Preface to the Notes

This notes has been prepared for the benefit and use of CA Final students. Other Professional Course students can also use the material for respective topics of their syllabus. Being notes, the topics have been condensed and are presented in a synopsis manner. Yet, they cover the complete issues involved in respective topics and give the reader good understanding of the subject. This has been prepared for the ease of students preparing for Examinations. The issues have been explained in simple language supported by examples as well. If students desire to have more in-depth knowledge on any topic(s) then they need to refer relevant Text Books.

This paper of the CA Final course had substantial change in the contents and syllabus as compared to the erstwhile Advanced Management Accounting. There is a marked shift from more of the earlier Figure Work to Theory and Figure work in current syllabus. The syllabus has included more of the practical aspects of Management Accounting and Performance Evaluation with Case Studies. To answer practical cases, a student needs to have:

- Thorough understanding of the Theory;
- Application of theoretical knowledge to Practical business scenarios for solutions: and
- Figure work analysis.

In this part, only theory has been considered.

I hope this notes will be of good use to students.

Readers are requested to mail suggestions and feed back to ram_pv@rocketmail.com for improving the contents.

Good wishes and Happy Reading
P V Ram

CHAPTER 8: Performance Measurement & Evaluation

Broad Contents of the Chapter are:

1. Responsibility Accounting
2. Divisional Performance Measures Viz. ROI, RI, EVA, SVA, Balanced Score Card, Performance Pyramid, Building Block Model, Performance Prism, Tripple Bottom Line.
3. CSF, KPI and Corporate Strategy.
4. Benchmarking.
5. Performance Measurement in the Not for Profit Sector.

Responsibility Accounting

Responsibility Accounting is the Collection, summarisation and Reporting of Financial Information where an individual is held accountable for the Costs and / or Revenues and / or Assets of the Firm. This is also called Profitability Accounting or Activity Accounting.

The purpose of Responsibility Accounting is to assess the performance of the Managers' on certain criteria depending on the operations and / or assets under his control. Performance and Organisational Structures are interrelated. Organisational Structure can be:

- A Functional Organisation Structure (based on Functions. In this case most of the decisions are centralised and Functional Managers freedom is limited to take decisions) or
- Divisionalised Organisation Structure (based on Products, Line of Business, Nature of Markets etc. In this case Managers have some flexibility to take decisions and operate due to Decentralization and Delegation).

There are 4 types of Responsibility Centers (Decentralisation):

a. **Cost or Expense Centers**: In this case the Managers are held responsible for the costs or expenses in their Division. This will happen mostly in the cases where Divisions are created on the basis of Functions. Key measure will be monitoring budgets and actuals.
b. **Revenue Centers**: In this case Managers are held responsible for the Sales Revenue and Collections of their respective Divisions. Key measure will be monitoring budgets and actuals.
c. **Profit Centers**: In this case Managers are held responsible for both Expenses and Revenues and consequently the net difference – Profit.
d. **Investment Centers**: In this case Managers are not only held responsible for Revenues and Costs but also for assets that have been deployed to generate the said Revenues and Costs. They are also held responsible for acquisition or disposal of assets.

Divisional Performance Measures

Performance Measures should:

a. Provide incentive to Divisional Managers and must Motivate them to take decisions in the overall best interest of the Company rather than the Division (Goal Congruence);
b. Should include the factors where the Divisional Manager can be held responsible.
c. Should consider both the long term and short term objectives of the organisation.

The Performance Measures are of 2 types:

A. **Purely Financial**:
   a. Return on Investment (ROI)
   b. Residual Income (RI)
   c. Economic Value Added (EVA)
   d. Shareholder Value Added (SVA)

B. **Financial and Non Financial**:
   e. Balanced Score Card (Kaplan & Norton)
   f. Performance Pyramid (Cross & Lynch)
   g. Building Block Model (Fitzgerald & Moon)
   h. Performance Prism (Neely & Chris Adams)
   i. Triple Bottom Line (TBL)

a. **Return on Investment (ROI)**: ROI expresses Divisional Profit as percentage of Investment in the assets of the Division. Assets are those assets that are controllable by the Divisional Head. Other assets are not considered. This will be an ideal measure in case of Divisions dealing with Similar Products and of similar size.
   Since ROI is a relative measure, it is possible to accept a project with Low absolute return and High ROI and discard a project with High absolute return and Low ROI. Further, a division with Low ROI may accept a project which has High ROI (than its own ROI) eventhough it is less than Cost of Capital and Vice Versa. This may be against the principle of Goal Congruence and Company's interest may be at stake at the cost of Divisional improvement.

b. **Residual Income (RI)**: To overcome part of the anomaly of ROI, a company may adopt Residual Income Method. Residual Income is defined as Divisional Controllable contribution less Cost of Capital on the Investment controllable by the Divisional Manager.
   This method has a serious shortcoming when multiple projects of different sizes are compared. Further, large capital intensive projects do have gestation periods also.

c. **Economic Value Added (EVA)**: Profit Based measures have the following shortcomings.:

- Profit ignores Cost of Capital. Cost of Debt is considered in the form of interest. But cost of equity is totally ignored.
- Profit calculated on the basis of Accounting Standards is subject to manipulation of discretionary items.

