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   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

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   APPENDIX/ANNEXURE

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NON FINANCIAL FACTOR OF MEASURING ORGANIZATIONAL PERFORMANCE BRINGS LONG TERM FINANCIAL CAPABILITY: AN EXPERIENCE FROM BANGLADESH

MD. MONIRUZZAMAN SARKER
SR. LECTURER
SCHOOL OF BUISNESS & ECONOMICS
UNITED INTERNATIONAL UNIVERSITY
DHAKA, BANGLADESH

MD.SAHABUDDIN
RESEARCH OFFICER
THE FEDERATION OF BANGLADESH CHAMBERS OF COMMERCE AND INDUSTRY (FBCCI)
DHAKA, BANGLADESH

NAFISA KASEM
LECTURER
FACULTY OF BUSINESS ADMINISTRATION
UNIVERSITY OF DEVELOPMENT ALTERNATIVE
DHAKA, BANGLADESH

ABSTRACT

This paper deals with the measurement of organizational performance (MOP) and tries to highlight that Non-Financial factor of measuring organizational performance brings long term financial capability. An endeavor has been made to present the problems associated with the financial indicators of performance and how Non-Financial Indicators (NFI) help in decision making. Both importance of NFIs in Bangladeshi context and consequences of ignorance NFIs have been discussed to find out the evidence of Non-Financial factors impact. Finally, this paper suggests that using the NFIs which linked to factors such as corporate strategy, value drivers, organizational objectives and the competitive environment.

KEYWORDS

Measurement of Organizational Performance (MOP); Non Financial Indicators (NFIs); Organizational Performance (OP).

INTRODUCTION

Measuring of organizational performance is an important factor for the organization itself and the stakeholders of the organization. It is not always an easy job to do. Measurement of OP is always linked with organizational missions, goals and objectives. Choosing performance measure is a challenge. Performance measurement systems play a key role in developing strategy, evaluating the achievement of organizational objectives and compensating managers. Yet many managers feel traditional financially oriented systems no longer work adequately.

From A recent survey of U.S. financial services, companies found that most of the companies were not satisfied with their measurement systems that have been used right now. They believed that there were too much emphasis on financial measures such as earnings and accounting returns and little emphasis given on drivers of value such as customer and employee satisfaction, innovation and quality.

In response to that, companies are now implementing new performance measurement systems. For example, A third of the financial services companies, made a major change in their performance measurement system during the past two years and 39% of the companies, plan a major change within two years.

As a result of the Inadequacies in financial performance measures, innovations ranging from non-financial indicators of "intangible assets" and "intellectual capital" to "balanced scorecards" of integrated financial and non-financial measures had made. This article discusses the advantages of non-financial performance measures and offers suggestions for implementation.

OBJECTIVES AND METHODOLOGY OF THE STUDY

As the competition among the competitors has been increased, this Competition forces every organization to increase their performance and profit but somehow it is not possible to achieve both of these objectives due to the misconception of organizational performance. In most of the cases, organization emphasizes on financial record as an indicator of performance, As financial record is the final outcome of any performance which cannot be modified within current year so new indicator must be needed. So, here we have tried to emphasis on Non-Financial indicator to measure organizational performance so that organization can learn lessons and take act in the current year to achieve financial success. To establish this concept, we have collected secondary information from the various different kinds of published journals, articles, and books related with the analysis. This study is exploratory in nature and based on secondary information. For the reliability of this study, we have given emphasis on the practical knowledge and expert opinions about the organizational performance.

PROBLEMS ASSOCIATED WITH THE FINANCIAL INDICATORS OF PERFORMANCE

By tradition, firm often uses financial indicators of performance to measure the success of the organization. Researcher Kaplan (1983) has identified three main probable consequences for the high-tech diversified manufacturing industries that are still practicing traditional cost based reporting system. These are:

USE-TYPE: Traditional cost reports use of arbitrary cost allocation schemes and there is no link between products, different processes or indirect cost that they create. Therefore, without reliable picture of what different processes really cost, management is unable to see the connection between decisions and their effects on the cost.

RELEVANCE-TYPE: The system fails to develop quality control that ensures customer satisfaction and factor productivity measure or fails to highlight opportunity costs. Further it also fails to provide answers to the manager for some basic questions like- what takes up the time of production planning staff, the right amount of resources is in the place etc.

