

Analysing the non-financial performance of businesses

Business performance can also be measured against other parameters such as the non-financial performance measures below. These measures can be used to make judgements on how the business has performed and are often linked to their aims and objectives or its strategy.

Elements of non-financial performance (more accurately, those not related to ratio analysis or the financial accounts of a business):



Market share

Market share is the proportion of total sales a business has in the market. For example, if a business's sales are £150m in a market that has total sales of £700m, then market share is 21.4%. Increasing market share is a common, long term aim of businesses. Businesses might invest money in advertising and new product development in an attempt to increase market share, which might reduce profit levels in the short term but will help them achieve a long term aim.

Sales targets

Sales are important to all businesses; after all it is sales that generate profits. Setting sales targets for the future (based on sales forecasting techniques considered in an earlier chapter) might also involve spending money in the short term in order to generate sales revenue, thus reducing profitability. This may involve the use of loss leader products, which result in increased sales in the future. Targeting increased use of products by existing customers is also an example of sales targeting. The idea of increased use of products is important to subscription TV companies such as SKY and Virgin. Here the objective is often not to gain new customers but to increase sales to existing customers by selling them more expensive packages. Businesses might be able to save money by targeting existing customers rather than just concentrating on trying to win new business all of the time.

Productivity

Productivity is a measure of output against a fixed input (AS textbook Chapter 35). An example is labour productivity: if 10 employees in a business producing hand-made ceramic mugs are able to produce 30 mugs per hour, then the labour productivity is 3 mugs per employee per hour. If this is compared to a competitor, who has 12 employees but is only able to produce 24 mugs per hour, then the labour productivity is only 2 mugs per employee per hour.

All other things being equal, we deduce that the business producing 3 cups per hour per employee has higher productivity and is therefore more efficient. Higher productive efficiency can reduce average unit costs and make a business more competitive.

A simple but effective example of how productivity in an industry can differ is the levels of productivity achieved by MG Rover and Nissan in their British factories. Productivity as measured by cars produced each year/ per workers employed, was 17 cars per year for a MG Rover worker (before closure). In the same year productivity at Nissan's Sunderland plant was 103 cars per worker. Productivity was therefore 6 times as high in the Nissan plant.

In the situations above it can be seen why some businesses might ignore short term profits in order to improve their productivity, this may mean spending money on training or investing in new machinery.

Environmental impact

Increasingly, businesses are becoming more aware of the impact on the environment and try to minimise this impact. Such measures might include recycling or using recycled materials, they may try to ensure suppliers in developing countries get a good deal; they may pay their workers above the market wage. Environmental issues might be considered a long term commitment to a business and an environment audit can assist businesses with assessing their impact on their external environment to highlight where improvement can be made. For some businesses their environmental vision and aims and objectives will be far more important than increasing market share or maximising profits.

Customer satisfaction / Customer attitude surveys

Customer satisfaction measures the degree to which customer expectations are met or exceeded e.g. in terms of price and product/service quality. Methods of measuring customer satisfaction or customer attitude is to consider the level of repeat purchases, amount of customer complaints, percentage of products returned and by gathering feedback by questionnaires and focus groups. Once again the focus may be long term by improving customer satisfaction and customer loyalty may follow and then in the long term this will result in increased sales and profit.

Employee attitude surveys

Employee attitude surveys are used to find out about the views of workers in regard to their roles in the business and overall business performance. The overall objective of the survey is to discover the needs of the business from the point of view of employees. The survey will allow a business to:

- Identify issues and problems that exist e.g. low employee satisfaction
- Indicate how motivation can be improved
- Judge reaction to proposed change
- Assess effectiveness of policies.

Businesses can use this information, in addition to data on labour turnover and early leavers, in order to make improvements with recruitment and selection processes, employee retention schemes, communication systems, and employee reward and recognition policies. Improving employee satisfaction and retention may be an important aim for some businesses that have experienced labour problems in the past resulting in loss of sales and increased costs.