The above deficiencies are overcome by E V A Method. EVA is the difference of NOPAT and the opportunity Cost of Capital (Debt + Equity).

EVA = NOPAT – WACC * Capital Invested

NOPAT = PAT + Int * (1-Tax rate) = EBIT – Tax – Int * Tax rate

While calculating NOPAT:
Accounting Depreciation is added back and Economic depreciation is deducted.
Actual Cash outflow of Tax is Deducted (not Provision)
Non cash items like PFBD etc. are added back to profit.

d. **Shareholder Value Added (SVA)**: The main objective of a Firm is to maximise the wealth of shareholders. So, S V A is used as a yardstick to measure the performance of Divisions. SVA is the process of analysing how decisions affect the NPV of cash to shareholders. A project is accepted if it is able to generate a return more than the Cost of Capital. Any future cash flows are to be adjusted with appropriate cost of capital. Value drivers of shareholders as suggested by Rappaport are:

i. Sales growth rate;
ii. Operating profit Margin;
iii. Income Tax Rate;
iv. Investment on Working Capital;
v. Investment in Fixed Capital;
vi. Cost of Capital and
vii. Project Life.

Further value need not necessarily mean Financial Value. It can be non financial values also like Social Responsibility, Ethics, Brand Image etc.

e. **Balanced Score Card**: Balanced Score Card is a method through which performance of an organisation is shown in 4 dimensions, viz.

i. **Financial Perspective** - relating to Shareholders. In this perspective, Manager of a business unit links his business objectives to the corporate strategy as a whole. To identify key performance measures, Managers during Strategic Planning ask the question **How do we Look to Shareholders**? The financial objectives chosen at the time of Balanced Score Card implementation should serve 2 purposes. Viz.

- To provide definite performance and
- To provide focus for objectives and appropriate measures to the other 3 perspectives.

Normal Financial measures that are used are ROI, ROCE, GP Ratio, NP Ratio, Revenue Growth, Cost control etc.

ii. **Customer Perspective** – relating to Customers. In this perspective, Managers identify Customers and Market Segments in which they operate and the means by which they provide Value to Customers and Markets. The question **How do Customers View us** is answered. Managers identify the Lead indicators which makes a particular unit different from others. Lead indicators vary from customer to customer and from market to market. Lead indicators can be like On time delivery, On site service, After sale service etc. ;

iii. **Internal Perspective** – In this stage Managers identify the processes and activities that are necessary to achieve the objectives identified in the Financial and Customer perspectives. The objectives may be achieved by reassessing the value chain and making the necessary changes to existing activities. The question **At What Must we Excel** is answered. If maintaining net earnings is the financial objective and timely after sales service is the customer objective, then more service centers may be opened to achieve prompt and immediate service to customers etc, The measures under Internal Perspective can be number of defective products produced, output per unit of time etc.; and

iv. **Learning and Growth Perspective** – In this perspective Managers determine the activities and infrastructure required to create long term growth by achieving the objectives set forth in the previous 3 perspectives. Learning and Growth comes from 3 sources:

- Employee Capabilities;
- Information System Capabilities and
- Organisational Procedures like Motivation, Empowerment etc.

The measures could be number of new products produced, Number of hours trained etc.

In each perspective, the Firm should follow Business Strategy to ensure they are focused on the long term direction of the business. Clear objectives are to be set under each category according to the **SMART** (**S**pecific, **M**easurable, **A**chievable, **R**elevant and **T**imebound) criteria.

