisional Organizational Structure



## Return on Investment (ROI)

- ROI expresses divisional profit as a percentage of the assets employed in the division.
- ROI is a common measure and thus is ideal for comparison across corporate divisions for companies of similar size and in similar sectors.

## Residual Income (RI)

- To overcome some of the dysfunctional consequences of ROI, the residual income approach can be used.
- For evaluating the economic performance of the division residual income can be defined as divisional contribution less a cost of capital charge on the total investment in assets employed by the division.
- Residual income suffers from the disadvantages of being an absolute measure, which means that it is difficult to compare the performance of a division with that of other divisions or companies of a different size.

## Economic Value Added (EVA)

Economic Value Added is a measure of economic profit. Economic Value Added is calculated as the difference between the Net Operating Profit After Tax (NOPAT) and the Opportunity Cost of Invested Capital. This opportunity cost is determined by multiplying the Weighted Average Cost of Debt and Equity Capital (WACC) and the amount of Capital Employed.

$$\text{EVA} = \text{NOPAT} - \text{WACC} \times \text{Capital}$$

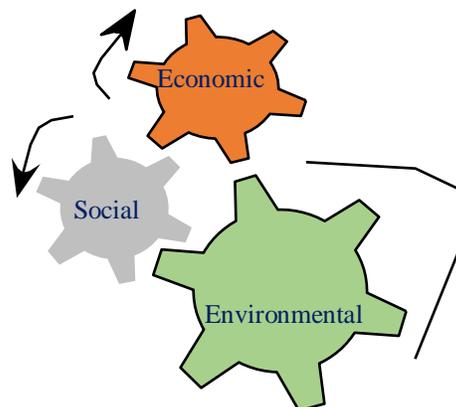
## Shareholder Value Added (SVA)

A variation along the same concept as EVA. The main aim of the organisation is to add value to shareholder wealth.

shareholder value would be increased if this measure were to increase. According to Rappaport, the following seven factors- he calls them “value driver”- affect shareholder value:

- Rate of Sales Growth
- Operating Profit Margin
- Income Tax Rate
- Investment in Working Capital
- Fixed Capital Investment
- Cost of Capital
- Life of the Project

## Triple Bottom Line (TBL)



**Environmental**-measures the impact on resources, such as air, water, ground and waste emissions .

**Social**- relates to corporate governance, motivation, incentives, health and safety, human capital development, human rights and ethical behaviour.

**Economic**- refers to measures maintaining or improving the company's Success.

ENVIRONMENT (Planet) ↓	SOCIAL (People) ↓	ECONOMICAL (Project) ↓
➤ Material, Water energy, Fuel, Land consumption	➤ Training/education provided to employee	➤ Whether Company Paying their tax on Regular basis.
➤ Disposal of Waste	➤ Human Right Practices ➤ -( No Child labour appointed)	
➤ Whether Company use paper bag instead of plastic bag. ➤ To Preserve natural resources	➤ Proper health/safety measures adopted	
➤ Less documentation Policy (uploading all information on website)	➤ Charity Programme (Donation)	
➤ Construct solar powered warehouse	➤ No litigation case exist against company pending during last years	
	➤ Low Accident in factory	
	➤ Low death rate in Hospital	
	➤ Healthy relation with supplier (Staff/Vender)	
	➤ Any activity helps people/Customer/Patient without charging any amount.	

### Linking CSFs to KPIs and Corporate Strategy

In order to truly achieve effective measurement of business performance the KPI's must be selected and designed in a way that ensures that the CSF is delivered if the KPI meets the threshold, and the CSF's in turn must be designed and constructed in a way that ensures that the company's strategic vision is delivered if the CSF's are met.

### Balanced Scorecard

The balanced scorecard is a method which displays organisation's performance into four dimensions namely financial, customer, internal and innovation. The four dimensions acknowledge the interest of shareholders, customers and employees taking into account of both long-term and short-term goals.

Kaplan and Norton classified performance measures into four business 'perspectives':

**Financial Perspective:** Financial performance measures indicate whether the company's strategy implementation and execution are contributing to its revenue and earnings.

**Customer Perspective:** In this stage, companies identify customers and market segments in which they compete and also the means by which they provide value to these customers and markets.

**Internal Business Perspective:** In this stage companies identify processes and activities which are necessary to achieve the objectives as identified at financial perspectives and customer perspective stage. These objectives may be achieved by reassessing the value chain and making necessary changes to the existing operating activities.

**Learning and Growth Perspective:** In the learning and growth perspective, Companies determine the activities and infrastructure that the company must build to create long term growth, which are necessary to achieve the objectives set in the previous three perspectives.

## Performance Pyramid

The Performance Pyramid also known as Strategic Measurement and Reporting Technique by Cross and Lynch 1991. They viewed businesses as performance pyramids. The attractiveness of this framework is that it links the business strategy with day-to-day operations.

- ❖ Linkage of Business strategy with day to day operation.
- ❖ The Performance measurement tool
- ❖ Success of Proposal is linked with external (Market), Internal efficiency
- ❖ The marketing success of Proposal is associated with achievement of customer satisfaction (outtime, quality, delivery)
- ❖ The Financial success of the Proposal is linked to the achievement of High Productivity (Low wastage, Low Cycle Time)
- ❖ All these support with Quantity data.

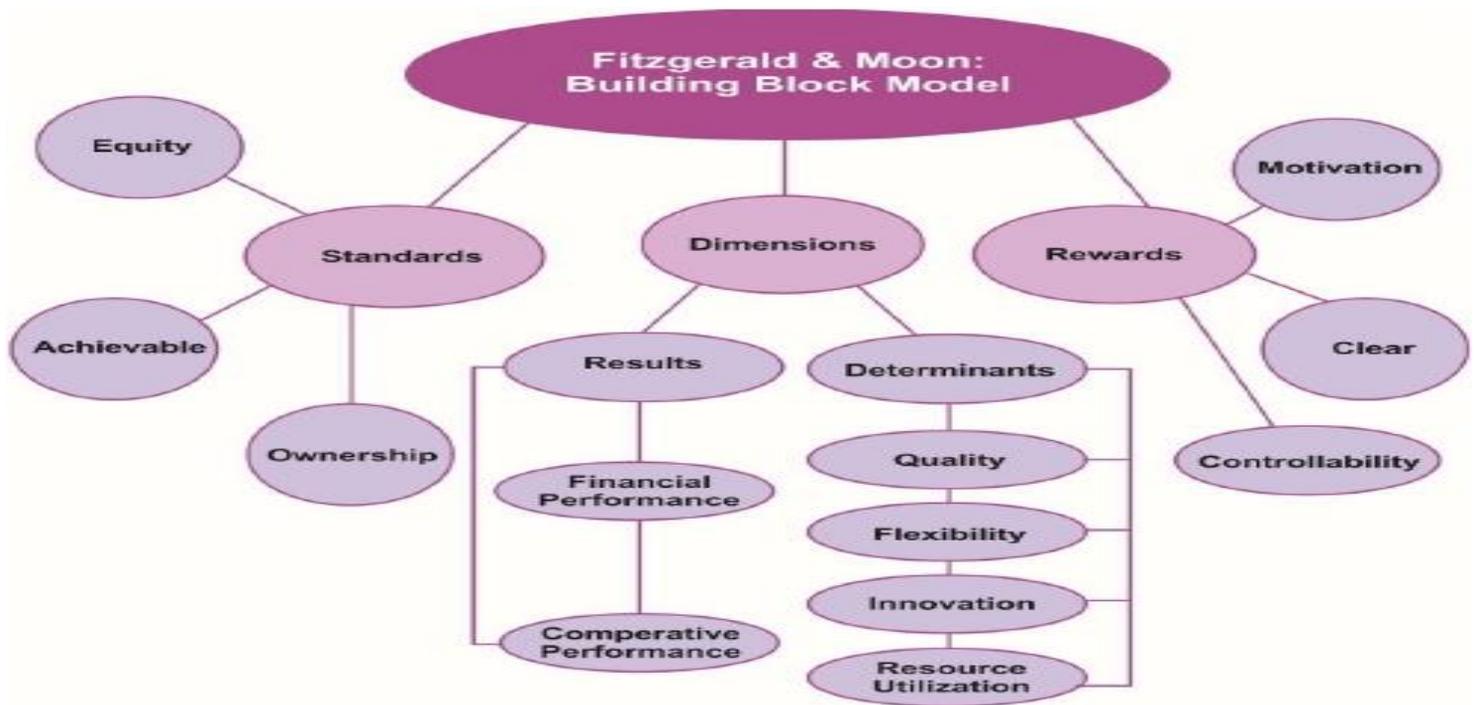


In the above pictorial presentation:

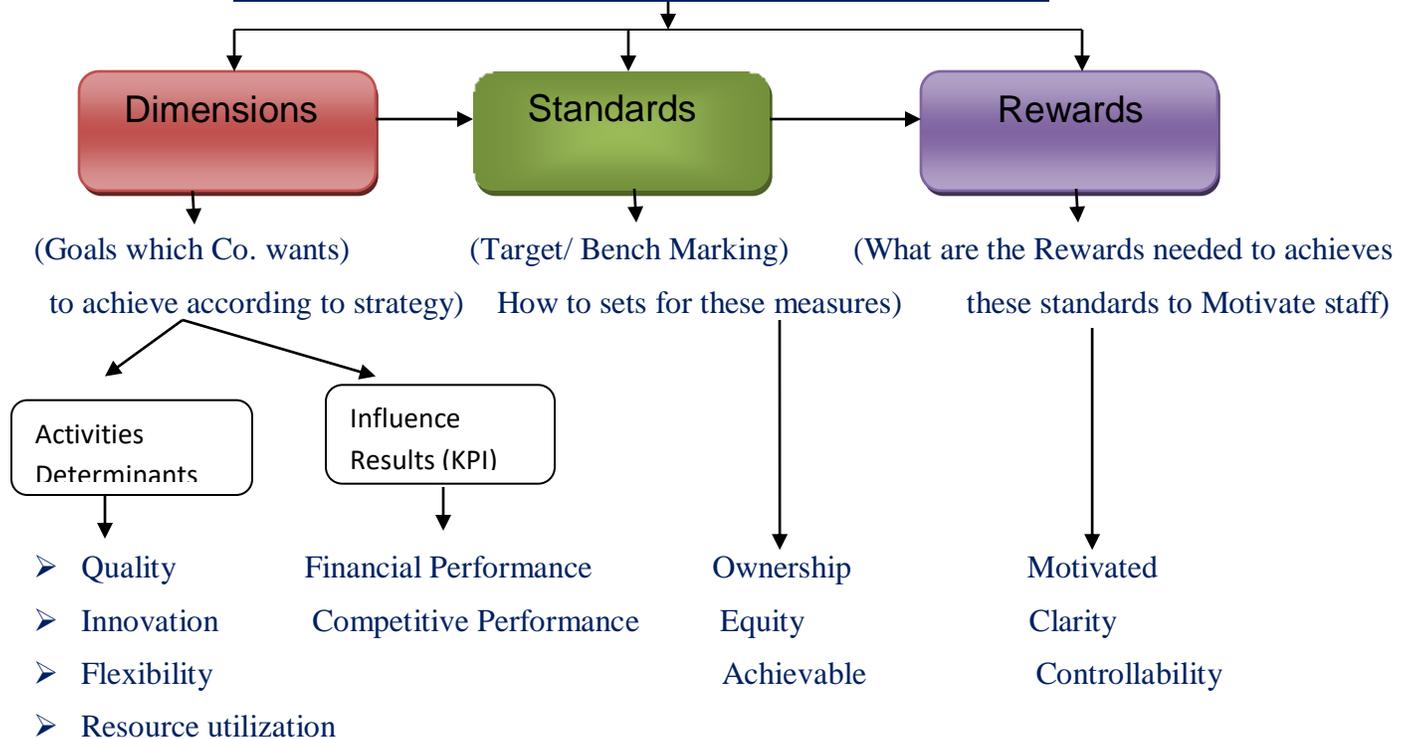
- ‘Objectives’ are shown from top to bottom.
- ‘Measures’ are from bottom to the top.
- At the top is the organization’s corporate vision through which long term success and competitive advantages are described.
- The ‘business level’ focuses on achievements of organization’s CSF in terms of market and Financial measures.
- The marketing and financial success of a proposal is the initial focus for the achievement of corporate vision.
- The above business are linked to achieving customers satisfaction, increase in flexibility and high productivity.
- The above driving forces can be monitored using the operating forces of the organization.
- The left-hand side of the pyramid contains external forces which are ‘non-financial’.
- On the other hand, the right-hand side of the pyramid contains internal efficiency which are predominantly ‘financial’ in nature.

## The Building Block Model

Fitzgerald and Moon proposed a Building Block Model which suggests the solution of performance measurement problems in service industries. But it can be applied to other manufacturing and retail businesses to evaluate business performance.



## **BUILDING BLOCK MODEL (Summary)**



Standards. These are the measures used, i.e. the KPIs, should have the following characteristics:

**Equity**-Performance measures should be equally challenging for all parts of business. Relaxation given to one part of the business leads to perception of unfair treatment which hinders productivity.

**Ownership**-Performance measure should be acceptable to everyone. Employees should be got involved in the identification of measures rather than being imposed on them. Ownership means here is responsibility for the results.

**Achievable**-Performance measure should be realistic. Ex, using actual results for the competitors to set as

target. Employee will not be motivated to achieve targets if consider them impossible.

**Rewards-**To ensure that employees are motivated to meet standards, the standards need to be clear and linked to controllable factors. Reward schemes should possess following characteristics:

**Motivation-**Rewards scheme should be set in manner which motivates employees to achieve the business goals. If sales growth is desired than bonus can be linked to performance measures, like increase in number of units sold than previous year.

**Clear-** Rewards scheme should be clearly communicated to employees in advance. What kind to performance will be rewarded and how their performance will be measured?

**Controllability-**Employees should only be reward or penalized of the result over which they some control or influence.

**Dimensions-**Dimensions are the goals for the business, i.e. the CSFs and suitable measures must be developed to measure each performance dimension. They are further divided into two sub- categories.

**Determinants-**These are performance areas which influence the results. These are.

- **Quality-** It is the ability to deliver goods and service with consistency. Quality should be judged from eyes of the customers. Quality is the level of benefits customers expects from the product. Quality should be enough for a product price paid.
- **Flexibility-** It is the responsiveness to change in the factor influencing the business performance. Ex, ability to cope with sudden increase in sales demand.
- **Innovation-** Ability of the business to devise new products and new ways of doing things. Like packaging of products with environment friendly (recyclable) material.
- **Resource Utilization-** It is the ability to use resources to achieve business objectives. Business assets should be used for the proper purpose and in most efficient way. Ex, using delivery vans to its maximum capacity only by carrying authorized goods.

**Results-** It reflects the success or failure of determinants identified above.

- Financial Performance- Financial performance gives an indication of overall business at a glance in monetary terms. These can be used to identify areas of strengths and weaknesses. It may also highlight other areas previous identified which may be critical to business success.
- Competitive Performance- How they stand in comparison to its competitors? How are the different from their competitors? Ex, offering of products of higher quality than competitors and products having distinct features than rival products.

