Performance meacurement & Evaluation 03/08/20.

> Responsibility accounting:-

Collection, recording, Summarizing & reporting of fin. information where ind. mgr is held responsible.

- How well mgr. manages the items under control.
- Apt where top. mgt delegate works to lower levels.

> Types of Resoponsibility Centre

Revenue Center | Cost Center | Profit Center | Invst Center

> Types of Org. Structure

- Functional level org
- Divisional level org.

> Methods for Divisional Performance measures:-

Financial

- ROI
- RI
- EVA
- SVA

Non Fin. Measures

- Bal. Score Card
- Per. Pyramid Method
- Building Block
- Per. Prism.
- Triple Bottomline.

> **ROI method** - Per. Meas. method

- ROI is expresses % of profit earned to the assets employed.
- But this process ignore Goal Conquence.

> **Residual Income Method:**

Profit - Cost of Capital

> **Eco. Value Added:-**

Net operating profit after tax - WACC X Capital Employed

↓

EBIT - (Income Tax + Tax Saving Interest)

It overcomes the limitations of performance measurement based on Profit.

1) Profit ignores cost of equity
2) profits are subject to manipulation by the a/cs Thus they donot reflect the true wealth of the Company.

> **Shareholders Value Added:-**

Based on future Cashflows

↓

PV of future C/f @ appropriate discount rate

Based on Mkt Cap.

↓

Market Value of Share × No. of Shares O/s

Disadvantages:

1) prediction in future C/f
2) App. disc. rate

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Seven factors effecting SH's value

1) Sales
Revenue
2) Operatingprofit
3) IncomeTaxrate
4) Investment in WC
5) Invst in F.C
6) Cost of capital
7) Life of project

Non- Fin. Performance measurement methods:-

Triple Bottom Line:-

Bottom Line – to indicate profit
Top Line – to indicate Sales of org.

TBL expands its traditional accounting which looks currency as a unit of performance measurement to

Social
Economical &
Environmental performance

Makes every divisional mgr. responsible.

Balanced Score Card: (Eg:- Purch.dept Budget vs Qty)

BSC is a Set of Financial & Non. financial perf measures relating to a Company.

It provides in mgt in Strategic formulation & achievement.

It provides user set of info over & above fin. aspects

It helps to assess the overall performance & improve operational processes & enable mgt for further improvement.

A well designed BSC, combines both past & future measures of performance.

Four perspectives — Balanced Score Card.

Internal
↓
Identify the processes & activities
↓
Reassess VCA & make Δ to oper. activities
↓
Eg:- Aftersales Service - Toll free - ↑ Customer retention.

(External) Customer perspective
↓
Identify customers & mrkt segments which provide value.
↓
Lead Indicator

Learning & Growth perspective
↓
Identify the activities & infra. structure to create long run growth
1. people
2. Systems
3. Org. procedures.

Financial perspective
↓
Strategic Implementation & Execution are contributing earnings & profit.

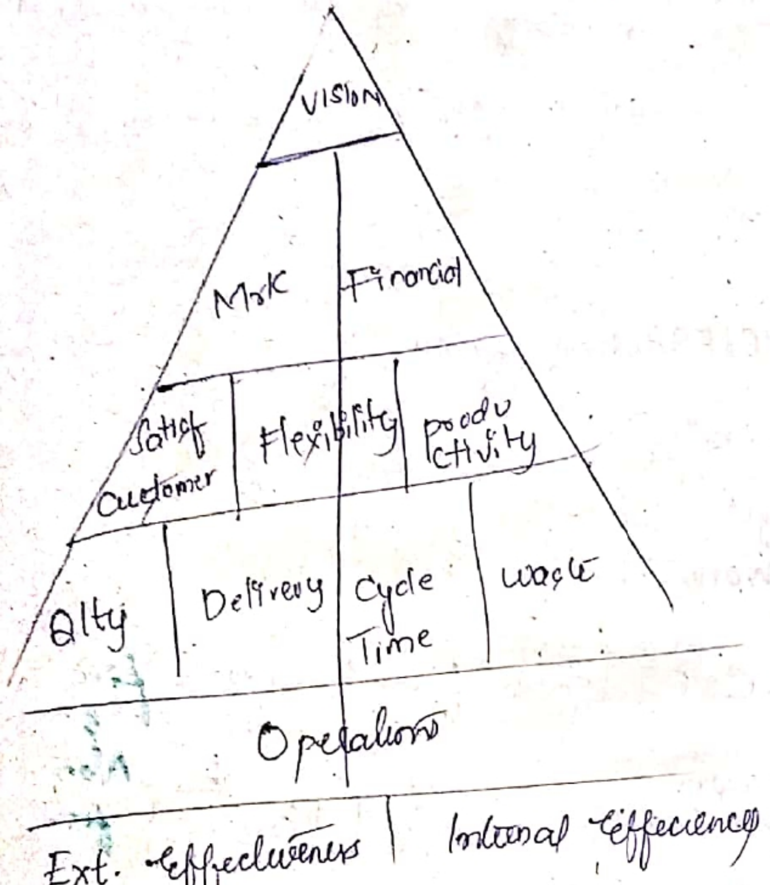
CSF & K.P.I Eg: Bank: Customer satisfaction & No. of a/cs & No. withdrawals a/c.