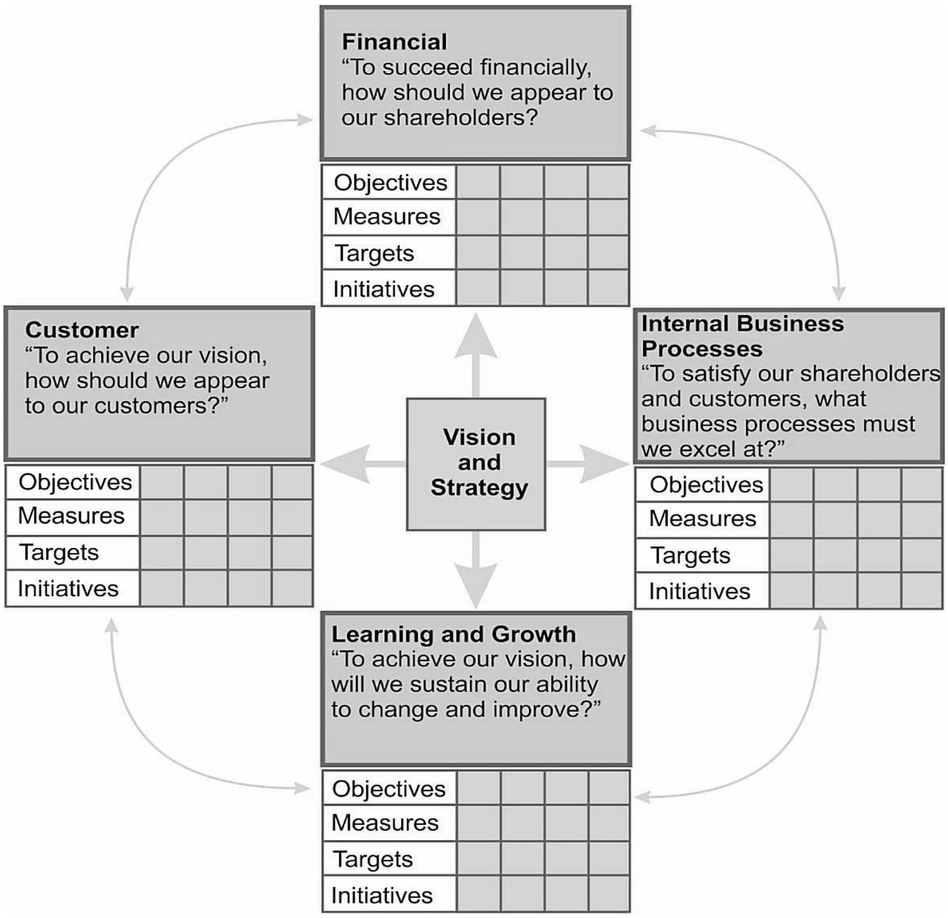
Balanced Score Card is intended to improve Long Term Financial Performance. Balance Score Card gives equal importance to both Financial and Non Financial factors. The responsibility to design and develop Balanced Score Card is of the Managers in the respective

Business units. Since each business unit varies from other business units, each business unit has to develop its own Financial and Non Financial criteria that need to be focused for its development. Balanced Score Card is a Management Tool used for both Internal and External reporting purposes.

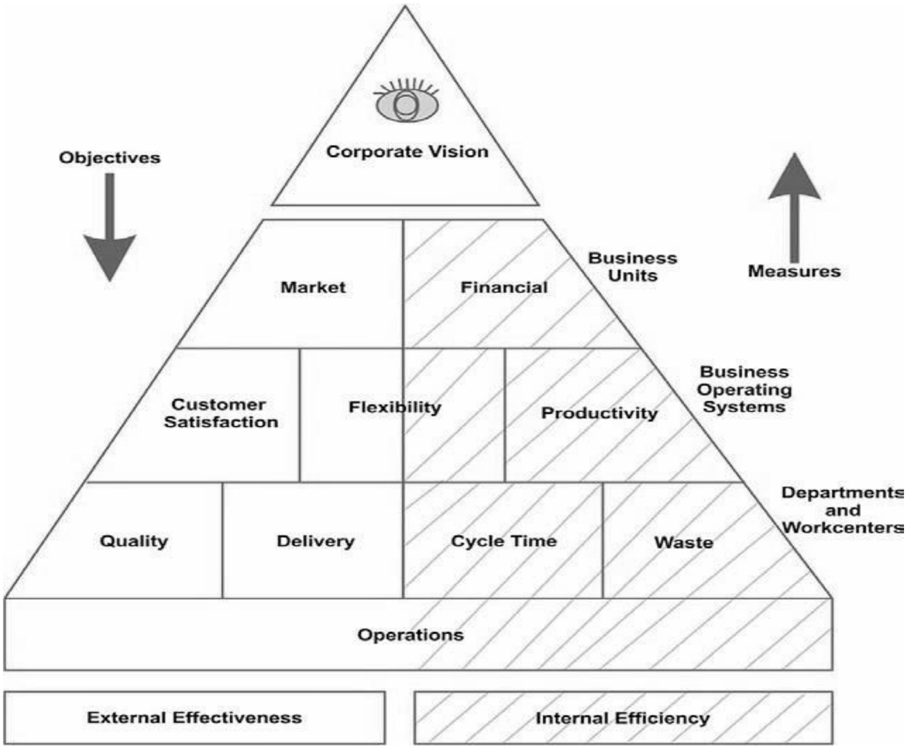
Following are some of the reasons why Balanced Scorecards sometimes fail:

i. Managers mistakenly think that since they already use Non Financial Measures, they already have one eventhough that does not exist.
ii. Senior Executives misguidedly delegate the implementation of Balanced Score Card to Middle Managers thereby diluting and sabotaging it.
iii. Firms try to copy measures and strategies of other Firms instead of tailoring them as per their business situations.
iv. Managers may think that Balanced Scorecards are meant only for reporting purposes instead of using them for Managing the Business in a new and effective way.