## The Result and Determinants Framework

	Dimensions of Performance	Types of Measures
	Competitiveness	<ul style="list-style-type: none"> <li>• Relative Market Share and Position</li> <li>• Sales Growth</li> <li>• Measures of the Customer Base</li> </ul>
	Financial Performance	<ul style="list-style-type: none"> <li>• Profitability</li> <li>• Liquidity</li> <li>• Capital Structure</li> <li>• Market Ratios</li> </ul>

	Dimensions of Performance	Types of Measures
	Quality of Service	<ul style="list-style-type: none"> <li>• Reliability</li> <li>• Responsiveness</li> <li>• Aesthetics/appearance Communication</li> <li>• Cleanliness/tidiness</li> <li>• Comfort</li> <li>• Friendliness</li> <li>• Courtesy</li> <li>• Competence</li> <li>• Access</li> <li>• Availability</li> <li>• Security</li> <li>• Communication</li> </ul>
	Flexibility	<ul style="list-style-type: none"> <li>• Volume Flexibility</li> <li>• Delivery Speed Flexibility</li> <li>• Specification Flexibility</li> </ul>
	Resource utilization	<ul style="list-style-type: none"> <li>• Productivity</li> <li>• Efficiency</li> </ul>
	Innovation	<ul style="list-style-type: none"> <li>• Performance of the Innovation Process</li> <li>• Performance of Individual Innovations</li> </ul>

## Performance Prism

The Performance Prism is an approach to performance management which aims to effectively meet the needs and requirements of all stakeholders. This is in contrast with the performance pyramid which tends to concentrate on customers and shareholders and is also in contrast with value based management, which prioritizes the needs of shareholders.

**Stakeholders Satisfaction:** The organization needs to focus on who are the stakeholders? What are the needs and wants of the stakeholders.

**Strategies:** What are the strategies required by the organization to fulfill the wants and needs of the stakeholders?

**Processes:** What are the necessary processes required for satisfying the above strategies?

**Capabilities:** What capabilities does the organization needs for operating and enhancing the process?

**Stakeholders Contributions:** It further takes into account what contribution does the management needs from its stakeholders?

## Performance Prism

Performance Prism creators Andy Neely and Chris Adams mentioned that the better-known Balanced Scorecard framework only focuses on two sets of stakeholders: shareholders and customers. The Performance Prism is an approach to performance management which aims to effectively meet the needs and requirements of all stakeholders. This is in contrast with the performance pyramid which tends to concentrate on customers and shareholders and is also in contrast with value based management, which prioritizes the needs of shareholders.

- It takes stakeholder requirements as the start point for the development of performance measures rather than the strategy of the organisation.
- It recognises the need to work with stakeholders to ensure that their needs are met.

There are five 'facets' to the Performance Prism which lead to key questions for strategy formulation and measurement design:

**Stakeholders Satisfaction:** The organization needs to focus on who are the stakeholders? What are the needs and wants of the stakeholders.

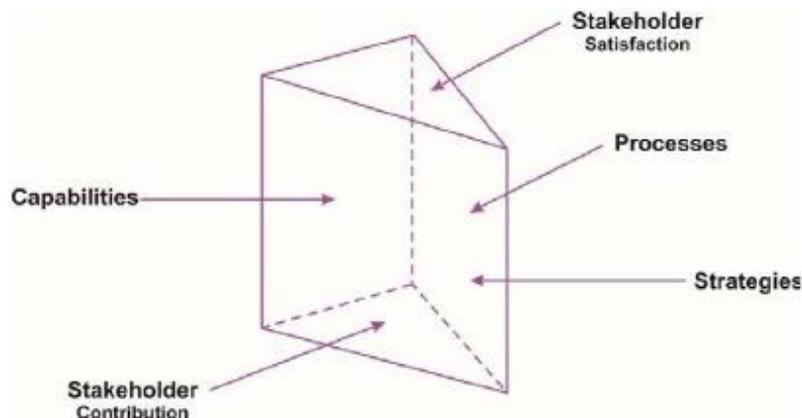
**Strategies:** What are the strategies required by the organization to fulfill the wants and needs of the stakeholders?

**Processes:** What are the necessary processes required for satisfying the above strategies?

**Capabilities:** What capabilities does the organization needs for operating and enhancing the process?

**Stakeholders Contributions:** It further takes into account what contribution does the management needs from its stakeholders?

### Comprehensiveness of Performance Prism



The Performance Prism allows organisations to develop strategies, business processes and measures geared to the specific needs of all important stakeholder groups. By taking a broad stakeholder perspective that includes regulators and business communities, the PP enables an organisation to more directly address the risks and opportunities in its business environment. Using the PP to develop measures for each relevant stakeholder facilitates the communication and implementation of strategy.

### Performance Measures – Benefits

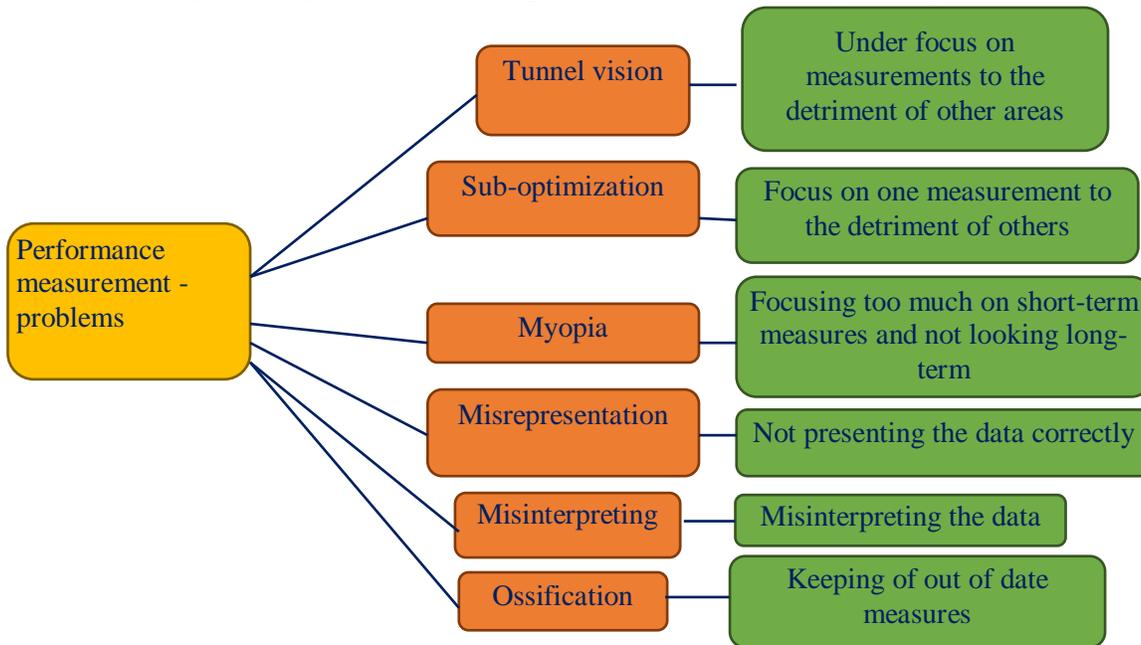
The following benefits can be derived from the use of performance measures:

- Develops agreed measures of activity.
- Clarifies the objectives of the organization.
- Greater understanding of process.
- Helps facilitate comparison between divisions.
- Promotes accountability to stakeholder.
- Helps in setting of targets for managers.

- Helps facilitate comparison between different organizations

## Performance Measures – Problems

Problems that may develop from the use of performance measures by an organization are as follows:



## Performance Measurement In the Not for Profit Sector

The following are key challenges for measuring performance in not-for profit organizations-



## Value for Money (VFM) Framework

A framework which can be used for measurement of performance in not-for-profit sector is the Value for Money framework. Not-for-profit organisations are expected to provide value for money which is demonstrated by:



- **Effectiveness:** Whether the organisation has achieved its desired mission and objectives?

- **Efficiency:** Whether the resources and funds available to the organisation has been utilized efficiently i.e, maximum output has been obtained with minimum input?
- **Economy:** Whether the desired output has been obtained using the lowest cost? It must be noted that use of lowest cost approach should not compromise quality.

### Value For Money

**Frame Work which can be used for measurement of Performance is not for Profit sector (3E)**



(Are the Organization achieve their objective)

Nature of Organization	Objective (C.S.F.)	KPI (How can we measure)
<b>Normally</b>	<b>Customer Satisfaction</b>	<b>On time delivery , Quality</b>
<b>School</b>	<ul style="list-style-type: none"> <li>• To Provide better quantity education to desired/Poor student</li> </ul>	<ul style="list-style-type: none"> <li>• No. of student dropping out of school (Should be low)</li> </ul>
	<ul style="list-style-type: none"> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>• No. of student success fully complete their course &amp; Join next higher study/Job.</li> </ul>
<b>Hospital</b>	<ul style="list-style-type: none"> <li>• To Provide better quality treatment to patients</li> </ul>	<ul style="list-style-type: none"> <li>• Re admission of patient in next short period (low)</li> </ul>
	<ul style="list-style-type: none"> <li>• Prompt medical services</li> </ul>	<ul style="list-style-type: none"> <li>• Low patient waiting time</li> </ul>
	<ul style="list-style-type: none"> <li>• Satisfaction of Patient</li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>
<b>For cleaning To beach- Contractor</b>	<ul style="list-style-type: none"> <li>• Improve cleanliness of beach/particular place.</li> </ul>	<ul style="list-style-type: none"> <li>• Litter/Garbage should be explained not necessary to clean every paper, but main can be done like soft drink, aluminum can, Glass bottle, animal dropping, food refusal,</li> </ul>

<b>appointed</b>		not sea weeds. • How-From Feedback/complaint, message from visitors surprise visit by inspector.
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**EFFICIENCY  
(Productivity)**



(Whether Resources/Funds have been utilized effectively)

**Normally:- Consumption of Time/material per unit of Production**

<b>Schools</b>	➤ How many students can be taught trained by a teacher in one hour	➤ No of students = XX ➤ No. of Teachers = XX ➤ Teacher Ratio is quite satisfactory ➤ (Student to teacher Ratio)
<b>Hospitals</b>	➤ No. of Patient treated by doctor	➤ No. of Patient = XX (A) ➤ No. of Doctors = XX (B) ➤ a/b = No. of Patients treated per doctor (Low better) ➤ Waiting time of patient to receive treatment
<b>Cleaning Authority</b>	➤ Cost per operation per tractor/Vehicle/Per Km.	➤ Cost of Running the tractor/Vehicle = XX (a) ➤ No. of tractors operated OR Tractor Km a/b ➤ (Low is better)

**ECONOMY  
(Cheap, Qualitative, better)**



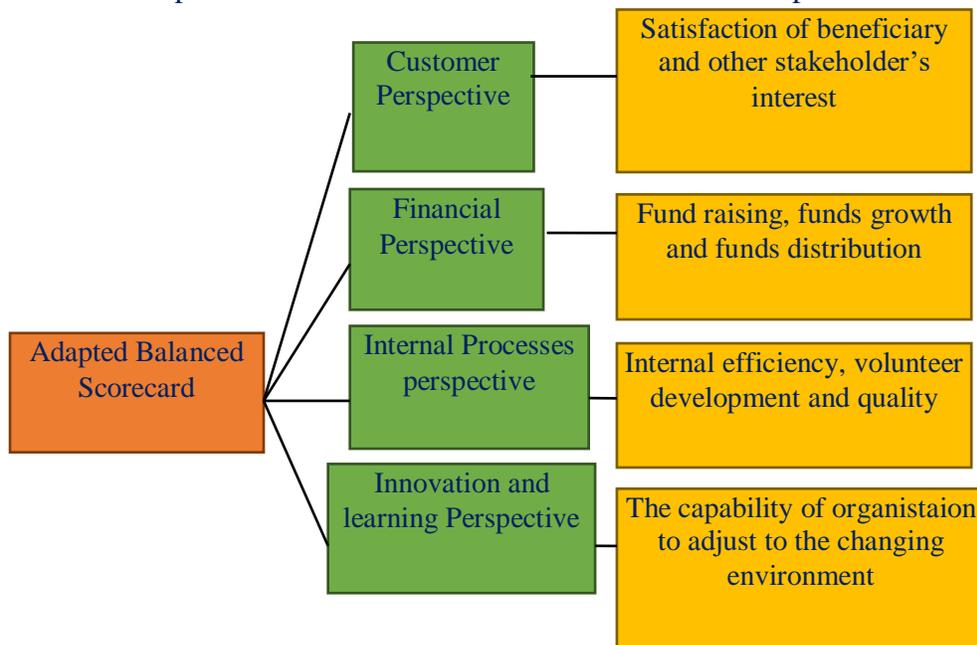
**(Assess the Financial aspect of Activity)**

<b>Main Objective</b>	➤ Desired output can be achieved from lowest cost without compromising the	
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	quality	
<b>School</b>	<ul style="list-style-type: none"> <li>➤ How much amount spent</li> </ul>	<ul style="list-style-type: none"> <li>➤ Amount spent on maintaining the school premises, amount spent on remuneration to teacher.</li> <li>➤ Actual amount should be compared with Budget (Standard)/Sanctioned amount</li> </ul>
<b>Hospitals</b>	<ul style="list-style-type: none"> <li>➤ How much amount spent on Maintenance, Salary of Doctors/ staff.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Salary amount should be significant/Justified compare with budget or other Hospital ( Bench mark)</li> </ul>
<b>Contractors for Cleaning</b>	<ul style="list-style-type: none"> <li>➤ Cleaning Expenses</li> <li>➤ Competitive tending Process:- Followed Review</li> <li>➤ Quality of service with lowest cost.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Payment made to contractor. Expenditure incurred on empty waste from bin other exp: Labour , Material, Disposal Van, Compare with budget/similar cleaning activity carried by neighbor town</li> </ul>

### Adapted Balanced Scorecard

Kaplan developed the ‘Adapted Balanced Scorecard’ for measuring performance at NGOs. The main assumption of this adapted scorecard is that mission statement and not profits is the main point to be met.

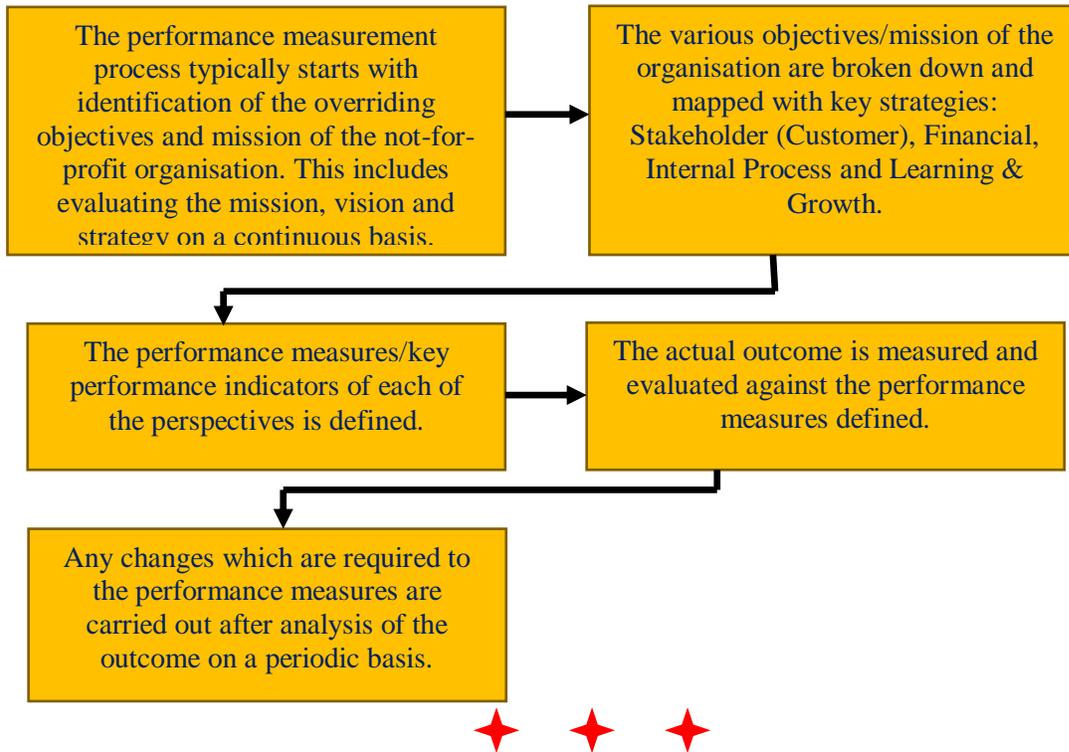


### Other Performance Measures

- The ability to raise funds to meet the objectives efficiently.
- Submitting periodic reports to the stakeholders in a transparent manner.
- The best use of financial as well as non-financial resources to achieve desired objectives and mission.
- The long-term impact (benefits) of the activities of the not-for-profit organisations.

