La-Net

ACC303

MANAGEMENT ACCOUNTING (PERFORMANCE MANAGEMENT)

COURSE CODE:ACC 303
COURSE TITLE: Management Accounting (Performance Management)
COURSE TITLE:(3 units C: LH 30;PH 45)
SERIES LIST
Series 1: Budgeting, Standard Costing, and Variance Analysis
Series 2: Behavioural Aspects of Budgeting and Strategic Performance Management
Series 3: Cost Reduction, Control Techniques, and Spreadsheet Applications
Series 4: Decision Making with Relevant Costs, CVP Analysis, and Pricing Strategies
Series 5: Divisional Performance, Transfer Pricing, Ethical Principles, and Topical Issues in Performance Management

Series 1: Budgeting, Standard Costing, and Variance Analysis

Part 1.1: Budgeting fundamentals and techniques
Sub-Part 1.1.1: Definition, purpose, and types of budgets
Sub-Part 1.1.2: Forecasting, master and subsidiary budgets
Sub-Part 1.1.3: Cash budgets and flexible budgets
Part 1.2: Standard costing
Sub-Part 1.2.1: Concept and objectives of standard costing
Sub-Part 1.2.2: Establishing standards for costs
Sub-Part 1.2.3: Role of standard costing in planning and control
Part 1.3: Variance analysis
Sub-Part 1.3.1: Types of variances (material, labour, overhead, sales)
Sub-Part 1.3.2: Calculation and interpretation of variances
Sub-Part 1.3.3: Managerial use of variance analysis for performance evaluation
Part 1.4: Integration of budgeting and variance analysis
Sub-Part 1.4.1: Linking budgets with standard costing systems
Sub-Part 1.4.2: Using variance analysis to improve budgeting accuracy
Sub-Part 1.4.3: Case examples of integrated performance management

Introduction

Budgeting and cost control are central to the success of any organisation. Managers must plan ahead, allocate resources wisely, and monitor performance against expectations. Without effective budgeting and the ability to measure deviations from planned costs, businesses risk inefficiency and poor decision making. This Series introduces you to the essential tools of budgeting, standard costing, and variance analysis, which together form the backbone of performance management in accounting.

The aim of this Series is to equip you with the knowledge and skills to prepare budgets, apply standard costing techniques, and analyse variances in order to support planning, control, and performance evaluation.

We shall commence this Series by exploring the fundamentals of budgeting, including its definition, purpose, and the different types such as master, subsidiary, cash, and flexible budgets. Next, we will move on to standard costing, examining its objectives, how standards are established, and its role in planning and control. Following that, we will study variance analysis, focusing on the types of variances, their calculation, and interpretation for managerial use. Finally, we will conclude by integrating budgeting and variance analysis, showing how these tools work together to improve accuracy and enhance performance management.

Series Learning Outcomes

Upon completing this Series, you should be able to:
SLO 1.1 define the concept of budgeting and explain its purpose in organisational planning and control,
SLO 1.2 distinguish between different types of budgets including master, subsidiary, cash, and flexible budgets,
SLO 1.3 describe the objectives of standard costing and its role in performance management,
SLO 1.4 demonstrate how to establish cost standards within a standard costing system,
SLO 1.5 calculate and interpret variances such as material, labour, overhead, and sales variances,
SLO 1.6 analyse the managerial implications of variance analysis for evaluating performance, and
SLO 1.7 evaluate how budgeting and variance analysis can be integrated to improve accuracy and enhance organisational decision making.
1.1 Budgeting Fundamentals And Techniques

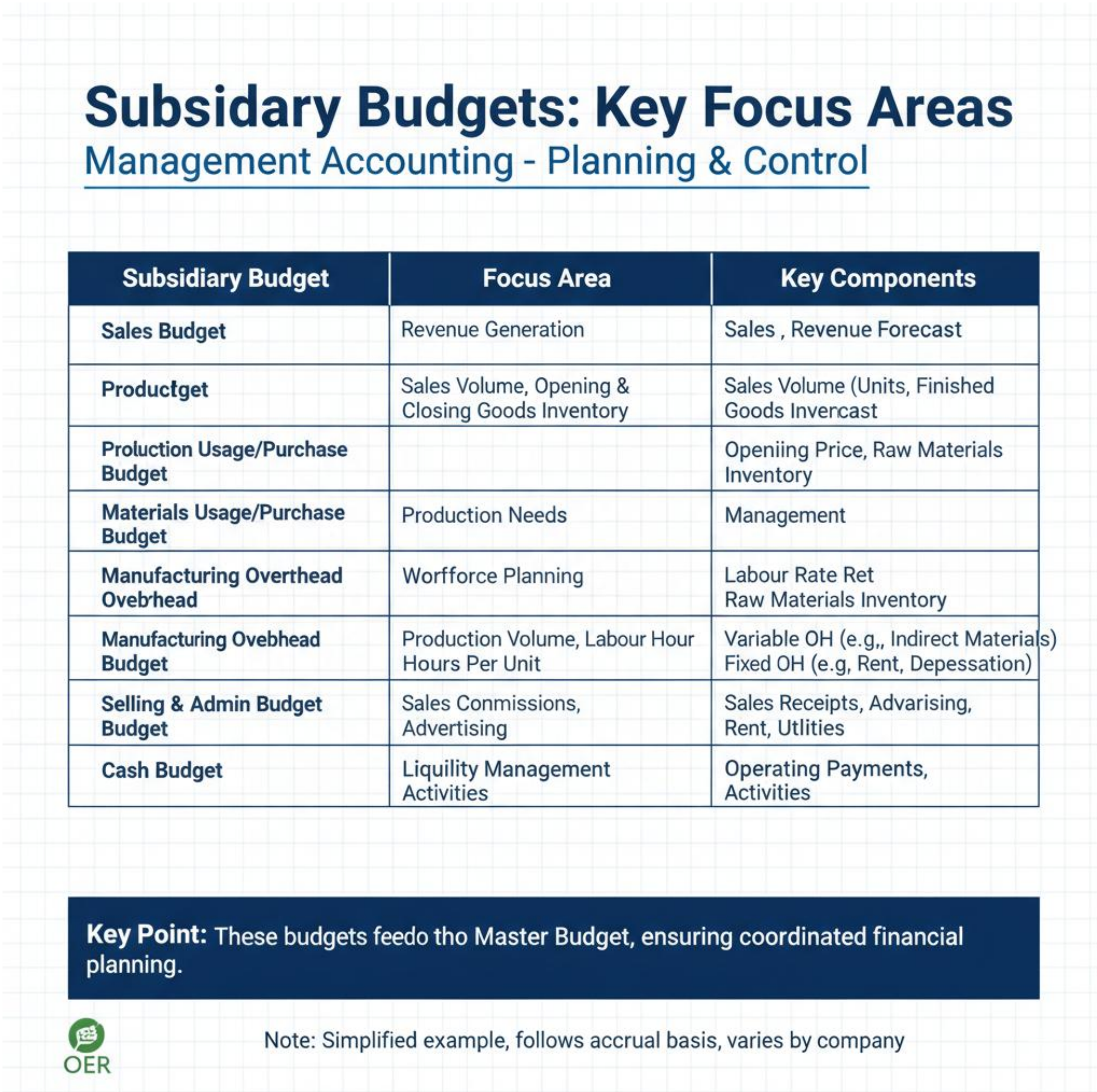
1.1.1 Definition, purpose, and types of budgets
A **budget** is a financial plan that estimates income and expenditure for a specific period, usually one year. It serves as a guide for managers to allocate resources, monitor performance, and achieve organisational objectives. The purpose of budgeting is to provide a framework for planning, controlling, and evaluating business activities.

There are several types of budgets:
- **Master budget**: A comprehensive plan that consolidates all subsidiary budgets into one overall financial plan.
- **Subsidiary budgets**: Detailed budgets for specific areas such as sales, production, or purchasing.
- **Cash budget**: A plan that estimates cash inflows and outflows to ensure liquidity.
- **Flexible budget**: A budget that adjusts according to changes in activity levels, making it useful for performance evaluation.

[Insert Figure here]
Short description: Diagram showing types of budgets and their relationships.
Caption: Figure 1.1 Types of budgets in an organisation
AI prompt: "Generate a diagram showing master, subsidiary, cash, and flexible budgets with arrows indicating their relationships."
Search string: "types of budgets diagram management accounting OER"

Fill in the blank: A __________ budget adjusts according to changes in activity levels.

1.1.2 Forecasting, master and subsidiary budgets
Forecasting refers to predicting future financial outcomes based on past data, trends, and assumptions. It is the starting point for preparing budgets. The **master budget** integrates all subsidiary budgets, providing a complete picture of the organisation's financial plan. Subsidiary budgets include sales, production, materials, labour, and overhead budgets, each focusing on a specific operational area.



Subsidary Budgets: Key Focus Areas

Management Accounting - Planning & Control

Subsidiary Budget	Focus Area	Key Components
Sales Budget	Revenue Generation	Sales , Revenue Forecast
Productget	Sales Volume, Opening & Closing Goods Inventory	Sales Volume (Units, Finished Goods Invercast
Proluction Usage/Purchase Budget		Openiing Price, Raw Materials Inventory
Materials Usage/Purchase Budget	Production Needs	Management
Manufacturing Overthead Ovebrhead	Worfforce Planning	Labour Rate Ret Raw Materials Inventory
Manufacturing Ovebhead Budget	Production Volume, Labour Hour Hours Per Unit	Variable OH (e.g,, Indirect Materials) Fixed OH (e.g, Rent, Depessation)
Selling & Admin Budget Budget	Sales Commissions, Advertising	Sales Receipts, Advarising, Rent, Utlities
Cash Budget	Liquility Management Activities	Operating Payments, Activities

Key Point: These budgets feedo tho Master Budget, ensuring coordinated financial planning.

OER

Note: Simplified example, follows accrual basis, varies by company

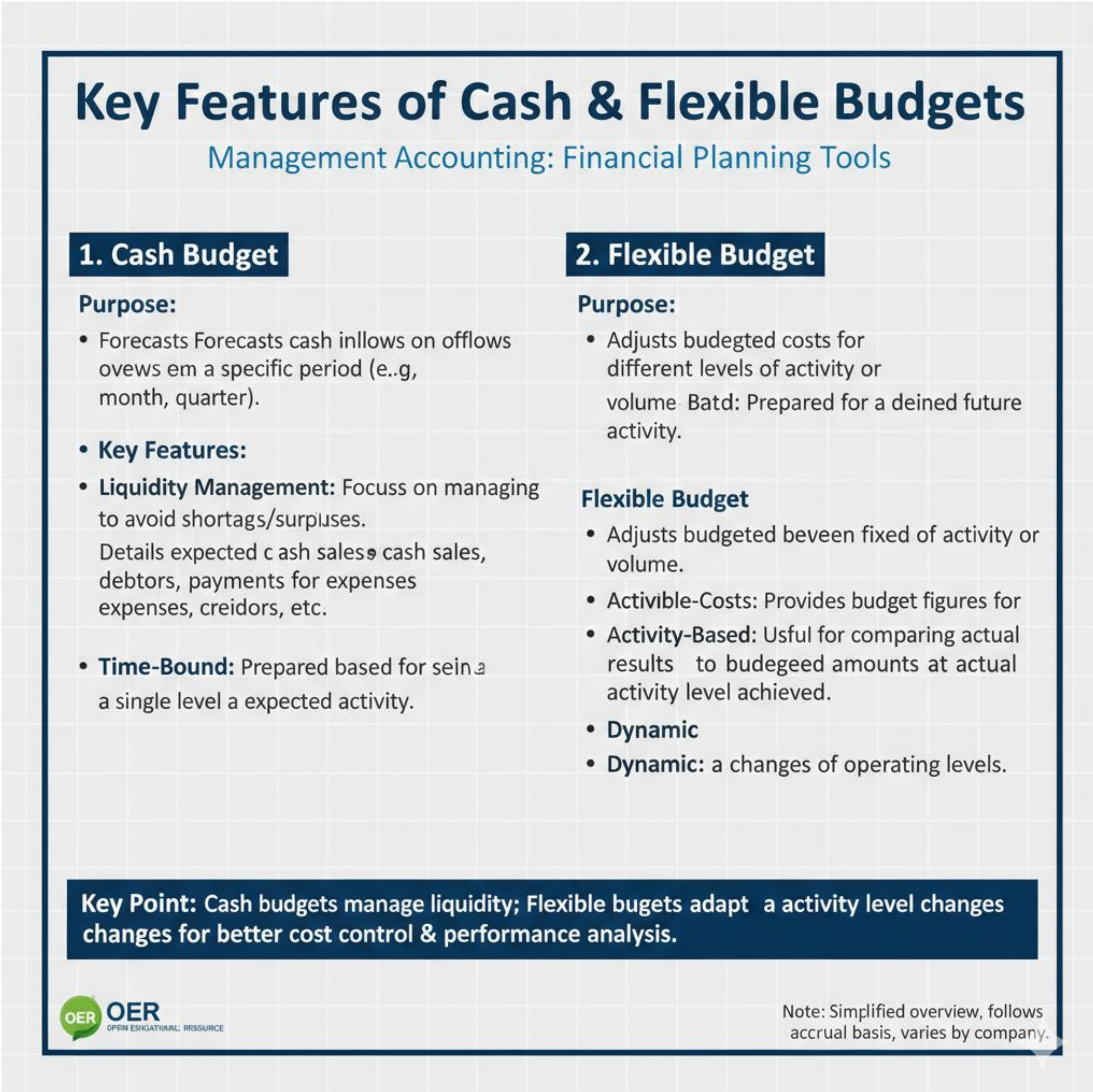
Caption: Table 1.1 Examples of subsidiary budgets
Short description: A table listing common subsidiary budgets and their focus areas.

Fill in the blank: The __________ budget integrates all subsidiary budgets into one overall plan.

1.1.3 Cash budgets and flexible budgets

A **cash budget** is a plan that estimates cash receipts and payments over a period, ensuring that the organisation maintains adequate liquidity. It helps managers anticipate cash shortages or surpluses and plan financing or investment accordingly.

A flexible budget is designed to change with variations in activity levels. Unlike a fixed budget, it provides a more realistic basis for performance evaluation because it accounts for actual operating conditions.



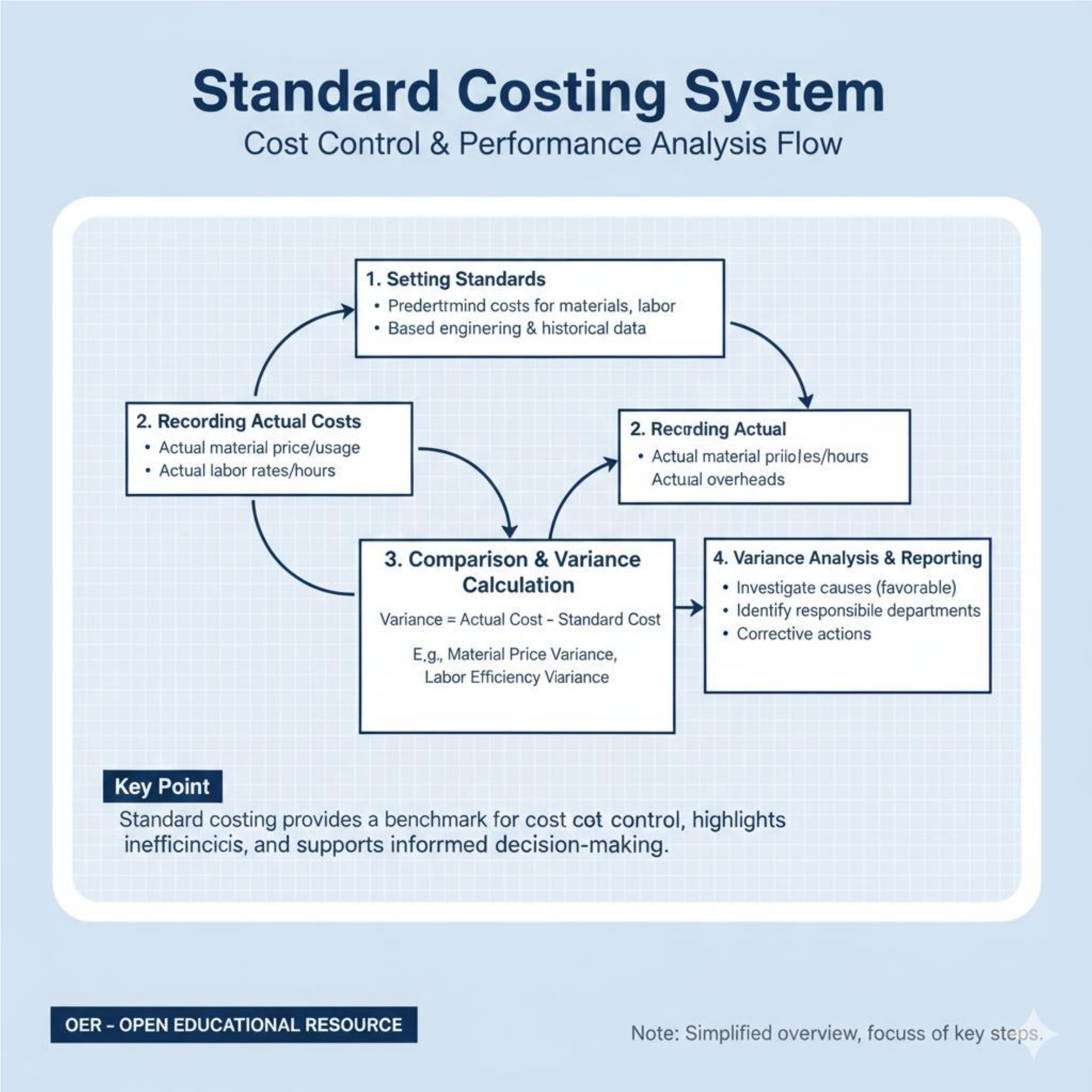
Caption: Box 1.1 Features of cash and flexible budgets
Short description: A box summarising the key features of cash and flexible budgets.

Fill in the blank: A __________ budget helps managers anticipate cash shortages or surpluses.

Pilot questions 1.1
1. What is a budget and what purpose does it serve?
2. Name two types of budgets commonly used in organisations.
3. What is the role of forecasting in budgeting?
4. Which budget integrates all subsidiary budgets?
5. Why is a flexible budget considered more realistic than a fixed budget?
1.2 Standard Costing

1.2.1 Concept and objectives of standard costing
Standard costing is a system that assigns predetermined costs to products or services, based on expected levels of efficiency and resource usage. These predetermined costs are called **standards**, and they serve as

benchmarks against which actual performance is measured. The main objectives of standard costing are to aid planning, facilitate cost control, and provide a basis for performance evaluation.

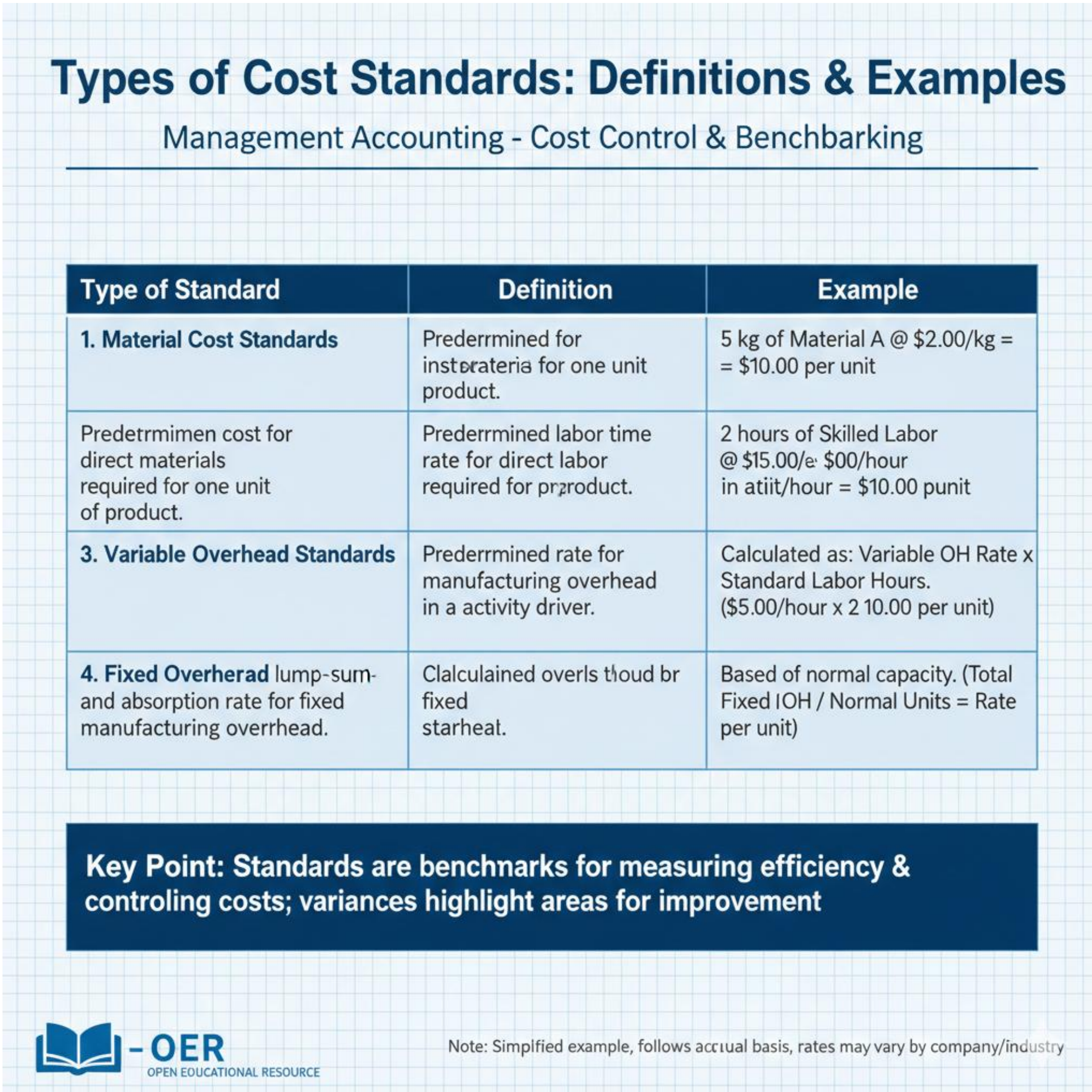


Short description: Diagram showing the flow of standard costing from setting standards to comparing with actual costs.
Caption: Figure 1.2 Concept of standard costing

Fill in the blank: Predetermined costs used as benchmarks in standard costing are called __________.