Following figure summarises the ideas of a Balanced Scorecard.



f. **Performance Pyramid**: Performance Pyramid also known as Strategic Measurement and Reporting Technique viewed Business as Performance Pyramids. Under this technique, the strategies are linked to day to day operations. This technique is based on the principle if a house has to be strong, then the foundation of it has to be strong. The Pyramid can be depicted as below:

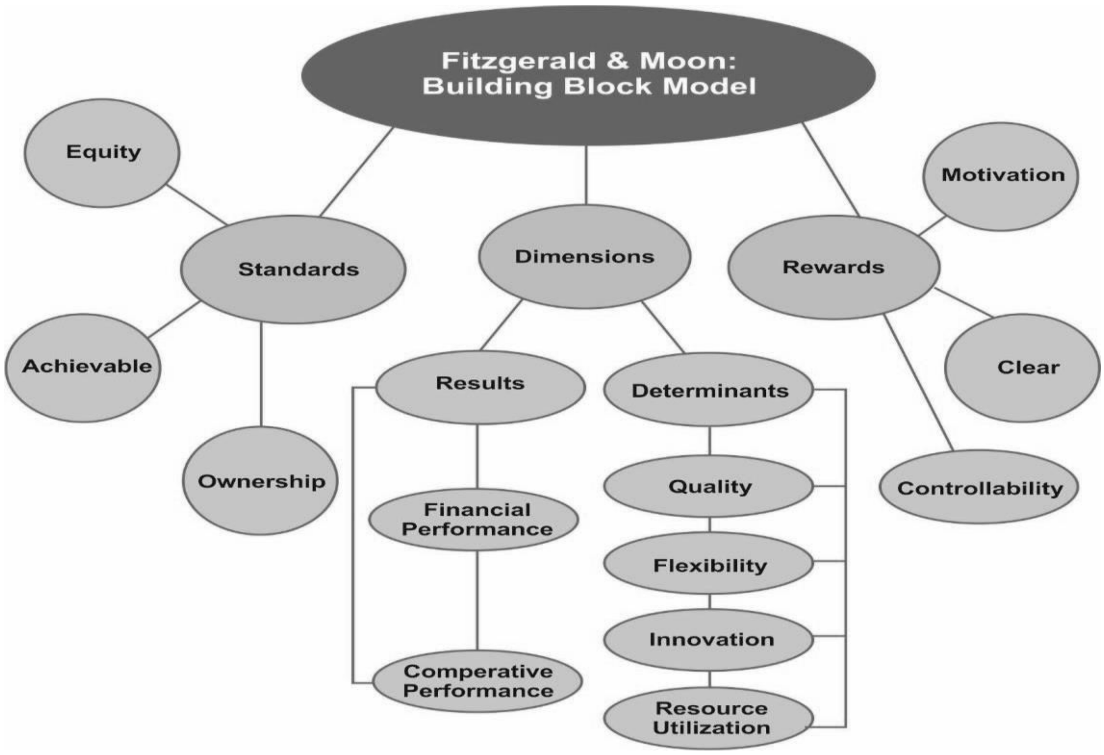


In the above pictorial presentation:

i. ‘Objectives’ are shown from top to bottom.
ii. ‘Measures’ are from bottom to the top.
iii. At the top is the organization’s Corporate Vision through which long term success and competitive advantages are described.
iv. The ‘Business Level’ focuses on achievements of organization’s CSF in terms of market and financial measures.
v. The Marketing and Financial success of a proposal is the initial focus for the achievement of corporate vision.
vi. The above business is linked to achieving Customers Satisfaction, increase in Flexibility and High Productivity.
vii. The above driving forces can be monitored using the Operating Forces of the organization.

viii. The left-hand side of the pyramid contains external forces which are 'Non-Financial'.
ix. On the other hand, the right-hand side of the pyramid contains internal efficiency which are predominantly 'Financial' in nature.

g. **Building Block Model:** Fitzgerald and Moon have proposed this Model. This model is mostly used for Service Industries. However, it can be used by Manufacturing and Retail sectors also to evaluate Business Performance.



