**REPORTS FOR PERFORMANCE MANAGEMENT**

Before discussing what makes a good performance report, it is worth noting that performance means different things to different organisations and therefore there is no single correct way of measuring or presenting performance. For example, a profitseeking organisation may be interested in sales growth or gross margins where as a charity may be interested in the efficient and effective use of its funds. In addition, within a single organisation different aspects of performance will be examined at different times.

Designing a good performance report

When designing a good performance report there are four key considerations:

**Purpose**

A common mistake in performance reports is that the focus is primarily on profit. However, successful performance depends on the achievement of the organisation’s mission and objectives. The performance report should therefore reflect the mission and objectives.

**Audience**

The audience of the report may range from skilled and experienced managers (who will be sophisticated enough to understand the information without much detailed explanation) to, say, the local community who may have fewer skills and require further explanation. It is important to consider the scenario given in the exam to determine whether the right amount and type of information has been given. Care must be taken to ensure that the performance report is relevant to the needs of the user, is easy to use, is understandable and is adaptable to their needs.

**Information**

The information provided must match the purpose of the performance report. A range of information should be included:



Some of this nonfinancial information may be quantitative (i.e. can be expressed in numerical terms) but much of this information will be qualitative (nonnumerical). This qualitative information is highly **subjective** and **hard to pin down** and is therefore often ignored to the detriment of the quality of the performance report.

**Layout**

Information overload is a common theme in exam questions. The layout of the report needs to help the user to quickly understand the organisation’s results, the key trends and the reasons for these. Rather than solely including a large volume of figures the layout could be complemented through the inclusion of:

• Graphs, charts or other visual displays making the performance report easily understandable and to use.

• Narrative explanation drawing attention to important matters and causes.

(ACCURATE) ACCURATE COMPLETE COST < BENEFIT UNDERSTANDABLE RELEVANT ADAPTABLE TIMELY EASY TO USE

**BERRY, BROADBENT AND OTLEY**

There are many ways in which poorly designed performance measurement can result in wrong signals and dysfunctional behavior. Berry, Broadbent Otley identified the following problem areas:

**MISREPRESENTATION** - ‘creative’ reporting to suggest that a result is acceptable. For example, an organization may report that 98% of customers were ‘satisfied’ or ‘more than satisfied’ with the level of service they were provided with. However, on further investigation it may be found that feedback was sought from a small selection of customers.

**GAMING**- is dysfunctional behavior where an individual manager is trying to meet their individual targets while ignoring the good of the whole organization. For example, a manager may decide to cut divisional investment to boost divisional return on investment but this may result in a long-fall in profits.

**MISINTERPRETATION** - failure to recognize the complexity of the environment in which the organization operates. For example, looking at the financial aspects of performance an organization it may be discovered that non-financial factors such as customer satisfaction are less favorable and therefore performance has been misinterpreted.

**SHORT-TERMISM (MYOPIA)** – leading to the neglect of longer-term objectives. Financial measures such as return on capital employed (ROCE) may lead to short-termism. The use of a mix of financial and non-financial measures may lead to an improved focus on long term success.

**MEASURE FIXATION** - measures and behavior in order to achieve specific performance indicators which may not be effective. For example, an excessive focuses on cost cutting to the detriment of quality and long term performance.

**TUNNEL VISION** - undue focus on stated performance measures to the detriment of other areas. For example, an undue focus on ROCE to the detriment of employee satisfaction due to their needs, for say training or competitive remuneration, not being met.

**SUB- OPTIMIZATION** – focus on some objectives so that others are not achieved. For example, a focus on winning new customers may result in a reduced focus on the satisfaction of existing customers.