- The quality of services provided by the organizations.

## Performance Measurement Process



## BENCHMARKING

Benchmarking can be defined as:-

- (i) Identifying
- (ii) Understanding , and
- (iii) Adapting best practices

### In relation to both:-

- (i) Products, and
- (ii) The processes by which those products are created and delivered.

### Benchmarking Stages:-

Understand current Performance

Comparison with Leaders

Learn from Leaders

Implement to close performance Gap

### Prerequisite for effective Benchmarking:-

- (a) Leadership Commitment:- They should be committed to change and adapt the Benchmarking based findings. The initial hurdles should no upset them.
  - (i) **Culture Experience with Continuations Quality Improvement:** The people should not be satisfied with status quo.

- (ii) **Preparation of the Organization:** Aims and objectives of the Bench marking should be communicated to all the stakeholders and the entire procedure should be transparent.
- (iii) **Training Staff:-** Ensure that the staff people fully understand what the Benchmarking is, what's the Bench-marking I, what it's benefits are and how it is to be implemented.
- (iv) **Benchmarking Partner:-** In case of external benchmarking the selection and willingness of the other partner are quite important prerequisite.
- (v) **Continuations Process:-** Benchmarking is a continuous process as the road to improvement is never ending.
- (vi) Willingness to share information with other partners particularly the external Partners.

## TYPES OF BENCHMARKING:-

- (b) Strategic Benchmarking : Studying the strategic that helped t best practice companies to succeeds.
- (ii) Competitive Benchmarking : Involve companies from the same sector.
- (iii) Process Benchmarking : Improve specific key processes.
- (iv) Internal Benchmarking
- (v) External Benchmarking
- (vi) International Benchmarking

## BENCHMARKING CODE OF CONDUCT:-

- (i) Exchange :Be willing to give what you get.
- (ii) Respect Confidentiality.
- (iii) Never use the information to harm the Benchmarking partner.
- (iv) Do not ask the other partner for sensitive data.
- (v) Follow through with each commitment made to you benchmarking partner in aimely manner.
- (vi) Do no waste the time of benchmarking Partner.

## Benchmarking Schemes

Benchmarking, technique for continuous improvement was originated in Japan during the early 1960s due to Japanese curiosity and fondness for achieving the best of best. Various forms of benchmarking have been used in industry for years. After 1980s with the advent of worldwide competition in key industries benchmarking come of age. Xerox, Motorola, Ford and other leading companies pioneered a much broader forms of benchmarking. These companies found benchmarking a valuable means of improving their competitiveness and effectiveness. It became an integral part of their continuous process improvement programme.

Benchmarking is a technique for continuous improvement in performance. It involves comparing a firm's products, services or activities against other best performing organizations, either internal or external to the firm. The objective is to find out how the product, service or activity can be improved and ensure that the improvements are implemented. It attempts to identify an activity such as customer order processing need to be improved and finding a non-rival organization that is considered to represent world class best practice and studying how it performs the activity. It is a performance measure that provides the driving force to establish high performance and means to accomplish these goals. It is thus a component of a wider improvement process such as business process reengineering or quality improvement.

The benchmarking is a versatile tool that can be applied in a variety of ways to meet a range of requirements. The distinct types of benchmarks have been evolved over a period of time. Each has its own benefits and

shortcomings and therefore each one is appropriate in certain circumstances than others.

### The Benchmarking is of following types:

- **Competitive Benchmarking**: It involves the comparison of competitors products, processes and business results with own. Benchmarking partners are drawn from the same sector. However, to protect confidentiality it is common for the companies to undertake this type of benchmarking through trade associations or third parties.
- **Strategic Benchmarking**: It is similar to the process benchmarking in nature but differs in its scope and depth. It involves a systematic process by which a company seek to improve their overall performance by examining the long term strategies .It involves comparing high level aspects such as developing new products and services, core competencies etc.
- **Global Benchmarking**: It is a benchmarking through which distinction in international culture, business processes and trade practices across companies are bridged and their ramification for business process improvement are understood and utilised. Globalisation and advances in information technology leads to use this type of benchmarking.
- **Process Benchmarking**: It involves the comparison of an organization critical business processes and operations against best practice organization that performs similar work or deliver similar services. For example, how do best practice organizations process customers' orders.
- **Functional Benchmarking**: This type of benchmarking is used when organizations look to benchmark with partners drawn from different business sectors or areas of activity to find ways of improving similar functions or work processes. This sort of benchmarking can lead to innovation and dramatic improvements.
- **Internal Benchmarking**: involves seeking partners from within the same organization, for example, from business units located in different areas. The main advantages of internal benchmarking are that access to sensitive data and information are easier; standardised data is often readily available; and, usually less time and resources are needed. There may be fewer barriers to implementation as practices may be relatively easy to transfer across the same organization. However, real innovation may be lacking and best in class performance is more likely to be found through external benchmarking.
- **External Benchmarking** involves seeking help of outside organizations that are known to be best in class. External benchmarking provides opportunities of learning from those who are at the leading edge, although it must be remembered that not every best practice solution can be transferred to others. In addition, this type of benchmarking may take up more time and resource to ensure the comparability of data and information, the credibility of the findings and the development of sound recommendations.

### The Benchmarking can be categorized into:-

- (i) **Intra-Group Benchmarking**: In intra group benchmarking the groups of companies in the same industry agree that similar units within the cooperating companies will pool data on their process. The processes are benchmarked against each other at or operational level. 'Improvement task forces' are established to identify and transfer best practice to all members of the group.
- (ii) **Inter-Industry Benchmarking**: In inter-industry benchmarking a non-competing business with similar process is identified and asked to participate in a bench marking exercise. For example, a publisher of school book may approach a publisher of university level books to establish a benchmarking relationship. Although two publishers are not in direct competition but there are obviously many similarities in their business with respect to sources of supply, distribution channels.

Each will be able to benefit from the experience of other and establish 'best practices' in their common business processes.

### Per-requisites for successful Benchmarking

- Irrespective of the type and scope of benchmarking, it will be important to ensure that:
- Senior manager's support benchmarking and are committed to continuous improvements;
- The objectives are clearly defined at the outset;
- The scope of the work is appropriate in the light of the objectives, resources, time available and the experience level of those involved;
- Sufficient resources are available to complete projects within the required timescale;
- Benchmarking teams have a clear picture of their organisation's performance before approaching others for comparisons;
- Benchmarking teams have the right skills and competencies;
- Stakeholders, particularly staff and their representatives, are kept informed of the reasons for benchmarking.

### Difficulties in Implementation of Benchmarking

- Benchmarking is a time consuming and at time difficult. It has significant requirement of staff time and company resources.
- Benchmarking implementation requires the direct involvement of the senior manager etc. The drive to be best in the industry or world cannot be delegated.
- It is likely that there is resistance from employees.
- Companies can become preoccupied with the measures. The goal becomes not to improve process but to match the best practices at any cost.
- The key element in benchmarking is the adaptation of a best practice to tailor it to a company's needs and culture. Without that step, a company merely adopts another company's process. This approach condemns benchmarking to fail.
- Companies often waste time in benchmarking non-critical functions.

### Benchmarking Code of Conduct

Benchmarking - the process of identifying and learning from the best practices anywhere in the world - is a powerful tool for continuous improvement. To contribute to efficient, effective, and ethical benchmarking, individuals agree for themselves and their organization to abide by the following principles for benchmarking with other organizations:

The following is a suggested Benchmarking code of conduct:

- **Principle of Legality:** Avoid discussions or actions that might lead to or imply an interest in restraint of trade: market or customer allocation schemes, price fixing, dealing arrangements, bid rigging, bribery or misappropriation. Do not discuss costs with competitors if costs are an element of pricing.
- **Principles of Exchange:** Be willing to provide the same level of information that you request, in any benchmarking exchange.
- **Principle of Confidentiality:** Treat benchmarking interchange as something confidential to the individuals and organizations involved. Information obtained must not be communicated outside the partnering organizations without prior consent of participating benchmarking partners. An organization's participation in a study should not be communicated externally without their

permission.

- **Principle of Use:** Use information obtained through benchmarking partnering only for the purpose of improvement of operations within the partnering companies themselves. External use or communication of a benchmarking partner's name with their data of observed practices requires permissions of that partner. Do not, as a consultant or client, extend one company's benchmarking study findings to another without the first company's permission.
- **Principle of First Party Contact:** Initiate contacts, whenever possible, through a benchmarking contact designated by the partner company. Obtain mutual agreement with the contact on any hand off of communication or responsibility to other parties.
- **Principle of Third Party Contact:** Obtain an individual's permission before providing their name in response to a contact request.
- **Principle of Preparation:** Demonstrate commitment to the efficiency and effectiveness of the benchmarking process with adequate preparation at each process step; particularly, at initial partnering contact.



## CASE STUDY No.-1: PERFORMANCE PYRAMID

**You are a paid assistant working in SBC LLP – an accounts consultancy firm. You have received the following email from one of SBC's senior partner:**

To: DG

From: SB

Date: 22/06/20XX

Subject: PEL meeting this afternoon

As you are probably aware, we are meeting with the managers of PEL later this afternoon to discuss several key issues, and I need you to do some research for me. I need a report that covers the following:

Analysis of the new proposal for the period 2017 to 2019 based on

- external effectiveness and
- internal efficiency

To help you with this, I've attached a copy of our forecast of PEL's financial and non-financial data for the period 2017 to 2019. Please read it carefully and email me back as soon as possible so I have time to prepare before the meeting.

Thanks SB

Background to PEL

Precision Engineering Ltd (PEL) specialises in engineering design and manufacture in the automotive and motorsport industry. PEL's design team has many years' experience in the design and development of engine components for the market and high performance engines. PEL has identified a number of key competitors and intends to emphasis on close co-operation with its customers in providing products to meet their specific

engineering design and quality requirements. Efforts will be made to improve the effectiveness of all aspects of the cycle, from product design to after-sales service to customers. This will require data from a number of departments in the achievement of the specific goals of the new proposal. Efforts will be made to improve productivity in conjunction with increased flexibility of methods.

#### Forecast of PEL's Financial and Non-Financial Data

Particulars	2017	2018	2019
Total Market Size (`lacs)	110	115	120
PEL Sales (`lacs)	18	21	23
PEL Total Costs (`lacs)	14.10	12.72	12.55
Production Achieving Design Quality Standards	95.5%	98.0%	98.5%
Returns from Customers (% of Deliveries)	2.0%	1.0%	0.5%
Cost of After-Sales Service (`lacs)	1.3	1.1	1.0
Sales Meeting Planned Delivery Dates	85%	90%	95%

#### Required

Draft the email as requested by the partner.

#### Solution

To: SB

From: DG

Date: 22/06/20XX

Subject: Re: PEL Meeting this afternoon

Please find below my analysis of the points you wished me to examine for PEL. Please let me know if you wish to discuss any of these points in more detail.

Kind regards DG

**External Effectiveness-** The marketing success of the proposal is associated with the achievement of customer satisfaction. The success will need an efficient business operating system for all aspects of the cycle from product design to after-sales service to customers. Customer satisfaction is linked with Improved quality and delivery.

Quantitative measures of these factors are as follows:

- Quality is expected to improve. The percentage of production achieving design quality standards is expected to increase from 95.5% to 98.5% between 2017 and 2019. In the same period, returns from customers for replacement or rectification should drop from 2% to 0.5% and the cost of after-sales service should drop from `1.3lacs to `1.0lacs.
- Delivery efficiency improvement that is expected may be measured in terms of the rise in the percentage of goods achieving the planned delivery date. This percentage rises from 85% in 2017 to 95% in 2019.

**Internal Efficiency-** The financial success of the proposal is linked to the achievement of high

productivity. This should be helped through reduced cycle time and decreased levels of waste.

Quantitative measures of these factors are as follows:

- The average total cycle time from customer enquiry to delivery should drop from 5 weeks in 2017 to 4 weeks in 2019.
- Waste in the form of idle machine capacity is expected to drop from 9% to 1% between 2017 and 2019. Also, component production scrap is expected to drop from 6.5% in 2017 to 1.5% in 2019.



## CASE STUDY No.-2: PERFORMANCE PRISM

**Galaxy Limited** is in the business of logistics and distribution. In 2002, Galaxy limited had implemented Balance Scorecard as a performance measurement & management system. The balanced scorecard measures performance across Financial, Customer, Business and Innovation perspective. The implementation of Balanced Scorecard had the following impact —

- The company's financial performance improved substantially.
- The complaints from customers regarding poor service reduced.
- The company has pioneered in innovation in the field of door to door delivery of goods.

All these led to improvement in profitability of the company. The share prices are trading at life time highs. Since the ultimate objective of a commercial organisation is to maximise shareholder's wealth, the CEO of the company is extremely pleased with the affairs at the company.

Of late, the company has witnessed high employee turnover ratio. Though the company has a formal exit interview process for the resigning employees, the inputs received from these interview is rarely considered in improving the HR practices. One of the common feedback from employees who left the company was that there is too much pressure to perform and improve customer service without adequate support of systems and processes.