Under the Building Block Model, first it is ascertained, what **Dimensions** of performance are required to be measured to achieve the goals of the Firm. Next thing is to achieve these dimensions, what **Standards** are to be set for these measures? Lastly, how the manpower is to be **Rewarded** upon achievement of the Standards

The main Components of the Building Block Model are:

i. Standards
ii. Dimensions
   - Determinants
   - Results
iii. Rewards

Standards: Standards should have the features of:

Equity: Standards should be equally challenging for all parts of business. There should not be any unfair treatment to any department or individuals that hinders productivity.

Ownership: Performance measure should be acceptable to everyone. Ownership indicates acceptance of responsibility by the employees for respective activities.

Achievable: Standards are to be fixed in such a way that they are realistic and are achievable. They must induce the person to try and achieve them.

Dimensions: These are the Goals of the Business. I.e. These are the Critical Success Factors (CSF) to achieve the objectives. These are further divided into Determinants and Results.

Determinants: These are the performance areas which influence Results.

Quality: This is the ability to deliver Goods and Services with consistency. Quality is the level of benefits a customer expects for the price paid.

Flexibility: This is ability to respond to changing scenarios of Business like sudden increase or decrease in demand, ability to tackle hindrances in logistics etc.

Innovation: This is the ability of the Business to introduce new products or new methods of service like using environment friendly packing materials etc.

Resource utilisation: This is the ability to use Business assets optimally to achieve Business objectives.

Results: These indicate the success or failure of the above Determinants.

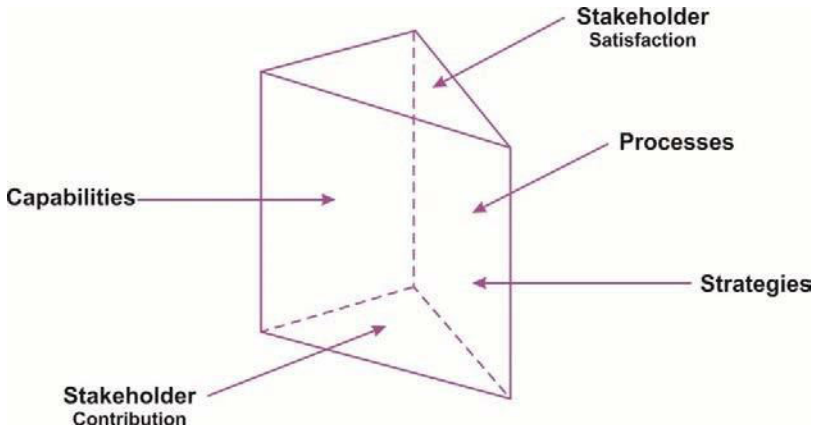
Financial Performance: This gives the overall performance of the Business at a glance in Monetary terms. This can be used to identify the areas of strengths and weaknesses.

Competitive Performance: This indicates how our Business stands when compared with other similar Businesses on factors like Quality, Price, Service etc.

h. **Performance Prism**: This model was propounded by Andy Neely and Chris Adams. *Balanced Scorecard and Performance Pyramid focus on Shareholders and Customers whereas Performance Prism focuses on All Stakeholders*. Performance Prism is treated as second generation performance framework to replace models like Balanced Scorecard. Stakeholders are not just limited to Investors and customers; there are also other stakeholders like Employees, Suppliers, Government agencies etc. Stakeholders must be viewed in terms of their Power and Interest in the Firm. Stakeholders with high power and high interest are to be kept satisfied in priority as compared to Stakeholders with less power and less interest. This is required for the sustained growth of the Firm in long run.

Under Performance Prism, Stakeholders requirements will be starting point to develop Performance Measures whereas in most of the other Models, Corporate Strategy is the starting point. There are 5 Facets to Performance Prism Model which lead to Strategy Formulation and Measurement Design.

i. **Stakeholders Satisfaction:** The organisation needs to focus on who are the Stakeholders and what are their Needs and Wants.
ii. **Strategies:** What strategies are needed to be adopted to meet the Wants and Needs of the Stakeholders? To achieve this, what requirements of the Firm are to be met by Stakeholders is also to be ascertained.
iii. **Processes:** What processes are needed to be adopted to meet the above Strategies? At this stage, Porter's Value Chain analysis and PDCA cycle can be followed.
iv. **Capabilities**: What Capabilities are needed by the organisation to enhance the Processes and satisfy stakeholders?
v. **Stakeholders Contributions**: To achieve the satisfaction of Stakeholders, Firm requires some contributions also from Stakeholders. There is Quid pro Quo relationship between Stakeholders and the Firm.



Performance Prism allows organisations to develop strategies, business processes and measures geared to the specific needs of all important stakeholder groups.

