23 Businesses, industries and organisations

INTRODUCTION: WHICH MEASUREMENT FOR WHOM?

The catalogue of measurements is now complete. There are merits and pitfalls, and advantages and disadvantages in each, but there is no prescribed best buy. Before answering the Which? one needs to know: For whom? What sort of business is to be performance-measured? And what is the main purpose of the measuring?

This chapter attempts to group businesses together and highlight the measurements that would be the ‘best buys’ for the particular business.

Any grouping is bound to be very vague in its boundaries. Businesses are all different and any classification must leave a lot of blurred edges. Many businesses are in more than one of the categories.

The measurements used by a business could easily be 50 or more. Most of these would be applicable only to a specific aspect or department of the business. The number of measurements that are likely to be generally used would be no more than five or six. In this chapter the measurements that are chosen under each category heading are limited to four – the four measurements that are judged to be the most suitable for the type of business. The judgement is that of the author. There is plenty of room for other opinions.

Any choice of measurements is not the ideal combination, but is tinged with what is usual and acceptable. Value added, for example, is not so widely used and it would not be acceptable if most of the measurements chosen were value added based. The philosophy and style of the business management may have a strong influence on the measurements used (see Chapter 24, p. 292). I have tried to ignore any special influence of this kind and to avoid my own particular policies and preferences.
BUSINESS OBJECTIVES

It may be argued that no performance measurement can be deemed suitable without considering the clear objectives of the business.

For most businesses the maximisation of profit after taxation is the prime objective. But this ‘bottom line’ can be heavily polluted by the impure taxation charge (trouble spots 10.1, 10.2 and 10.3, pp. 111–37) so that in practice profit before taxation becomes a more credible objective.

Taxation is also regarded by many as a distribution of profit, and likewise interest. In some businesses, such as nationalised corporations and family companies, interest is paid to the owners or to people associated with the owners. This knocks out interest as a true element of performance measurement.

Non-profit making institutions such as professional bodies and societies have generally an objective to minimise the annual subscription while providing services that meet the demands of members.

Charities engaged in fund-raising may have an objective to maximise the net amount available for the benefactors. They have turnover in the form of subscriptions and donations and sometimes sales. Turnover alone is a reliable measure for them, assuming that the marginal expense is not more than the extra turnover.

All these organisations are businesses. The difference between them is in their objectives. By and large the objectives correspond with the constitution and status of the business, but there are many variations. In this chapter the objectives are assumed to be those normally pursued by the particular kind of business.

LONG-TERM AND SHORT-TERM

Long-term objectives may require measurements which are different from short-term. To some extent the need for long-term measurements goes with the type of business, for example, construction business with long-term contracts and hence long-term objectives. In other cases a long-range outlook may be more specific to the style and perceptions of the business.