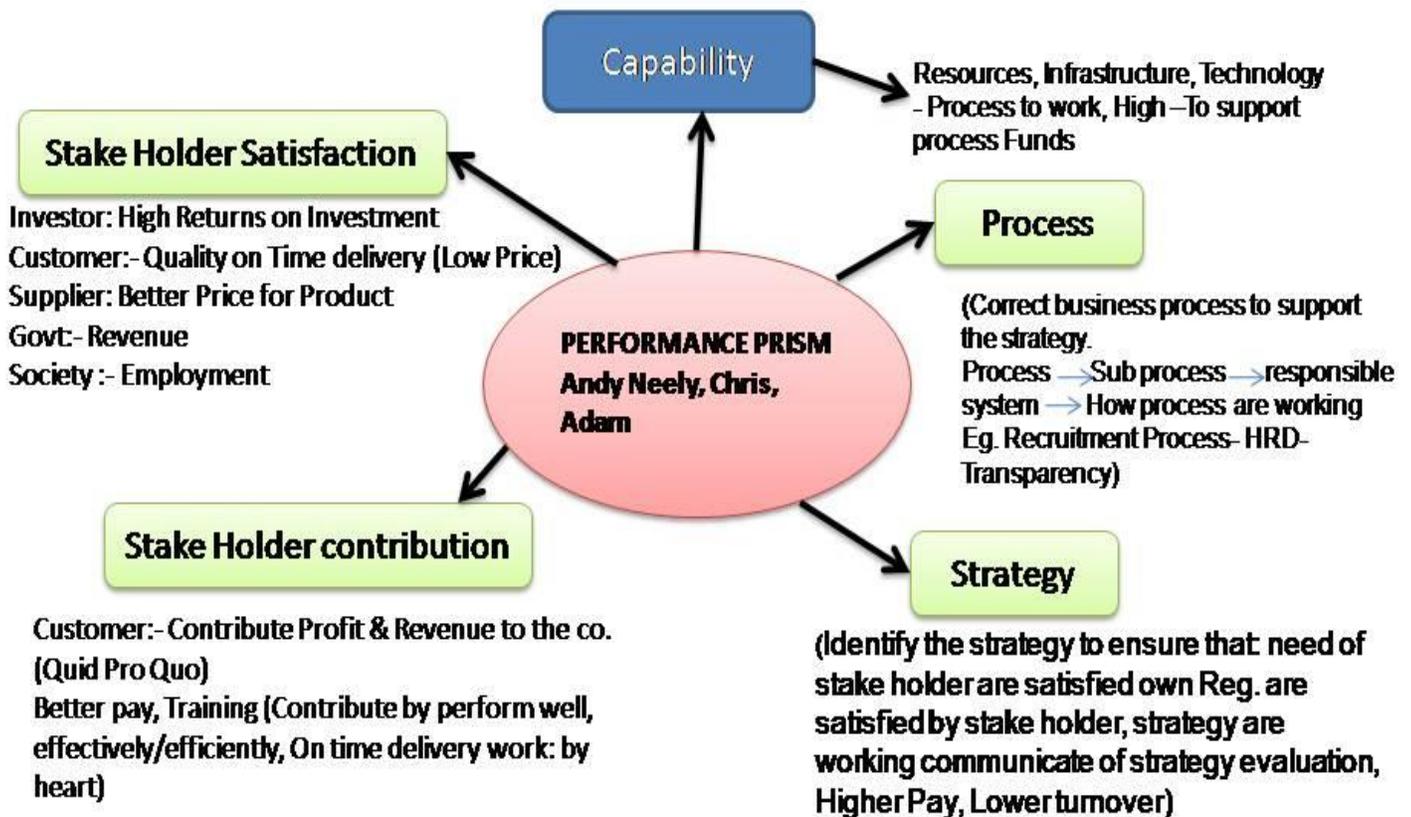
Also, the truck drivers who move consignment from one city to another have been on strike thrice in the last one year demanding better pay and working conditions. These drivers are generally hired on contractual basis. They are not entitled to any retirement benefits. The drivers have been insisting that they be taken as permanent employee and are given benefits applicable to employees of the company.

The above two issues were discussed in one of the board meetings. The directors wondered if they had the right performance measurement mechanism to address the issues. The company is doing great financially but must also ensure that the employees and other stakeholders are taken care of apart from shareholders. The board is also concerned that they have too much of data and reports to look at on performance management as the current measurement is done on a monthly basis. However, the alignment of such reports to the overall strategy of the company is missing.

### **Required**

RECOMMEND an alternative performance measurement mechanism which considers all stakeholders instead of just shareholders and employees

### **Solution**



## Issue

Galaxy limited use Balance Scorecard to measure performance. Balance scorecard focuses on the financial, customer, business and innovation perspectives. The company has been doing great on financial parameters and customer satisfaction parameters. However, of late the company has been facing issues related to high employee turnover and dissatisfaction of the truck drivers.

The board of directors is also concerned about the volume of performance measurement data and alignment of performance measurement with the strategy of the company. An alternate performance measurement mechanism is Performance Prism.

## Performance Prism

Performance Prism is considered to be a second-generation performance management framework conceptualized by Andy Neely and Chris Adams. The following are the factors which make Performance prism should replace the models like Balanced Scorecard –

- Organisations cannot afford to focus on just two stakeholder group - Investors and Customers. Other stakeholders group like employees, suppliers, government etc. should not be forgotten. This is important for sustainable growth of companies both profit oriented and non-profit oriented.
- Most of the performance measurement models do not focus on changes that could be made to

the strategies and processes. The underlying assumption is that if right things are measured, the rest will fall into place automatically.

- Stakeholders expect some things from the organisation. The organisation also must expect contribution from the stakeholders. There is a 'Quid Pro Quo' relationship between the stakeholders and organisation.

Another problem highlighted by Andy Neely and Chris Adams was that management are measuring too many things. They believe that in doing so they are controlling the organisations well. The problem with increased measurement is that the management starts micro-managing things and lose sight of the strategic direction. This negatively impacts the organisation in the longer run.

The performance Prism aims to measure performance of an organisation from five different facets listed below:

- Stakeholder Satisfaction
- Stakeholder's Contribution
- Strategies
- Processes
- Capabilities

### **Stakeholder Satisfaction**

The first facet of prism focuses on stakeholder's satisfaction. Though balanced scorecard also focuses on stakeholder's satisfaction, it is primarily concerned with the shareholders and customers and ignores other stakeholders. This is precisely the issue at Galaxy limited where the shareholders and customers are happy with the company, other stakeholders are not.

The company must identify all stakeholders and determine relative importance of each of the stakeholders. The company can use Mendelow's matrix to identify key shareholders in terms of power and interest of stakeholders. A stakeholder group which has high power and high interest (say a trade union) must be kept satisfied. The key stakeholders for a company are:

- *Investors* - They want return on investment.
- *Customers* - They want good quality products at cheap prices.
- *Suppliers* - They want better price for products.
- *Government* - They want revenues and development.
- *Society at large* - They want employment opportunities.

Each of the stakeholders group exercise different level of power/influence on the company. The interest of each stakeholder group in the company also differs. Based on the power and interest of the stakeholders, the company must appropriately perform activities for stakeholder's satisfaction.

After identification of the stakeholders, the company must identify the requirements of each of the stakeholders group. What must the company do to ensure stakeholder satisfaction?

Galaxy limited must ensure satisfaction of the two stakeholders highlighted above. The company must take steps to improve employee satisfaction and reduce the employee turnover. The company must also address the issues related to truck drivers and involve them in a dialogue. The impact of not keeping these stakeholders group satisfied is that the company might suffer financially in the longer run.

**Performance measure** - Employee Turnover Ratio, Average employment duration of employees, Number of strikes by truck drivers etc.

### **Stakeholders Contribution**

In the second facet of Performance Prism, the organisations identify the contribution required from the stakeholders. The organisations must then define ways to measure the contribution of

stakeholders. This aspect is different from traditional measures where the organisations were just concerned with what they could contribute to the stakeholders.

The company would take steps to provide better service to its customers. In return the customers must contribute in terms of profits and revenues to the company. There is a 'Quid Pro Quo' relationship as described earlier.

In case of Galaxy limited, the company could improve the employee satisfaction with better pay, training and growth opportunities. In turn, the employees must perform better to contribute to the company as a whole. Similarly, the drivers must be given better working conditions and in turn, they should contribute towards improving efficiency and on-time deliveries.

**Performance Measure** - Efficiency of Employees, Productivity, On Time deliveries by Truck drivers.

### **Strategies**

In the strategies facet of the Prism, the organisation should identify those strategies which the organisation would adopt to ensure that –

- The wants and needs of the stakeholders are satisfied
- The organisation own requirements are satisfied by the stakeholders.

After the company identifies strategies, the performance measures must be put in place to confirm that the strategies are working. The various aspects to be considered appropriate communication of strategies, implementation of strategies by managers and continuous evaluation of appropriateness of strategies.

Galaxy limited might come out with a strategy of to retain employees by means of better pay and growth opportunities within the company. This strategy can be called successful if the higher pay ensures that employee's turnover is reduced. As a strategy, the company can start to hire drivers on the payrolls of the company.

**Performance Measure** - Number of employees leaving the organisation after getting pay hike, Efficiency of deliveries after Truck drivers are put on employment of company.

### **Processes**

After identifying the strategies, organisations need to find out if they have the correct business processes to support the strategy. The various business processes can have sub-processes. Each process will have a process owner who is responsible for functioning of the process.

The organisations must develop measures to evaluate the how well the processes are working. The management must be careful to evaluate most important processes instead of evaluating all the processes. Porter's Value Chain analysis can be used to identify and evaluate various processes in the organisation.

Galaxy limited could devise a recruitment process which results in transparency in hiring and pay of employees. The process could be owned by the Human Resources Manager. The working condition of drivers can be improved by providing structured training and working conditions.

### **Capabilities**

Capabilities refer to the resources, practices, technology and infrastructure required for a particular process to work. The company must have right capabilities in order to support the processes. The company must identify performance measures to set how well the capabilities are being performed.

While Galaxy limited might choose to increase the salaries of employees, an important question

to answer is whether the company has financial capability to do so.

### **Conclusion**

The facets of Performance Prism are interlinked and must support each other. The company must first identify the stakeholder wants and what the company wants from those stakeholders. The required strategies for these are identified and the processes to achieve the strategy followed by identifying the capabilities to perform these processes.



## **CASE STUDY NO:- 3 (VALUE FOR MONEY)**

Cure Hospital is running under private-public-partnership (PPP) model - providing treatment for non-communicable diseases. ABCO Hospitals Limited is the private partner which runs a chain of hospitals on profit basis in major cities in India. The public partner is the State Government. Cure Hospital is a "not-for-profit" hospital. Private partner is to invest in Upgrading and equipping the facility and responsible for operational management and service delivery. Government to provide physical space and other infrastructure in "as is where is" condition, provide support facilities and hospital amenities. Private partner assumes the entire responsibility, for a full range of investment operation and maintenance functions. Private partner has the authority to make daily management decisions.

The hospital is funded to a great extent by the State Government and a fixed level of funding is received from the government each year out of the State budgetary allocation. It is up to the hospital to allocate this fund to different areas such as doctors' and other staff salaries, medicines and all other costs required to run a hospital.

Cure Hospital's objectives are:

- to give prompt access to high quality medical treatment for patients.
- to provide free treatment to poor patients in line with government policy of inclusive development.
- to provide value for money for the taxpayer-measured by the 3 Es framework of Economy, Efficiency and Effectiveness.
- to contribute to medical science by developing innovative ways to deliver treatment to patients.

Except select surgeries, all services are free for poor patients that are below poverty line (BPL) card holders. 40% beds are reserved for poor patients. Free out patient department (OPD) services to poor. CT Scan and MRI diagnostics are free for poor patients, subsidized rates for others. Cure Hospital also runs a generic medicine shop inside the hospital premises which sells medicines to all patients at discount ranging from 40% to 56% - the only shop of this kind in the city. WHO has agreed to provide financial and technical support to the neonatal care unit. The hospital enabled it to obtain five accreditation certificates from various leading authorities on different aspects of hospital management. Feedback is taken from each in-patient about the quality of service provided by the hospital and the satisfaction level is taken in 1 to 10 point scale. 1 being the least satisfied and 10 represents totally satisfied.

In a recent meeting of the managing committee of the hospital, discussions were held about inadequate performance measurement systems in place to assess whether the hospital is achieving its objectives and that insufficient attention is given to the importance of non-financial performance indicators. A four member team consisting of a performance management expert and three senior doctors was created to give their advice in these aspects.

The four member team met with doctors, staff and other stakeholders at length and breadth. Some of the conversations were as below:

**Doctor A:** I think the hospital always deliver value for money. We have always achieved our total financial budgets.

**Doctor B:** We work here much longer hours than doctors in other hospitals, often without being paid for working overtime.

**Doctor C:** There is not enough government and private partner funding to recruit more doctors and paramedic staff. **Doctor D:** Number of out-patients has increased considerably. Earlier an out-patient had to wait for an average period of 2 hours 20 minutes and now the same has increased to 3 hours.

**Senior Doctor K:** I do not know how much time we spend developing innovative ways to deliver treatment to patients though, as most of the performance data we doctors receive relates to financial targets.

**In-patient H:** Incompetent paramedic staff, poor quality of food and bed linen. **Staff M:** Management undermines our role in running the hospital.

**Recent performance data of the hospital vis-a-vis national average are as follows:**

	<b>Cure Hospital</b>	<b>National average of other PPP run hospitals</b>
Number of doctors	80	76
Average doctors' salaries per month including overtime	Rs. 1,20,000	Rs. 1,60,000
Average doctors' salaries including overtime as per budget	Rs. 1,20,000	Rs. 1,25 000
Number of in-patients treated	8,360	6,369
Average satisfaction rating of in- patients	6	9
Number of patients readmitted for treatment of the same ailment within short period of time after discharge from the hospital	627	128
Average staff satisfaction rating (0% represents totally dissatisfied and 100% represents totally satisfied)	16%	86%
Number of out-patients treated	76,212	63,318

**Required:-**

- (a) EXPLAIN why non-financial performance indicators are particularly important to measure the performance of "not-for-profit" organisations such as Cure Hospitals.
- (b) EVALUATE whether Cure Hospital is delivering value for money for each of the components of the value formoney framework. (c ) The CEO of the hospital intends to introduce a nominal fee for out-patient treatment given to poor patients and remove subsidised rate of CT Scan and MRI diagnostic for other patients in order to achieve its objectives in a better way. EVALUATE the proposal of the CEO. (ICAI Nov19)

**Answer:-**

- (a) Cure Hospital has been formed in a public-private partnership to provide quality healthcare to the public, with focus on the poorer sections of the society. Healthcare service is provided for free, except for select surgeries. A sufficient portion of its capacity (hospital beds) is reserved entirely for Below Poverty Line (BPL) patients. Generic medicines are provided at a discounted price, to make them more affordable. World Health Organization (WHO) has decided to fund its neo-natal unit. With all this information, it can

be summarized that Cure Hospital has been formed “not-for-profit” objective, attending to a social cause of providing quality healthcare to the economically poorer sections of the society.

Cure Hospital has been formed in partnership with ABCO Hospitals Ltd. and the State Government. The State Government has provided physical space, infrastructure, other support facilities and hospital amenities. ABCO Hospital, the private partner has the entire responsibility of taking care of allocation of funds, investment, operations, and maintenance functions. Daily management decisions are also handled by the private partner.

Since the Government has provided substantial funding and facilities to Cure Hospital, it owes a fiduciary responsibility of reporting the financial measures to its stakeholders, the government in this case. At the same time, financial measures alone are not enough to assess the performance of not-for-profit organizations. Due to its objective of public service, measurement of appropriate non-financial metrics are equally important. The reasons are:

- (i) **Benefits cannot be quantified:** Cure Hospital essentially provides public healthcare service to the economically weaker sections of the society. Due to political, legal, and social reasons, not-for-profit organizations like Cure Hospital cannot be shut down merely for not being economically / financially viable. Therefore, financial measures are less relevant. Due to its non-financial objective, appropriate non-financial measures become more important. For example, the benefits of saving lives cannot be quantified in financial terms.
- (ii) **Benefits may accrue over long term:** The expenditure incurred in one year may yield benefits over several years. For example, the investment in an Intensive Care Unit (ICU) facility may accrue of multiple years. Neonatal care unit have been given financial and technical support from WHO which will give long term benefits to hospital.
- (iii) **Measurement of utilization of funds and expenditure:** In the case of Cure Hospitals, many hospital services are free, allocation of capacity is aimed at providing free service to the BPL section of the society, medicines are provided at discounted rates. Therefore, Cure Hospital does not have a substantial revenue stream to earn from its patients. It gets a fixed budget allocation from the State Government, while ADCO Hospital allocates these funds for various investments and expenditures. The assessment whether the spending have been appropriate is a key challenge. Defining cost per unit would be subjective since it could be cost of patients arriving at the hospital or cost of patients successfully treated at the hospital. Either figure could be tweaked to make it seem that the objectives are being met. The management may resort to rampant spending simply to meet the expenditure targets. Therefore, non-financial measure need to be put in place help stakeholders scrutinize whether the objectives for which funds have been given are being met.
- (iv) **Multiple objectives:** Not-for-profit organizations have multiple objectives. It may be unclear which are the most important. Cure Hospital aims at providing high quality treatment to its patients while also developing innovative ways to deliver treatment to its patients. Both objectives are equally important and inter-related. Non-financial measures provide better information about how each of these objectives have been met.