Benefits of Performance Prism: Following benefits can be derived from the use of Performance Measures:

i. Develops agreed Measures of activity.
ii. Clarifies the objectives of the Organisation.
iii. Greater understanding of the process
iv. Facilitates comparison between Divisions within the Organisation and also between different Organisations.
v. Promotes accountability of Stakeholder.
vi. Helps in setting Targets for Managers.

Problems with Performance Measures: Following problems are envisaged.

i. **Tunnel Vision**: Undue focus is made on measurements to the detriment of other areas.
ii. **Sub Optimisation**: Focus one single or few measurements to the detriment of others.
iii. **Myopia**: Concentrates more on Short Term Goals, often at the cost of Long Term Goals.
iv. **Misrepresentation**: Not presenting the data correctly.
v. **Misinterpreting**: Misinterpreting the data
vi. **Ossification**: Keeping out of date measures.

i. **Triple Bottom Line (TBL) Model**: TBL Model looks beyond the Financial Model and considers Non Financial Factors like Social, Environment, Economic etc.
   i. **Social**: Relates to Corporate Governance, Motivation, Incentives, Human Capital Development, Human Rights, Ethics etc.
   ii. **Environment**: Measures the impact on natural resources like Air, Water, Earth, Waste Emissions etc.
   iii. **Economic**: Refers to Measures relating to the Maintenance or Improvement of Firm's Success. These can be Financial Measures like change in Networth, change in ROI etc.

Corporate Strategy, Critical Success Factors (CSF) and Key Performance Indicators (KPI) and their Linkage: Very often CSF and KPI are misunderstood and used synonymously. There is difference between them. CSFs' are derived from Corporate Strategy and KPIs' are derived from CSFs'. CSFs' are the Objectives that a Business is trying to achieve and these are derived from Corporate Strategic Goals. In other words CSFs' represent 'What' the Firm should do to achieve the Corporate Strategic Goals. For example Corporate Strategy may be to increase Market Share. CSFs' for this could be in the form of Selling High Quality Products, 3 Free After Sales Services, Quick Resolution of Customer Complaints etc.

KPIs' are derived from CSFs'. For the CSF of 3 Free After Sales Services, KPI may be in the form of rendering the service atleast within 3 days of the due date at customers' place. KPIs' quantify the actions needed to be taken to achieve the CSFs'. That is if KPIs' show positive results, it implies the achievement of CSF which in turn implies the achievement of the Strategic Corporate Objective.

Having KPIs' also requires having of a good Monitoring and Feedback system. Absence of these leads to aimless chasing of targets with no relevance to the Corporate Strategic Goals. Benefits of KPIs' are realised only when they are implemented in the right way and understanding their linkage with CSFs'

<u>Bench Marking</u>

This process has first started in early 1960s' in Japan and later spread to other places. Benchmarking is a technique for Continuous Improvement and Performance. It involves comparing a firm's products, services or activities against other best performing organisations, 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. The benchmarking is a versatile tool that can be applied in a variety of ways to meet a range of requirements. Each type of Benchmarking has its own Merits and Demerits and the one suitable at one place may not suit for other places and vice versa. Following are some of the different types of benchmarkings:

A. **Competitive Benchmarking**: This involves comparison of Competitors' products, processes, activities or Business results with own and identifying areas of improvement. Partners are chosen from same sector. To protect confidentiality, this process is done through Trade Associations or Third parties.
B. **Strategic Benchmarking**: This is a systematic process by which the Firm seeks to improve overall performance by comparing Long Term Strategies like developing new products or services, core competencies etc.
C. **Global Benchmarking**: This is a process through which distinction in international culture, business and trade practices across companies are bridged and their impact for business improvement are studied and utilised. Globalisation and Information Technology revolution are helping in this direction.
D. **Process Benchmarking**: This involves comparison of critical processes and operations with others who are best in the industry and try to emulate them.
E. **Functional Benchmarking**: This type of Benchmarking is used when Firms look to Benchmark with partners from other industry to find ways of improving similar functions. This sort of benchmarking may lead to innovation and dramatic improvements.
F. **Internal Benchmarking**: This involves seeking partners from within the organisation or group and comparing similar activities and processes. The main advantage of this is easy availability of information. However, real innovation may be lacking and best in class may more likely be found through external benchmarking.
G. **External Benchmarking:** This involves seeking of help from outside parties who are supposed to be best in the class. This offers good scope for improvement. This type of benchmarking may be time consuming and also costly to ensure the comparability of data and credibility of the findings and development of recommendations.

