

## **Study of Non-Financial Measures of Performance**

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### **Abstract:**

*Performance measurement can be defined as the assessment of whether individual, group or organizations are achieving their objectives. Performance measurement is an important part of organization's management control system. Managers and employees depend for operational and managerial decisions on the information about organization's performance. The information of performance measurement is used to reward and encourage employees. It is also useful for making and revising implementation decisions and taking corrective actions. if there is deviation between actual performance and goals set. The well-designed management control system functions and report measures of performance for both financial and non financial performance.*

**Keywords:** Non-financial, Performance, objectives, control system, decisions.

### **Introduction:**

Goal-directed behavior may not lead to goal attainment. There may be many constraints in the situation which may restrain the goal attainment of goal-directed behavior. 'Here, management control system requires providing motivation. Control system should focus adequately on needs of the participants and must suit them; the control system should be tailor-made and not universal because people differ. The Organization itself provides motivation or demonization to the people to work Organizational phenomenon of how people are motivated is a crucial factor in control of behavior of people in the organization. Thus human behavior plays vital role in the organization.

### **Congruence and Exert Management Effort:**

A management control system should boost goal congruence and managerial effort. To achieve maximum benefits at minimum cost. Goal congruence comes into existence when individual and groups aim at the same organization goals. Goal congruence is met when employees work in their own perceived best interests. They make decisions to achieve the overall goals of the organization. 'Management effort is declined as exertion toward a goal.' Effort means working not only faster but also better. Efforts include all conscious actions that result in more efficiency and effectiveness.'

Goal congruence can exist with little accompanying effort and vice-verse. But incentives are necessary for both goal congruence and effort. Management control system design itself should specify objectives and rewards which induce employee decisions that would achieve organizational goals. The incentives would play very important role in exerting effort for continuous empowerments in employee efficiency and effectiveness. Management control systems should be designed in such a way that organization can take advantage of more typical human behavior, with special reference to self-interest. Management control should focus on motivating employees. For achieving goal congruence and managerial effort . In designing management control systems the different motivational impact should be considered. It should be ensured to know how each system will cause people to respond motivational impact of management control system.

**Participative and Responsive Management:**

In increasing competitive environment it is expected that organizations produce better quality products and services and be more efficient in doing so. In other words, participative management is implemented by making jobs team-oriented rather than individual orientation. Participative management has been contributed towards the improvement in production and service. Quality and efficiency in a number of organizations. A frequent problem faced in participative management is opposition to the change from managers, who fear a loss of power or authority. Overcoming these difficulties participative management has produced some impressive results. To fulfill this requirement, now, a number of companies are allowing employees to participate into planning and decision-making by giving them opportunities to share their ideas and views. More autonomy is provided to employees in doing their jobs. Hence, the participative management should be adopted as part of management control systems.

Responsive management relies on the sound principles of social science to accurately portray the range and magnitude of opinions and attitudes of customers and employees. There should be balance and parity between authority and responsibility for attaining objective of responsive management.

**Non-financial Measures of Performance:**

Non-financial measures provide information on variable required to compete in present business environment. These measures focus on such factors as quality, reliability, flexibility, delivery performance. Most organizations, in recent years, have developed a new awareness of the importance of controlling such non-financial measures of performance as quality, cycle time and productivity. Along with financial measures, we have to develop and consider non-financial measures of performance. The factors have become crucial which are

- (i) Performance of competitors
  - (ii) Customer satisfaction
  - (iii) Inventory reduction
  - (iv) Skill, morale and training of employees
  - (v) Flexibility and innovation
- In this context, three important measures we have to take into account for the purpose of control measure i.e. control of quality, control of cycle time and control of productivity.

**Control of Quality:**

There is very high emphasis on quality both for product and services. Before seeing the quality control, we must know the concept of quality which is somewhat complex concept. But with operational point of view, quality means "focusing on the production of increasingly better products and services at progressively more competitive prices."

Quality control is the effort to ensure that products and services perform to customer requirements. Throughout the world, companies have adopted formal quality management programmes for not only controlling quality but also improving quality. These programmes are like TQM (Total Quality Management). "TQM is an integrated organizational approach in delighting customers (both internal and external) by meeting their expectations on a continuous basis through everyone involved with the organization working on continuous improvement in all products, services and processes along with proper problem-solving methodology. All over globe the companies are adopting number of ways to emphasize quality. They are as given below:

- (i) More attention on building quality into products at design stage rather than on quality of inspection stage.
- (ii) Closely with suppliers to ensure high quality components and raw materials.
- (iii) More emphasis on in-process control mechanisms to quality isolate a quality problem, stop production and remedy the situation before it results in significant scrap, rework or other effects of poor quality.