> Critical Success factors are the key elements that are necessary for any Org. to achieve its objectives.

> While K.P.I are the Performance measures for ~~KPI~~ CSF

> KPI Should be SMART

Performance Pyramid



Name
M.no
Address

Course
charges
+

Plot No 29,142/1
New Balaji Nagar
Meerpet, Near
~~Banga~~ balapur
~~B~~ Hyderabad
Ranga Reedy

Left side - Ext. Effectiveness - Non fin nature
Right side - Int. Effeciency - fin nature

Building Block Model - Non fin. Performance measurement

Majorly used in Service Industry. (NGO - Pr. measurement)

Australia Govt - Various depts.

Fitzgerald & Moon.

Standards ARTICLESHIP - Training.

1) Ownership (Responsibility)
2) Achievable - Targets
3) Equity - In Work

Dimensions - ~~KPI~~ CSF - goals of the business - fin & Non fin.

Determinant - Particular Aspect (Facet)

1) Qlty. - of work
2) Flexibility - in work
3) Resources utilisation
4) Innovation.

Results

1) Fin. Performance
2) Comparative performance

Qlty - Service meets Customer expectation

Satisfy - all Customer needs like delivery time, promptness in responding customer requests.

Rewards

Motivation

- Monetary
- Non Monetary

Clear Communication of rewards.

Control

Controllable factors

Ignore Controllable factors

Performance Measure - Performance prism

This aims @ effectively satisfying all the requirements of all STAKEHOLDERS

5 Facets / Aspect

Stakeholder Satisfaction

Strategies

processes

Capabilities

Stakeholders Contribution

Benchmarking

> Japanese way of Perf. measurement

> Technique for continuous improv. in performance of Org. through comparing its products, services or activities against the best perf. organisations either internal or external.

> Objective is how the product can further improved

Types of Benchmarking

1) Competitive Benchmarking.
2) Strategic Benchmarking.
3) Process Benchmarking
4) (i) Internal benchmarking
   (ii) External benchmarking
5) (i) Intra Group benchmarking
   (ii) Inter Industry benchmarking.
6) Global benchmarking.

Steps involved

1) planning
   (i) Determine the areas need to benchmarked
   (ii) Identify the best performance
   (iii) Estb. process mgt. team.
   (iv) Estb. relevant bench marking measurement

2) Collect data & Info.
3) Analysing the findings
4) Recommendations
5) Monitoring & Review

Principles

→ Youtube

> principle of Confidentiality
> principle of Legality.
> principle of use.
> principle of Exchange
> principle of preparation
> principle of First party Contact
> principle of Third party Contact

NGO / NPO - Perf. Measurement

Need for measurement:-

Must be measured to give donors/ members confidence that their resources are being utilised effectively & efficiently.

Difficulties / Key challenges :-

1) Multiple objectives
2) Benefits cannot be quantified
3) Benefits accrue in long run.
4) Measurement of Exp. & utilization of funds.

Perf. Measurement (EEE)

(I) Efficiency — Max. output & Min. Input

Effectiveness — whether desired objectives achieved.

Economy — Desired output @ Lower cost

(II) Adapted Balanced Score Card.

Fin. perspective - fund raising & distribution

Customer perspective - Satisfaction of beneficiaries & other Stakeholders Interest

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Performance Reports

Responsibility accounting implementation leads to issuance of performance report to each Resp. ~~Cost~~ Centre.

These perf. reports analysing the differences in budgets & actual, will make resp. mgrs accountable & require them to take action.

These reports help,

Top mgt - Performance of Segments

Bottom level - Corrective action & measures @ Segment/bottom level.