**The benefits of organizations like Cure Hospital are non-financial in nature. Except for providing fiduciary information to the stakeholders, all other objectives of Cure Hospital can be measure only using non-financial measures.**

- (b) Value for money for Cure Hospital would comprise of the 3Es: Economy, Efficiency and Effectiveness.
  - (i) **Economy:** Has the desired output (and quality of service) been achieved at the lowest cost?

The medical resource at Cure Hospital in terms of doctors is 80, higher than the national average of 76 at other centers. Doctor's salaries would be a significant expenditure for Cure Hospital. The average doctor's salary at Cure Hospital (including overtime) is Rs.120,000 per month, this is within the budget figure as pointed out by Doctor A. The salary is lower than the national average at other PPP run hospitals, where doctors earn Rs.160,000 per month. Therefore, economy of money is being achieved at Cure Hospital.

The relatively lower levels of salary could be due to differences in levels of experience or that the doctors at Cure Hospital work overtime without getting paid (as pointed out by Doctor B). This may be one of the reasons why staff satisfaction is only 16% compared to 86% in other centers.

- (ii) **Efficiency:** Has maximum output been achieved with the minimum resources?

Treating patients is the key objective of Cure Hospitals, while doctors are the main resource to deliver it. The number of patients treated per year is a good measure of efficiency achieved.

Cure Hospital treats 84,572 patients (in house patient 8,360 + outpatient 76,212) while the national average at other centers is only 69,687 (in house patient 6,369 + outpatient 63,318). Cure Hospital has 80 doctors as compared to 76 national average. Therefore, each doctor at Cure Hospital treats 1,057 patients (84,572 patients/ 80 doctors) as compared to 917 patients (69,687 patients / 67 doctors) at other centers. Resource utilization of its pool of doctors is higher in Cure Hospital.

Doctor C mentions that there is not enough funding to hire more doctors and para - medic staff. Therefore, there is a constraint on the limited resources of doctors and support staff. This might be the reason, why each doctor at Cure Hospital works longer than colleagues at other centers.

Therefore, while efficiency in terms of number of patients treated by each doctor is high, there are other hidden costs that need to be taken into account. Few such costs could be low employee morale, higher waiting time of patients to receive treatment. This impacts the effectiveness of service provided.

- (iii) **Effectiveness:** Has Cure Hospital achieved its mission or objective?

Cure Hospital has the objective of providing high quality medical service to its patients. Better quality of treatment would ensure that re-admission for treatment of the same ailment within a short span of time would be minimal. Number of such re- admitted patients is much higher at 627 at Cure Hospital as compared to 128 at other centers. Assuming all such re-admissions to be in-house patients, this return of patients for medical care for the same ailment within a short span of time is 7.50% compared to the national average of 2.01%.

Prompt medical treatment can also be questioned since the waiting time of patients to receive treatment has increased from 2 hours 20 minutes to 3 hours.

Senior Doctor K points out the time spent on delivering innovative care to patients may be limited due to financial constraints and overwork staff.

All this would have resulted in dissatisfaction among patients, whose survey indicates a score of 6 against a national average of 9. This shows that objective of Cure Hospital is not being met effectively.

To summarize, Cure Hospital is achieving economy by maintaining lower salaries for doctors. Outreach to patients is also high as compared to national average. However, due to limited availability of resources, doctors and staff are overworked. While it does well on the efficiency aspect, it comes with a hidden cost in terms of dissatisfaction among patients and employees and low quality of medical

care. Therefore, medical treatment is not effective, which is an important aspect in the value for money framework.

- (c) Proposal to introduce nominal fee for out-patient treatment given to poor people and remove subsidized rate of CT scan and MRI for other patients.

Cure Hospital is a not-for-profit organization that aims at providing quality health care to the economically weaker sections of the society. It gets its primary funding from the State Government. It does not generate and is not aimed at generating substantial revenue from its patients. The CEO has proposed to introduce nominal fee for out-patient treatment given to poor people and remove subsidized rate of CT scan and MRI for other patients. However, this would not help Cure Hospital achieve its objective.

The given problem seems to suggest severe constraint in the resources available to meet its objectives thus impacting effectiveness of treatment. Each doctor treats 1,057 patients in a month as compared to the national average of 917 in a month. Number of patients, especially the out-patients is much more than national average. Overworked doctors combined with limited staff resources is the main hurdle that Cure Hospital faces in effectively achieving its objectives.

Cure Hospital is a not-for-profit organization. Therefore, generating nominal fees to achieve its objectives would not help its purpose. Instead, it can apply for higher budget allocation from the government. This can help it procure good quality resources such as experienced doctors by paying them higher salaries including overtime. Better qualified doctors can help provide not just better treatment but also innovative ways of treatment to patients. Improved / enhanced facilities could reduce the waiting time for medical care, enabling prompt medical service.

Improved service would result in better treatment, lowering the cases for re-admissions for same ailment within a short span of time. This improves the effectiveness of medical care provided at Cure Hospital. Better service would improve patient satisfaction. Quality medical care would provide a better case for Cure Hospital to sustain its operations in the long- run. The State Government may also more favorably consider any justifiable future budgetary increments.

Overall, the management of the hospital seems to be indifferent to the opinions and needs of the staff. The CEO's decision has a very short term outlook that does not co-relate with the organization's objectives. By trying to off-set a limited revenue stream to achieve its objectives shows that the management's style of working needs improvement. (NOV'19)



## CASE STUDY NO:- 4 (VALUE FOR MONEY )

The town of Silver Sands is located along the coast of the Caribbean Sea. Known for its beautiful coastline and pleasant weather, the town attracts a lot of tourists from all around the world. The town has two beaches that are maintained by the

local government and can be used by the general public. In order to preserve the natural ecosystem, other beaches on the coastline are not accessible to the general public. Tourism is the main source of livelihood for its residents. Consequently, cleanliness of beaches is of paramount importance in order to sustain and develop this industry.

The local government has recently employed a contractor to clean up the beaches using beach cleaning machines. The contractor has been selected through a competitive tendering/bidding process. The contractor uses sand cleaning machines that are pulled by tractors. Sand is scooped onto a conveyor or screening belt. It is either raked through (combed using prongs) or sifted through (filtered), in order to separate the waste from the

sand. The cleaned sand is left behind on the beach while the waste is removed. Majority of the litter comprises of plastic waste (bags, bottles etc.) while some portion also includes sea weed, glass, aluminum cans, paper, timber, and cardboard. A detailed log is kept by the contractor about the stretch of beach that has been cleaned, time taken for the clean-up, number of tractors used etc. This log is also checked and signed by a local government official. This record is used to process payments at the end of the month.

In addition to contracting with the vendor to clean machines, the local government has also placed bins at various locations on the beach for the public to dispose their waste. The town's municipality workers clean these bins every morning. Again, detailed logs of the man power and other resources employed is kept by the responsible department. In addition, the government has opened a mobile messaging system, whereby the public can message the government department if they find litter anywhere in the beach. Depending on whether it is from overflowing bins or buried debris in the sand, the municipality workers or the contractor will take action to clear it within 24 hours. A detailed log of these operations is also maintained. Patrons can also suggest measures for improving cleanliness on the beaches.

Due to its importance to the economy, the local government has allotted substantial budget for these operations. At the same time, it is essential to know if this is sufficient for the purpose of keeping the beaches clean. Therefore, the government wants to assess whether the town is getting "good value for money" from this expenditure. The "value for money" concept can be looked at from three perspectives: (i) economy, (ii) efficiency and (iii) effectiveness. The Internal Audit (IA) department that has been requested to undertake this study, has requested for guidelines on whether the audit should focus on economy and efficiency of the beach cleaning operations or on effectiveness of the same. Economy and efficiency audit assess whether the same level of service can be procured at lower cost or resources while effectiveness audit assess whether better service can be procured at same cost.

Depending on the outcome of the audits, if required, policy decisions like requesting for additional funding from the state government, alternate policy measures like levying penalty for littering etc. can be taken.

### **Required:-**

Prepare a letter addressed to the IA department.

- (i) RECOMMEND guidelines to assess economy and efficiency of beach cleaning operations.
- (ii) RECOMMEND guidelines to assess effectiveness of beach cleaning operations.
- (iii) IDENTIFY challenges involved in assessment of effectiveness?
- (iv) RECOMMEND general guidelines, how the audit team may conclude the audit based on the combined outcomes of economy, efficiency, and effectiveness?

**Solution:-**Date 30- July -2018

Dear Sirs,

### **Re: The economy, efficiency and effectiveness of beach cleaning activities**

- (i) Economy and efficiency audit of an operation focuses on the consumption of resources and the output achieved. Economy assesses the financial aspects of the activity i.e. are the objectives of the activity being achieved at reasonable cost? Efficiency assesses the volume of input consumed to derive the desired output i.e. are the resources and funds being consumed to get maximum output?

To look at Economy of Operations, cleaning expenses need to be bifurcated into payments made to the contractor and the expenses of emptying waste from bins. Any further subcategories of these expenses, like labour, material, disposal van expenses etc. also need to be collated from the accounting or cost records. These then have to be compared to the budgets that were approved by the government of Silver Sands. The competitive tendering process can be reviewed to ensure that the contractor getting the order is offering the

required quality of service at the lowest price. If the quality of cleaning has been achieved, by staying within budget, the operation is economical. However, if the actual exceed the budget, the government has to compare them with cost of similar cleaning activities carried by neighbouring towns. On comparison, if Silver Sands operations are expensive compared to other towns, it indicates that not only are the operations uneconomical they may not be efficient either.

Efficiency of Operations can be determined by checking the log records maintained for beach cleaning by the contractor and municipality workers. These would have detailed of activities carried out and the resources utilized for each of them. For each of these services (beach cleaning and emptying out bins), the cost drivers can be identified and certain metrics can be developed for analysis. For example, the cost of running the tractors can be divided by the total number of tractors operated to get the cost of operations per tractor or alternatively, by the kilometres of beach cleaned to arrive at a tractor-kilometre rate. While analysing these activities, certain operational considerations have to be given. For example, certain stretches of the beaches may take more time or resources to clean due to issues like rocks or soft sand. Therefore, if resources for operations disproportionate for certain parts of the beaches, the cost of maintaining those stretches need to be worked out. Data to get this information will depend on the extent of detailed maintained in the logs. This information has to be tracked over some period of time in order to understand trends in operations and related expenses.

The data collected from the mobile messaging system should also be investigated. How often and in what stretches of the beach are complaints frequent or maximum? Reasons for these lapses need to be taken from the contractor (for beach cleaning operation) and the concerned department (for emptying bins) in order to find out whether resources are being employed properly.

On this basis, deviations and exceptions should be investigated. The local government can then decide if there can be alternate sites along the coastline that may be more economical and efficient to operate.

- (ii) An audit about Effectiveness of Operations would focus how the actual cleanliness of beaches compares with the desired level as laid out in the policy initiative. To assess whether performance has been met, clear guidelines and metrics have to be defined during policy implementation.

To begin with, it should be clear as to what constitutes litter. From an operational angle, it would be difficult to clean out every bit of paper lying on the beach. However, it is possible to pick up every soft drink aluminum can. Hence, the government authorities must be clear on what constitutes litter? Which are the refuse that must be cleared within exception (example food refuse, animal droppings, glass bottles, tin cans, trash bins etc.) and tolerance level for certain other types of litter (e.g. Paper, seaweed etc.) that may get left behind even after cleaning. Quantity of waste collected would be the indicator to make the above assessment.

Certain other parameters like safety standards can also be defined. Safety problems could be cuts from sharp objects like glass, incidents of vector borne diseases in the area or health problems from polluted sea water. Assessment has to be made whether these standards have been met.

For this, the primary source of information about cleanliness would be feedback from the beach patrons. These could be in the form of complaints received directly or those through the mobile messaging system would provide data to work out the metrics. This would be an indicator of “customer satisfaction”. Other inputs could also be the suggestions given by the patrons about ways to improve cleanliness on the beach.

Observation by making surprise visits to inspect the beaches immediately after the cleaning operations would also providesufficient evidence about the effectiveness of operations .

- (iii) Challenges Involved in assessment of effectiveness would be:

- (a) Defining standards about what constitutes litter and acceptable level of cleanliness? These are subjective guidelines, the perception of which may differ from person to person.
  - (b) Beach patrons also play an important role in making this initiative effective. There has to be a conscious civic sense of duty not to litter, failing which this initiative will most likely be ineffective. Therefore, while measuring performance for effectiveness, collection of more litter does not necessarily indicate effective operations . More litter requires more cleaning and more resources, therefore is actually not a positive indicator of effectiveness. On the contrary, in the long run, lesser litter collected to maintain desired level of cleanliness would be a good indicator of effectiveness.
- (iv) The outcome of the audits can indicate achievement any or none of the three parameters of economy, efficiency and effectiveness of the beach cleaning operation. To form an integrated conclusion based on the different outcomes of individual audits, the audit team may consider the following guidelines:
- (a) Has the objective of the cleaning operation been achieved as per the guidelines in the relevant policy? i.e. have the operations been effective?
  - (b) If the answer to (a) is yes, are the expenses within budget. If so, then the operations are economical and efficient.

Given that the operations have been effective at the same time economy and efficiency have been achieved, the team can conclude that the cleaning operations policy has been a success.

A cost-over run can also be justified if the operations have been effective. In that case, the audit team has to conclude whether all expenses incurred are indeed justified and that the resources have been put to the best possible use. If not, can the operations be made more economical or efficient?

- (c) If the answer to (a) is no, the operation has not been effective, then is the difference from the target marginal or huge? If the operations have not been entirely effective, but only by a marginal gap say 95% success, then analysis of expenses can be made similar to the point (b) mentioned above. However, if the operations have been ineffective to a larger extent, then the cleaning drive initiative has been ineffective. The government has to look at alternate solutions of tackling the problem. These could include imposing heavy penalty for littering, requesting for more funding from the state government to employ better resources etc.

Therefore, it can be seen that achievement of one objective does not automatically lead to achievement of other objectives. A holistic approach would be needed to draw conclusions about the performance of the cleaning operations. Should you have any further queries, please do not hesitate to ask.

Yours Faithfully

Management Accountant

(Mock Test Paper)



## CASE STUDY No:- 5 :Charitable School(Value for Money: Concept)

**Let's consider a case of a school which provides free education to children who come from BPL (below the property line) families. The school also provides free lunch to the students to encourage daily attendance. Evaluate the Frame work to measure the performance of School. (MOCK TEST PAPER)**

**Answer:-** A measure of effectiveness is whether the school has been able to provide quality education to desired number of students. The performance of the school can be measured using the metrics of number of students dropping out of school year- on-year. Another measure of performance could be the number of

students who have successfully completed the 12th exams and joined college. It is important to note that the measures might not be wholly within the control of the school. A student might drop out even after best efforts by the school. This makes the performance measurement a challenging task.

A measure of efficiency could be the number of students trained per hour spent by teachers or the students to teacher ratio. In case of schooling a lower student to teacher ratio is always preferred.

A measure of economy would be the amount spent on maintaining the school premises, amount spent on remuneration to teachers etc. The amount spent can be compared against the budgeted expenditure or sanctioned amount.