1.2.2 Establishing standards for costs
Standards can be set for different cost elements such as materials, labour, and overheads. For example, a **material standard** specifies the expected quantity and price of raw materials, while a **labour standard** defines the expected time and wage rate for tasks. Overhead standards estimate indirect costs based on activity levels.

The process of establishing standards involves analysing past data, considering current conditions, and setting realistic expectations. Standards should be challenging yet achievable, encouraging efficiency without discouraging employees.



Types of Cost Standards: Definitions & Examples

Management Accounting - Cost Control & Benchbarking

Type of Standard	Definition	Example
1. Material Cost Standards	Prederrmined for instsrateria for one unit product.	5 kg of Material A @ $2.00/kg = = $10.00 per unit
Predetrmimen cost for direct materials required for one unit of product.	Prederrmined labor time rate for direct labor required for prproduct.	2 hours of Skilled Labor @ $15.00/e $00/hour in atiit/hour = $10.00 punit
3. Variable Overhead Standards	Prederrmined rate for manufacturing overhead in a activity driver.	Calculated as: Variable OH Rate x Standard Labor Hours. ($5.00/hour x 2 10.00 per unit)
4. Fixed Overherad lump-sum- and absorption rate for fixed manufacturing overhead.	Clalculained overls tloud br fixed starheat.	Based of normal capacity. (Total Fixed IOH / Normal Units = Rate per unit)

Key Point: Standards are benchnarks for measuring efficiency & controling costs; variances highlight areas for improvement

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Note: Simplfied example, follows accual basis, rates may vary by company/industry

Caption: Table 1.2 Types of cost standards
Short description: A table listing material, labour, and overhead standards with their definitions.

Fill in the blank: A labour standard defines the expected __________ and wage rate for tasks.

1.2.3 Role of standard costing in planning and control
Standard costing plays a vital role in both planning and control. In planning, it helps managers estimate future costs and set budgets. In control, it allows comparison between actual and standard costs, highlighting variances that require corrective action.

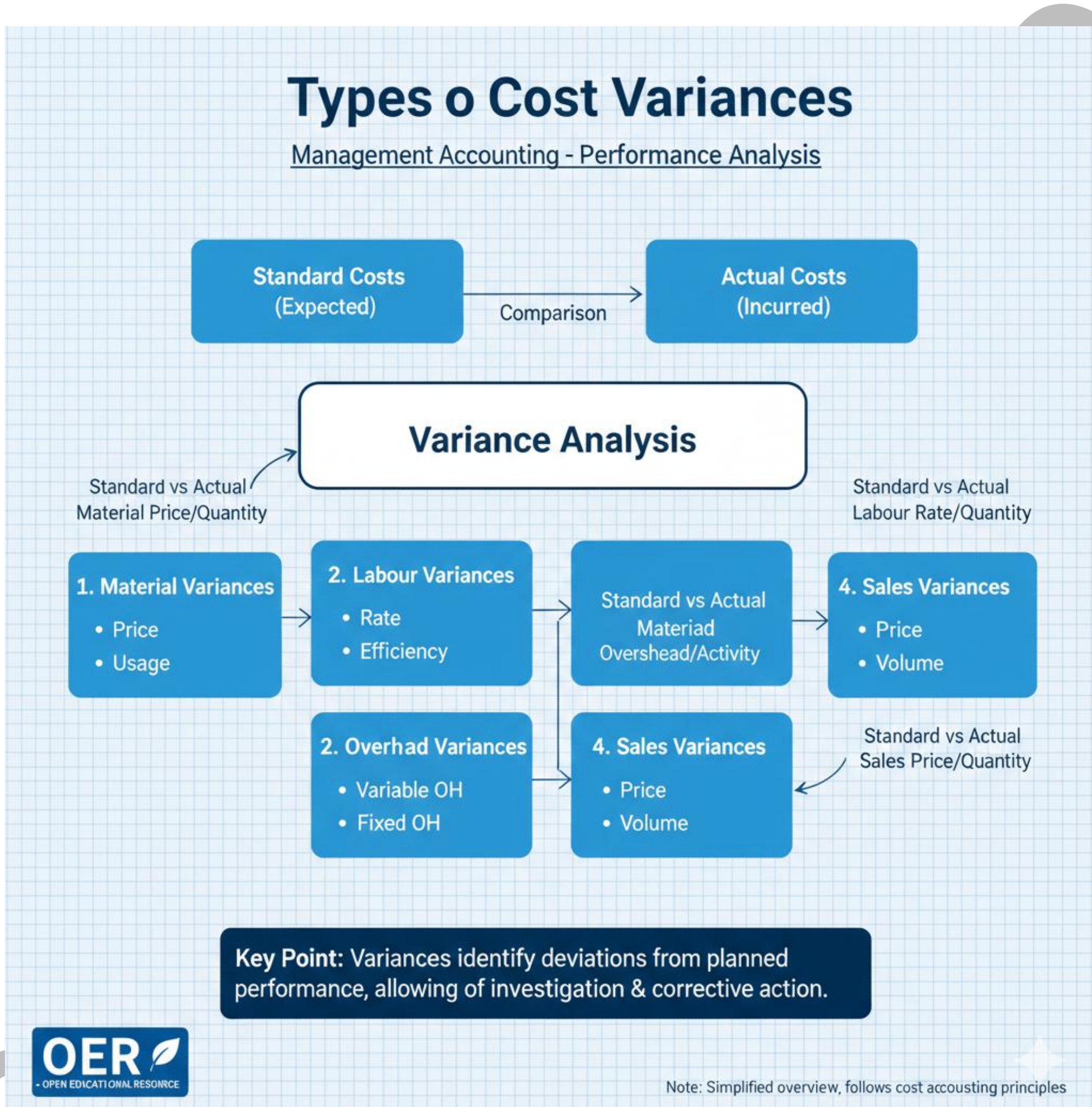
By identifying areas where performance deviates from expectations, managers can take steps to improve efficiency, reduce waste, and enhance profitability. Standard costing also provides valuable information for decision making, such as pricing and resource allocation.

Caption: Box 1.2 Roles of standard costing in planning and control
Short description: A box summarising the roles of standard costing in planning, control, and decision making.

Fill in the blank: Standard costing allows comparison between actual and __________ costs.

Pilot questions 1.2
1. What is standard costing and what are its objectives?
2. Name one type of cost standard and explain its purpose.
3. What factors should be considered when establishing standards?
4. How does standard costing assist in planning?
5. Why is standard costing useful for control purposes?
1.3 Variance Analysis

1.3.1 Types of variances
A **variance** is the difference between a standard cost and the actual cost incurred. Variance analysis helps managers identify whether costs are higher or lower than expected, and why. The main types of variances include:
- **Material variance**: The difference between the standard cost of materials and the actual cost.
- **Labour variance**: The difference between the standard labour cost and the actual labour cost.
- **Overhead variance: The difference between the standard overhead cost and the actual overhead cost.
- **Sales variance**: The difference between the expected sales revenue and the actual revenue achieved.



Short description: Diagram showing types of variances with arrows linking to material, labour, overhead, and sales.
Caption: Figure 1.3 Types of variances in cost analysis

Fill in the blank: The difference between standard and actual labour costs is called __________ variance.

1.3.2 Calculation and interpretation of variances
Variance calculation involves subtracting the standard cost from the actual cost. A positive variance indicates costs are higher than expected, while a negative variance shows costs are lower. For example, if the standard material cost is £5 per unit and the actual cost is £6, the variance is £1 unfavourable.

Interpretation of variances requires managers to investigate the reasons behind them. Material variances may result from changes in price or usage, labour variances from efficiency or wage rate differences, and overhead variances from changes in fixed or variable costs.

Cost Variance Calculations: Examples

Management Accounting - Measuring Performance Deviations

Type of Variance	Calculation Formula	Example Calcuation/Result
Material Price Variance	(Actual Price - Standard Price) x Actual Quantity	($12 - $1,00 = Unfavrable
Material Price Variance	SP=$10/kg, AP=$12/kg, AQ=500kg	($12 - $10kg = Unfavable
Material Usage Variance	(Actual Quantity - Standard Quantity) x Standard Price	($000 = $10 = Unfavable
Labour Rate Variance	SQ=480kg, AQ500kg, – SP=10/kg	($22 = 20/hr = Unfavrable
Labour Efficiency	SR=20//hr - Starte x Actual Hours	AH=AH=300hrs
SR=20/hr	SH=280kg, AH=300kg - $10 = SH=300hrs	($6 = 300hrs = Unfavable
Variable Ovehhead Variance (Rate)	(Actual Hours - Standard Hours) x Standard Rate	($6 = $/400 = Unfaurable
Variable Ovehhead Variance (Efficiency)	SH=280/hr, AH=300/kg Hours = SR=300hrs	SH = 5/30hr = Unfavrable
SVR=5/hr	300hrs - 280kg - 200/a0kɛ) = $20 = SRavrable	($5 = $=100 = Unfavable

Key Point: Variances compare what "should have" happend to what actually" happend, highliging areas for cost control and operational improvement.

OER - OPEN EDUCATIONAL RESOURCE

Note: Simpified examples, follow cost acounting princples, calculations may vary

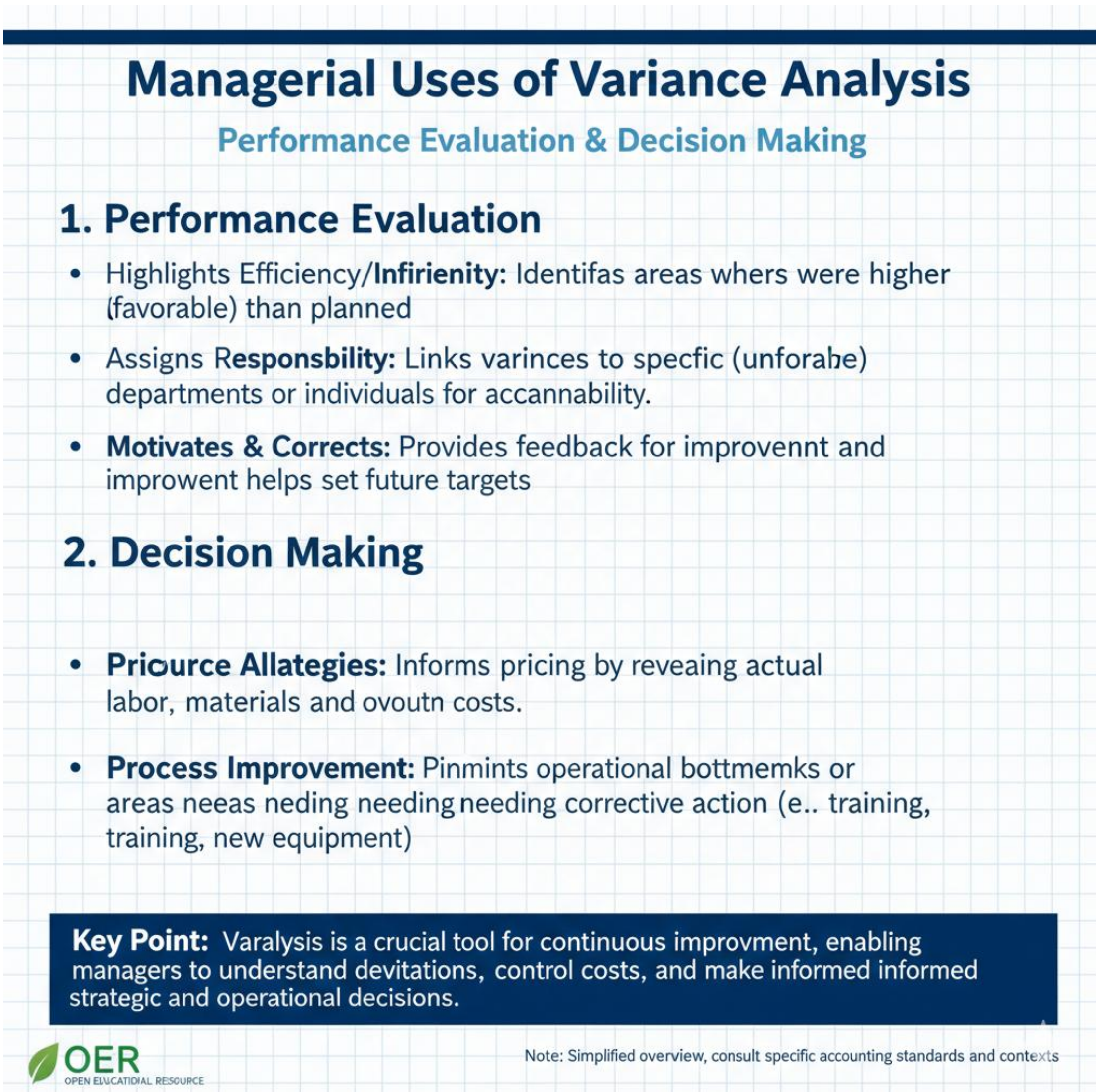
Caption: Table 1.3 Examples of variance calculations
Short description: A table showing examples of material, labour, and overhead variance calculations.

Fill in the blank: A positive variance indicates costs are __________ than expected.

1.3.3 Managerial use of variance analysis for performance evaluation

Variance analysis is a powerful tool for performance evaluation. By identifying where actual costs differ from standards, managers can pinpoint inefficiencies, investigate causes, and take corrective action. For example, unfavourable labour variances may suggest poor training or low productivity, while favourable material variances may indicate effective purchasing strategies.

Variance analysis also supports decision making by highlighting areas that require attention. It encourages accountability, as managers are responsible for explaining variances in their departments.



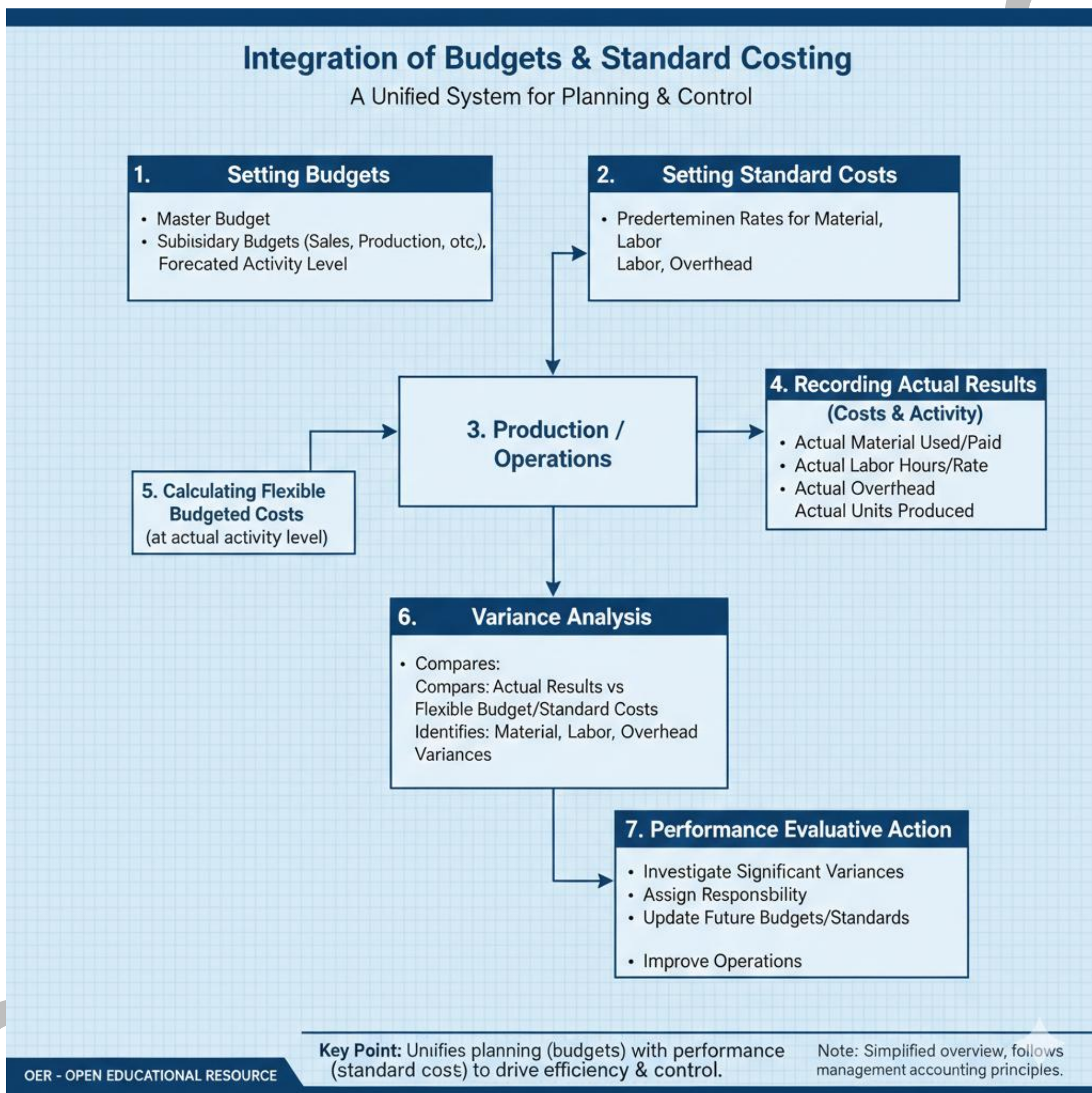
Caption: Box 1.3 Managerial uses of variance analysis
Short description: A box summarising how variance analysis supports performance evaluation and decision making.

Fill in the blank: Variance analysis encourages __________, as managers must explain differences between actual and standard costs.

Pilot questions 1.3
1. What is a variance in cost accounting?
2. Name two types of variances commonly analysed.

3. How is a variance calculated?
4. What does a positive variance indicate?
5. Why is variance analysis useful for managers?
1.4 Integration Of Budgeting And Variance Analysis

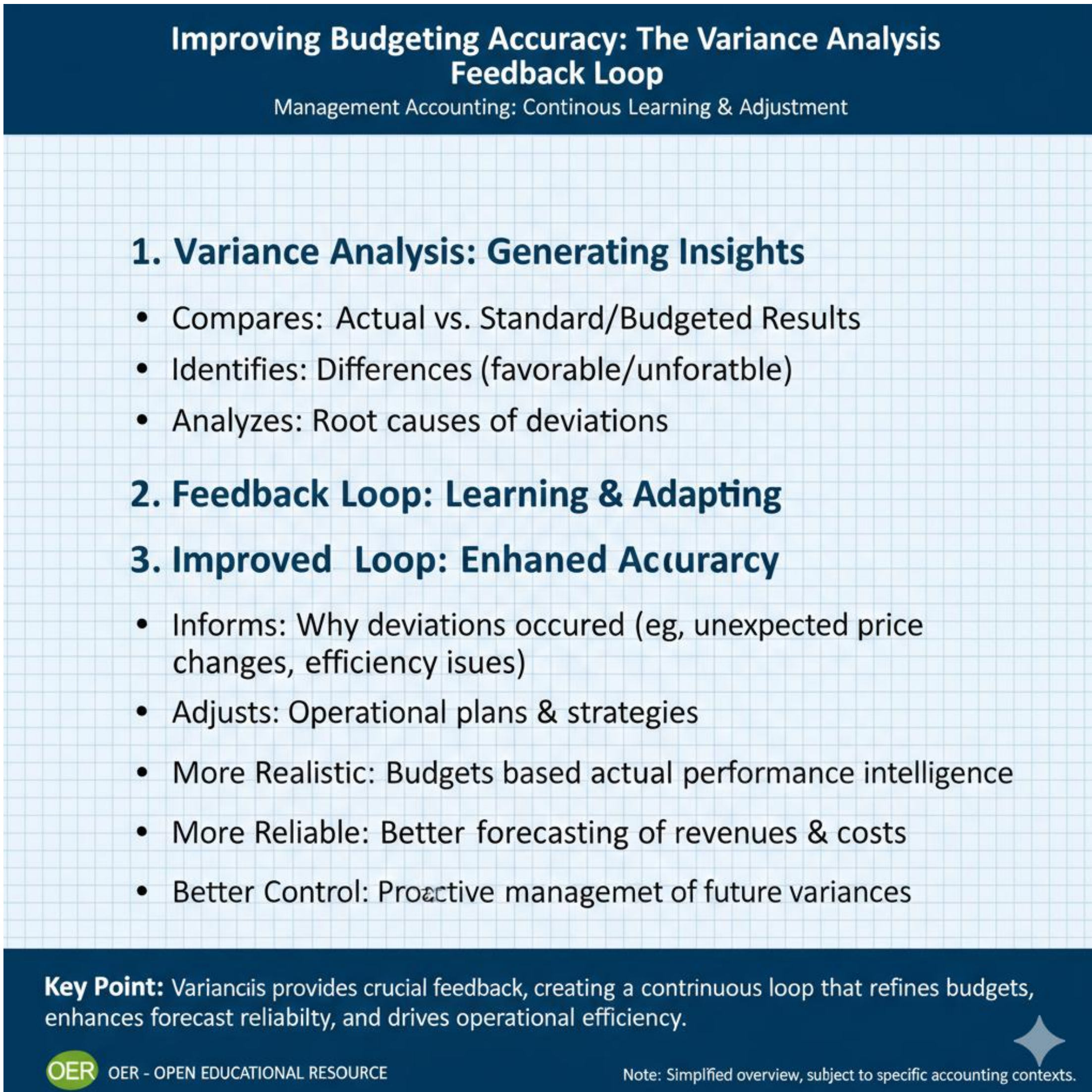
1.4.1 Linking budgets with standard costing systems
Budgets provide a plan for expected income and expenditure, while **standard costing systems** set predetermined costs for resources. When these two tools are linked, managers can compare actual results not only against budgets but also against cost standards. This integration strengthens control by highlighting both overall financial deviations and specific cost variances.



