

Unit 5: Business Performance Measurement and Improvement

Unit reference number: M/506/4456
QCF Level 4: BTEC Professional
Credit value: 6
Guided learning hours: 20

Unit aim

This unit provides the learner with an understanding of the nature and value of business performance measurement and the associated frameworks and measures used. The unit also provides an introduction to the role of management information in improving business performance.

Unit introduction

The measurement of business performance is critical for all organisations as it gives a clear indication as to how likely an organisation is to achieve its objectives.

The performance of your organisation will be important to you as a successful organisation is much more able to achieve its targets, continuously improve and maintain a competitive advantage. At some point in your career you are likely to become involved in the measurement of business performance.

In this unit you will learn why and how business performance is measured. You will explore a range of both financial and non-financial performance measures and find out what they mean and why an organisation might choose those measures. You will consider different frameworks used in performance measurement such as including the Balanced Scorecard and Total Quality Management.

Underpinning all business performance systems are management information systems and you will learn the key role they play in enabling business performance measurement to take place.

Learning outcomes and assessment criteria

In order to pass this unit, the evidence that the learner presents for assessment needs to demonstrate that they can meet all the learning outcomes for the unit. The assessment criteria determine the standard required to achieve the unit.

On completion of this unit a learner should:

Learning outcomes	Assessment criteria
1 Understand the nature and value of business performance measurement	1.1 Analyse the benefits of modern business performance measurement to an organisation 1.2 Analyse the features of an effective performance measurement system 1.3 Assess the relationship between corporate strategy and performance measurement systems
2 Understand the measures used in performance measurement systems in business organisations	2.1 Differentiate between financial and non-financial performance measures 2.2 Examine different non-financial and financial performance measures used in performance measurement systems 2.3 Compare the use of 'leading' and 'lagging' performance measures in performance management systems 2.4 Differentiate between Key Performance Indicators (KPIs) and performance measures 2.5 Evaluate the role of Key Performance Indicators in measuring the performance of an organisation
3 Understand the frameworks used in performance measurement systems in business organisations	3.1 Analyse the use of the Balance Scorecard Framework in measuring business performance 3.2 Examine the benefits and limitations of Total Quality Management in measuring business performance 3.3 Compare different measurement frameworks in business performance measurement
4 Understand the role of management information in improving business performance	4.1 Explain the functions of a management information system (MIS) 4.2 Assess how management information can be used to improve the performance of an organisation

Unit content

1 Understand the nature and value of business performance measurement

Business performance measurement: control process, e.g. set performance standards (using appropriate objectives), measure actual vs. planned performance, correct major deviations; benefits, e.g. targets more likely met, avoids lack of control, ensures focus on right areas, rewards good performance, acts quickly on under performance, defined measure of achievement for all stakeholders

Effective performance management systems: align with business drivers; align with corporate strategy; include coaching for engagement and performance; employee ownership and development; differentiates between the performance of individuals; focuses on real issues and not the process; balance of financial and non-financial performance measures; useful; accessible; reliable

Relationship between corporate strategy and performance management systems: vision; mission; strategy; goals; objectives; action plan; goals and objectives feed into long/short term objectives; alignment of performance management with strategy; ensure performance delivers the objectives of the strategy

2 Understand the measures used in performance measurement systems in business organisations

Financial performance measures: at different levels of organisation; profitability, e.g. ROCE, gross/net profit margin, asset turnover; liquidity, e.g. current ratio, quick ratio, inventory holding period, debtor collection period, creditor period; gearing, e.g. financial gearing, interest cover; investor ratios, e.g. earnings per share (EPS) dividend cover/yield, earning yield; disadvantages of having only financial measures, e.g. short-term, internal focus, temptation to manipulate results, backward looking, limited picture

Non-financial performance measures: management of human resources, e.g. staff turnover, absentee rates, results of job satisfaction surveys, competence surveys; product and service quality; comparison with competition re value, performance; brand awareness; company profile, e.g. brand loyalty, name awareness, perceived quality

Leading performance measures: indicators of performance: forward looking; predict desired future state; measure inputs determining outcomes; enables faster response to associated changes in workplace

Lagging performance measures: historical; quantified statement of facts; backwards looking; measure results achieved; respond slowly to changes in workplace

Key Performance Indicators (KPIs): KPI definition; quantifiable; agreed in advance; reflect critical success factors of organization; defined; can change as organization's goals change

Performance measures: developed for each objective; provide measure of performance, e.g. effectiveness, efficiency, quality, timeliness, productivity, safety

KPI's and organisation's performance: KPIs measure progress towards goals; link between goals and mission; optimum number of KPIs; focus attention on organisational goals; motivate staff; link between focus, motivation and organisation's performance

3 Understand the frameworks used in performance measurement systems in business organisations

Balance Scorecard Framework: the four perspectives, e.g. financial performance, customer satisfaction, internal process, innovation and learning; fast, comprehensive; includes past performance and future capacity

Total Quality Management (TQM): i.e. 'Management system for customer focused organisation that involves all employees in continual improvement.'; key elements, e.g. customer focus, total employee involvement, process centred integrated system; strategic and systematic approach; continual improvement; fact based decision making; communications; performance measurement

Activity based costing (ABC): i.e. assigns cost to manufacturing activity; principles; use

Economic value added (EVA): i.e. 'a measure of organisation's financial performance based on residual wealth calculation'; principles; use