If performance is measured based on cost incurred, the school might as well decide to cut necessary expenditure to meet the expenditure budget. For example, the school might not spend adequate amount to upkeep the library or computer equipment. This can be detrimental in the longer run. Hence, it is important to balance the financial measures with non-financial measures.



## CASE STUDY No:- 6: TRIPLE BOTTOM LINE (TBL)

CAREGIVER LTD. is a multi-specialty hospital in a mid-sized town. A 300+ bedded facility offers treatment across all medical disciplines of Cardiac, Oncology (Medical, Surgical and Radiotherapy), Neurosciences, Urology, Nephrology, Kidney Transplant, Aesthetics and Reconstructive Surgery, and other ancillary services. Most of the community members have their livelihood linked with the hospital. Many of them are directly employed at the hospital as doctors, nursing staff, lab technicians or as other support staff. While, others are indirectly related as suppliers of medical devices or drugs to the hospital, catering or housekeeping contractors etc. for the hospital. Hence, existence of the hospital is vital to the community. Growing awareness about sustainable business prompted the management to identify areas that can help the hospital operate in a sustainable manner that would be mutually beneficial to the organization as well as the town that depends on it. Therefore, it has identified the initiatives that have been put in place to create a sustainable business. Information captured from various departments are being considered to prepare the Triple Bottom Line (TBL) report that is for the consumption both to internal and external stakeholders.

### Required

IDENTIFY, which of the following aspects need to be reported in the TBL report and under which of the three categories. Provide reasons for classifying the aspect under a specific category, if applicable.

- (i) Medical staff conduct charity camps every month. Open to all members of the community who are provided with consultation free of charge.
- (ii) Prompt and accurate tax payments based on records maintained without errors or fraud.
- (iii) Caregiver, with the help of traffic police, has implemented a "green corridor" for ambulances that carry donor organs for transplantation. Organs harvested from the donor at one hospital can reach another hospital with the recipient patient at the earliest.
- (iv) Medical waste is discarded at a landfill in a nearby dumpsite. Some of the waste are not bio-degradable.
- (v) During review of the supplier for housekeeping service, it was observed that the service provider resorted to child labor to keep cost of operations lower.

- (vi) Training and professional development programs doctors and nurses.
  - (vii) Lab reports are being made available online within the hospital computer system. This would reduce printing costs and storage space needed to maintain older records.
  - (viii) Caregiver has a good track record of having no medical negligence litigation cases filed against it.
  - (ix) The hospital is planning to market medical check-up packages so that facilities in its out-patient department can be utilized better.
  - (x) The number of inpatient hospital deaths decreased 8%, from 776 in 2016 to 715 in 2017.
- Assume all aspects are material enough to be reported in the TBL report.

### Solution

Aspects that need to be reported in the TBL report:

S.N.	Aspect	Category on the TBL Report
(i)	Medical staff conduct charity camps every month. Open to all members of the community, who are provided with consultation free of charge.	Social bottom line, as it benefits the local community
(ii)	Prompt and accurate tax payments based on records maintained without errors or fraud.	Economic bottom line, since tax payments impact an organization's bottom line and money flow.
(iii)	Caregiver with the help of traffic police, has implemented a green corridor for ambulances that carry donor organs for transplantation. Organs harvested from the donor at one hospital can reach another hospital with the recipient patient at the earliest.	Social bottom line, since green corridor would enable the ambulance to transport harvested organs between the hospitals at the earliest this would be beneficial for patients in need of critical care.
(iv)	Medical waste is discarded at a landfill in a nearby dumpsite. Some of the waste are not biodegradable.	Environment bottom line, as it affects to ecological surroundings of the town.
(v)	During review of the supplier for housekeeping service, it was observed that the service provider resorted to child labor to keep cost of operations lower.	Social bottom line, since employing child labor leads to exploitation of children within the community
(vi)	Training and professional development programs doctors and nurses.	Social bottom line, since it contributes towards employee development.
(vii)	Lab report are being made	Environment bottom line, since paper, cartridge

	available online within the hospital computer system. This would reduce printing costs and storage space needed to maintain older records.	and storage requirement would be lower. This preserves environmental resources.
(viii)	Caregiver has a good track record of having no medical negligence litigation cases filed against it.	Social bottom line, since this is an indicator of the Quality of services provided to patients.
(ix)	The hospital is planning to market medical check-up packages so that facilities in its outpatient department can be utilized better.	Not relevant to TBL report. This is a marketing strategy to improve profitability.
(x)	The number of inpatient hospital deaths decreases 8% from 776 in 2016 to 715 in 2017.	Social bottom line, since hospital mortality rate measures the clinical quality.



## CASE STUDY NO:-7 :Fitzerald& Moon's (Building Block Model )

**Grab and Go** is a fast food joint operating in a very competitive business environment. It is a profitable business with very good prospects for growth. A strategy development meeting is underway to chalk out a plan to improve business growth in a very systematic measurable manner.

### **The following information is given to you:**

Grab and Go has the following mission statement “Derive strength to grow in scale using our passion for the craft of cooking and service that will satisfy our customers, employees and other stakeholders.” Grab and Go is a closely held partnership firm with five partners. It started at a scale of operations that catered to the local demand within a locality. Reputation for good quality food and service has help it scale up its operations in the recent years. Most of the key decision srelating to operations like decision about the menu and its method of preparation, product pricing, finance, marketing, administration etc. are centralized. Skilled chefs, managers for various functions and the firm's partners are part of this core team.

A general survey published in a food trade magazine highlighted people's perception about fast food diet. Predominant opinion was that the current food platter available in food joints across the town was not healthy option. People want healthier choices in the menu when they dine out. At the same time, they do not want to compromise on taste or presentation of the food item. The other focal point for improvement was the order taking system. In most food joints, the current system is manual where the order taking staff note down a customer's order on paper, send it to the kitchen and then delivers the order on intimation from the kitchen, which is also done manually by the kitchen staff. This system has problems like errors in taking down orders, most times delivery staff are unaware of the content in an item or its availability, delays in delivery leading to customers complaining about food served cold etc. This problem takes away the pleasure of dining out and is leaving customers dissatisfied. Another scope for improvement is that customers want more payment options other than cash to settle their bills. With the advent

of plastic money and mobile e wallet payments carrying cash around has become cumbersome for most of them.

The partners have decided to use this as an opportunity to develop Grab and Go as the niche food joint addressing the customer's concerns, while managing to remain profitable. Consequently, Grab and Go plans to expand by providing more choices along with its regular menu to health-conscious customers. Also, revamping its ordering, delivery and payment system would improve customer experience. A reasonable return at the overall firm level would be a return on equity (Net Income/Total Partnership Capital) of 25% each year. Capital structure will remain unchanged. The partners are not interested in diluting their share by bringing in new partners or take external funding with ownership stake. They may however utilize bank financing for expansion, but only if required.

Expansion of business will entail opening new branches in other localities as well as forging franchise with other stakeholders. However, Grab and Go is not clear how to measure market share since the fast food industry market is not entirely an organized sector. There is no clear information about the overall revenue of the whole sector.

In the past, it was quality of its products that drove growth. The management wishes to maintain high quality standards across branches and franchisee. Therefore, an internal quality control department may be established to look into the same. External certifications from government food inspectors and other recognized agencies would also be required to be met. Quality refers to both product quality and service quality, in this case, service being an inherent part of customer experience.

The staff at Grab and Go are also excited at this opportunity. Expansion of the food joint would present a more dynamic work culture. Chefs would have the opportunity to enhance their skill by trying out various ways to cater to the consumer's palate. Ordering and delivery staff would have the opportunity to enhance their people management skills. This learning opportunity would definitely be an impetus for their career growth. With expansion chances of promotion within the organization increase. Financially, better business leads to the expectation of better pay and reward system.

Consequently, the management is intent on developing a performance management system that tracks performance across the organization. Among the different models, the Building Block Model is being considered.

### **Required**

ADVISE the partners how the Building Block Model at Grab and Go could be implemented.

Solution:-

## **BUILDING BLOCK MODEL**

- Developed by Fitzgerald & Moon
- Performance measurement System
- Non-Financial performance indicators specifically for service industries

**There are 3 aspects to build performance measurement system**

<b>FIRST ASPECT</b>	<b>DIMENSIONS</b>	<b>Deciding goals on which performance</b>
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		shall be measured
Determinants (The things that are important to get results)	Innovation	Management must Review Number of new dishes which should be introduced in menu, regularity of new introductions every month & Customer feedback on the same.
	Quality	Management should ensure food quality , good taste & better presentation. Management should ensure that quality standards are met across all branches and non-compliance should be reviewed immediately.
	Resource Utilization	Proper co-ordination between ordering staff, Kitchen staff & delivery staff. Reduce material wastage rate & high table occupancy rate.
	Flexibility	Management should ensure high flexibility e.g. Hire staff quickly cater seasonal customer's demand quickly
	Competitive Performance	Company should introduce healthier food choices, take customer feedback, Open more franchises etc.
	Financial Performance	Partners want 25% return on capital employed. They don't want external funding or to go to public. They can take loan from bank. Hence they need more ample cash reserve to expand their business. They should track on profitability ratios i.e. Gross profit ratio.

		Net profit ratio, Operating margin ratio across all branches
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- Getting the Top 4 correct will lead to strong financial & Competitive performance
- These are insured at Board Level
- They are further broken in multiple targets for divisional managers so that someone is responsible to ensure that Each target is achieved.

<b>Second Aspect</b>	<b>Standards Key Performance indicators</b>	<b>Deciding what the company wants/desired</b>
	Owner ship	Who is responsible to achieve standard/At branch level, managers will be responsible for operations of each branch & franchisee. Chief chef will be responsible for quality of food. Head of order taking department shall be responsible for waiting time of customers
	Achievability	Benchmarks & Targets shall be helpful only if they are achievable. Zero waiting time of customers shall demotivate order taking staff. Quality of food shall be checked according to feedback of many customers. At single customer complaint. Chef should not be fired.
		Benchmarking should be equally challenging for all e.g. Kitchen staff order taking staff, delivery

		<p>staff, advertising staff etc. waiting time to meet customer's order would be relevant for kitchen, ordering &amp; delivery staff, Popularity of advertisement jingle would be relevant for advertisement staff.</p>
<b>Third Aspect</b>	<b>Rewards</b>	<b>Deciding what the managers will receive</b>
	Clarity	<p>Targets and reward package should be clearly defined to staff. Each employee should be told how they will be evaluated &amp; reward amount shall be decided. If organization incurs loss due to defective pricing policy then chef may not get deserved bonus. This is not a good reward system.</p>
	Motivation	<p>Rewards should itself motivate managers to achieve standards. Bonus of advertising staff should be aligned to sales generated, chefs should be rewarded based on sales, bonus should be distributed to each employee. Employee of the month</p>
	Controllability	<p>Reward should be based on non-financial elements also. Non-financial elements also. Non-financial reward e.g. employee of</p>

		the month, chef can come up with popular menu.
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Performance management using the Building Block Model poses three questions based on which the performance measurement system is developed: *What dimensions of performance should the company measure?*

Dimensions are the goals that the company wants to achieve based on its overall strategy, those goals that define its success.

*How to set the standards (benchmarks) for those measures?*

*What are the rewards needed to motivate employees to achieve these standards?*

### **Dimensions**

Dimensions (goals) include financial and non-financial goals. Dimensions are further categorized as into results and determinants. Results are tracked as (a) financial performance and (b) competitive performance. Determinants are tracked as (a) quality, (b) flexibility, (c) innovation, and (d) resource utilization. Determinants influence results.

### **Results**

(a) Financial Performance: Grab and Go is a closely held partnership with 5 partners. Partners are interested in earning profits that have been benchmarked at an overall return on equity of 25% each year. This can be derived from periodic financial statements that get prepared as part of the accounting function. Partners want to retain the current capital structure. This implies that they do not have any plans to go public or have other external funding with ownership stake. They may take loans from banks for funding their expansion.

Consequently, if they want to expand, the firm has to make sufficient profits that will yield ample cash reserves. Therefore, Grab and Go's financial performance dimensions should also include profitability ratios like gross profit ratio, net profit ratio, operating margin, return of capital employed (if bank loans are taken) etc. Cash profit and changes in cash reserves may also be included as dimensions of performance. These measures should be tracked at the firm's overall level as well at the individual branch/franchisee level.

(b) Competitive Performance: Grab and Go was to be a niche joint in a highly competitive segment. However, to measure how it compares with its peers there is a limitation in terms

of availability of information due to the unorganized nature of the fast food industry. All the same, one of the measures that can be helpful are the number of branches / franchisees the firm is able to open.

Grab and Go is also likely to have a competitive edge because it is foraying into providing healthier food choices along with its regular menu. Since this is unique among its segment, it will retain a competitive edge until its peers start replicating the same. Therefore, one other measure for competitive performance could be the spread and uniqueness of Grab and Go's menu as compared to its peers. Information for this could be gathered from published / researched sources like trade magazines as well as informal sources like customer feedback / word of mouth.

### **Determinants**

- (a) **Quality:** Quality drove past performance and it will continue to drive performance even after expansion. For product quality, the management should track if internal quality checks and external certifications are met periodically. Quality control should cover all branches and franchisees. Non-compliance may require immediate attention of the management. For service quality, periodic training programs can be initiated to educate the staff with people management skills. Therefore, Grab and Go should determine parameters that the management would be interested in ensuring that quality standards are met and how non-compliance should be reviewed.
- (b) **Innovation:** Innovation involves experimenting with the appropriate inputs which make them healthy. At the same time, the healthier option should satisfy the taste and presentation preference of customers. This requires innovative efforts from qualified and skilled chefs. This will give the competitive edge to Grab and Go. Innovation has to be constant and not a onetime exercise. Therefore, management may review the number of new variants that have been introduced in the menu, regularity of these introductions and customer feedback of the same.
- (c) **Flexibility:** Growth in scale of operations combined with a competitive business environment implies that Grab and Go should have some flexibility in its operations. This could mean ability to hire staff quickly, cater to seasonal surges in customer's demand etc.
- (d) **Resource utilization:** Better utilization of resources help business function efficiently.

Revamping the order, delivery and payment system would improve the way resources (kitchen, ordering and delivery staff) operate. Lesser errors and delays would increase capacity utilization, freeing up time to cater to more customers. Consequently, pressure on resources decreases. Therefore, some indicators to be tracked can be overtime / idle time of kitchen, ordering and delivery staff, turnaround time in these functions, table occupancy rate, breakage, or wastage of material etc. Again here, the management should chart out the appropriate dimensions that will help them track resource utilization.

## **Standards**

Standards are the benchmarks or targets related to the performance metric that is being tracked under each dimension. To be useful, standards should have the following characteristics:

- (a) **Ownership:** It is important to establish who in the organization structure is responsible for achievement which performance metric. Grab and Go has to consider this very carefully. As explained in the problem, many key management functions like decisions about the menu and its preparation are determined by a core team. Similarly, the centralized core team is handling finance and marketing. However, at the branch level, managers of various operational functions can be held accountable for performance of that specific process. For example, the chief at a particular branch can be held accountable for the quality of food prepared in that branch (Dimension: Quality). Similarly, the head of the order taking staff at a particular branch can be held accountable for the overtime that the staff at putting in at that branch (Dimension: Resource utilization).
- (b) **Achievability:** Benchmarks and targets will be useful only if they are achievable. The managers who have ownership for the achievement of performance metric have to be involved in setting benchmarks or targets. They should be clearly defined, preferably quantifiable. At the same time, they should be in line with the firm's overall strategy. If the target is set very high staff can get de-motivated. If set too low, will not raise the bar for performance. If not in line with the firm's overall strategy, there will be discord or gap between the firm's performance and what it wants to achieve.
- (c) **Equity:** Benchmarks should be equally challenging for all parts of the business. Grab and Go should customize its performance measure for each function like kitchen staff, order and delivery staff, finance staff, advertising staff etc. For example, while turnaround time to

meet a customer's order would be relevant metric to the kitchen, ordering and delivery staff, popularity of the advertisement jingle for Grab and Go would be the relevant metric for the advertisement department. The rigor of the target should be uniform across departments. Otherwise the staff would view the benchmark system as being biased towards select functions within the firm.