Short description: Diagram showing integration of budgets and standard costing.
Caption: Figure 1.4 Linking budgets with standard costing systems

Fill in the blank: Budgets provide a plan for expected income and __________.

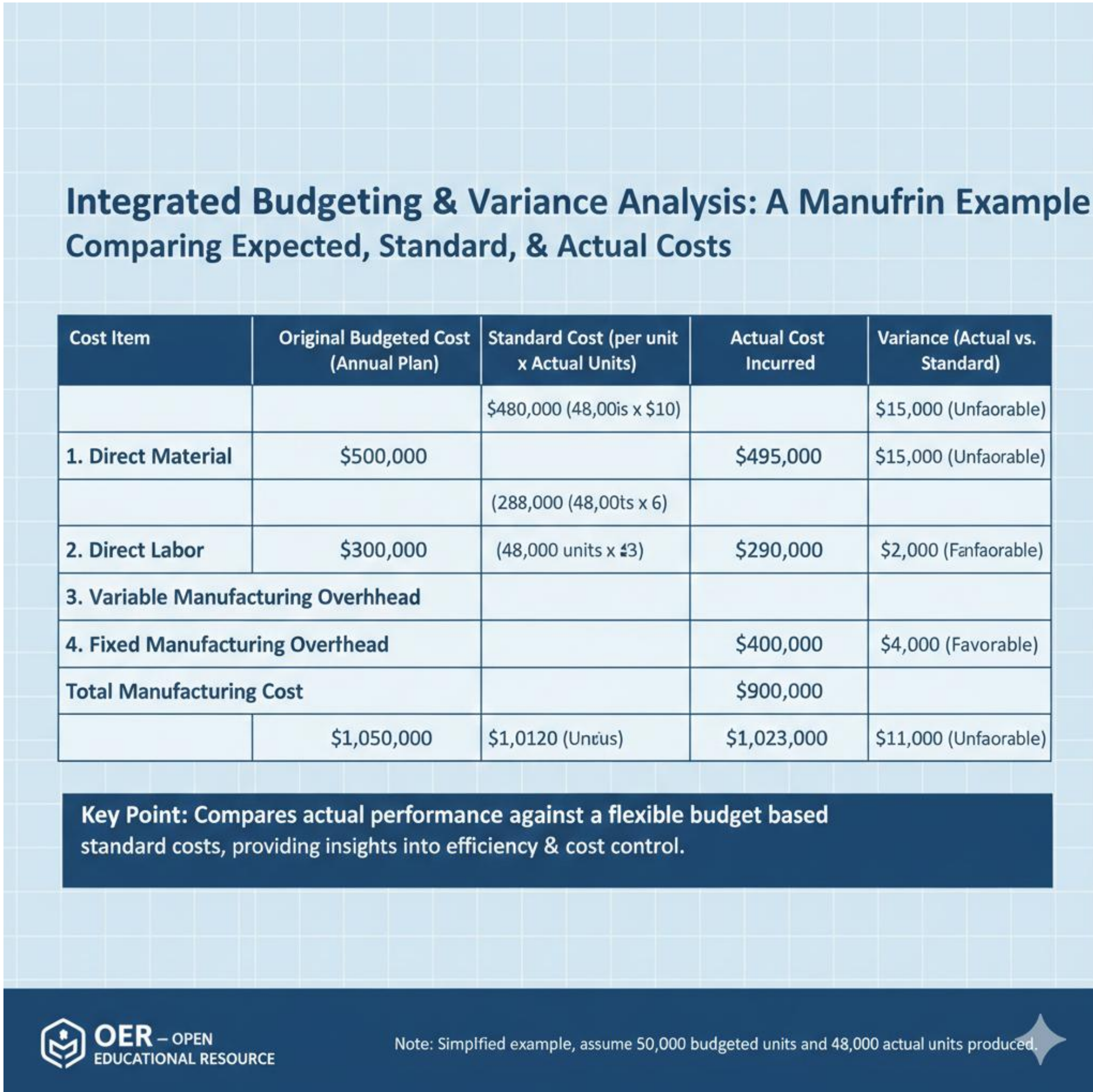
1.4.2 Using variance analysis to improve budgeting accuracy
Variance analysis identifies differences between actual and standard costs. By studying these variances, managers can refine future budgets to make them more accurate. For example, if material costs consistently exceed budgeted amounts, future budgets can be adjusted to reflect realistic prices. This feedback loop ensures that budgets remain relevant and reliable.



Caption: Box 1.4 Variance analysis as a feedback tool
Short description: A box summarising how variance analysis improves budgeting accuracy.

Fill in the blank: Variance analysis helps managers refine future __________ to make them more accurate.

1.4.3 Case examples of integrated performance management
In practice, organisations use integrated budgeting and variance analysis to manage performance. For instance, a manufacturing company may prepare a production budget based on standard costs, then compare actual results with both the budget and the standards. Variances are analysed to identify inefficiencies, and the findings are used to adjust future budgets and improve operations.


Integrated Budgeting & Variance Analysis: A Manufrin Example
Comparing Expected, Standard, & Actual Costs

Cost Item	Original Budgeted Cost (Annual Plan)	Standard Cost (per unit x Actual Units)	Actual Cost Incurred	Variance (Actual vs. Standard)
		$480,000 (48,00is x $10)		$15,000 (Unfaorable)
1. Direct Material	$500,000		$495,000	$15,000 (Unfaorable)
		(288,000 (48,00ts x 6)		
2. Direct Labor	$300,000	(48,000 units x ẟ3)	$290,000	$2,000 (Fanfaorable)
3. Variable Manufacturing Overhead				
4. Fixed Manufacturing Overthead			$400,000	$4,000 (Favorable)
Total Manufacturing Cost			$900,000	
	$1,050,000	$1,0120 (Uncus)	$1,023,000	$11,000 (Unfaorable)

Caption: Table 1.4 Example of integrated budgeting and variance analysis
Short description: A table showing budgeted costs, standard costs, actual costs, and variances.

Fill in the blank: Organisations use integrated budgeting and variance analysis to manage __________.

Pilot questions 1.4
1. How do budgets and standard costing systems complement each other?
2. Why is variance analysis important for improving budgeting accuracy?
3. Give one example of how variance analysis can refine future budgets.
4. What is the role of integrated budgeting and variance analysis in performance management?
5. In practice, what three sets of figures are compared in integrated performance management?

Series Summary

This Series has introduced you to the essential tools of budgeting, standard costing, and variance analysis, which are central to planning, control, and performance management in organisations. We began by examining the fundamentals of budgeting, including its definition, purpose, and the different types such as master, subsidiary, cash, and flexible budgets. We then explored standard costing, focusing on its concept, objectives, and the process of establishing cost standards for materials, labour, and overheads. Following that, we studied variance analysis, learning about the types of variances, how they are calculated, and their interpretation for managerial use. Finally, we integrated budgeting and variance analysis, showing how these tools work together to improve accuracy and enhance organisational decision making.

By completing this Series, you should now be able to define budgeting and explain its purpose (SLO 1.1), distinguish between different types of budgets (SLO 1.2), describe the objectives of standard costing (SLO 1.3), demonstrate how to establish cost standards (SLO 1.4), calculate and interpret variances (SLO 1.5), analyse their managerial implications (SLO 1.6), and evaluate how budgeting and variance analysis can be integrated for improved performance management (SLO 1.7). These outcomes provide you with a strong foundation for applying performance management techniques in practical business contexts.

Glossary Of Terms – Series 1: Budgeting, Standard Costing, And Variance Analysis

Budget: A financial plan that estimates income and expenditure for a specific period, serving as a guide for resource allocation and performance monitoring.

Master budget: A comprehensive financial plan that consolidates all subsidiary budgets into one overall organisational plan.

Subsidiary budgets: Detailed budgets for specific areas such as sales, production, materials, labour, or overheads.

Cash budget: A plan that estimates cash inflows and outflows over a period, ensuring liquidity and financial stability.

Flexible budget: A budget that adjusts according to changes in activity levels, providing a realistic basis for performance evaluation.

Forecasting: The process of predicting future financial outcomes based on past data, trends, and assumptions.

Standard costing: A system that assigns predetermined costs to products or services, serving as benchmarks for measuring actual performance.

Standards: Predetermined costs for materials, labour, or overheads, used as benchmarks in standard costing.

Material standard: The expected quantity and price of raw materials required for production.

Labour standard: The expected time and wage rate for tasks performed by employees.

Overhead standard: The estimated indirect costs allocated to production, based on activity levels.

Variance: The difference between a standard cost and the actual cost incurred.

Material variance: The difference between the standard and actual costs of materials.

Labour variance: The difference between the standard and actual labour costs.

Overhead variance: The difference between the standard and actual overhead costs.

Sales variance: The difference between expected sales revenue and actual revenue achieved.

Variance analysis: The process of calculating and interpreting variances to identify inefficiencies and improve performance.

This glossary consolidates the essential terms introduced in **Series 1: Budgeting, Standard Costing, And Variance Analysis**, making it easier for learners to revisit and reinforce key concepts.
Concept Check Questions 1 – Series 1: Budgeting, Standard Costing, And Variance Analysis

Objective questions
1. Which type of budget consolidates all subsidiary budgets into one overall plan? (Linked to SLO 1.2)
2. Predetermined costs used as benchmarks in standard costing are called __________. (Linked to SLO 1.3)
3. The difference between standard and actual costs is known as __________. (Linked to SLO 1.5)
4. A budget that adjusts according to changes in activity levels is called a __________ budget. (Linked to SLO 1.2)
5. A positive variance indicates that costs are __________ than expected. (Linked to SLO 1.5)

Short-answer questions
6. Define a budget and explain its purpose. (Linked to SLO 1.1)
7. State one objective of standard costing. (Linked to SLO 1.3)
8. Give one example of a cost standard and explain its focus. (Linked to SLO 1.4)
9. Mention one managerial use of variance analysis. (Linked to SLO 1.6)
10. How does variance analysis improve budgeting accuracy? (Linked to SLO 1.7)

Long-answer questions
11. Analyse the differences between cash budgets and flexible budgets. (Linked to SLO 1.2)
12. Demonstrate how to calculate and interpret a material variance using a numerical example. (Linked to SLO 1.5)
13. Evaluate the role of standard costing in both planning and control. (Linked to SLO 1.3 and SLO 1.6)
14. Discuss how integrating budgeting with variance analysis enhances organisational decision making. (Linked to SLO 1.7)

These Concept Check Questions provide learners with opportunities to test their knowledge of budgeting, standard costing, and variance analysis, while reinforcing the Series Learning Outcomes.
Answers To Pilot Questions 1 – Series 1: Budgeting, Standard Costing, And Variance Analysis

Answers to Pilot Questions 1.1
1. A budget is a financial plan that estimates income and expenditure, serving as a guide for resource allocation and performance monitoring.
2. Two types of budgets are the master budget and the cash budget.
3. Forecasting predicts future financial outcomes and serves as the starting point for preparing budgets.
4. The master budget integrates all subsidiary budgets into one overall plan.
5. A flexible budget is more realistic because it adjusts according to changes in activity levels.

Answers to Pilot Questions 1.2

1. Standard costing is a system of assigning predetermined costs to products or services, with objectives such as aiding planning, facilitating control, and evaluating performance.
2. A material standard specifies the expected quantity and price of raw materials.
3. Past data, current conditions, and realistic expectations should be considered when establishing standards.
4. Standard costing assists in planning by helping managers estimate future costs and set budgets.
5. It is useful for control purposes because it allows comparison between actual and standard costs, highlighting variances.

Answers to Pilot Questions 1.3
1. A variance is the difference between a standard cost and the actual cost incurred.
2. Two types of variances are material variance and labour variance.
3. Variance is calculated by subtracting the standard cost from the actual cost.
4. A positive variance indicates costs are higher than expected.
5. Variance analysis is useful because it helps managers identify inefficiencies, investigate causes, and take corrective action.

Answers to Pilot Questions 1.4
1. Budgets and standard costing systems complement each other by providing both overall financial plans and detailed cost benchmarks.
2. Variance analysis is important for improving budgeting accuracy because it identifies differences between actual and standard costs, which inform future budgets.
3. For example, if material costs consistently exceed budgeted amounts, future budgets can be adjusted to reflect realistic prices.
4. Integrated budgeting and variance analysis enhance performance management by combining planning with detailed cost control.
5. In practice, managers compare budgeted costs, standard costs, and actual costs in integrated performance management.

References And Attributions 1 – Series 1: Budgeting, Standard Costing, And Variance Analysis

Figures, Tables, and Boxes in this Series were either suggested as AI-generated placeholders or referenced from open educational resources (OER). Where AI generation was proposed, the prompt and tool are noted.

Figure 1.1 Types of budgets in an organisation
AI prompt: "Generate a diagram showing master, subsidiary, cash, and flexible budgets with arrows indicating their relationships."
Suggested source search string: "types of budgets diagram management accounting OER"

Table 1.1 Examples of subsidiary budgets
AI prompt: "Generate a table listing subsidiary budgets such as sales, production, materials, labour, and overhead with their focus areas."
Suggested source search string: "subsidiary budgets examples management accounting OER"

Box 1.1 Features of cash and flexible budgets
AI prompt: "Create a text box summarising the features of cash and flexible budgets."
Suggested source search string: "cash budget flexible budget features OER"

Figure 1.2 Concept of standard costing
AI prompt: "Generate a diagram showing the flow of standard costing: setting standards, recording actual costs, comparing, and analysing variances."
Suggested source search string: "standard costing concept diagram OER"

Table 1.2 Types of cost standards

AI prompt: "Generate a table listing material, labour, and overhead standards with definitions and examples."
Suggested source search string: "types of cost standards material labour overhead OER"

Box 1.2 Roles of standard costing in planning and control
AI prompt: "Create a text box summarising the roles of standard costing in planning, control, and decision making."
Suggested source search string: "roles of standard costing planning control OER"

Figure 1.3 Types of variances in cost analysis
AI prompt: "Generate a diagram showing types of variances: material, labour, overhead, and sales, with arrows linking to standard vs actual costs."
Suggested source search string: "types of variances cost accounting diagram OER"

Table 1.3 Examples of variance calculations
AI prompt: "Generate a table showing examples of material, labour, and overhead variance calculations with standard vs actual costs."
Suggested source search string: "variance calculation examples cost accounting OER"

Box 1.3 Managerial uses of variance analysis
AI prompt: "Create a text box summarising managerial uses of variance analysis for performance evaluation and decision making."
Suggested source search string: "variance analysis managerial uses performance evaluation OER"

Figure 1.4 Linking budgets with standard costing systems
AI prompt: "Generate a diagram showing integration of budgets with standard costing systems, highlighting comparisons with actual results."
Suggested source search string: "integration of budgets and standard costing diagram OER"

Box 1.4 Variance analysis as a feedback tool
AI prompt: "Create a text box summarising how variance analysis improves budgeting accuracy through feedback loops."
Suggested source search string: "variance analysis feedback budgeting OER"

Table 1.4 Example of integrated budgeting and variance analysis
AI prompt: "Generate a table showing budgeted costs, standard costs, actual costs, and variances for a manufacturing company."
Suggested source search string: "integrated budgeting variance analysis example OER"

All references are aligned with open educational resource searches and AI prompts suggested for illustration. Learners are encouraged to consult standard management accounting texts such as Drury (Management and Cost Accounting) or Horngren et al. (Cost Accounting: A Managerial Emphasis) for further reading and validation of concepts.

COURSE CODE:ACC 303
COURSE TITLE: Management Accounting (Performance Management)
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SERIES LIST
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Series 2: Behavioural Aspects Of Budgeting And Strategic Performance Management

Part 2.1: Behavioural aspects of budgeting
Sub-Part 2.1.1: The impact of budgeting on employee motivation
Sub-Part 2.1.2: Budget participation and its effects on performance
Sub-Part 2.1.3: Dysfunctional behaviours in budgeting (e.g., budgetary slack)

Part 2.2: Budgetary control and organisational behaviour
Sub-Part 2.2.1: The role of communication in budgetary control
Sub-Part 2.2.2: Behavioural consequences of tight versus loose controls
Sub-Part 2.2.3: Linking budgetary control to organisational culture

Part 2.3: Strategic performance management concepts
Sub-Part 2.3.1: Definition, nature, and scope of performance management
Sub-Part 2.3.2: Comparison between performance management and cost accounting
Sub-Part 2.3.3: Comparison between performance management and financial accounting

Part 2.4: Evaluating and improving organisational performance
Sub-Part 2.4.1: Tools and techniques for strategic performance evaluation
Sub-Part 2.4.2: The role of performance management in continuous improvement
Sub-Part 2.4.3: Case examples of performance management in practice

Introduction

Budgeting is not only a technical exercise, it also has significant behavioural implications within organisations. The way budgets are prepared, communicated, and controlled can influence employee motivation, managerial behaviour, and overall organisational culture. Similarly, strategic performance management provides a framework for evaluating and improving organisational performance, ensuring that behavioural factors are aligned with strategic goals. This Series therefore focuses on the human and strategic dimensions of budgeting and performance management.

The aim of this Series is to help you analyse the behavioural aspects of budgeting and budgetary control, and to evaluate the role of strategic performance management in enhancing organisational effectiveness.

We shall commence this Series by examining the behavioural aspects of budgeting, including motivation, participation, and dysfunctional behaviours such as budgetary slack. Next, we will explore budgetary control and its relationship with organisational behaviour, focusing on communication, control systems, and culture. Following that, we will study the concepts of strategic performance management, defining its scope and comparing it with cost and financial accounting. Finally, we will conclude by evaluating tools and techniques for improving organisational performance, supported by case examples of performance management in practice.