Here we can understand that the performance measures as incoming materials, in-process controls and customer satisfaction are monitored for quality control. Warranty claims, return and allowances and time between service calls, these are other measures of quality.

For control of quality, three tools are used to evaluate & indicate corrective action. These are as follows:

- (i) Cost of quality report - a report which displays the financial impact of quality.
- (ii) Total quality management - the application of quality principles to all of the organization's endeavors to satisfy customer.
- (iii) Quality control chart - a statistical plot of measures of various product dimensions.

#### **Control of Cycle time:**

Cycle time has become an important non-financial measure because it is in cycle time is key to improving quality. Cycle time is the time taken to complete a product or service or any of the components of a product or service. Total cycle time measures the length of time required from the placing an order by a customer to deliver the total manufacturing cycle time includes the sum of processing time, inspection time, wait time and move time. Out of these, only processing time is value adding and others are non-value adding activities.

The longer cycle time consumes more costs. The lower cycle time (i) Increase flexibility and quicker reactions to customer needs. (ii) Brings products or services more quickly to customers. (iii) Improves quality. The organizations measures cycle time for some significant stages of process and for the process as a whole. Using bar-coding is an effective way of measuring cycle time. The cycle time can be displayed through cycle-time report or control chart. It is effective measure of non-financial performance and also assists to improve quality. The world-class manufacturers aim to provide a speedy delivery service with 100% on-time deliveries. Delivery performance depends upon cycle time and suppliers delivery performance. So it plays a vital role as one of the control measures.

#### **Control of Productivity:**

As a part of effort to improve competitiveness, many companies manage productivity. Productivity is a measure of outputs divided by inputs. The interpretation of productivity shows that when fewer inputs need to produce given output, the organization will be more productive. Specific management control problems usually determine the most appropriate measures of inputs and outputs. Labor intensive industries are interested in increasing the productivity of labor for them. Labour-based measures are appropriate. Capital-intensive companies are interested in the productivity of 'machines and capital investment. So they use capacity-based measures. General manufacturing companies are interested in increasing eminent use of material. So they may use measure of material yield. The choice of productivity measure is challenging.

#### **Conclusion:**

Performance measurement is an important part of organization's management control system. The well-designed management control system functions and report measures of performance for both financial and non-financial performance. Control system should focus adequately on needs of the



participants and must suit them. Human behavior plays vital role in the organization. A management control system should boost goal congruence and managerial effort, to achieve maximum benefits at minimum cost. Control systems should be designed in such a way that organization can take advantage of more typical human behavior, with special reference to self-interest. Management control should focus on motivating employees, for achieving goal congruence and managerial effort.

Participative management has been contributed towards the improvement in production and service, quality and eminency in a number of organizations. A number of companies are allowing employees to participate into planning and decision-making by giving them opportunities to share their ideas and views. Responsive management relies on the sound principles of social science to accurately portray the range and magnitude of opinions and attitudes of customers and employees.

Non-financial measures provide information on variable required to compete in present business environment. Most organizations have developed a new awareness of the importance of controlling such non-financial measures of performance as quality, cycle time and productivity. In this context, three important measures we have to take into account for the purpose of control measure i.e. control of quality, control of cycle time and control of productivity. Quality control is the effort to ensure that products and services perform to customer requirements. For control of quality, three tools are used to evaluate & indicate corrective actions which are: cost of quality report, total quality management and quality control chart.

Cycle time has become an important non-financial measure because reduction in cycle time is key to improving quality. The longer cycle time consumes more costs the lower cycle time (i) increases flexibility and quicker reactions to customer needs. (ii) brings products or services more quickly to customers, (iii) improves quality.

In conclusion we may say that the Productivity is a measure of outputs divided by inputs. The interpretation of productivity shows that when fewer inputs need to produce given output, the organization will be more productive. Specific management control problems usually determine the most appropriate measures of inputs and outputs. Many organizations focus management control on more fundamental activities, such as control of quality and service, and use productivity measures to monitor the actual benefits of improvements in these activities. The improvement in quality leads to reduced cycle time and increased productivity. These factors are closely related each other. So they can be used as non financial measures of performance in the management control process.

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