## Rewards

This relates to the reward structure within the firm that includes compensation package, bonus, rewards, awards, facilities provided to employees etc. Proper reward system is required for achievement of standards while maintaining costs at optimum levels. Grab and Go should have a well-defined HR policy for compensation, bonus, promotion and reward. A good system should have the following characteristics:

(a) **Motivation:** Does the reward system drive the people to achieve targets and standards? A low reward system would not induce staff to work towards the goal. Goal clarity and participation in target/benchmark setting can motivate staff to achieve standards.

While some part of compensation may be fixed, other parts can be made variable. For example, bonus of the advertising staff can be aligned to the sales generated, Chefs can be rewarded bonus based on sales as well quality measures etc. Better job prospects in a growing environment would also be a good motivator. Grab and Go's management should track various metric in this regard. Some of them could be percentage of bonus paid to the overall compensation package categorized staff cadre, attrition rate, internal promotions, cross training programs etc.

(b) **Clarity:** The reward package should be clearly communicated to the staff. It should be understood by the staff concerned. They should be told what kind of performance will be rewarded and how their performance will be measured. Grab and Go may consider having a dedicated HR team for this purpose.

(c) **Controllability:** Unlike the traditional understanding, rewards need not be based only on the financial element that the staff can control. There may be other non-financial elements for which rewards can be given. Both aspects however need to be controllable by the staff concerned. For example, the chef can come up with a popular menu. If the pricing of the product, managed by the central core team, is such that it results in a loss to Grab and Go,

the chef may not get the much-deserved bonus. This is not a good reward system and might lead to attrition.

Grab and Go can design its performance measurement system along the above lines.



## CASE STUDY No:- 8:- (Building Block Model )

**KTR** is a fast food joint operating in a very competitive business environment. It is a profitable business with very good prospects for growth. A strategy development meeting is underway to chalk out a plan to improve business growth in a very systematic measurable manner.

The following information is given to you:

KTR has the following mission statement *“Derive strength to grow in scale using our passion for the craft of cooking and service that will satisfy our customers, employees and other stakeholders.”* KTR is a closely held partnership firm with five partners. It started at a scale of operations that catered to the local demand within a locality. Reputation for good quality food and service has helped it scale up its operations in the recent years. Most of the key decisions relating to operations like decision about the menu and its method of preparation, product pricing, finance, marketing, administration etc. are centralized. Skilled chefs, managers for various functions and the firm’s partners are part of this core team.

A general survey published in a food trade magazine highlighted people’s perception about fast food. Predominant opinion was that the current food platter available in food joints across the town was not a healthy option. People want healthier choices in the menu when they dine out. At the same time, they do not want to compromise on taste or presentation of the food item. The other focal point for improvement was the order taking system. In most food joints, the current system is manual where the order taking staff note down a customer’s order on paper, send it to the kitchen and then deliver the order on intimation from the kitchen, which is also done manually by the kitchen staff. This system has problems like errors in taking down orders, most times delivery staff are unaware of the content in an item or its availability, delays in delivery leading to customers complaining about food served cold etc.

This problem takes away the pleasure of dining out and is leaving customers dissatisfied. Another scope for improvement is that customers want more payment options other than cash to settle their bills. With the advent of plastic money and mobile e wallet payments carrying cash around has become cumbersome for most of them.

The partners have decided to use this as an opportunity to develop KTR as the niche food joint addressing the customer’s concerns, while managing to remain profitable. Consequently, KTR plans to expand by providing more choices along with its regular menu to health-conscious customers. Also, revamping its ordering, delivery and payment system would improve customer experience. A reasonable return at the overall firm level would be a return on equity (Net Income/Total Partnership Capital) of 25% each year. Capital structure will remain unchanged. The partners are not interested in diluting their share by bringing in new partners or taking external funding with ownership stake. They may however utilize bank financing for expansion, but only if required.

Expansion of business will entail opening new branches in other localities as well as forging franchise with other stakeholders. However, KTR is not clear how to measure market share since the fast food industry market is not entirely an organized sector. There is no clear information about the overall revenue of the whole sector.

In the past, it was quality of its products that drove growth. The management wishes to maintain high quality standards across branches and franchisee. Therefore, an internal quality control department may be established to look into the same. External certifications from government food inspectors and other recognized agencies would also be required to be met. Quality refers to both product quality and service quality, in this case, service being an inherent part of customer experience.

The staff at KTR is also excited at this opportunity. Expansion of the food joint would present a more dynamic work culture. Chefs would have the opportunity to enhance their skill by trying out various ways to cater to the consumer's palate. Ordering and delivery staff would have the opportunity to enhance their people management skills. This learning opportunity would definitely be an impetus for their career growth. With expansion chances of promotion within the organization increase. Financially, better business leads to the expectation of better pay and reward system. Consequently, the management is intent on developing a performance management system that tracks performance across the organization. Among the different models, the Building Block Model is being considered.

### **Required**

ADVISE the partners how the Building Block Model at KTR could be implemented.

### **Solution:-**

1. Performance management using the Building Block Model poses three questions based on which the performance measurement system is developed:

*What dimensions of performance should the company measure?*

Dimensions are the goals that the company wants to achieve based on its overall strategy, those goals that define its success.

*How to set the standards (benchmarks) for those measures?*

*What are the rewards needed to motivate employees to achieve these standards?*

### **Dimensions**

Dimensions (goals) include financial and non-financial goals. Dimensions are further categorized as into results and determinants. Results are tracked as (a) financial performance and (b) competitive performance. Determinants are tracked as (a) quality, (b) flexibility, (c) innovation, and (d) resource utilization. Determinants influence results.

### **Results**

- (a) **Financial Performance:** KTR is a closely held partnership with 5 partners. Partners are interested in earning profits that have been benchmarked at an overall return on equity of 25% each year. This can be derived from periodic financial statements that get prepared as part of the accounting function. Partners want to retain the current capital

structure. This implies that they do not have any plans to go public or have other external funding with ownership stake. They may take loans from banks for funding their expansion.

Consequently, if they want to expand, the firm has to make sufficient profits that will yield ample cash reserves. Therefore, KTR's financial performance dimensions should also include profitability ratios like gross profit ratio, net profit ratio, operating margin, return of capital employed (if bank loans are taken) etc. Cash profit and changes in cash reserves may also be included as dimensions of performance. These measures should be tracked at the firm's overall level as well at the individual branch/franchisee level.

- (b) **Competitive Performance:** KTR was to be a niche joint in a highly competitive segment. However, to measure how it compares with its peers there is a limitation in terms of availability of information due to the unorganized nature of the fast food industry. All the same, one of the measures that can be help fulare the number of branches/franchisees the firm is able to open.

KTR is also likely to have a competitive edge because it is foraying into providing healthier food choices along with its regular menu. Since this is unique among its segment, it will retain a competitive edge until its peers start replicating the same. Therefore, one other measure for competitive performance could be the spread and uniqueness of KTR's menu as compared to its peers. Information for this could be gathered from published / researched sources like trade magazines as well as informal sources like customer feedback / word of mouth.

### Determinants

**Quality:** Quality drove past performance and it will continue to drive performance even after expansion. For product quality, the management should track if internal quality checks and external certifications are met periodically. Quality control should cover all branches and franchisees. Non-compliance may require immediate attention of the management. For service quality, periodic training programs can be initiated to educate the staff with people management skills. Therefore, KTR should determine parameters that the management would be interested i n ensuring that quality standards are met and how non-compliance should be reviewed.

- (a) **Innovation:** Innovation involves experimenting with the appropriate inputs which make them healthy. At the same time, the healthier option should satisfy the taste and presentation preference of customers. This requires innovative efforts from qualified and skilled chefs. This will give the competitive edge to KTR. Innovation has to be constant and not a onetime exercise. Therefore, management may review the number of new variants that have been introduced in the menu, regularity of these introductions and customer feedback of the same.
- (b) **Flexibility:** Growth in scale of operations combined with a competitive business environment implies that KTR should have some flexibility in its operations. This could mean ability to hire staff quickly, cater to seasonal surges in customer's demand etc.

- (c) **Resource utilization:** Better utilization of resources help business function efficiently. Revamping the order, delivery and payment system would improve the way resources (kitchen, ordering and delivery staff) operate. Lesser errors and delays would increase capacity utilization, freeing up time to cater to more customers. Consequently, pressure on resources decreases. Therefore, some indicators to be tracked can be overtime / idle time of kitchen, ordering and delivery staff, turnaround time in these functions, table occupancy rate, breakage, or wastage of material etc. Again here, the management should chart out the appropriate dimensions that will help them track resource utilization.

### **Standards**

Standards are the benchmarks or targets related to the performance metric that is being tracked under each dimension. To be useful, standards should have the following characteristics:

- (a) **Ownership:** It is important to establish who in the organization structure is responsible for achievement which performance metric. KTR has to consider this very carefully. As explained in the problem, many key management functions like decisions about the menu and its preparation are determined by a core team. Similarly, the centralized core team is handling finance and marketing. However, at the branch level, managers of various operational functions can be held accountable for performance of that specific process. For example, the Chief at a particular branch can be held accountable for the quality of food prepared in that branch (Dimension: Quality). Similarly, the head of the order taking staff at a particular branch can be held accountable for the overtime that the staff at putting in at that branch (Dimension: Resource utilization).
- (b) **Achievability:** Benchmarks and targets will be useful only if they are achievable. The managers who have ownership for the achievement of performance metric have to be involved in setting benchmarks or targets. They should be clearly defined, preferably quantifiable. At the same time, they should be in line with the firm's overall strategy. If the target is set very high staff can get de - motivated. If set too low, will not raise the bar for performance. If not in line with the firm's overall strategy, there will be discord or gap between the firm's performance and what it wants to achieve.
- (d) **Equity:** Benchmarks should be equally challenging for all parts of the business. KTR should customize its performance measure for each function like kitchen staff, order and delivery staff, finance staff, advertising staff etc. For example, while turnaround time to meet a customer's order would be relevant metric to the kitchen, ordering and delivery staff, Popularity of the advertisement jingle for KTR would be the relevant metric for the advertisement department. The rigor of the target should be uniform across departments. Otherwise the staff would view the benchmark system as being biased towards select functions within the firm.

### **Rewards**

This relates to the reward structure within the firm that includes compensation package, bonus, rewards, awards, facilities provided to employees etc. Proper reward system is required for achievement of standards while maintaining costs at optimum levels. KTR should have a well-defined HR policy for compensation, bonus, promotion and reward. A good system should have the following characteristics:

(a) **Motivation:** Does the reward system drive the people to achieve targets and standards? A low reward system would not induce staff to work towards the goal. Goal clarity and participation in target/benchmark setting can motivate staff to achieve standards.

While some part of compensation may be fixed, other parts can be made variable. For example, bonus of the advertising staff can be aligned to the sales generated, Chefs can be rewarded bonus based on sales as well quality measures etc. Better job prospects in a growing environment would also be a good motivator. KTR’s management should track various metric in this regard. Some of them could be percentage of bonus paid to the overall compensation package categorized staff cadre, attrition rate, internal promotions, cross training program etc.

(b) **Clarity:** The reward package should be clearly communicated to the staff. It should be understood by the staff concerned. They should be told what kind of performance will be rewarded and how their performance will be measured. KTR may consider having a dedicated HR team for this purpose.

(c) **Controllability:** Unlike the traditional understanding, rewards need not be based only on the financial element that the staff can control. There may be other non-financial elements for which rewards can be given. Both aspects however need to be controllable by the staff concerned. For example, the chef can come up with a popular menu. If the pricing of the product, managed by the central core team, is such that it results in a loss to KTR, the chef may not get the much- deserved bonus. This is not a good reward system and might lead to attrition.

KTR can design its performance measurement system along the above lines.



## CASE STUDY No:- 9: Balance Score Card

B. Steels is a leading manufacturer of flat and long products and have state-of-the-art plants. These plants manufacture value added products covering entire steel value chain right from coal mining to manufacturing Pig Iron, Billets, HR Coils, Black Pipe/GI Pipe, Cable Tapes etc. conforming to international standards. The rock-solid foundation combined with nonstop upgradation and innovation has enabled the B. Steels to surpass its goals constantly. Its vision and values for sustainable growth is balancing economic prosperity and social equality while caring for the planet. It is preparing its balanced scorecard for the year 2018-19. It has identified the following specific objectives for the four perspectives.

• Improve post-sales service	• Improve employee morale	• Improve employee job satisfaction
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• Increase gross margin	• Increase number of customers	• Increase profitability of core product line
• Increase plant safety	• Increase customer retention	

B. Steels has collected Key Performance Indicators (KPIs) to measure progress towards achieving its specific objectives.

The KPIs and corresponding data collected for the year 2018-19 are as follows:

Key Performance Indicator	Goal	Actual
Average replacement time (number of days)	2	1.5
Gross margin growth percentage	15%	16%
Number of customers	15,000	15,600
Number of plant accidents	0	2
Percentage of repeat customers	83%	81%
Core product line profit as a percentage of core-product line sales	5%	4.4%
Employee turnover rate (number of employees leaving/ Average number of total employees)	2%	3%
Employees satisfaction rating (1-5, with 1 being the most satisfied)	1	1.2

### B. Steels

#### Balanced Scorecard Report For the year ended March 31, 2019

B. Steels Balanced Scorecard Report For the year ended March 31, 2019					
Perspective	Objective	KPI	Goal	Actual	Goal Achieved (Yes or No)
Financial	×	×	×	×	×
Customer	×	×	×	×	×
Internal Business Process	×	×	×	×	×
Learning and Growth	×	×	×	×	×

#### Required:-

- PREPARE a balanced scorecard report using the above-mentioned format. Place objective under the appropriate perspective heading in the report. Select a KPI from the list of KPIs that would be appropriate to measure progress towards each objective.
- B. Steels desires to integrate sustainability and corporate social responsibility related KPIs in their balance scorecard to adhere vision and values. ADVISE B. Steels, using TBL framework.

#### Solution:-

### B. Steels

#### Balanced Scorecard Report For the year ended March 31, 2019

Perspective	Objective	KPI	Goal	Actual	Goal Achieved (Yes or No)
Financial	Increase Gross Margin	Gross margin growth	15%	16%	Yes

		percentage			
	Increase Profitability of Core Product Line	Core product line profit as a percentage of core product line sales	5%	4.4%	No
<b>Customer</b>	Increase number of customers	Number of Customers	15,000	15,600	Yes
	Increase customer retention	Percentage of repeat customers	83%	81%	No
<b>Internal Business Process</b>	Improve post sales service	Average replacement time (number of days)	2.0	1.5	Yes
	Increase plant safety	Number of plant accidents	0	2	No
<b>Learning and Growth</b>	Improve employee job satisfaction	Employees satisfaction rating (1-5, with 1 being the most satisfied)	1	1.2	No

(ii)“Triple Bottom Line” concept encourages companies to measure not only their financial profits, but also the impact that its operations have on the society and environment. Therefore, this framework measures the full cost of doing business by measuring the following bottom lines (i) Profit (ii) People and (iii) Planet.