Series Learning Outcomes

Upon completing this Series, you should be able to:

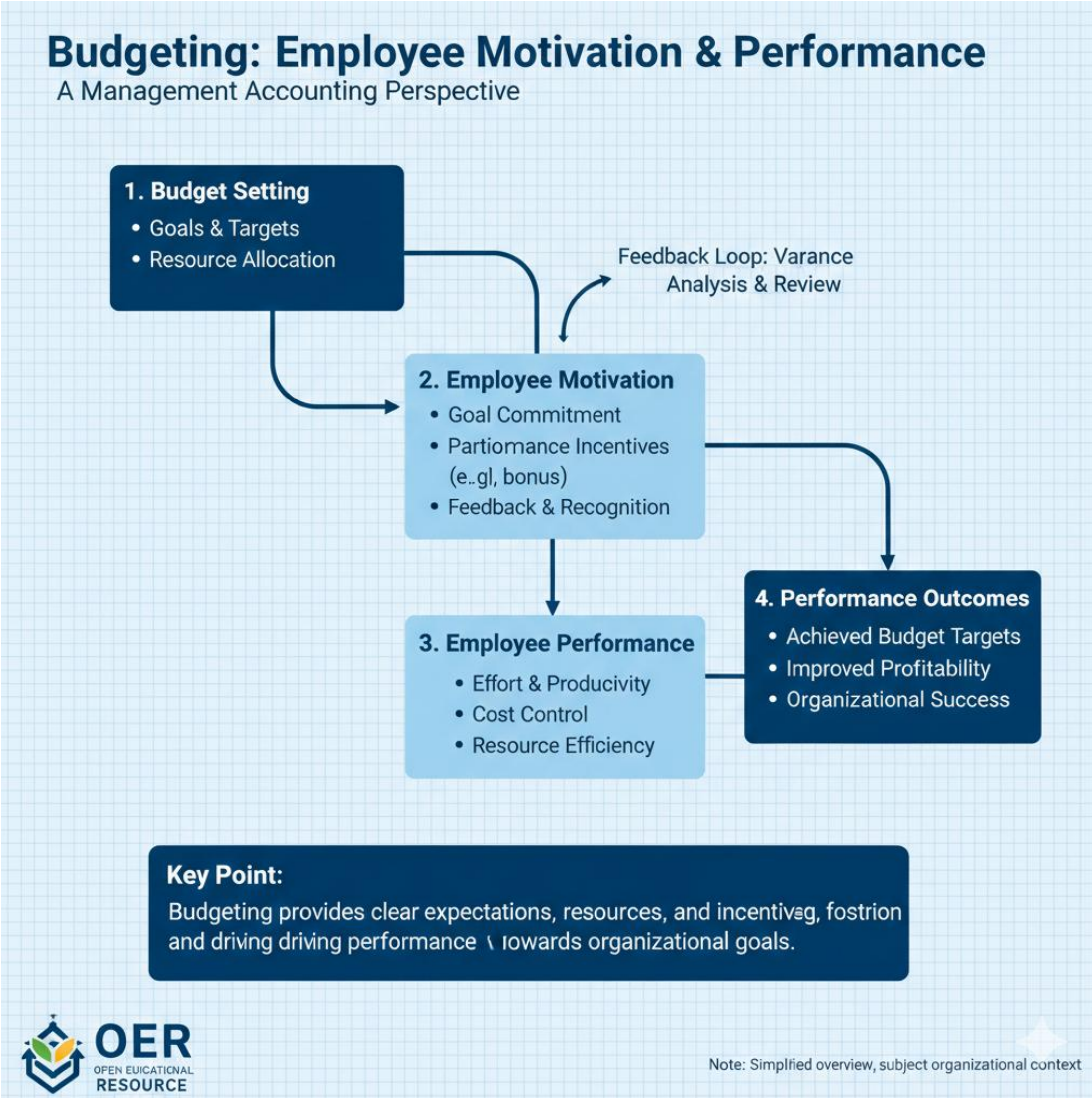
SLO 2.1 analyse the impact of budgeting on employee motivation,
SLO 2.2 explain how budget participation influences organisational performance,
SLO 2.3 identify dysfunctional behaviours in budgeting such as budgetary slack,
SLO 2.4 evaluate the behavioural consequences of tight and loose budgetary controls,
SLO 2.5 assess the role of communication and organisational culture in budgetary control,
SLO 2.6 define the concept, nature, and scope of strategic performance management,
SLO 2.7 distinguish between performance management and cost accounting,
SLO 2.8 distinguish between performance management and financial accounting,
SLO 2.9 apply tools and techniques for evaluating organisational performance, and
SLO 2.10 evaluate the role of performance management in continuous improvement.

2.1 Behavioural Aspects Of Budgeting

2.1.1 The impact of budgeting on employee motivation

Budgeting can significantly influence employee motivation. When employees feel involved in the budgeting process, they are more likely to take ownership of organisational goals and work towards achieving them. Conversely, if budgets are imposed without consultation, employees may perceive them as unrealistic or unfair, leading to frustration and reduced commitment.

Budgets can act as motivators by setting clear performance targets, but they must be achievable. Unrealistic targets may demoralise staff, while attainable yet challenging goals can inspire effort and innovation.



Short description: Diagram showing the relationship between budgeting, motivation, and performance outcomes.
Caption: Figure 2.1 Impact of budgeting on employee motivation

Fill in the blank: Budgets can act as __________ by setting clear performance targets.

2.1.2 Budget participation and its effects on performance
Budget participation refers to the involvement of employees in the preparation of budgets. When employees contribute to setting targets, they are more likely to accept and strive towards them. Participation enhances communication, reduces resistance, and fosters a sense of responsibility.

Research shows that participative budgeting can improve performance by aligning organisational objectives with individual goals. It also encourages transparency and trust between managers and employees.

Budget Participation Effects on Performance: A Summary of Key Areas

Management Accounting: Behaviool & Organizational Impact

Area	Effect of High Budget Participation	Explanation / Mechanism
Budget Acceptance & Commitment	Increased Buy-in & Ownnship	Employees feel valued, understand goals, and more of achieving targets
Employee Motivation	Enhanced Morale & Drive	Fosters a sense of control, fairness, an. intrinidc rewards, ar greater effort
Communication & Information Flow	Improved Vertical & Horizontal leacater effort	Faciltitas sharing of knowlelge, clarifes intriing agater effort
Accuracy of Forecasts	More Realistic & Reliable Budgets	Caciltites ground-level incations, and reduces information assenentty
Accuracial Performance	Incorprates ground-level insights, leading accurate estimates of costs & revenues	Provides managers relo releation nncreases accounability for outcomes
Managerial Organizational Performance	Better Decisio-Making & Control	Aligns individual & deparia goals with strategic for outcomes
Overall Performance	Increased Efficiency & Goal Attainment	Aligns individual & departamaljectives, improving resource utilization

Key Point: Budget participation positively influence by enhanng by employee motivation, commitment, and the the quality of information.

OER
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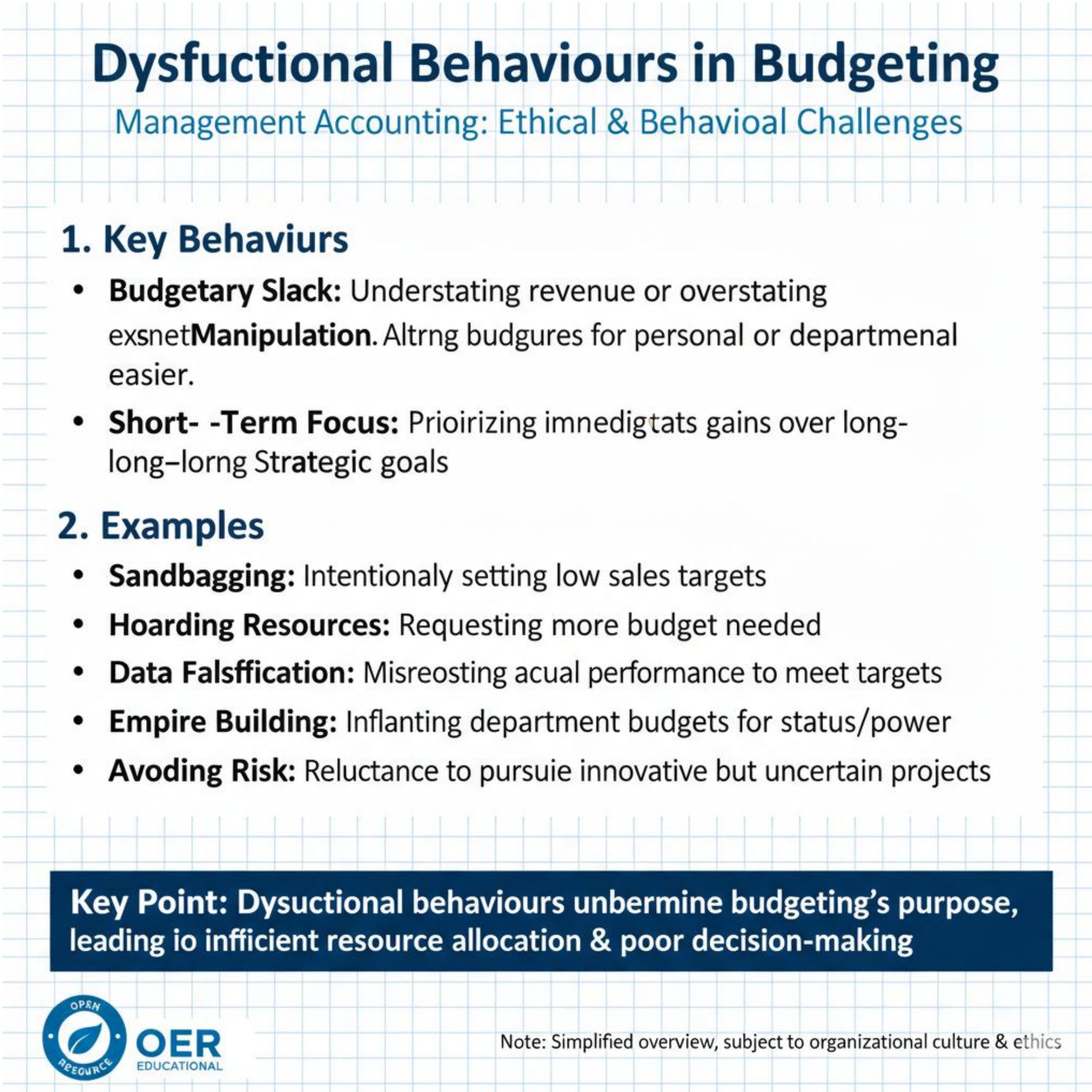
Note: Simplifed overview, subject to organizational culture & context

Caption: Table 2.1 Effects of budget participation on performance
Short description: A table summarising positive effects of budget participation such as acceptance, motivation, and communication.

Fill in the blank: Budget participation enhances __________ and fosters responsibility among employees.

2.1.3 Dysfunctional behaviours in budgeting (e.g., budgetary slack)
While budgeting can motivate, it may also lead to dysfunctional behaviours. One common issue is **budgetary slack**, where managers deliberately overestimate costs or underestimate revenues to make targets easier to achieve. This behaviour reduces the usefulness of budgets for planning and control.

Other dysfunctional behaviours include manipulating figures to meet targets, focusing narrowly on budget compliance rather than broader organisational goals, and resisting accountability. These behaviours highlight the importance of designing budgeting systems that encourage honesty and fairness.



Caption: Box 2.1 Examples of dysfunctional behaviours in budgeting
Short description: A box listing examples of dysfunctional behaviours such as budgetary slack, manipulation, and resistance to accountability.

Fill in the blank: Deliberately overestimating costs or underestimating revenues is known as __________ slack.

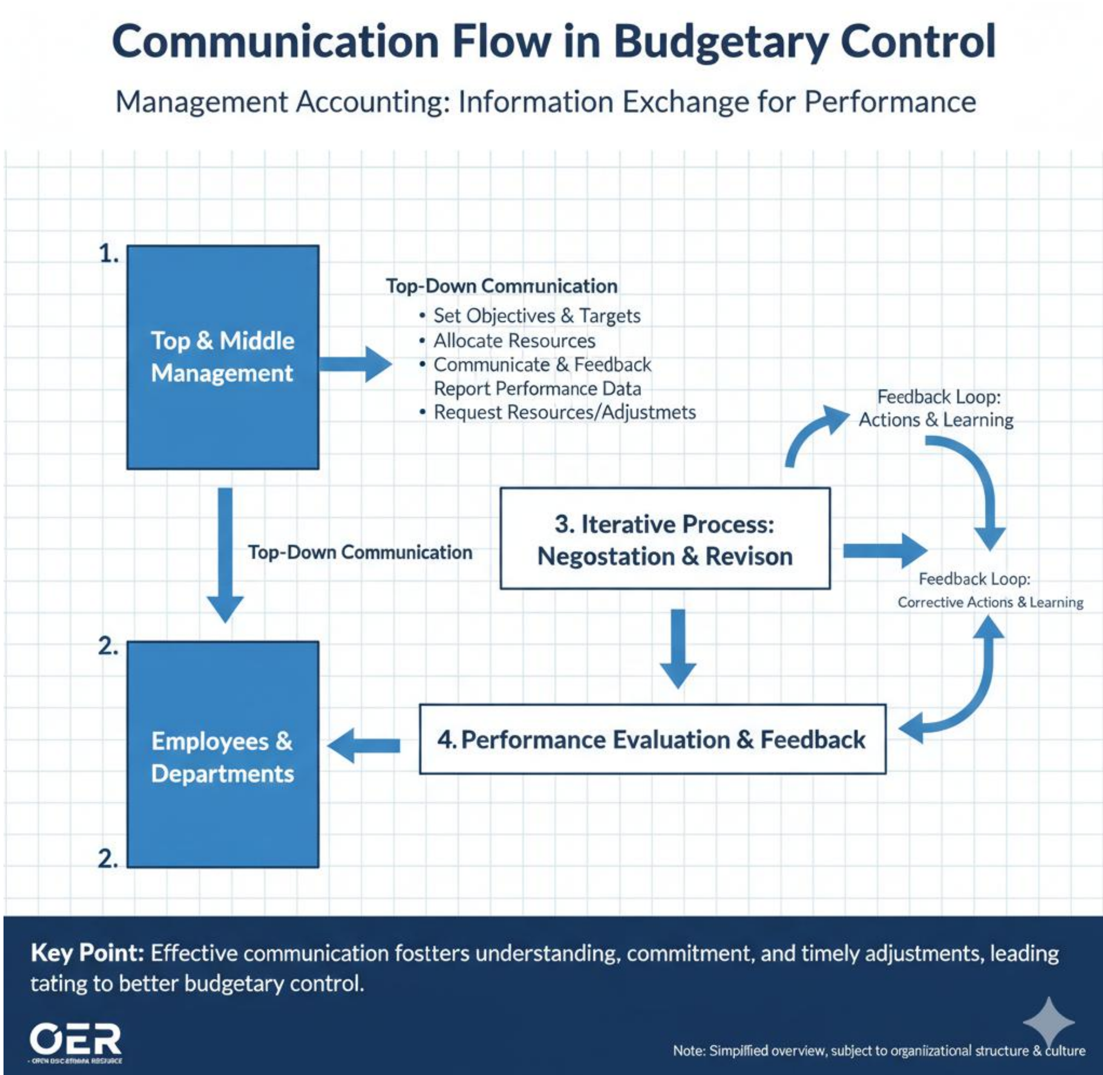
Pilot questions 2.1
1. How can budgeting influence employee motivation?
2. What is budget participation and why is it important?
3. Name one positive effect of participative budgeting.
4. What is budgetary slack?
5. Give one example of a dysfunctional behaviour in budgeting.

2.2 Budgetary Control And Organisational Behaviour

2.2.1 The role of communication in budgetary control

Effective **communication** is central to budgetary control. When budgetary information is clearly communicated, employees understand expectations, responsibilities, and performance targets. Poor communication, however, can lead to confusion, misinterpretation, and resistance.

Communication ensures that budgets are not seen as rigid impositions but as collaborative tools for guiding organisational activities. Managers must communicate both the rationale behind budgets and the consequences of deviations to foster trust and cooperation.



Short description: Diagram showing communication flow in budgetary control.
Caption: Figure 2.2 Communication in budgetary control

Fill in the blank: Effective __________ is central to budgetary control.

2.2.2 Behavioural consequences of tight versus loose controls

Budgetary control can be **tight** or **loose**, and each has behavioural consequences. Tight control involves strict monitoring and enforcement of budget targets. While this may improve efficiency, it can also create stress, reduce creativity, and encourage short-term thinking.

Loose control allows flexibility and autonomy, which may foster innovation and employee satisfaction. However, it risks inefficiency and lack of accountability. The challenge for managers is to strike a balance that promotes discipline without stifling initiative.

Budgetary Control: Behavoural Conseuences

Budgetary Control: Behavioral Conseuences

Management Accounting: Impact on Employees & Performance

Area of Impact	Tight Budgetary Controls	Loose Budgetary Controls
Employee Motivation & Stress	• High stress, demiovation if utantaitable. Fear anso failure.	• Lower stress, potential for complatencie. Motivation if tied of rewards.
Goal Commitment & Effort	• Focus on meeting targets): short-tron if goals if too difficult.	• Less pressure, potentially lower. Goals man ars easy.
Innovation & Risk-Taking	• Discouraged due fear of not meeting strict targets.	• Encouaged, more room effort. Goals may seen as easy.
Budgetary Slack & Manpulation	• Increased incentive for slack & manpulation (e.p., hoarding resources).	• Reduced incentive f slack; targets are easier of achieve.
Communication & Trust	• Formal, top-down. Potential distrst if perceved as unfar.	• Informal, open. Higher trust ant and collaboration

Key Point The effectviness of budıetary controls depends on organizational culture, task certainty, and management style.

OER

Note: Simplfied overview, subject to organizational context.

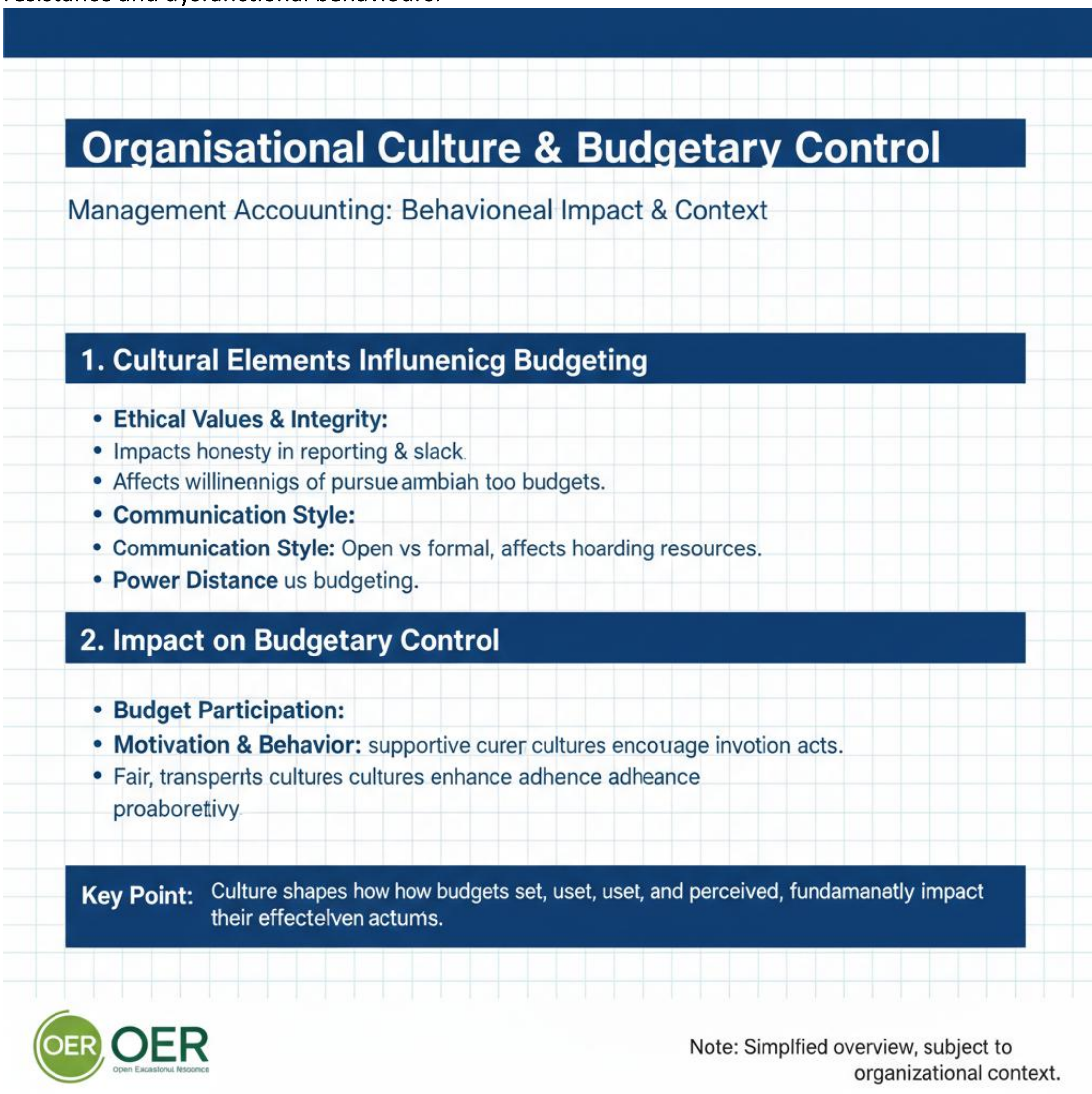
Caption: Table 2.2 Behavioural consequences of tight versus loose controls
Short description: A table comparing behavioural outcomes of tight and loose budgetary controls.

Fill in the blank: Tight budgetary control may improve efficiency but can also create __________.

2.2.3 Linking budgetary control to organisational culture

Budgetary control is closely linked to **organisational culture**. In cultures that value openness and collaboration, budgets are seen as supportive tools. In more authoritarian cultures, budgets may be perceived as instruments of control and punishment.

The effectiveness of budgetary control depends on how well it aligns with organisational values and practices. A supportive culture encourages employees to view budgets positively, while a negative culture may lead to resistance and dysfunctional behaviours.



[Insert Box here]
Caption: Box 2.2 Organisational culture and budgetary control
Short description: A box summarising how organisational culture influences perceptions of budgetary control.