Benchmarking can also be categorised into:

A. **Intra group Benchmarking**: In this companies from same industry agree that similar units within the cooperating companies will pool data on their processes. The processes are benchmarked against each other at operational level. "Improvement Task Forces" are established to identify best practices and transfer them to all the members of the group.

B. **Inter Industry Benchmarking**: In this a non competing business with similar processes are compared. For instance a steel industry may be compared with cement industry for logistics. Both have dealer and retail networks and require transportation of inputs and outputs. With benchmarking, both industries will stand to gain.

Goals of Benchmarking: The goal of benchmarking is to gain significant improvements in performance and returns based on efficiency. The benchmarking is a versatile tool that can be applied in a variety of ways to meet a range of requirements.

Process of Benchmarking: The process of benchmarking requires a Company to identify the areas i.e. processes, activity etc. which are central to its business and then select the top-performing companies in those areas. By analysing how that excellence is achieved, the company learns lessons to apply to its own processes. The process has the following stages:

a. **Planning**: This requires the identification of the areas to be benchmarked. The areas can be those which account for most of the expenses or tie up most of the cash. It is essential for benchmarking one should have good, reliable and efficient systems of recording, measurement and reporting. For identification of areas to be benchmarked, following criteria are used:
   i. What areas make significant improvements in our relationship with customers like:
      1. Consistency of product or service,
      2. Process cycle time,
      3. Delivery performance,
      4. Responsiveness to customer requirements,
      5. Adaptability to special needs etc.

      What areas do make significant improvements to our bottom-line like:
      1. Waste and reject levels,
      2. Inventory levels,
      3. Work in progress,
      4. Cost of sales,
      5. Sales per employee etc,
   ii. Identification of Best Performance: This requires the identification of the Best of Best for the desired criteria. As identification of the Best of the Best is Costly and Time Consuming, a company which is successful in the desired criteria is identified for emulation.
   iii. Establishment of Benchmarking Team: A team is formed and

are entrusted with the task of implementation of Benchmarking scheme. Members of the team are chosen who are experienced and familiar with the internal processes and procedures.

iv. Defining Benchmarking Measurement: For the selected criteria, suitable measure is adopted to monitor and review the progress.

b. **Collection of Data**: Data is collected from various sources like, National and International clearing houses, Mail Surveys, Suppliers, Telephone, interviews etc.
c. **Analysing the data collected**: The data collected is analysed in detail by preparing suitable tables, graphs, charts etc. Wide gaps between own organisation and other organisations are ascertained. The differences are probed further by calling for additional information from the Benchmarking partner, if need be. Findings of the analysis are communicated to the persons who are affected. Realistic opportunities for improvement are identified and taken up for improvement.
d. **Recommendations**: Recommendations of the criteria selected for improvement are communicated after suitably tailoring to meet the requirements of the Firm for implementation. Key stakeholders support is also obtained for implementation. Action plans are drawn for implementation and performance is monitored. Rewards are given for good performances. Stakeholders are also kept informed in the process.
e. **Monitoring and Reviewing**: The Benchmarking process is evaluated by comparing the improvements and effectiveness with the objectives. Lessons learnt are documented for future use and also for the usage by others. Benchmarks are periodically reconsidered for continuous improvement.

Prerequisites for Successful Benchmarking: Following are the prerequisites for successful Benchmarking.

a. Objectives are to be clearly defined.
b. Scope of the work should be commensurate with the objectives, resources, time available and experience of those involved.
c. Senior Managers support and commitment are to be envisaged for success.
d. Benchmarking teams have the right skills and competencies.
e. Stakeholders and staff are to be kept informed of the reasons for benchmarking.
f. Benchmarking teams should have a clear picture of their organisations performance.

Difficulties in implementation of Benchmarking:

a. Benchmarking requires significant Staff Time and Resources of the Firm.
b. Benchmarking requires the direct involvement of Senior Management. The Drive to be best in the industry or world cannot

be delegated.
c. Employees are likely to resist Benchmarking.
d. The key element in benchmarking is adopting the best practice. The Best Practice needs to be suitably tailored to the needs of the Firm before adoption. Else it will backfire.
e. Very often time is wasted by Benchmarking non-critical areas.
f. The goal may not be to improve but to match with best practice at any cost.