Competing Values Framework (Quinn): i.e. 'tool to determine which measures to use'; principles; use in public/not for profit enterprises; development from inputs only model to take in outputs

4 Understand the role of management information in improving business performance

Management Information Systems (MIS): computer based; functions, e.g. collect data, organise data, produce routine or bespoke reports, provide feedback on performance, alert manager to problems, assist with decision making, enable control systems, keep information safe and secure, provide central depository for information

Management Information and organisation performance: integration of MIS with performance management system; enable ongoing performance monitoring; open and transparent; enable shortfalls to be identified earlier; enable remedial actions to be taken; efficient communication of progress; managers make more informed decisions; enables faster changes in response to changes in business environment; easier for senior manager to see whole picture

Essential guidance for tutors

Delivery

For this unit tuition for the learning outcomes lends itself to flexible delivery approaches. Tutors can deliver the unit using a wide range of teaching and learning strategies including lectures, discussions, seminar presentations, case studies, video clips, internet research and library resources, where the learner can work individually and in a group researching and gathering information about the subject.

Tutors can illustrate points with reference to examples of businesses that demonstrate effective practices in business performance management. Many learners will use self-directed study together with the expertise and skills they may have developed in a career and be able to reflect on their experience of measuring business performance.

To introduce the unit, it could be useful for learners to conduct research into the concept of performance measurement and the systems that support this. For learning outcome 1, tutor input on the concept of business performance measurement can lead to a whole group discussion where learners can contribute based on their research and their experiences of performance measurement, whether from their employing organisations or societal. Learning outcome 2 would be suitable for case studies on the different measurement systems and the associated measures used, and small group discussions into these supported by tutor input to summarise and emphasise key concepts and principles. This learning outcome presents a good opportunity for learners to reflect on their own experiences of business performance measures and systems, whether as the leader/manager or part of a team in relation to the assessment criteria. For learning outcome 3, a guest speaker with a performance measurement background could be used to introduce the topic by presenting an insight into the use of different frameworks in business performance measurement. This can then be followed up by tutor input and whole group discussion. Learning outcome 4 would be suitable for case studies or a guest speaker to give insight into the role of management information in improving business performance. This could be followed up by small group discussions and tutor input to reinforce key concepts.

Assessment

This unit requires the learner to show an understanding of a range of management and leadership principles, models and concepts. Appropriate methods of assessment include written assignments, a reflective account and presentation. If a presentation is used evidence should be collected in the form of an observation record that is sufficiently detailed to enable internal and external verification to take place. This should be supported by other evidence such as the learner's presentation notes, slides or visual aids.

This unit has close links to learning outcomes in *Unit 3: Principles of Management and Leadership in Organisations* so holistic approach to assessment should be considered.

If the learner is concurrently working towards a competency based qualification in management then a holistic approach to assessing both programmes would be beneficial to the learner; for example the learner could reflect on whether theory can be used to explain how their organisation's performance measurement systems and practices have been designed.

Throughout the unit learners are required to 'explain', 'analyse', 'differentiate', 'compare' or 'evaluate'. The assessment methods used must allow sufficient opportunity and stimulus to enable the learner to produce evidence that fully covers the criteria. The learner will need to demonstrate higher level skills in developing evidence that is justifiable and soundly based.

Learning outcome 1 takes an overview of business performance measurement in an organisation. For AC1.2, the learner could be presented with a case study of an effective performance measurement system in practice. The learner needs to demonstrate evaluation skills and produce a justified assessment when producing evidence for AC1.3.

For learning outcome 2, the learner needs to demonstrate an understanding of a range of performance measures, both financial and non-financial. The use of case study should be considered to illustrate clear examples of performance measures and KPIs. If the learner is also working towards a related competency programme this unit could be assessed alongside a unit in which the learner is setting or reviewing achievement against performance measures.

For learning outcome 3, it would be beneficial for learners to have access to case studies/scenarios for the use of the Balance Scorecard and Total Quality Management as they are required to take an overview of these different frameworks. Learners are likely to need support for their learning in preparation for the assessment of this learning outcome. Care needs to be taken to ensure the learner compares a number of different measurement frameworks for AC3.3.

Learning outcome 4 is about management information systems and learners in work would benefit from being able to learn about their own organisation's MIS when preparing for assessment of these assessment criteria. AC4.2 requires that the learner considers a specific organisation so if the learner does not have access to suitable information they would need to use a case study or similar.

Evidence of Recognition of Prior Learning (RPL) can be used in the unit to confirm competence. Wherever possible, the learning outcomes in this unit should be assessed holistically across the qualification.

Indicative resource materials

Books

Boddy D - *Management: An Introduction*, 6th edition, (FT Prentice Hall, 2013)
ISBN 9781292004242

Hutchinson S - *Performance Management: Theory and Practice*, (CIPD, 2013)
ISBN 9781843983057

Mullins LJ - *Management and Organisational Behaviour*, 10th Edition (FT Publishing International, 2013) ISBN 9780273792642

Websites

www.cipd.co.uk/hr-resources/factsheets/performance-management-overview.aspx
- website of the UK professional body for Human Resources and people development, including some free resources including an overview of performance management

Other

Evan Davis 'Bottom line' podcast – *Quality*, (11/10/12), available from www.bbc.co.uk/podcasts/series/bottomline/all