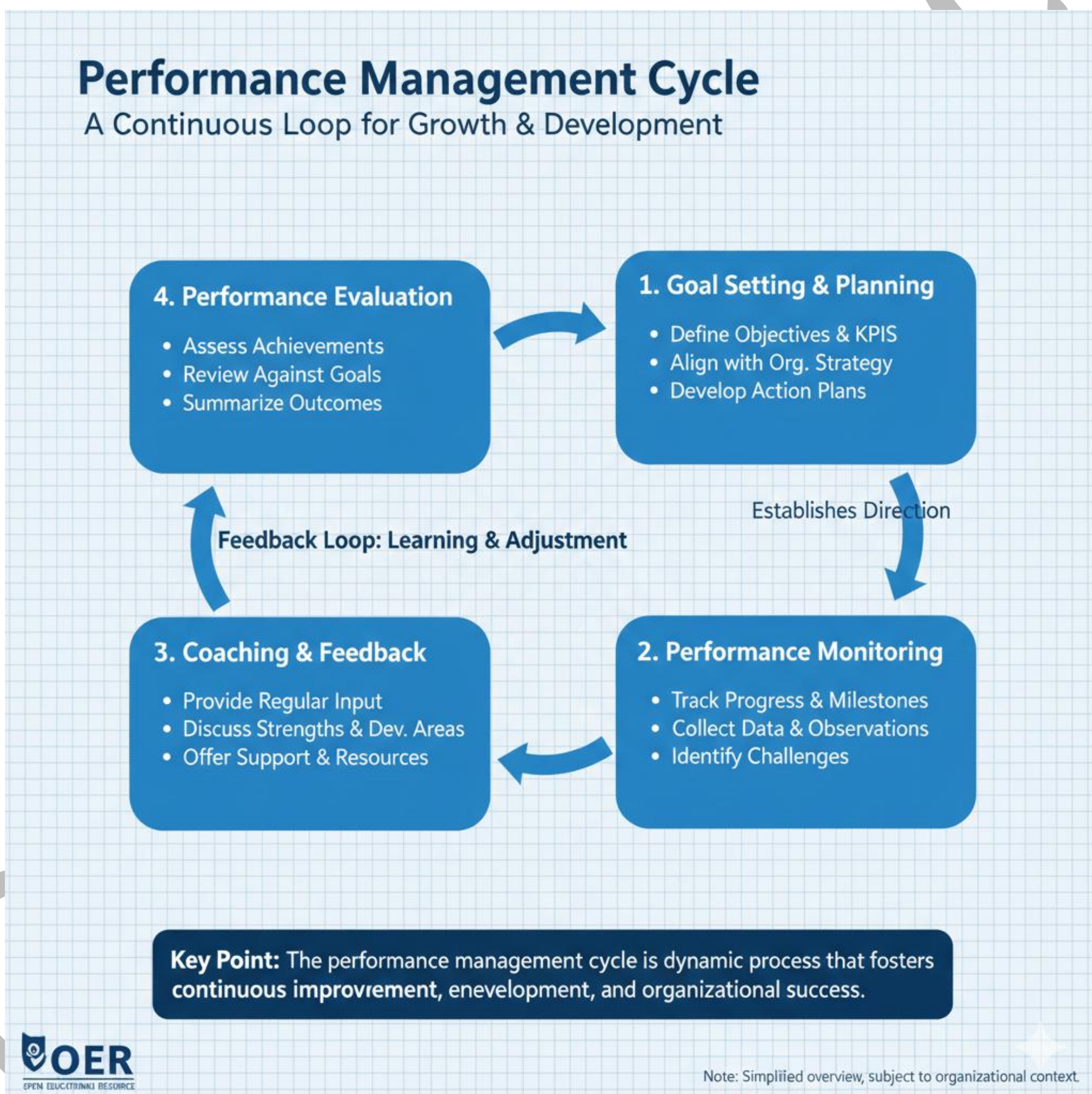
Fill in the blank: Budgetary control is closely linked to __________ culture.

Pilot questions 2.2
1. Why is communication important in budgetary control?
2. What is the difference between tight and loose budgetary control?

3. Give one behavioural consequence of tight control.
4. How does organisational culture affect budgetary control?
5. Why is alignment between control systems and culture important?
2.3 Strategic Performance Management Concepts

2.3.1 Definition, nature, and scope of performance management
Performance management is a systematic process for improving organisational effectiveness by aligning individual and team performance with strategic objectives. It involves setting clear goals, monitoring progress, providing feedback, and evaluating outcomes. The nature of performance management is both continuous and strategic, ensuring that performance is not assessed only at fixed intervals but monitored regularly.

Its scope extends beyond financial measures to include non-financial indicators such as customer satisfaction, innovation, and employee development. This holistic approach ensures that organisations remain competitive and sustainable.



Short description: Diagram showing the cycle of performance management (goal setting, monitoring, feedback, evaluation).
Caption: Figure 2.3 The performance management cycle

Fill in the blank: Performance management aligns individual and team performance with __________ objectives.

2.3.2 Comparison between performance management and cost accounting

Cost accounting focuses on recording, classifying, and analysing costs to support decision making and control. In contrast, performance management takes a broader view, integrating financial and non-financial measures to evaluate organisational success.

While cost accounting provides detailed information about resource usage, performance management evaluates how effectively those resources contribute to strategic goals. The two are complementary: cost accounting supplies data, and performance management interprets it within a strategic framework.

Performance Management vs. Cost Acoparison

Management Accounting: Complemenary Systems for Business Success

Area of Focus	Performance Management	Cost Accounting
Primary Focus	People, Behavior, & Organizational Goals	Financial Resources, Production Processes
Scope Purpose	Holstic: Individuals, Teams, & Entire Organization	Specific: Production, Operations, & Product Lines
Develop Employees, Improve Motivation, & Objectives	Develop Employees, Improve Motivation, & Achieve Strategic Objectives	Measure Cost, Control Spending, & Inform Pricing/Inventory

Key Point: Both systems for essential for effective management: cost accounting for financial control & performancıee management for human capital development.

OER - OPEN EDUCATIONAL RESOURCE

Note: Simplified overview, subject to specific organizational contexts

Caption: Table 2.3 Comparison between performance management and cost accounting
Short description: A table comparing focus, scope, and purpose of performance management and cost accounting.

Fill in the blank: Cost accounting provides detailed information about __________ usage.

2.3.3 Comparison between performance management and financial accounting
Financial accounting is concerned with preparing financial statements for external stakeholders such as investors, regulators, and creditors. It follows established standards and focuses on historical financial data.

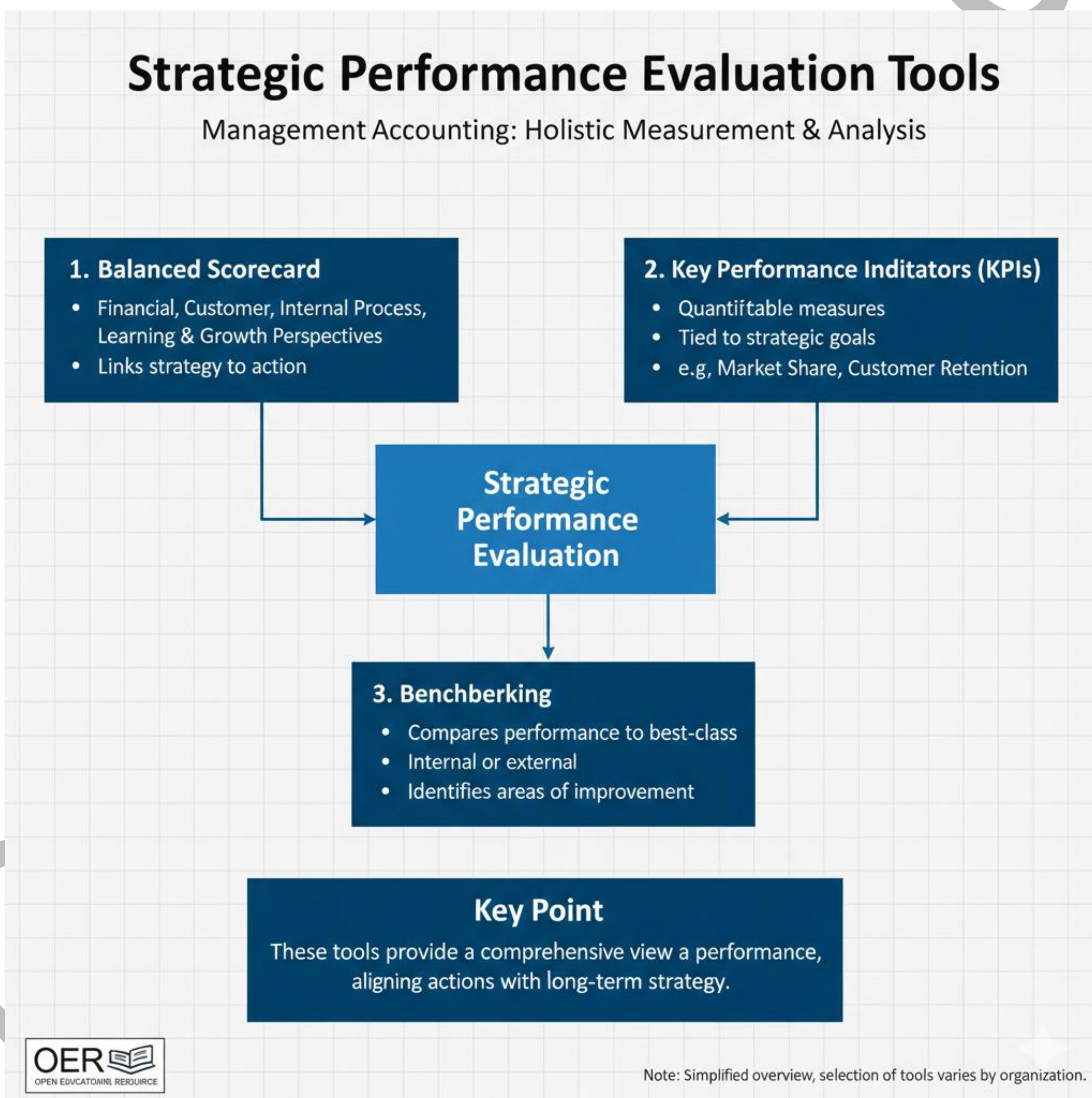
Performance management, however, is primarily internal and forward-looking. It evaluates both financial and non-financial indicators to guide strategic decisions. Unlike financial accounting, which is compliance-driven, performance management is improvement-driven, aiming to enhance organisational effectiveness.

Caption: Box 2.3 Key differences between performance management and financial accounting
Short description: A box summarising the differences in purpose, audience, and orientation between performance management and financial accounting.

Fill in the blank: Financial accounting is compliance-driven, while performance management is __________-driven.

Pilot questions 2.3
1. What is performance management and what is its scope?
2. How does performance management differ from cost accounting?
3. What is the main focus of cost accounting?
4. How does performance management differ from financial accounting?
5. Why is performance management considered improvement-driven?
2.4 Evaluating And Improving Organisational Performance

2.4.1 Tools and techniques for strategic performance evaluation
Strategic performance evaluation uses a range of tools to measure how well an organisation achieves its objectives. Common techniques include the **Balanced Scorecard**, which evaluates performance across financial, customer, internal process, and learning perspectives, and **Key Performance Indicators (KPIs)**, which provide measurable targets for specific activities. Benchmarking, ratio analysis, and performance dashboards are also widely used to provide insights into efficiency and effectiveness.



Short description: Diagram showing tools for strategic performance evaluation (Balanced Scorecard, KPIs, benchmarking).

Caption: Figure 2.4 Tools for strategic performance evaluation

Fill in the blank: The __________ Scorecard evaluates performance across financial, customer, internal process, and learning perspectives.

2.4.2 The role of performance management in continuous improvement
Performance management is not a one-time exercise but a continuous process. By regularly monitoring and evaluating performance, organisations can identify areas for improvement and implement corrective actions. Continuous improvement involves setting new targets, refining processes, and encouraging innovation.

This approach ensures that organisations remain adaptable and competitive in changing environments. It also fosters a culture of accountability and learning, where employees are motivated to seek better ways of achieving results.

Caption: Box 2.4 Performance management and continuous improvement
Short description: A box summarising how performance management supports continuous improvement.

Fill in the blank: Continuous improvement involves setting new __________, refining processes, and encouraging innovation.

2.4.3 Case examples of performance management in practice
Organisations apply performance management in diverse ways. For example, a retail company may use KPIs such as sales per employee and customer satisfaction scores to evaluate performance. A manufacturing firm might adopt the Balanced Scorecard to monitor efficiency, quality, and innovation.

Case examples show that performance management is most effective when integrated into daily operations and linked to strategic goals. This ensures that evaluation is not just about measuring outcomes but about driving improvement and long-term success.

Caption: Table 2.4 Case examples of performance management in practice
Short description: A table showing examples of performance management applications in retail and manufacturing.

Fill in the blank: Performance management is most effective when integrated into __________ operations and linked to strategic goals.

Pilot questions 2.4
1. Name one tool used in strategic performance evaluation.
2. What does the Balanced Scorecard measure?
3. Why is performance management considered a continuous process?
4. How does continuous improvement benefit organisations?
5. Give one example of performance management in practice.

Series Summary

This Series has explored the behavioural aspects of budgeting and the strategic role of performance management in organisations. We began by analysing how budgeting influences employee motivation, participation, and the risks of dysfunctional behaviours such as budgetary slack. We then examined budgetary control in relation to organisational behaviour, highlighting the importance of communication, the consequences of tight versus loose controls, and the influence of organisational culture. Moving forward, we defined the concept, nature, and scope of strategic performance management, comparing it with cost accounting and financial accounting. Finally, we evaluated tools and techniques for strategic performance evaluation, considered the role of performance management in continuous improvement, and reviewed case examples of its application in practice.

By completing this Series, you should now be able to analyse the motivational impact of budgeting (SLO 2.1), explain the importance of budget participation (SLO 2.2), identify dysfunctional behaviours such as slack (SLO 2.3), evaluate behavioural consequences of control systems (SLO 2.4), assess the role of communication and culture in budgetary control (SLO 2.5), define and distinguish the scope of performance management (SLOs 2.6–2.8), apply tools for evaluating performance (SLO 2.9), and evaluate its role in continuous improvement (SLO 2.10). These outcomes equip you with the ability to connect behavioural insights with strategic performance management, strengthening both organisational control and long-term effectiveness.

Glossary Of Terms – Series 2: Behavioural Aspects Of Budgeting And Strategic Performance Management

Budget participation: The involvement of employees in preparing budgets, which enhances acceptance, motivation, and responsibility.

Budgetary slack: The deliberate overestimation of costs or underestimation of revenues to make targets easier to achieve.

Communication in budgetary control: The process of sharing budgetary information clearly to ensure understanding, cooperation, and accountability.

Tight budgetary control: A strict monitoring system that enforces budget targets, often improving efficiency but potentially creating stress and reducing creativity.

Loose budgetary control: A flexible approach that allows autonomy and innovation but may risk inefficiency and lack of accountability.

Organisational culture: Shared values, beliefs, and practices within an organisation that influence how budgets and controls are perceived and applied.

Performance management: A systematic process for aligning individual and team performance with strategic objectives through goal setting, monitoring, feedback, and evaluation.

Balanced Scorecard: A performance management tool that evaluates organisational success across financial, customer, internal process, and learning perspectives.

Key Performance Indicators (KPIs): Specific, measurable targets used to assess performance in particular areas of organisational activity.

Benchmarking: A technique for comparing organisational performance against industry standards or best practices.

Continuous improvement: An ongoing process of refining operations, setting new targets, and encouraging innovation to maintain competitiveness and adaptability.

This glossary consolidates the essential terms introduced in **Series 2: Behavioural Aspects Of Budgeting And Strategic Performance Management**, providing learners with a quick reference to reinforce understanding of key concepts.
Concept Check Questions 2 – Series 2: Behavioural Aspects Of Budgeting And Strategic Performance Management

Objective questions
1. Budgets can act as __________ by setting clear performance targets. (Linked to SLO 2.1)
2. Budget participation enhances __________ and fosters responsibility among employees. (Linked to SLO 2.2)
3. Deliberately overestimating costs or underestimating revenues is known as __________ slack. (Linked to SLO 2.3)
4. Effective __________ is central to budgetary control. (Linked to SLO 2.5)
5. The __________ Scorecard evaluates performance across financial, customer, internal process, and learning perspectives. (Linked to SLO 2.9)

Short-answer questions
6. Explain how budgeting can influence employee motivation. (Linked to SLO 2.1)
7. Define budget participation and state one of its benefits. (Linked to SLO 2.2)
8. Identify one dysfunctional behaviour in budgeting and explain its impact. (Linked to SLO 2.3)
9. Give one behavioural consequence of tight budgetary control. (Linked to SLO 2.4)
10. How does organisational culture affect budgetary control? (Linked to SLO 2.5)

Long-answer questions
11. Analyse the behavioural consequences of tight versus loose budgetary controls. (Linked to SLO 2.4)
12. Evaluate the role of communication in effective budgetary control. (Linked to SLO 2.5)
13. Define performance management and discuss its scope. (Linked to SLO 2.6)
14. Distinguish between performance management and cost accounting. (Linked to SLO 2.7)
15. Distinguish between performance management and financial accounting. (Linked to SLO 2.8)
16. Apply tools such as the Balanced Scorecard and KPIs to evaluate organisational performance. (Linked to SLO 2.9)
17. Evaluate how performance management supports continuous improvement. (Linked to SLO 2.10)

These Concept Check Questions provide learners with opportunities to test their knowledge of behavioural aspects of budgeting and strategic performance management, while reinforcing the Series Learning Outcomes.
Answers To Pilot Questions 2 – Series 2: Behavioural Aspects Of Budgeting And Strategic Performance Management

Answers to Pilot Questions 2.1
1. Budgeting can influence motivation by setting clear, achievable performance targets that encourage effort and ownership.
2. Budget participation is the involvement of employees in preparing budgets, and it is important because it increases acceptance and commitment.
3. One positive effect of participative budgeting is improved communication between managers and employees.
4. Budgetary slack is the deliberate overestimation of costs or underestimation of revenues to make targets easier to achieve.
5. An example of dysfunctional behaviour in budgeting is manipulating figures to meet targets.

Answers to Pilot Questions 2.2
1. Communication is important in budgetary control because it ensures clarity, reduces resistance, and fosters cooperation.
2. Tight budgetary control involves strict monitoring, while loose control allows flexibility and autonomy.
3. One behavioural consequence of tight control is increased stress among employees.
4. Organisational culture affects budgetary control by shaping how employees perceive and respond to budgets.
5. Alignment between control systems and culture is important because it ensures budgets are seen as supportive rather than punitive.

Answers to Pilot Questions 2.3
1. Performance management is a systematic process for aligning performance with strategic objectives, and its scope includes both financial and non-financial measures.
2. Performance management differs from cost accounting because it integrates broader measures beyond costs to evaluate organisational success.
3. The main focus of cost accounting is providing detailed information about resource usage.
4. Performance management differs from financial accounting because it is internal, forward-looking, and improvement-driven.
5. Performance management is considered improvement-driven because it aims to enhance effectiveness rather than simply comply with standards.

Answers to Pilot Questions 2.4
1. One tool used in strategic performance evaluation is the Balanced Scorecard.
2. The Balanced Scorecard measures performance across financial, customer, internal process, and learning perspectives.
3. Performance management is considered a continuous process because it involves ongoing monitoring, feedback, and adjustment.
4. Continuous improvement benefits organisations by fostering adaptability, innovation, and competitiveness.
5. An example of performance management in practice is a retail company using KPIs such as customer satisfaction scores to evaluate performance.
References And Attributions 2 – Series 2: Behavioural Aspects Of Budgeting And Strategic Performance Management

Figures, Tables, and Boxes in this Series were either suggested as AI-generated placeholders or referenced from open educational resources (OER). Where AI generation was proposed, the prompt and tool are noted.

Figure 2.1 Impact of budgeting on employee motivation

AI prompt: "Generate a diagram showing how budgeting influences employee motivation and performance outcomes."
Suggested source search string: "budgeting employee motivation diagram OER"

Table 2.1 Effects of budget participation on performance
AI prompt: "Generate a table summarising the effects of budget participation on performance, including acceptance, motivation, and communication."
Suggested source search string: "budget participation effects performance OER"

Box 2.1 Examples of dysfunctional behaviours in budgeting
AI prompt: "Create a text box listing examples of dysfunctional behaviours in budgeting, including budgetary slack and manipulation."
Suggested source search string: "budgetary slack dysfunctional behaviours budgeting OER"

Figure 2.2 Communication in budgetary control
AI prompt: "Generate a diagram showing communication flow in budgetary control between managers and employees."
Suggested source search string: "communication in budgetary control diagram OER"

Table 2.2 Behavioural consequences of tight versus loose controls
AI prompt: "Generate a table comparing behavioural consequences of tight versus loose budgetary controls."
Suggested source search string: "tight vs loose budgetary control behavioural consequences OER"

Box 2.2 Organisational culture and budgetary control
AI prompt: "Create a text box summarising how organisational culture influences budgetary control."
Suggested source search string: "organisational culture budgetary control OER"

Figure 2.3 The performance management cycle
AI prompt: "Generate a diagram showing the performance management cycle: goal setting, monitoring, feedback, and evaluation."
Suggested source search string: "performance management cycle diagram OER"

Table 2.3 Comparison between performance management and cost accounting
AI prompt: "Generate a table comparing performance management and cost accounting in terms of focus, scope, and purpose."
Suggested source search string: "performance management vs cost accounting comparison OER"

Box 2.3 Key differences between performance management and financial accounting
AI prompt: "Create a text box summarising differences between performance management and financial accounting."
Suggested source search string: "performance management vs financial accounting OER"

Figure 2.4 Tools for strategic performance evaluation
AI prompt: "Generate a diagram showing tools for strategic performance evaluation such as Balanced Scorecard, KPIs, and benchmarking."
Suggested source search string: "strategic performance evaluation tools diagram OER"

Box 2.4 Performance management and continuous improvement
AI prompt: "Create a text box summarising how performance management supports continuous improvement."
Suggested source search string: "performance management continuous improvement OER"

Table 2.4 Case examples of performance management in practice
AI prompt: "Generate a table showing case examples of performance management in retail and manufacturing, including KPIs and Balanced Scorecard."
Suggested source search string: "performance management case examples OER"

All references are aligned with open educational resource searches and AI prompts suggested for illustration. Learners are encouraged to consult standard texts such as Drury (Management and Cost Accounting), Horngren et al. (Cost Accounting: A Managerial Emphasis), and Armstrong (Performance Management: Key Strategies and Practical Guidelines) for further reading and validation of concepts.