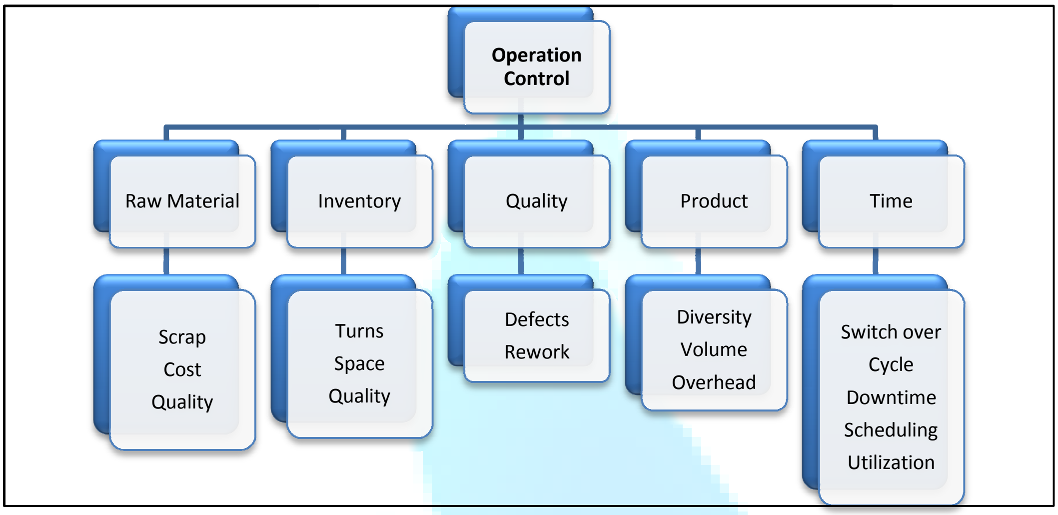
CONTROL-TYPE: The traditional cost report also fails to consider the Non-Financial factors that need to measure the efficiency of customer's service. Therefore, this system subsidize low-volume, customized product, at the cost of high volume standard products in manufacturing industry (O'Guin 1991). So, the system under-cost is the complex products and consequently creates a control- type problem for the firm. Many researchers have found that there is an impact of Non-Financial Indicators (NFIs) on the decision making process in achieving the organizational target (Smith, 1994; Green-Singleton 1993).

NON-FINANCIAL INDICATORS IN DECISION MAKING

Nowadays In the area of operation management, Non-Financial indicators (NFIs) are receiving recognition among the practitioners of the diversified manufacturing firms. In the strategy of new control measure, NFIs can help a firm to maintain consistency with goals and objectives and measurement of both internal and external factors that are required to achieve the firm's target (Berlin and Brimson, 1988). It was found that the negative consequences of the above three types of failures such as, Use-types, relevance-type, and control-type could be overcome by the use of NFIs.Thus it has been argued that NFIs improve the decision of value, facilitated evaluation and control measure of a firm (Smith 1994).Most significant reasons for the use of NFIs are that it deals with causes like innovation, Quality, satisfying customer and production efficiency (Singleton,G.B,19993).

Now-a-days, it is not just an issue of financial justification for the firm-owners. It is also an issue of increasing firm's image, market share, customer loyalty, efficiency and growth in comparing with competitors. Therefore, the firm should be willing to invest capital to meet customer's expectations that largely depend on the operational efficiency of the firm. Chalos (1992) identifies various NFIs to measure the operation control, which is shown below figure:

FIGURE 1: NON-FINANCIAL PERFORMANCE MEASUREMENT



Source: Chalos I (1992), Managing cost in manufacturing. Prentice Hall, New York.

The above point understands a company's value drives, the factors that create stakeholder value. Once known, these factors determine which measures contribution to long-term success and so how to translate corporate objectives into measures that guide managers' actions**.** As a matter of fact, Quality cost is one of the Important Factors largely influences the success of the organization and the following costs such as:

PREVENTION COSTS: The costs of all activities specifically designed to prevent poor quality from products or services. Examples are the costs of new product review, quality planning, supplier capability surveys, process capability evaluations, quality improvement, team meetings, quality improvement projects, quality education and training.

APPRAISAL COSTS: Appraisal costs are the costs associated with measuring, evaluating or auditing products or services to assure conformance to quality standards and performance requirements. These include the costs of incoming and source inspection/test of purchased material, in-process and final inspection/test, product, process or service audits, and calibration of measuring and test equipment, associated supplies and materials

FAILURE COSTS: The costs resulting from products or services are not conforming to requirements or customer/user needs. Failure costs are divided into internal and external failure categories. ***Internal Failure Costs:*** Failure costs occurring prior to delivery or shipment of the product, or the furnishing of a service, to the customer. Examples are the costs of scrap, rework, re-inspection, re-testing, material review, downgrading, ***External Failure Costs:*** Failure costs occurring after delivery or shipment of the product — and during or after the furnishing of a service — to the customer. Examples are the costs of processing, customer complaints, customer returns, warranty claims, product recalls.