Diminishing non-renewable resources have forced businesses to focus on sustainable manufacturing. This term refers to managing manufacturing processes such that they minimize any negative impact on the environment by conserving energy and natural resources. In many instances, improved operational efficiency not only reduces waste (thereby costs) but also improves product safety, it strengthens the brand’s reputation and builds public’s trust about the company. As a long- term strategy, this improves business viability and provides a competitive edge to the company. This concept is the “Planet Bottom Line” within the Triple Bottom Line framework. Metrics on the following aspects may be investigated to find out the environment impact of business operations:

- Material consumption
- Energy consumption
- Water utilization
- Emissions, treatment of effluents and waste (include emissions affecting air, water, and land)
- Fuel consumption by tracking freight and transportation costs
- Land utilization
- Recyclability and disposal of product

“Corporate Social Responsibility” enables the company to become conscious of the impact its operations has on the society. CSR programs, through philanthropy and volunteer efforts can forge a stronger bond between itself, its employees, and the wider community. Again, this improves both the brand image as well as builds public’s trust about the company. This concept is the “People Bottom Line” of the Triple Bottom Line framework. Metrics on the following aspects maybe investigated to find out the social impact of business operations:

- Work place environment and labour relations
- Occupational health and safety, accident rates
- Human rights practices – child labour, employee work-place security policies

- Training and education
- Equal opportunity employer – diversity of workforce and opportunities available for employees’ growth
- Suppliers – local sourcing versus sourcing from external markets
- Philanthropy and volunteer programs organized
- Product safety in terms of customer health and safety
- Pricing of essential products to enable wider reach within the society
- Transparent and ethical business practices

B. Steels can study these aspects, determine the relevant metrics, and prepare periodic KPI reports that can help in measuring responsibilities towards sustainability and social impact. (RTP-NOV’19)



## CASE STUDY No:- 10 :Balance Score Card

In 2009, Luxo had monopoly in the eyewear market of America, but the problem with the company was that it was selling variety of eyewear, by putting a big price on it. At present, there is almost nothing that you can’t buy online, but at that time there were limited things that you could order online. In 2009, Arby Signer Inc. launched a website to sell eyeglasses online. Selling eyewear online and competing with Luxo was a challenge for Arby. Within just 4 years Arby break the monopoly of Luxo and capture the major market of America. People find it really convenient to buy sunglasses and glasses online and get delivery at doorstep. Following the footstep of Luxo, Arby eliminated the middleman from the manufacturing process, launched its own optical lab to have its own manufacturing process. The range of products/services offered by Arby which make different from Luxo include easy buying process, delivery at door step, stylish glasses, customize eyewear glasses, products was sold on the site at very affordable, with a starting range of just \$95 etc.

### Mission, Vision & Objectives

<b>Mission</b>	“Improving people’s lives with our health care products in a socially cognizant way”
<b>Vision</b>	“To be at rusted healthcare partner”
<b>Objective</b>	“To offer people designer eyewear at a revolutionary price”

As a mission- based brand, Arby needed a way to instill their team of employees with a passion for the mission. Arby let their employee know ‘what they value’ and ‘what the employee should value’ in ‘who they are’. This is important to setting up ‘what they do’ and ‘why they do it’ as a core foundation of their brand story. Arby also contributes in the philanthropic work, it inspires the people with its mission. For every pair of glasses customer pay, Arby donates a pair of glasses to needy person. In December 2019, Arby reported the donation of 9,60,000 pairs of eyeglasses. The company also claims to be 90% carbon neutral.

### Extracts from the Balanced Scorecard

Performance Measure	2019 Actual	2019 Target
Financial perspective		
Return on capital employed(ROCE)	13%	14%
Net income	\$95Millions	\$89Millions
Customer perspective		
Number of first-time buyers	1,20,000	1,00,000
Customer retention ratio	78%	75%
Number of complaints(per 1,000 customers)	1.5	2

Number of glasses donated to needy people	9,60,000	9,00,000
Internal processes		
Number of business processes re-engineered	110	100
Number of new services made available through online application	2	4
Incidences of customer accounts (per 1,000 customers)	3	10
Total CO2 emissions (tons)	850	1,100
Learning and growth		
Number of employees trained to instruct retailers	1,000	1,050
Number of hours (paid for) used to support social plans	10,200	10,000
Number of trainee positions from rural areas	189	200

Other Information:-Arby Signer has recently invested heavily in IT security to prevent fraud.

### **Required:-**

#### **EXAMINE the performance of The Arby Signer in 2019.**

**Solution:-** The balanced scorecard approach looks both financial performance and non-financial performance. In order to gain competitive advantage, organizations have to be conscious of the needs and convenience of their customers. The Arby signer has a vision and strategy which goes far beyond just making money. They want to help the community and give something back to customers also. Hence, performance measures which address whether the Arby is being successful in pursuing their vision has been incorporated in Balanced Scorecard. The performance of the Arby will be considered under each of the titles used in the balanced scorecard:

#### **Financial Perspective**

The Arby has had a year of diverse achievements when looking at the extent to which it has met its financial targets. Its ROCE shows how efficiently it has used its assets to generate profit for the business. The target of ROCE for the year was 14% but it has only achieved 13% return. The Arby's Net Income, however, was in fact \$6 million higher than its target, which is good. The most likely reason for the under target ROCE is possibly the investment which Arby has made in IT security. Whilst this may have reduced ROCE, this investment is essentially a good idea as it helps Arby to pursue its mission and will keep customers happy.

#### **Customer Perspective**

Regarding its customers, Arby's performance is better in the current year. It has not just exceeded its target sale to first time buyers by 20,000 but also improved its customer retention ratio, which is good for company to pursue its vision of being a trusted healthcare partner.

Customers complaints has reduced from 2 complaints to 1.5 complaints for every 1,000 customers, the exact reason is not clear but it might be because of improved processes and team efforts of employees.

Also, the number of glasses donated exceeded the target. It shows that company has exceeded its target of helping people which is good for the company's reputation.

#### **Internal Processes**

Number of business processes within Arby re-engineered has exceeded the target, which is very good and the impact of which may be reflected in the lowering of level of customer complaints. Likewise, the investment to improve IT security has been a great success, with only three incidences of fraud per 1,000 customers reported compared to the target of 10. However, only two new services have been made available via online application,

instead of the target of four, which is unsatisfactory. But fortunately, its CO2 emission is below to the target level.

### Learning and Growth

The Arby has succeeded to train its employees to instruct retailers. However, the number of employees trained to instruct retailers are comparatively lesser than targeted, shortfall in training of employees to give instruction to retailers may have an impact on the Arby's failure to meet its target of market expansion.

Number of hours (paid for) used to support social plans are comparatively higher, it results in additional costs which could have contributed to the fact that the Arby did not quite meet its target for ROCE. Further, company has not met aim for helping the rural area as targeted. This may be because the number of candidates applying from these areas was not as high as planned and this situation is beyond companies control.

In general, the Arby Signer had a successful year, meeting many of its targets. (RTP-MAY-2020)



## CASE STUDY No:- 11 :Balance Score Card

Fair Limited manufactures and sells motor vehicles in India and different parts of the world. The company has its head office in New Delhi and three regional offices. The manufacturing plants are situated in Pune and Bhubaneshwar. The company has over 10,000 employees who are paid a fixed salary and a performance related pay (PRP).

The PRP is determined using the financial performance as a measure. The performance of departments which are profit centers is based upon the revenues and profits the departments generate. The performance of cost centers is based upon the cost savings against the budget.

Of late, the company has identified critical issues with the motor vehicles manufactured and sold in the market. In the last one year, itself, the company has recalled more than 2 lakh vehicles owing to quality issues like faulty gearbox, issues with axle, braking systems etc. The company was also penalized for selling vehicles which does not meet the emission norms.

The board of directors carried out an internal review of these frequent recalls and issues with the vehicles. In most of the cases, it appeared that the recall of vehicles was on account of lower quality of material and parts used. A couple of critical quality and emission checks were ignored to dispatch more vehicles in the limited time, leading to higher sales and profits.

The board is concerned with the reputational risk with the issue related with recalls. The company was consumer's most trusted brand for last three years in a row. It is unlikely to win the award this year due to negative feedback from customers. The board wants to win the trust of the customers back and be profitable as well.

### **Required:-**

You are the advisor to the board. The board seeks your advice on the following aspects:

- (i) Advantages and disadvantages of using financial measure as a performance measure.
  - (ii) SUGGEST an alternative performance measure which includes non-financial measures as well.
  - (iii) IDENTIFY 2 critical success factors and 2 Key Performance Indicators for the performance measure chosen in (ii).
- (Mock Test Paper)

### **Solution:-**

What is the issue?

Fair limited is into manufacturing of motor vehicles. The company has used financial measures for performance. Of late, the company has faced quality related issues leading to vehicle recalls. The company has also been penalized for violating emission norms. Since the company has been using financial measures only, it appears that non-financial aspects related to quality have been ignored. The company has adopted the principle of profit at any cost which can be seen from use of low quality materials and parts as well as skipping key quality checks.

**Financial Performance Measure:-** Financial performance measures focus on financial results or aspects. These measures focus on the profits made by a business or a unit of business. They also include costs saved against budgets. Various financial performance indicators include – growth in revenue, profitability, variance from budget, Return on Capital Employed etc.

In the case of Fair limited, the performance of employees is done on the basis of financial performance indicator. When performance is evaluated on financial parameters, the employees and managers tend to focus only on profitability in anticipation of higher bonuses and pays.

The problems related to quality issues in vehicles produced by Fair limited might be linked to the use of financial performance measure. Low quality parts are used to save costs and improve profitability. The quality checks prior to sales were also skipped to sell more vehicles with limited resources. This is an apparent case of compromise in quality for seeking higher profits and revenues. In light of above, the advantages and disadvantages of financial performance measures are given below.

### **Advantages**

Focus on financial objectives and is linked to the overall objective of wealth creation of shareholders.

Such measures are objective.

Quantification of results is possible.

The measures are comparable across companies of a particular industry.

The framework to measure financial performance is established in most of the cases.

### **Disadvantages**

Focus on short term profits and Ignores long term sustainable growth. As can be seen in the case of fair limited, the company has compromised quality for short term profits. This is harmful to the company in the longer run.

This measure can be distorted by inflation. A 5% growth in sales might be good but if the inflation is 6%, the real growth is negative.

Financial information might be manipulated to show a better performance.

Non-financial performance measures use measures other than financial to measure performance of employees and departments. The advantages of non-financial measures are Non-financial measures help business to measure every area whether financial or non-financial. Financial measure would not be able to suitably measure areas like performance of IT department.

It focuses on qualitative aspects as well.

These measures take a long-term view unlike financial measures where employees tend to take a short term view.

### **The disadvantages of Non-Financial measures are:**

These require huge amount of information to measure each area of performance and might lead to shift of focus from core goals and values.

These can be subjective as non-financial measures cannot be generally quantified.

Non-financial measures like measures of quality are difficult to measure.

## **Balanced Scorecard**

An alternative performance measure which focuses on both financial and non-financial measures is the Balanced Scorecard. It outlines four key areas in which company and divisional performance should be measured to focus on both the short and long term needs of the organisation. The key idea is that managers are to be appraised on a variety of measures which include non-financial measures so that their focus is both long and short term.

As discussed earlier, it appears that managers at Fair limited have ignored long term sustainable growth and qualitative factors and focused on short term profits and sales. This is one of the key disadvantages of a financial measure of performance. The company can start measuring performance both on financial as well as non-financial aspects. This would ensure that employees are not short sighted on profits alone.

## **The four areas or perspectives in a Balanced Scorecard are –**

- **Financial Perspective**

Financial perspective focuses on financial performance of the business and divisions. The various financial measures used by companies are profitability, revenue growth, cost control etc. This is currently being used in Fair limited to measure performance.

- **Customer Perspective**

This perspective views organizational performance from the point of view the customer or other key stakeholders that the organization is designed to serve. These could include measures like customer satisfaction index, percentage of returns, percentage of goods delivered on time etc.

- **Internal Business Perspective**

This perspective views organizational performance through the lenses of the quality and efficiency related to product or services or other key business processes. The measures under internal business perspective could be number of defective products produced, production performance per unit of time etc.

- **Training and Development/ Learning and Growth Perspective**

This perspective views organizational performance through the lenses of human capital, infrastructure, technology, culture and other capacities that are key to breakthrough performance. The key measures could be number of new products produced, amount invested in training and development etc.

In each category/Perspective, the organisation must follow through from the business strategy, to ensure they are focused on the long- term direction of the business. Clear objectives should be set under each category according the SMART criteria (Specific, Measurable, Achievable, Relevant and Time-bound), measured at the end of the period, and lessons learnt from actual results to help to improve performance in future periods and keep the organisation on track to achieve its strategic goals.

## **Applying Balanced Scorecard to Fair Limited**

The issues related to quality have arisen at Fair Limited as the managers and divisions focused on profits at the cost of quality. The recall of vehicles was primarily on account of use of sub-standard parts. The company should consider using non-financial measures as well as a performance measure. Balance scorecard can be effective tool to apply financial and non-financial measure.

The company must take steps to put focus on quality related aspects as well as financial aspects. A proper application of various Key Performance Indicators under the respective Critical Success Factors can help the company overcome the current issue.

Critical success factor (CSF) is a management term for an element that is necessary for an organization or project to achieve its mission. It is a critical factor or activity required for ensuring the success of a company or an organization. These are the key areas in which the organisation has to do well if they are to remain competitive and profitable. The critical success factors have to be linked with the overall strategy of the organisation.

Key Performance Indicators (KPIs) are the ways in which the organisation's performance for the CSF can be measured. It is a measurable value that demonstrates how effectively a company is achieving key business objectives. Organizations use KPIs to evaluate their success at reaching targets.

The Critical Success Factors and Corresponding KPIs for Fair limited for each of the perspective in the balanced scorecard is given below:

Perspective	Critical Success Factors	Key Performance Indicator
<b>Financial</b>	<ul style="list-style-type: none"> <li>• Be the Most Profitable Company in Motor Vehicle Industry.</li> <li>• Become the No.1 Company by in terms of Market Share in five years.</li> </ul>	<ul style="list-style-type: none"> <li>• Profitability ratios.</li> <li>• Revenue growth.</li> <li>• Variance to budget.</li> <li>• Number of vehicles sold.</li> </ul>
<b>Customer</b>	<ul style="list-style-type: none"> <li>• Be No.1 Choice of Customers.</li> <li>• Implement Zero Recall Policy.</li> </ul>	<ul style="list-style-type: none"> <li>• Number of vehicles sold vis-à-vis those sold by competitors.</li> <li>• Number of recalls of vehicles.</li> <li>• On time delivery of vehicles.</li> </ul>
<b>Internal Business</b>	<ul style="list-style-type: none"> <li>• Total Quality Management.</li> <li>• Zero Idle Time at Factory.</li> </ul>	<ul style="list-style-type: none"> <li>• Number of defective cars produced.</li> <li>• Number of cars returned by customers as faulty.</li> <li>• Number of hours spent in waiting by labours at assembly line.</li> </ul>
<b>Training and Development</b>	<ul style="list-style-type: none"> <li>• Upto Date Technology used in Manufacturing Facilities.</li> <li>• Skill Development for Labour and Supervisors.</li> </ul>	<ul style="list-style-type: none"> <li>• Amount spent in research and development year on year.</li> <li>• Number of training hours undergone by workers and supervisor.</li> <li>• Number of new model of vehicles launched.</li> </ul>