COURSE CODE:ACC 303
COURSE TITLE: Management Accounting (Performance Management)
COURSE TITLE:(3 units C: LH 30;PH 45)
SERIES LIST
Series 1: Budgeting, Standard Costing, and Variance Analysis
Series 2: Behavioural Aspects of Budgeting and Strategic Performance Management
Series 3: Cost Reduction, Control Techniques, and Spreadsheet Applications
Series 4: Decision Making with Relevant Costs, CVP Analysis, and Pricing Strategies
Series 5: Divisional Performance, Transfer Pricing, Ethical Principles, and Topical Issues in Performance Management

Series 3: Performance Measurement And Responsibility Accounting

Part 3.1: Fundamentals of performance measurement
Sub-Part 3.1.1: Definition and objectives of performance measurement
Sub-Part 3.1.2: Financial and non-financial performance indicators
Sub-Part 3.1.3: Limitations of traditional performance measures

Part 3.2: Responsibility accounting concepts
Sub-Part 3.2.1: Definition and scope of responsibility accounting
Sub-Part 3.2.2: Types of responsibility centres (cost, revenue, profit, investment)
Sub-Part 3.2.3: Role of responsibility accounting in decentralised organisations

Part 3.3: Tools and techniques for performance evaluation
Sub-Part 3.3.1: Ratio analysis and financial metrics
Sub-Part 3.3.2: Balanced Scorecard and performance dashboards
Sub-Part 3.3.3: Benchmarking and comparative analysis

Part 3.4: Linking performance measurement with responsibility accounting
Sub-Part 3.4.1: Integrating responsibility centres with performance indicators
Sub-Part 3.4.2: Using performance measurement for managerial accountability
Sub-Part 3.4.3: Case examples of responsibility accounting in practice

Introduction

Performance measurement and responsibility accounting are essential tools for evaluating how well organisations achieve their objectives and for ensuring accountability at different levels of management. This Series focuses on the principles, tools, and applications of performance measurement, and explains how responsibility accounting supports decentralisation and managerial accountability.

The aim of this Series is to equip you with the ability to define and apply performance measurement techniques, understand the role of responsibility centres, and integrate these concepts to strengthen organisational control and decision making.

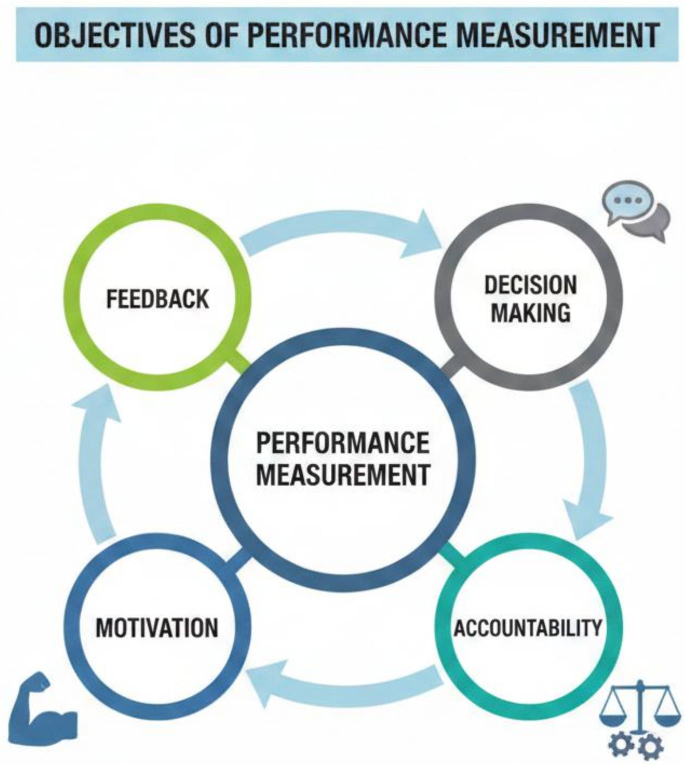
We shall begin by examining the fundamentals of performance measurement, including its objectives, indicators, and limitations. Next, we will explore responsibility accounting, defining its scope and identifying the types of responsibility centres. Following that, we will study tools and techniques for evaluating performance, such as ratio analysis, Balanced Scorecard, and benchmarking. Finally, we will link performance measurement with responsibility accounting, showing how they work together to enhance accountability and provide practical case examples.
Series Learning Outcomes

Upon completing this Series, you should be able to:

SLO 3.1 define the objectives of performance measurement,
SLO 3.2 identify financial and non-financial performance indicators,
SLO 3.3 analyse the limitations of traditional performance measures,
SLO 3.4 define the concept and scope of responsibility accounting,
SLO 3.5 distinguish between cost, revenue, profit, and investment responsibility centres,
SLO 3.6 evaluate the role of responsibility accounting in decentralised organisations,
SLO 3.7 apply ratio analysis and financial metrics to assess performance,
SLO 3.8 demonstrate the use of Balanced Scorecard and performance dashboards,
SLO 3.9 apply benchmarking and comparative analysis for performance evaluation, and
SLO 3.10 integrate responsibility centres with performance indicators to enhance accountability.
3.1 Fundamentals Of Performance Measurement

3.1.1 Definition and objectives of performance measurement
Performance measurement refers to the process of assessing how effectively an organisation, department, or individual achieves its objectives. It involves collecting, analysing, and reporting information about performance outcomes.

The main objectives of performance measurement are:
- To provide feedback on achievement of goals.
- To support decision making by managers.
- To identify strengths and weaknesses in operations.
- To enhance accountability and transparency.
- To motivate employees by setting clear targets.



Short description: Diagram showing objectives of performance measurement (feedback, decision making, accountability, motivation).
Caption: Figure 3.1 Objectives of performance measurement

Fill in the blank: Performance measurement provides __________ on achievement of goals.

3.1.2 Financial and non-financial performance indicators
Performance indicators can be classified into **financial** and **non-financial** measures.
- Financial indicators include profit margins, return on investment, and cash flow.
- Non-financial indicators include customer satisfaction, employee engagement, innovation, and quality of service.

Using both types of indicators ensures a balanced view of organisational performance.

FINANCIAL PERFORMANCE INDICATORS	NON-FINANCIAL INDICATORS
$ Revenue Growth	Customer Satisfaction (e.g. NPS)
Profit Margins (e. gı. Gross, Net)	Employee Engagement Score
Return on Investment (ROI)	Employee Engagement Score
$ Cash Flow from Operations	Product Quality (e.g. Defect Rate)
	On-Time Delivery Rate
Earnings Per Share EPS	Innovation Output (e.g. New Patents)

Open Educational Resource

Caption: Table 3.1 Financial and non-financial performance indicators
Short description: A table listing examples of financial and non-financial performance indicators.

Fill in the blank: Customer satisfaction is an example of a __________ performance indicator.

3.1.3 Limitations of traditional performance measures
Traditional performance measures often rely heavily on financial data, which may not capture the full picture of organisational success. Limitations include:
- Focus on short-term results rather than long-term sustainability.
- Neglect of non-financial aspects such as innovation and customer satisfaction.
- Risk of encouraging behaviours aimed at meeting financial targets at the expense of broader goals.
- Limited ability to adapt to dynamic business environments.

Modern approaches, such as the Balanced Scorecard, address these limitations by incorporating both financial and non-financial measures.

Caption: Box 3.1 Limitations of traditional performance measures
Short description: A box summarising limitations such as short-term focus and neglect of non-financial aspects.

Fill in the blank: Traditional performance measures often focus on __________ results rather than long-term sustainability.

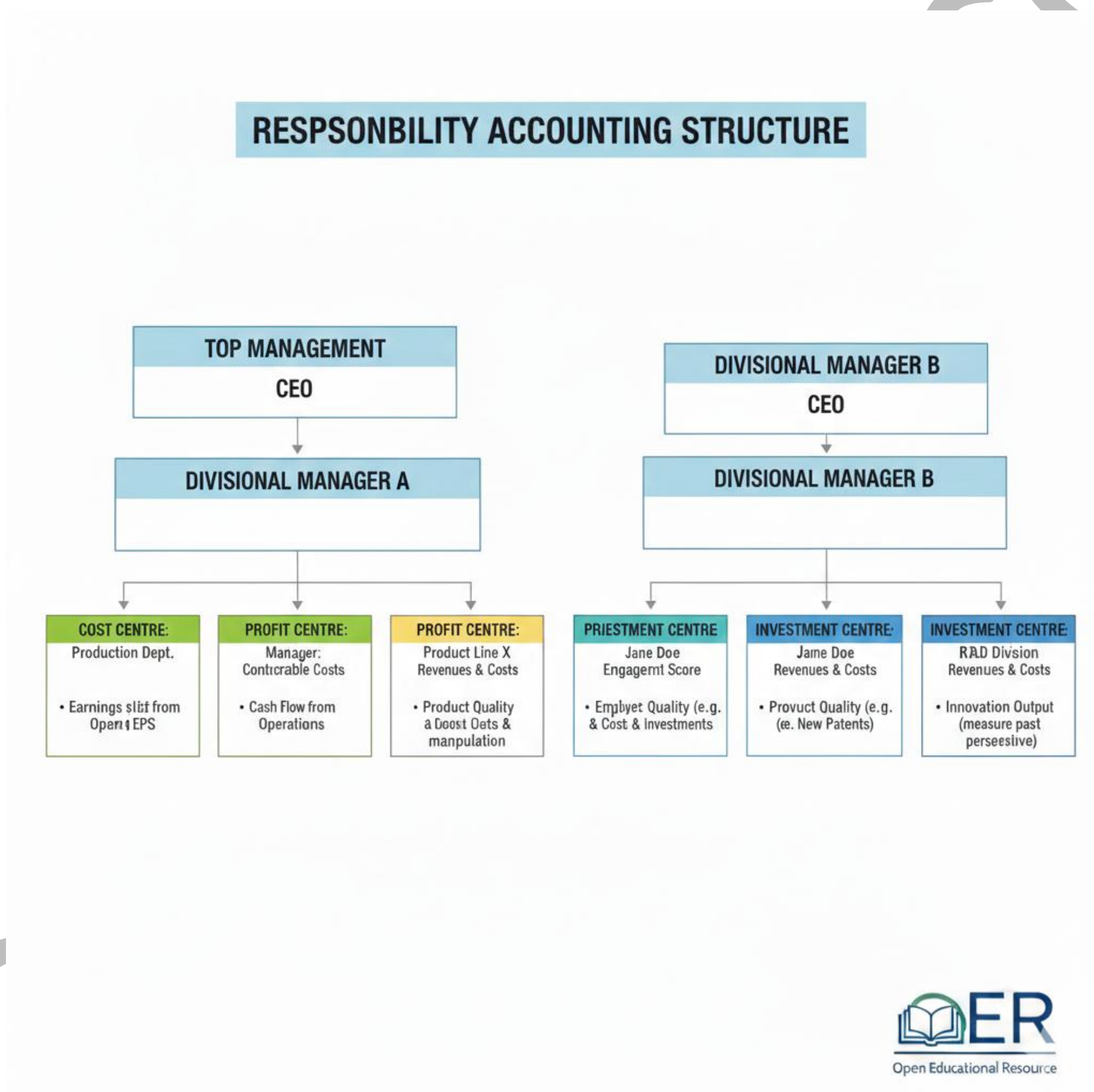
Pilot questions 3.1
1. What is performance measurement?
2. State one objective of performance measurement.
3. Give one example of a financial performance indicator.
4. Give one example of a non-financial performance indicator.
5. Mention one limitation of traditional performance measures.
3.2 Responsibility Accounting Concepts

3.2.1 Definition and scope of responsibility accounting

Responsibility accounting is a system that assigns accountability to managers for the financial performance of specific areas within an organisation. Each manager is responsible for the revenues, costs, or investments under their control.

The scope of responsibility accounting includes:
- Identifying responsibility centres within the organisation.
- Assigning authority and accountability to managers.
- Measuring performance based on controllable factors.
- Providing reports that compare actual results with expected outcomes.

This system supports decentralisation by ensuring that managers are evaluated on areas they can influence directly.



Short description: Diagram showing responsibility accounting structure with responsibility centres linked to managers.
Caption: Figure 3.2 Responsibility accounting structure

Fill in the blank: Responsibility accounting assigns accountability to __________ for the financial performance of specific areas.

3.2.2 Types of responsibility centres (cost, revenue, profit, investment)
Responsibility centres are classified into four main types:
- **Cost centres**: Managers are accountable for controlling costs.
- **Revenue centres**: Managers are responsible for generating revenues.
- **Profit centres**: Managers are accountable for both revenues and costs, focusing on profitability.
- **Investment centres**: Managers are responsible for revenues, costs, and the efficient use of assets.

Each type of centre reflects different levels of responsibility and authority.

TYPES OF RESPONSOBILITY CENTRES

TYPE	DEFINITION	FOCUS AREA
COST CENTRE Production Dept.	Manages only costs; no revenue generation	• Cost Control, Efficienot Ocerds
REVENUE CENTRE: no no revenue generation	• Manages only revenues; no Operations	• Sales Targets, Revenue Growth
REVENUE Coth revenues; no costs of goods sold	• Sales flows over costs of sold	• Profitability, Net Costs
PROFIT CENTR both revenues, costs, but not investments	• Profitability, Net Income investments	• Emplycret Quality, (e.g) io. New Patents
Manages revene ,costs, and in investments	• Return of Investment (ROI), Asset Utilzation	• Return of Investment past Utilization

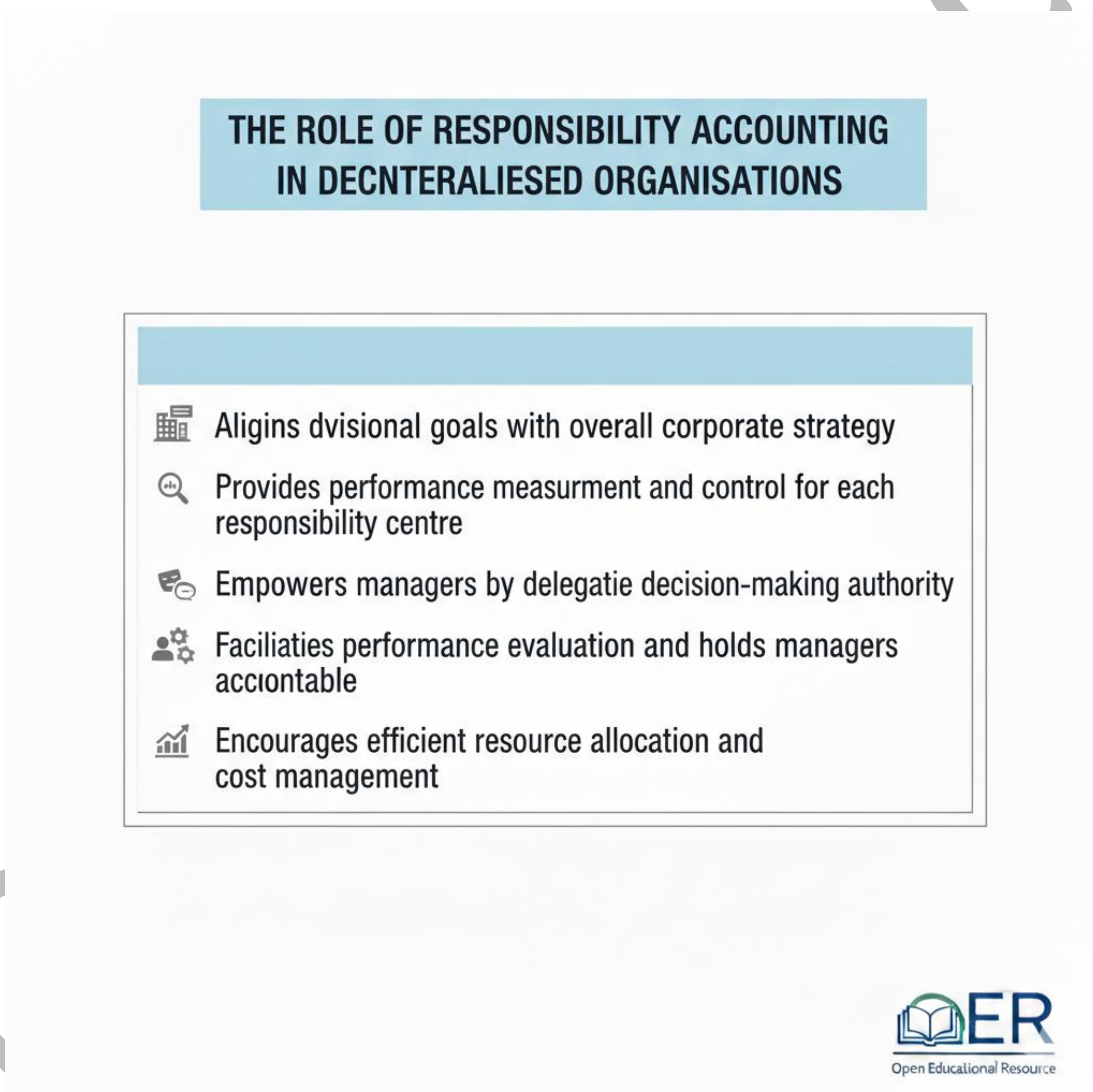
Open Educational Resource

Caption: Table 3.2 Types of responsibility centres
Short description: A table listing cost, revenue, profit, and investment centres with their focus areas.

Fill in the blank: Managers in __________ centres are accountable for both revenues and costs.

3.2.3 Role of responsibility accounting in decentralised organisations
In decentralised organisations, decision-making authority is distributed across different levels. Responsibility accounting plays a crucial role by:
- Clarifying accountability for performance at each level.
- Providing performance reports tailored to responsibility centres.
- Supporting managerial autonomy while maintaining organisational control.
- Encouraging efficiency and accountability in resource use.

This ensures that decentralisation does not lead to loss of control but instead strengthens organisational effectiveness.



Caption: Box 3.2 Role of responsibility accounting in decentralised organisations
Short description: A box summarising how responsibility accounting supports decentralisation.

Fill in the blank: Responsibility accounting supports decentralisation by clarifying __________ for performance at each level.

Pilot questions 3.2
1. What is responsibility accounting?
2. State one scope of responsibility accounting.
3. Name the four types of responsibility centres.
4. Which responsibility centre focuses on profitability?
5. Why is responsibility accounting important in decentralised organisations?

3.3 Tools And Techniques For Performance Evaluation

3.3.1 Ratio analysis and financial metrics
Ratio analysis is a key tool for evaluating financial performance. It involves calculating relationships between figures in financial statements to assess profitability, liquidity, efficiency, and solvency. Common ratios include:
- Profitability ratios (e.g., return on assets, net profit margin).
- Liquidity ratios (e.g., current ratio, quick ratio).
- Efficiency ratios (e.g., inventory turnover, receivables turnover).
- Solvency ratios (e.g., debt-to-equity ratio).

These metrics help managers and stakeholders understand financial health and make informed decisions.