The above all costs can be controlled and managed during the operational year of any firm and firm can build a strong internal position which will lead them to financial gain at the end.

IMPORTANCE OF NFIS IN BANGLADESHI CONTEXT

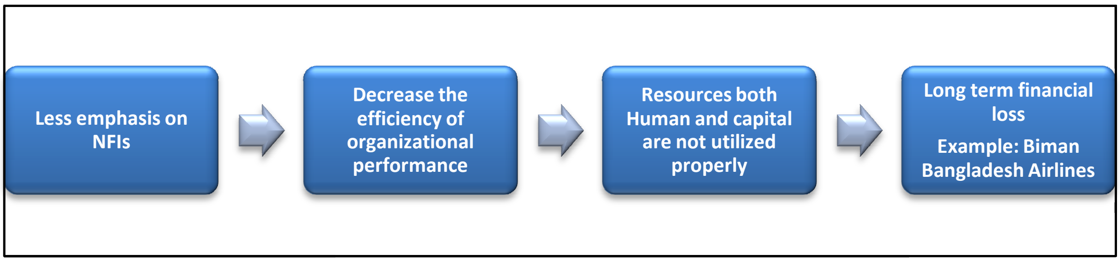
If we try to solve the following questions, all answers will emphasis on NFIs.

a) Why do the government firms turn into private firm?
b) Why do the government firms face huge financial loss every year?
c) Why are the performances of government firm becoming weaker day by day?
d) Why are the private firms gaining huge financial benefits?

The main reasons behind the poor performance of government are that they don't emphasis the Non-Financial factor like ***Total Quality Management Customer Satisfaction, Time Management, Inventory, and Product Development***. Here a model of ultimate effects of ignorance of NFIs are tried to show below in figure -2. Studies show that here in Bangladesh, most of the firms particularly in manufacturing want to gain financial benefit immediately after investments which force them to emphasis financial measurement. Because of too much emphasis on financial measure, it forces the organizations to ignore Non-Financial factors which lead them to accept loss at the end of the competitive market. Noapara (Jessore, Bangladesh) Industrial area can be one of the best examples where around 15 cement factories established a decade ago in a full swing but after a few years only 5 of them are survived. Most of the firms take loan from bank and to make immediate profits force them to increase their production without considering standard quality and the ultimate effect is very logical that they are bound to shut down all factory due to lack of market confidence.

CONSEQUENCE OF IGNORANCE OF NFIs

FIGURE-2: CONSEQUENCE OF IGNORING NFIS



Because of this in Bangladesh most of the government firms except some firms are facing huge financial loss and in recent time it is noticeable that some government firm turn into private firm and when they emphasis NFIs, it becomes profitable. For example: BTCL, DESCO etc. So, the importances of NFIs are acceptable to modern organization as their performance measurement tool.

ADVANTAGES OF NFIs

After the analysis we can say that, Non-financial measures offer some clear advantages over measurement systems based on financial data. ***First***, these NFIs have closer link to long-term organizational strategies. Financial evaluation systems generally focus on annual or short-term performance against accounting yardsticks. They do not deal with growth relative to customer requirements or competitors, or other non-financial objectives that may be important in achieving profitability, competitive strength and longer-term strategic goals. For example, new product development or expanding organizational capabilities may be important strategic goals, but may hinder short-term accounting performance. With supplementing accounting measures with non-financial data about strategic performance and implementation of strategic plans, companies can communicate objectives and provide incentives for managers to address long-term strategy. ***Second***, critics of traditional measures argue that drivers of success in many industries are "intangible assets" such as intellectual capital and customer loyalty, rather than "hard assets" allowed to balance sheets. Although it is difficult to quantify intangible assets in financial terms, non-financial data can provide indirect, quantitative indicators of a firm's intangible assets.

CONCLUSION

Although non-financial measures are increasingly important in decision-making and performance evaluation, companies should not simply copy measures used by others. The choice of measurements must be linked to factors such as corporate strategy, value drivers, organizational objectives and the competitive environment. In addition, companies should remember that performance measurement choice is a dynamic process - measures may be appropriate today, but the system needs to be continually reassessed as strategies and competitive environments evolve.

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