Benchmarking Code of Conduct: The process of identifying and learning from the best practices from anywhere in the world is a powerful tool for continuous improvement. This involves following certain principles and ethics as Code of Conduct by the participating Firms in the Benchmarking exercise as laid down below:

a. **Principle of Legality**: The objectives of the Firms participating in the benchmarking exercise should be Legal. The team should not participate in illegal activities.
b. **Principles of Exchange**: There should be a process of Give and Take among participating members.
c. **Principle of Confidentiality**: The information exchanged among the members should be confidentially maintained. Information obtained from participating members should not be divulged to third parties without prior written consent of the participating Firms.
d. **Principle of Use**: The information obtained from the partnering members should be used only for the purpose for which it is sought. Information obtained as consultant or client should not be shared with other benchmarking teams without the prior written consent.
e. **Principle of First Party Contact**: Every participating Firm should identify one person from their Firm who could be contacted for exchange of information relating to the Benchmarking exercise.
f. **Principle of Third Party Contact**: Consent in writing is to be obtained from a participating member before information relating to him is parted to a non participating Benchmarking member.
g. **Principle of preparation**: All participating members should be committed to the Benchmarking exercise. Information required by the Team is to be given by the respective members as per the agreed formats in timely manner at respective intervals.

Performance Measurement in the Not for Profit Sector

Not for Profit organisations are usually established for social purposes like Healthcare, Education, Environmental Causes, Charitable Causes etc. There are also some organisations which work on No Profit No Loss basis like Professional Bodies, NGOs', Charitable Institutions etc. whose main objective is to render service to their respective groups. Evaluation of Not for Profit organisations is a tricky issue. Though, these organisations are not for profit, to continue their existence and stay afloat to render the services, they need to be financially well if not strong. So, the financial measures applicable for profit organisations apply here also.

The activities of these organisations need to be measured to give confidence to the members / donors that the funds are being used for the objectives efficiently and effectively. Performance measurement in case of Not for Profit organisations is not easy and throws challenges due to the following factors:

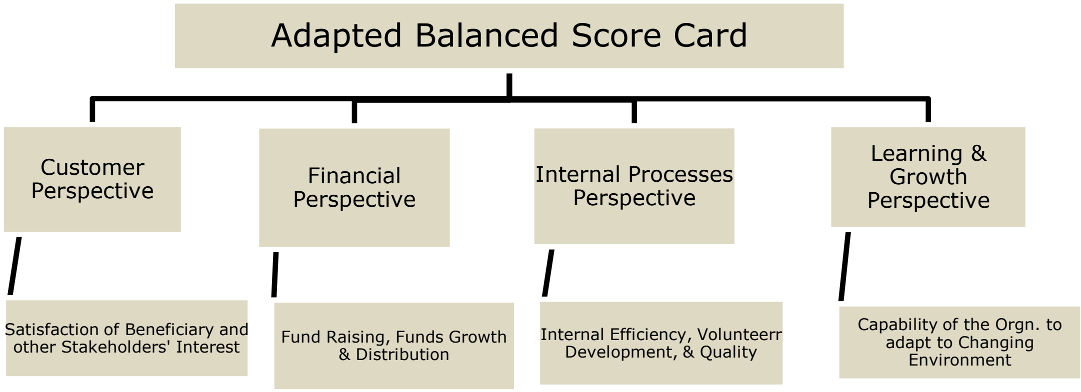
a. **Benefits cannot be Quantified**: An organisation may provide free food to school students. It is difficult to measure the benefits derived by the students from such free meals. Same is the case with Free education, provision of Ambulance services as well.
b. **Benefits may accrue over long run**: Expenditure in one year may give benefits over several years like construction of an ICU in a hospital.
c. **Utilisation of Funds or Expenditure**: Some organisations spend out of Fixed budgets and do not earn any revenue. In such cases ascertaining whether the funds have been spent effectively and efficiently is a key challenge.
d. **Multiple Objectives**: The organisation may have multiple objectives. Prioritisation of objectives poses a key challenge.

Performance Measurement: Inspite of the challenges mentioned above, still it is imperative that performance measurement is carried out in not for profit organisations also. This provides the members, donors and other stakeholders a level of comfort that the organisation is working for the desired objective and mission.

a. **Value for Money framework**: Not for Profit organisations are expected to provide Value for Money which is indicated by:

- **Effectiveness**: whether the organisation has achieved the desired mission and objectives?
- **Efficiency**: Whether the funds and other resources of the organisation have been efficiently used. i.e. giving maximum output with minimum inputs.
- **Economy**: Whether the desired goals have been achieved with lowest cost? This needs to be done without any compromise on Quality.

b. **Adapted Balanced Score Card**: Kaplan developed the Adapted Balanced Score Card suitable for NGOs'. The Main assumption of this Score Card is the Mission statement and not Profit. Following 4 perspectives are suggested.



In this model Customer Perspective takes preference over Financial Perspective since Financial Perspective is Secondary to Not for Profit Organisations. Primary perspective is Customer Satisfaction (or Target People Satisfaction.)

c. **Other Measures include**:
- Ability to raise funds to meet objectives efficiently;
- Submitting Reports in Transparent Manner;
- Best use of Resources;
- Quality of Services etc.