COMMON FINANCIAL RATIOS

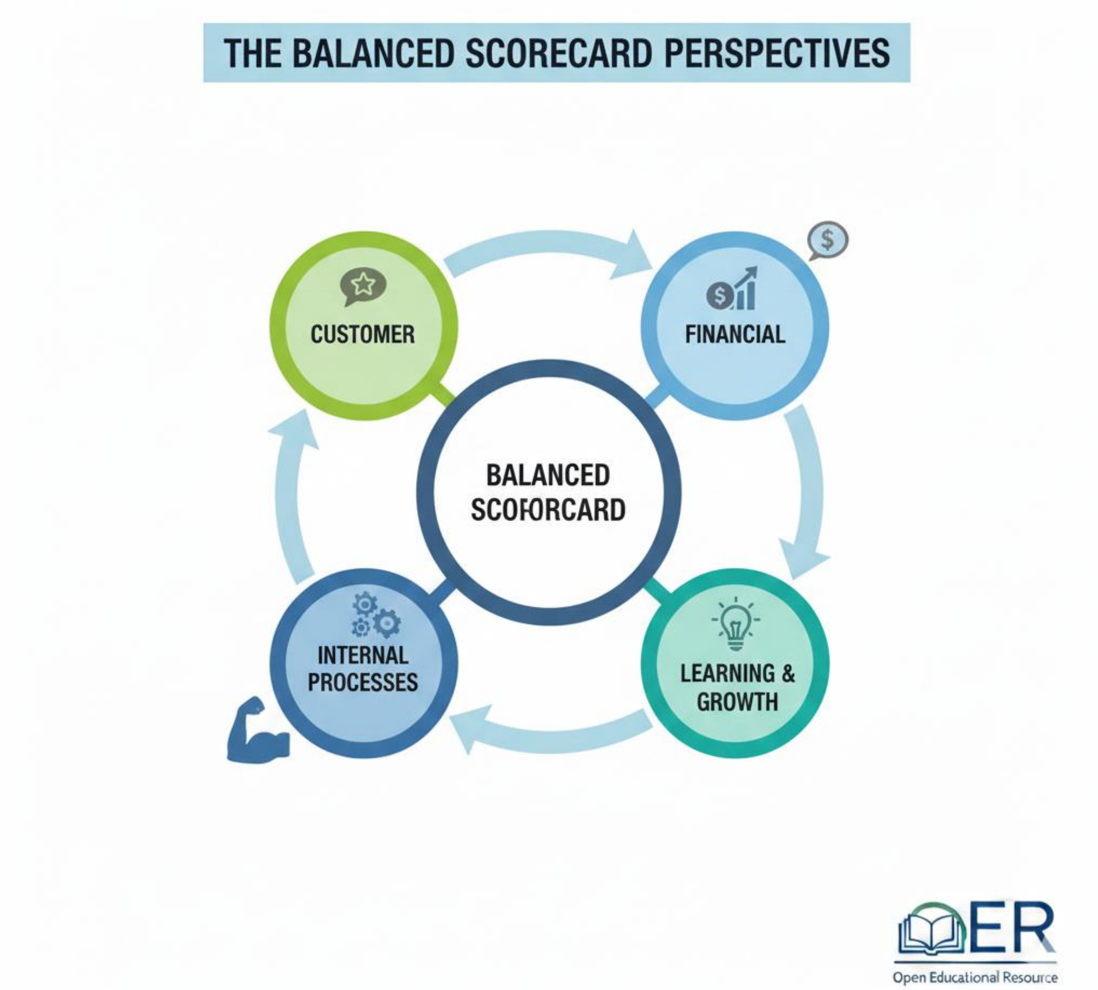
CATEGORY	RATIO (FORMULA)	PRIMARY USE
Current Ratio	(Current Assets / Liabilities)	Measures short-torm debt-paying abilty.
Quick Ratio	(curent Asssets – Inventory but excludes liivid assets	
PROFITBAILITY RATIOS		
Gross Profit Margin	(Revenue – COGS / / Revenue)	Indicates pricing strategy and cost efficiency.
Net Profit Margin	(Net Income / Revene)	Ovesurel prottabibiity after at all oxpienses
SOLVENCY RATIOS		
Intlrest Coverage Ratio	(EBIT / Expense)	Ability to meeet interest obligations
ACTIVITY RATIOS		
Inventory Turnower	(COGS / Average Invendry)	Efficiency of inventory management.
Days Sales Outsading	(Accountss (Revenue / 865)	Average time to collect recicibles

Caption: Table 3.3 Common financial ratios and their uses
Short description: A table listing profitability, liquidity, efficiency, and solvency ratios with examples.

Fill in the blank: The __________ ratio measures a company's ability to meet short-term obligations.

3.3.2 Balanced Scorecard and performance dashboards
The **Balanced Scorecard** is a strategic tool that evaluates performance across four perspectives: financial, customer, internal processes, and learning and growth. It provides a holistic view of organisational success beyond financial measures.

Performance dashboards complement the Balanced Scorecard by presenting real-time data visually, enabling managers to monitor key indicators quickly and make timely decisions.



Caption: Figure 3.3 Balanced Scorecard perspectives
Short description: Diagram showing the four perspectives of the Balanced Scorecard.

Fill in the blank: The Balanced Scorecard evaluates performance across __________ perspectives.

3.3.3 Benchmarking and comparative analysis
Benchmarking involves comparing organisational performance against industry standards or best practices. It helps identify gaps, set realistic targets, and adopt strategies that improve competitiveness.

Comparative analysis extends benchmarking by evaluating performance against competitors or similar organisations, providing insights into relative strengths and weaknesses.

Caption: Box 3.3 Benchmarking and comparative analysis
Short description: A box summarising the purpose and benefits of benchmarking and comparative analysis.

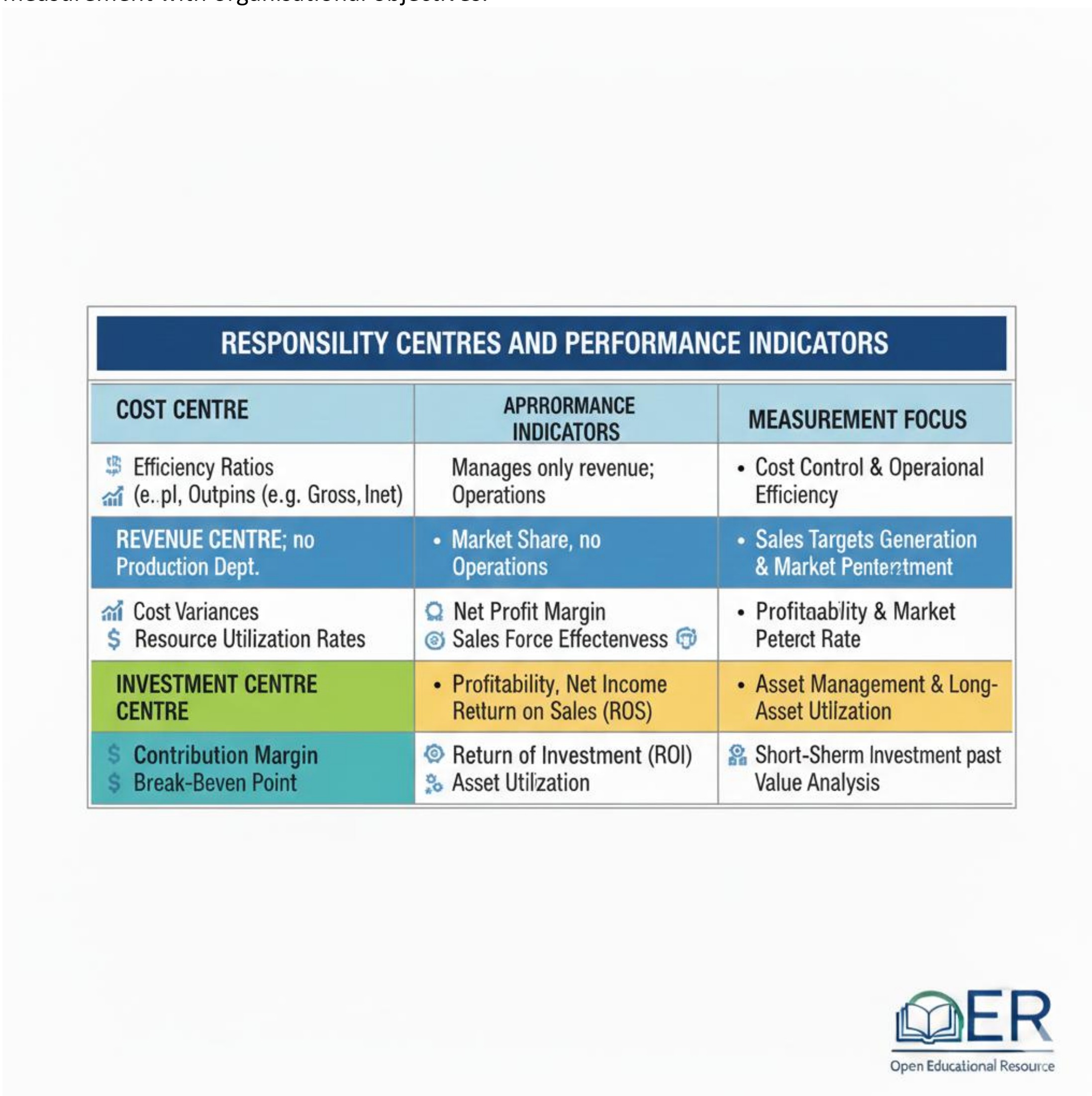
Fill in the blank: __________ involves comparing organisational performance against industry standards or best practices.

Pilot questions 3.3
1. What is ratio analysis used for?
2. Name one type of financial ratio.
3. What are the four perspectives of the Balanced Scorecard?
4. What is the purpose of performance dashboards?
5. Define benchmarking in performance evaluation.
3.4 Linking Performance Measurement With Responsibility Accounting

3.4.1 Integrating responsibility centres with performance indicators

Responsibility centres can be evaluated effectively when linked to appropriate performance indicators. For example, cost centres may be assessed using efficiency ratios, while profit centres are evaluated through profitability measures. Investment centres often use return on investment or residual income as key indicators.

This integration ensures that managers are held accountable for results they can influence, aligning performance measurement with organisational objectives.



RESPONSILITY CENTRES AND PERFORMANCE INDICATORS		
COST CENTRE	APRRORMANCE INDICATORS	MEASUREMENT FOCUS
Efficiency Ratios (e..pl, Outpins (e.g. Gross, Inet)	Manages only revenue; Operations	• Cost Control & Operaional Efficiency
REVENUE CENTRE; no Production Dept.	• Market Share, no Operations	• Sales Targets Generation & Market Pentertment
Cost Variances Resource Utilization Rates	Net Profit Margin Sales Force Effectenvess	• Profitaablity & Market Peterct Rate
INVESTMENT CENTRE CENTRE	• Profitability, Net Income Return on Sales (ROS)	• Asset Management & Long-Asset Utlization
Contribution Margin Break-Beven Point	Return of Investment (ROI) Asset Utilization	Short-Sherm Investment past Value Analysis

Caption: Table 3.4 Linking responsibility centres with performance indicators
Short description: A table showing cost, revenue, profit, and investment centres with suitable performance indicators.

Fill in the blank: Investment centres are often evaluated using return on __________ or residual income.

3.4.2 Using performance measurement for managerial accountability
Performance measurement provides a basis for holding managers accountable. By comparing actual results with expected outcomes, organisations can assess whether managers have effectively controlled costs, generated revenues, or utilised assets.

Accountability encourages managers to act responsibly, make informed decisions, and align their actions with organisational goals. It also supports transparency and fairness in evaluating managerial performance.

Caption: Box 3.4 Performance measurement and managerial accountability
Short description: A box summarising how performance measurement supports managerial accountability.

Fill in the blank: Performance measurement provides a basis for holding __________ accountable.

3.4.3 Case examples of responsibility accounting in practice
In practice, responsibility accounting is applied in diverse organisations. For instance, a manufacturing company may treat each production department as a cost centre, evaluating managers on cost efficiency. A retail chain may use profit centres, assessing store managers on profitability. Investment centres are common in large corporations, where divisional managers are accountable for both profitability and asset utilisation.

These examples show how responsibility accounting and performance measurement work together to enhance accountability and organisational effectiveness.

Caption: Figure 3.4 Case examples of responsibility accounting in practice
Short description: Diagram showing examples of responsibility centres in manufacturing, retail, and corporate divisions.

Fill in the blank: A retail chain may use __________ centres, assessing store managers on profitability.

Pilot questions 3.4
1. How can responsibility centres be linked to performance indicators?
2. Which performance indicators are suitable for investment centres?
3. Why is performance measurement important for managerial accountability?
4. Give one example of responsibility accounting in practice.
5. How do responsibility accounting and performance measurement work together?

Series Summary

This Series has examined performance measurement and responsibility accounting as vital tools for evaluating organisational effectiveness and ensuring accountability. We began by defining performance measurement, identifying financial and non-financial indicators, and recognising the limitations of traditional measures. We then explored responsibility accounting, its scope, and the types of responsibility centres, before considering its role in decentralised organisations. Following this, we studied tools and techniques for performance evaluation, including ratio analysis, Balanced Scorecard, dashboards, and benchmarking. Finally, we linked performance measurement with responsibility accounting, showing how integration enhances accountability and illustrated this with practical case examples.

By completing this Series, you should now be able to define objectives of performance measurement (SLO 3.1), identify indicators (SLO 3.2), analyse limitations of traditional measures (SLO 3.3), define responsibility accounting and its scope (SLO 3.4), distinguish between responsibility centres (SLO 3.5), evaluate its role in decentralisation (SLO 3.6), apply ratio analysis and financial metrics (SLO 3.7), demonstrate Balanced Scorecard and dashboards (SLO 3.8), apply benchmarking (SLO 3.9), and integrate responsibility centres with performance indicators to enhance accountability (SLO 3.10). These outcomes provide you with a structured understanding of how organisations measure performance and assign responsibility, strengthening both control and decision making.
Glossary Of Terms – Series 3: Performance Measurement And Responsibility Accounting

Performance measurement: The process of assessing how effectively an organisation, department, or individual achieves its objectives.

Financial performance indicators: Measures such as profit margins, return on investment, and cash flow that evaluate financial outcomes.

Non-financial performance indicators: Measures such as customer satisfaction, employee engagement, innovation, and service quality that assess broader organisational success.

Ratio analysis: A technique that uses financial ratios to evaluate profitability, liquidity, efficiency, and solvency.

Balanced Scorecard: A strategic tool that evaluates performance across four perspectives: financial, customer, internal processes, and learning and growth.

Performance dashboards: Visual tools that present real-time data on key performance indicators to support timely decision making.

Benchmarking: The practice of comparing organisational performance against industry standards or best practices.

Responsibility accounting: A system that assigns accountability to managers for the financial performance of specific areas within an organisation.

Responsibility centres: Units within an organisation classified as cost centres, revenue centres, profit centres, or investment centres, each with distinct accountability.

Decentralisation: The distribution of decision-making authority across different levels of an organisation, supported by responsibility accounting.

Managerial accountability: The obligation of managers to justify decisions and results in relation to organisational objectives.

This glossary consolidates the essential terms introduced in **Series 3: Performance Measurement And Responsibility Accounting**, providing learners with a quick reference to reinforce understanding of key concepts.
Concept Check Questions 3 – Series 3: Performance Measurement And Responsibility Accounting

Objective questions
1. Performance measurement provides __________ on achievement of goals. (Linked to SLO 3.1)
2. Customer satisfaction is an example of a __________ performance indicator. (Linked to SLO 3.2)
3. Traditional performance measures often focus on __________ results rather than long-term sustainability. (Linked to SLO 3.3)
4. Responsibility accounting assigns accountability to __________ for the financial performance of specific areas. (Linked to SLO 3.4)
5. Managers in __________ centres are accountable for both revenues and costs. (Linked to SLO 3.5)
6. The __________ ratio measures a company's ability to meet short-term obligations. (Linked to SLO 3.7)
7. The Balanced Scorecard evaluates performance across __________ perspectives. (Linked to SLO 3.8)
8. __________ involves comparing organisational performance against industry standards or best practices. (Linked to SLO 3.9)

Short-answer questions
9. State one objective of performance measurement. (Linked to SLO 3.1)
10. Give one example of a financial performance indicator. (Linked to SLO 3.2)
11. Mention one limitation of traditional performance measures. (Linked to SLO 3.3)
12. Define responsibility accounting. (Linked to SLO 3.4)
13. Name the four types of responsibility centres. (Linked to SLO 3.5)
14. Why is responsibility accounting important in decentralised organisations? (Linked to SLO 3.6)
15. What is ratio analysis used for? (Linked to SLO 3.7)
16. What is the purpose of performance dashboards? (Linked to SLO 3.8)
17. Define benchmarking in performance evaluation. (Linked to SLO 3.9)

Long-answer questions
18. Analyse the limitations of traditional performance measures and explain how modern approaches address them. (Linked to SLO 3.3)
19. Distinguish between cost, revenue, profit, and investment responsibility centres. (Linked to SLO 3.5)
20. Evaluate the role of responsibility accounting in decentralised organisations. (Linked to SLO 3.6)
21. Apply ratio analysis to assess the financial health of an organisation. (Linked to SLO 3.7)
22. Demonstrate how the Balanced Scorecard provides a holistic view of performance. (Linked to SLO 3.8)
23. Apply benchmarking and comparative analysis to identify performance gaps. (Linked to SLO 3.9)
24. Integrate responsibility centres with performance indicators to enhance accountability, using examples. (Linked to SLO 3.10)

These Concept Check Questions reinforce the Series Learning Outcomes by testing knowledge of performance measurement, responsibility accounting, and their integration.
Answers To Pilot Questions 3 – Series 3: Performance Measurement And Responsibility Accounting

Answers to Pilot Questions 3.1
1. Performance measurement is the process of assessing how effectively an organisation, department, or individual achieves its objectives.
2. One objective of performance measurement is to provide feedback on achievement of goals.

3. An example of a financial performance indicator is return on investment.
4. An example of a non-financial performance indicator is customer satisfaction.
5. One limitation of traditional performance measures is their focus on short-term results.

Answers to Pilot Questions 3.2
1. Responsibility accounting is a system that assigns accountability to managers for the financial performance of specific areas.
2. One scope of responsibility accounting is measuring performance based on controllable factors.
3. The four types of responsibility centres are cost centres, revenue centres, profit centres, and investment centres.
4. Profit centres focus on profitability.
5. Responsibility accounting is important in decentralised organisations because it clarifies accountability and supports managerial autonomy.

Answers to Pilot Questions 3.3
1. Ratio analysis is used to evaluate financial performance through profitability, liquidity, efficiency, and solvency ratios.
2. One type of financial ratio is the current ratio.
3. The four perspectives of the Balanced Scorecard are financial, customer, internal processes, and learning and growth.
4. Performance dashboards provide real-time data to support timely decision making.
5. Benchmarking is the practice of comparing organisational performance against industry standards or best practices.

Answers to Pilot Questions 3.4
1. Responsibility centres can be linked to performance indicators such as efficiency ratios for cost centres and ROI for investment centres.
2. Suitable performance indicators for investment centres include return on investment and residual income.
3. Performance measurement is important for managerial accountability because it compares actual results with expected outcomes.
4. One example of responsibility accounting in practice is a retail chain using profit centres to evaluate store managers on profitability.
5. Responsibility accounting and performance measurement work together by aligning accountability with measurable outcomes.

References And Attributions 3 – Series 3: Performance Measurement And Responsibility Accounting

Figures, Tables, and Boxes in this Series were either suggested as AI-generated placeholders or referenced from open educational resources (OER). Where AI generation was proposed, the prompt and tool are noted.

Figure 3.1 Objectives of performance measurement
AI prompt: "Generate a diagram showing objectives of performance measurement such as feedback, decision making, accountability, and motivation."
Suggested source search string: "objectives of performance measurement diagram OER"

Table 3.1 Financial and non-financial performance indicators
AI prompt: "Generate a table listing examples of financial and non-financial performance indicators."
Suggested source search string: "financial and non financial performance indicators OER"

Box 3.1 Limitations of traditional performance measures
AI prompt: "Create a text box summarising limitations of traditional performance measures."
Suggested source search string: "limitations of traditional performance measures OER"

Figure 3.2 Responsibility accounting structure
AI prompt: "Generate a diagram showing responsibility accounting structure with responsibility centres linked to managers."
Suggested source search string: "responsibility accounting structure diagram OER"

Table 3.2 Types of responsibility centres
AI prompt: "Generate a table listing types of responsibility centres with definitions and focus areas."
Suggested source search string: "types of responsibility centres cost revenue profit investment OER"

Box 3.2 Role of responsibility accounting in decentralised organisations
AI prompt: "Create a text box summarising the role of responsibility accounting in decentralised organisations."
Suggested source search string: "responsibility accounting decentralised organisations OER"

Table 3.3 Common financial ratios and their uses
AI prompt: "Generate a table listing common financial ratios with examples and uses."
Suggested source search string: "ratio analysis financial metrics examples OER"

Figure 3.3 Balanced Scorecard perspectives
AI prompt: "Generate a diagram showing the four perspectives of the Balanced Scorecard: financial, customer, internal processes, learning and growth."
Suggested source search string: "Balanced Scorecard perspectives diagram OER"

Box 3.3 Benchmarking and comparative analysis
AI prompt: "Create a text box summarising the purpose and benefits of benchmarking and comparative analysis."
Suggested source search string: "benchmarking comparative analysis performance evaluation OER"

Table 3.4 Linking responsibility centres with performance indicators
AI prompt: "Generate a table linking responsibility centres with appropriate performance indicators such as efficiency ratios, profitability measures, and ROI."
Suggested source search string: "responsibility centres performance indicators OER"

Box 3.4 Performance measurement and managerial accountability
AI prompt: "Create a text box summarising how performance measurement supports managerial accountability."
Suggested source search string: "performance measurement managerial accountability OER"

Figure 3.4 Case examples of responsibility accounting in practice
AI prompt: "Generate a diagram showing case examples of responsibility centres in manufacturing, retail, and corporate divisions."
Suggested source search string: "responsibility accounting case examples OER"

All references are aligned with open educational resource searches and AI prompts suggested for illustration. Learners are encouraged to consult standard texts such as Drury (Management and Cost Accounting), Horngren et al. (Cost Accounting: A Managerial Emphasis), and Armstrong (Performance Management: Key Strategies and Practical Guidelines) for further reading and validation of concepts.

COURSE CODE:ACC 303
COURSE TITLE: Management Accounting (Performance Management)
COURSE TITLE:(3 units C: LH 30;PH 45)
SERIES LIST
Series 1: Budgeting, Standard Costing, and Variance Analysis
Series 2: Behavioural Aspects of Budgeting and Strategic Performance Management
Series 3: Cost Reduction, Control Techniques, and Spreadsheet Applications
Series 4: Decision Making with Relevant Costs, CVP Analysis, and Pricing Strategies
Series 5: Divisional Performance, Transfer Pricing, Ethical Principles, and Topical Issues in Performance Management
Series 4: Transfer Pricing And Divisional Performance

Part 4.1: Fundamentals of transfer pricing
Sub-Part 4.1.1: Definition and objectives of transfer pricing
Sub-Part 4.1.2: Methods of transfer pricing (market-based, cost-based, negotiated)
Sub-Part 4.1.3: Behavioural and strategic implications of transfer pricing

Part 4.2: Divisional performance measurement
Sub-Part 4.2.1: Objectives of divisional performance evaluation
Sub-Part 4.2.2: Financial measures (ROI, residual income, EVA)
Sub-Part 4.2.3: Non-financial measures (customer satisfaction, innovation, quality)

Part 4.3: Linking transfer pricing with divisional performance
Sub-Part 4.3.1: Impact of transfer pricing on divisional profitability
Sub-Part 4.3.2: Aligning divisional goals with organisational objectives
Sub-Part 4.3.3: Case examples of transfer pricing and performance evaluation

Part 4.4: Contemporary issues and challenges
Sub-Part 4.4.1: Transfer pricing in multinational corporations
Sub-Part 4.4.2: Regulatory and ethical considerations
Sub-Part 4.4.3: Emerging trends in divisional performance management

Introduction

Transfer pricing and divisional performance are critical areas in management accounting, particularly for organisations that operate with multiple divisions or across international boundaries. This Series focuses on how transfer pricing policies influence divisional results, managerial behaviour, and overall organisational performance. It also examines the methods of transfer pricing, the evaluation of divisional performance, and the challenges faced in practice.

The aim of this Series is to provide you with the knowledge and skills to understand the fundamentals of transfer pricing, apply appropriate methods, and evaluate divisional performance using both financial and non-financial measures. We will begin by exploring the definition, objectives, and methods of transfer pricing, followed by an analysis of divisional performance measurement. Next, we will link transfer pricing with divisional performance to show how they interact, and finally, we will address contemporary issues such as multinational transfer pricing, regulatory concerns, and emerging trends in divisional performance management.
Series Learning Outcomes

Upon completing this Series, you should be able to:

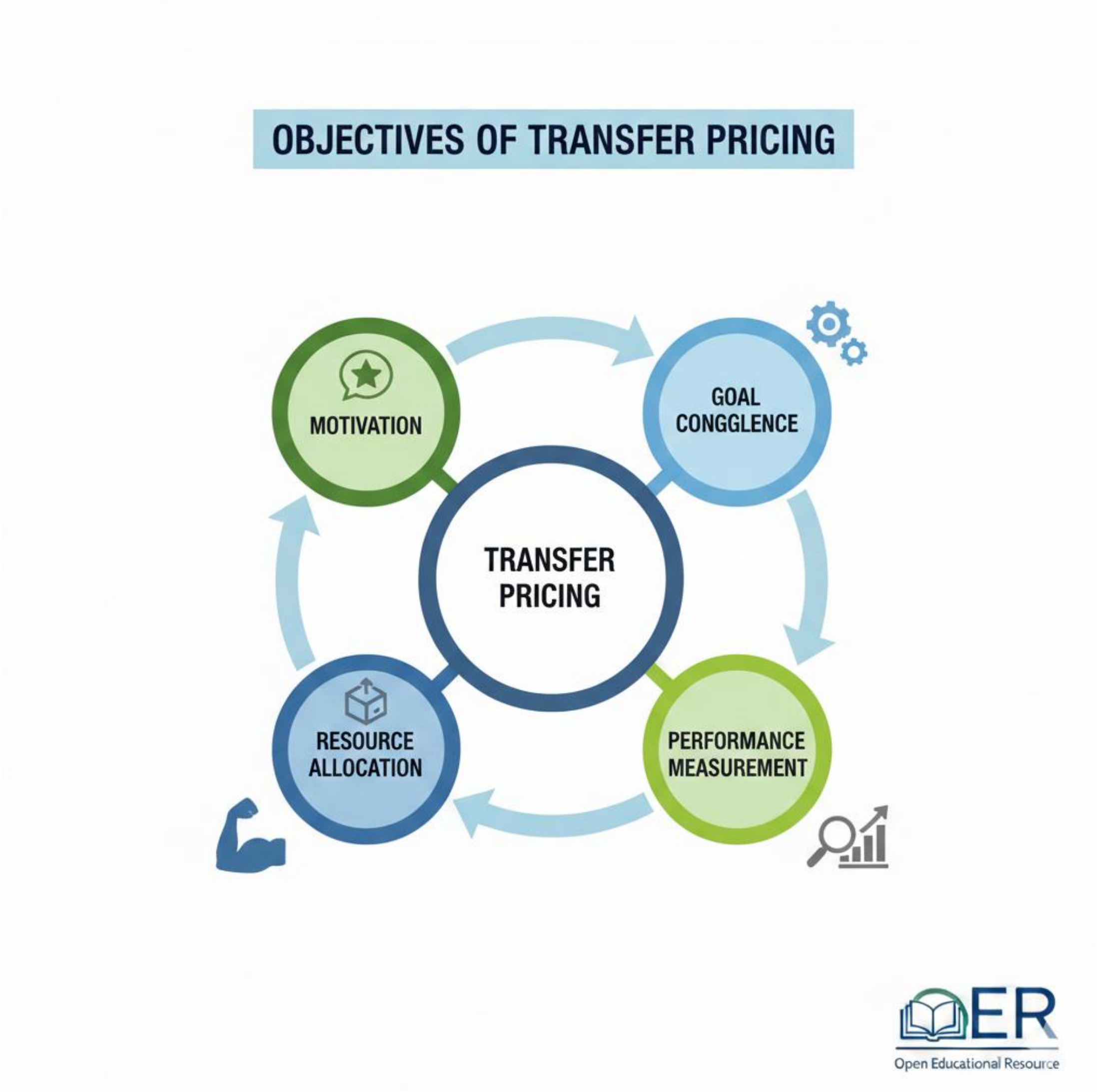
SLO 4.1 define the concept and objectives of transfer pricing,

SLO 4.2 distinguish between methods of transfer pricing (market-based, cost-based, negotiated),
SLO 4.3 analyse the behavioural and strategic implications of transfer pricing,
SLO 4.4 explain the objectives of divisional performance evaluation,
SLO 4.5 apply financial measures such as ROI, residual income, and EVA to assess divisional performance,
SLO 4.6 identify and evaluate non-financial measures of divisional performance,
SLO 4.7 assess the impact of transfer pricing on divisional profitability,
SLO 4.8 evaluate how divisional goals can be aligned with organisational objectives,
SLO 4.9 apply case examples to illustrate the interaction between transfer pricing and performance evaluation, and
SLO 4.10 critically examine contemporary issues in transfer pricing, including multinational practices, regulatory concerns, and emerging trends.

4.1 Fundamentals Of Transfer Pricing

4.1.1 Definition and objectives of transfer pricing
Transfer pricing refers to the price charged for goods, services, or intangible assets exchanged between divisions within the same organisation. It is particularly important in decentralised organisations where divisions operate as separate responsibility centres.

The objectives of transfer pricing include:
- Promoting goal congruence by aligning divisional decisions with overall organisational objectives.
- Facilitating accurate performance measurement of divisions.
- Supporting resource allocation and cost control.
- Motivating managers by providing fair evaluation of divisional results.



Short description: Diagram showing objectives of transfer pricing (goal congruence, performance measurement, resource allocation, motivation).
Caption: Figure 4.1 Objectives of transfer pricing

Fill in the blank: Transfer pricing refers to the price charged for __________ exchanged between divisions within the same organisation.

4.1.2 Methods of transfer pricing (market-based, cost-based, negotiated)
There are several methods used to determine transfer prices:

- **Market-based transfer pricing**: Prices are set based on prevailing external market rates. This method ensures fairness and comparability but may be difficult if no external market exists.
- **Cost-based transfer pricing**: Prices are determined using production costs, which may include variable cost, full cost, or cost plus a markup. This method is simple but may not always reflect market realities.
- **Negotiated transfer pricing**: Prices are agreed upon through negotiation between divisions. This method allows flexibility but may lead to conflict if divisions have competing interests.

TRANSFER PRICING METHODS: COMPARISON

TRANSFER PRICING METHODS: COMPARISON

METHOD	ADVANTAGES	DISAVNESTAGES	PRIMARY USE
MARKET-BASED Promotes Goal Congruence	Fair/Objective Promotes Goal Simple Hoofigous Goods	Requires External Market Data Always Feaible (Unique Market Fluctations	Requires with Sdcational Extercad Markets
COST-BASED PRICE	Easy to Implement (e.p., Full Cost) Interdpsendente Units	Can Disincentize Arbiterary Cost Allocation Allocation	Internal Processes; No External Markets
NEGOTAITED PRICE	Promotes Communication Automomy Fexible for Cases	Less Motivation Time-Conusing Potential for Conflict Bargening Power	Divisions with Potential for Autoninal Autonomy & Communication

Open Educational Resource

Caption: Table 4.1 Methods of transfer pricing
Short description: A table comparing market-based, cost-based, and negotiated transfer pricing with advantages and disadvantages.

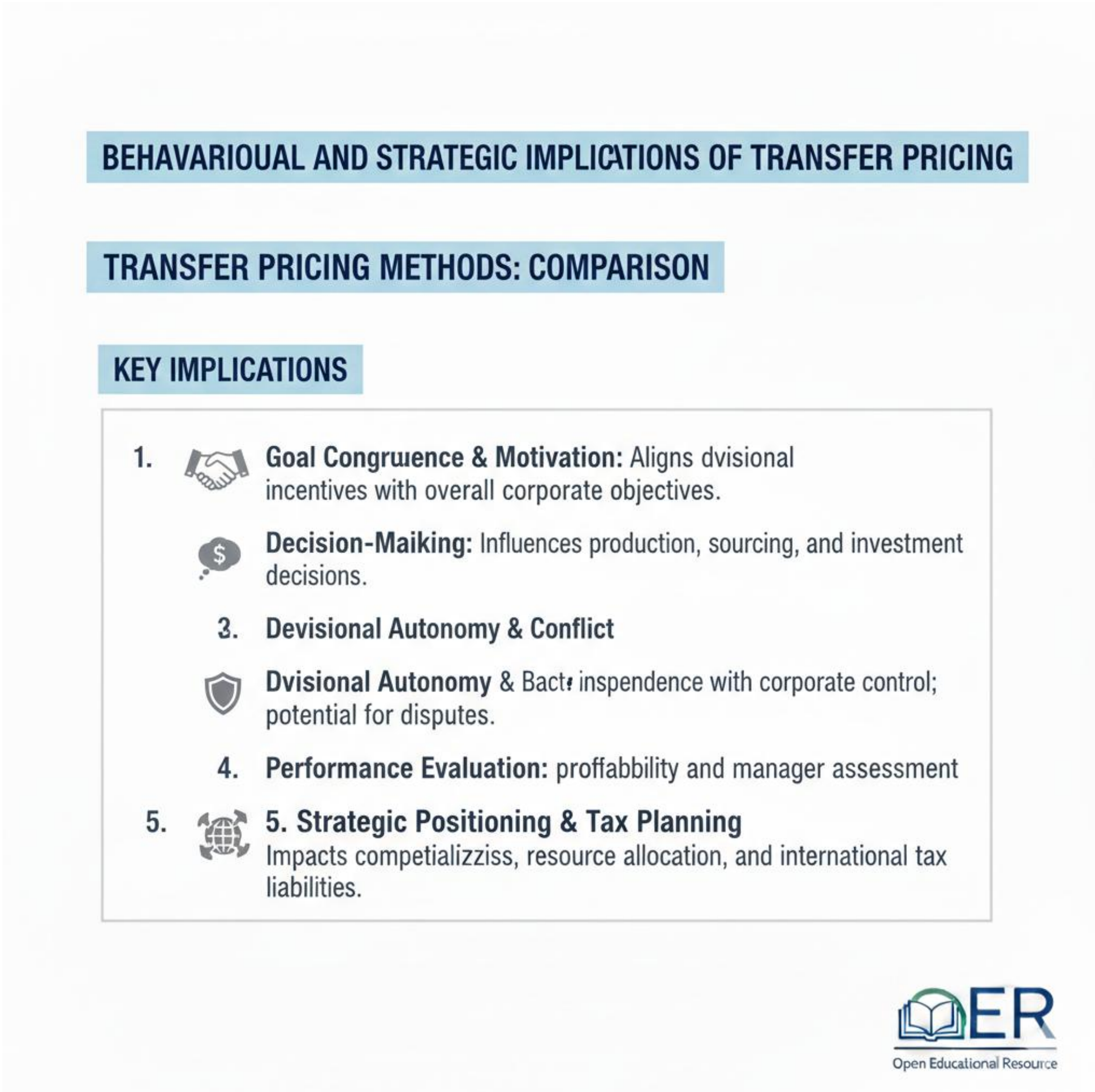
Fill in the blank: In ___________ transfer pricing, prices are set based on prevailing external market rates.

4.1.3 Behavioural and strategic implications of transfer pricing
Transfer pricing does not only affect financial outcomes; it also influences managerial behaviour and organisational strategy.

Behavioural implications include:
- Encouraging cooperation or conflict between divisions depending on the method used.
- Affecting managers' motivation if they perceive transfer prices as fair or unfair.

Strategic implications include:

- Influencing decisions about sourcing, production, and sales.
- Affecting competitiveness in multinational corporations where tax regulations apply.
- Shaping long-term organisational strategy by aligning divisional incentives with corporate goals.



Caption: Box 4.1 Behavioural and strategic implications of transfer pricing
Short description: A box summarising behavioural and strategic implications such as cooperation, motivation, competitiveness, and alignment with corporate goals.

Fill in the blank: Transfer pricing influences both financial outcomes and __________ behaviour within organisations.

Pilot questions 4.1
1. What is transfer pricing?
2. State one objective of transfer pricing.
3. Name the three main methods of transfer pricing.
4. Which transfer pricing method uses production costs to set prices?
5. Mention one behavioural implication of transfer pricing.

4.2 Divisional Performance Measurement

4.2.1 Objectives of divisional performance evaluation
Divisional performance evaluation is the process of assessing how well each division contributes to the overall success of the organisation. The main objectives are:
- To measure divisional profitability and efficiency.
- To motivate divisional managers by linking performance to rewards.
- To promote accountability by evaluating managers on factors they can control.
- To support decision making by providing reliable information about divisional results.

Short description: Diagram showing objectives of divisional performance evaluation (profitability, motivation, accountability, decision making).
Caption: Figure 4.2 Objectives of divisional performance evaluation

Fill in the blank: Divisional performance evaluation promotes __________ by assessing managers on factors they can control.

4.2.2 Financial measures (ROI, residual income, EVA)
Financial measures are widely used to evaluate divisional performance.

- **Return on Investment (ROI)**: Measures divisional profitability relative to the assets employed. It is calculated as divisional profit divided by divisional assets.
- **Residual Income (RI)**: Measures divisional profit after deducting a charge for the cost of capital. It encourages managers to make decisions that increase overall organisational wealth.
- **Economic Value Added (EVA)**: A refined version of residual income that adjusts accounting profits to better reflect economic performance.

DIVISIONAL FINANCIAL PERFORMANCE MEASURES: ROI, RI, & EVA

MEASURE	DEFINITION	KEY FEATURES
Return an Investment (ROI)	Profit / Investment	• Simple, widely used Compares to other investments
Motivation	Profit / Investment	• Can discurage investment in in projects with ROI less an → current ROI
Residual Income (RI)	Profit - (Required Rate of of Return x Investment)	• Absolute measure, nas- projects > not ratio
Motivation	Absolute measure, not ratio return of minimum rate	• Alighns with sharehooler wealth
Economic Value Adaled (EVAT – (Capital Employed)		• More complex calculation

OER Open Educational Resource

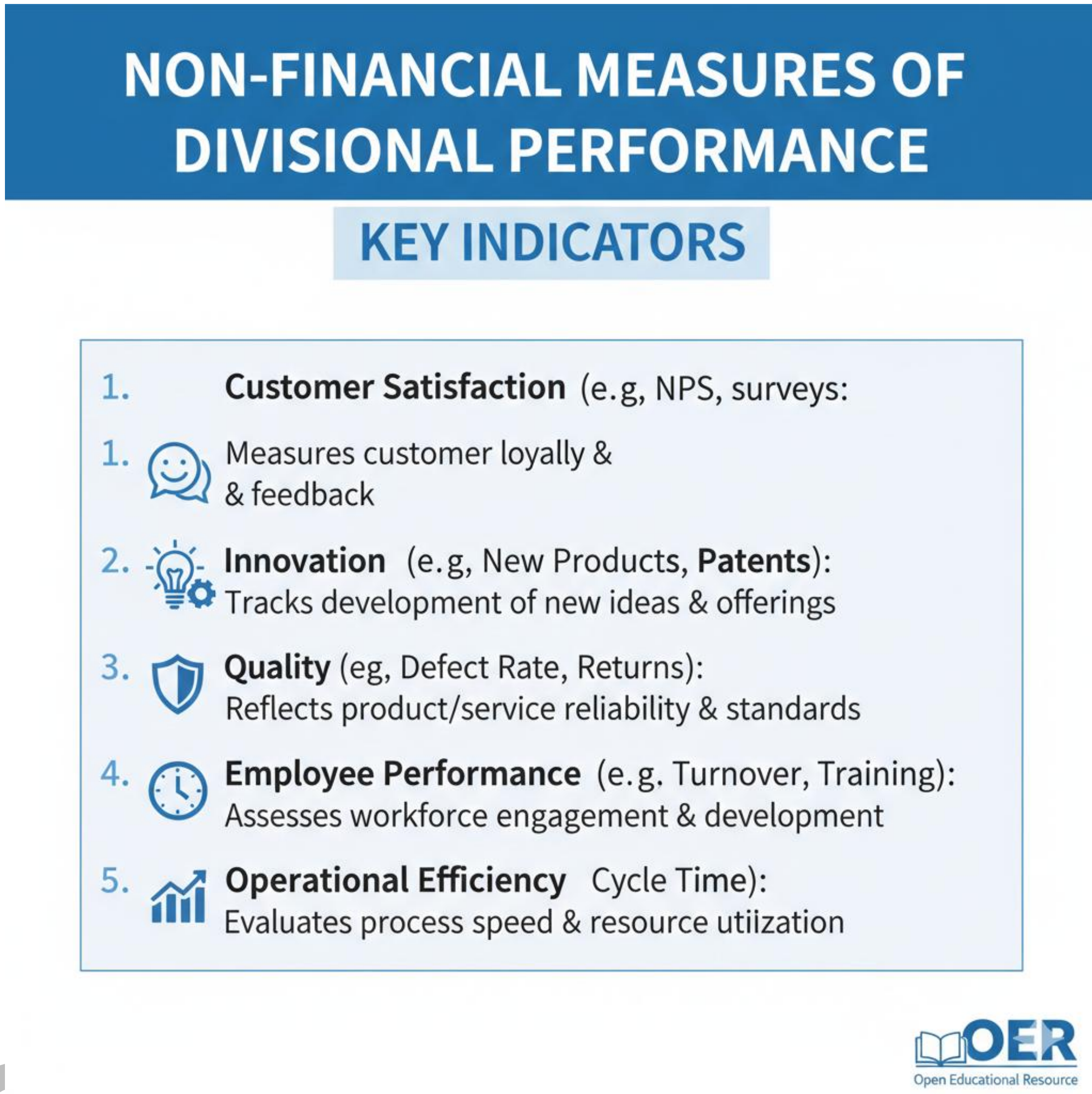
Caption: Table 4.2 Financial measures of divisional performance
Short description: A table listing ROI, residual income, and EVA with definitions and key features.

Fill in the blank: ___________ measures divisional profitability relative to the assets employed.

4.2.3 Non-financial measures (customer satisfaction, innovation, quality)

While financial measures are important, they do not capture the full picture of divisional performance. Non-financial measures provide a broader perspective:
- **Customer satisfaction**: Evaluates how well the division meets customer needs and expectations.
- **Innovation**: Assesses the division's ability to develop new products, services, or processes.
- **Quality**: Measures the consistency and reliability of outputs, often linked to defect rates or service standards.

These measures ensure that divisions are not only profitable but also sustainable and competitive in the long term.



Caption: Box 4.2 Non-financial measures of divisional performance
Short description: A box summarising non-financial measures such as customer satisfaction, innovation, and quality.

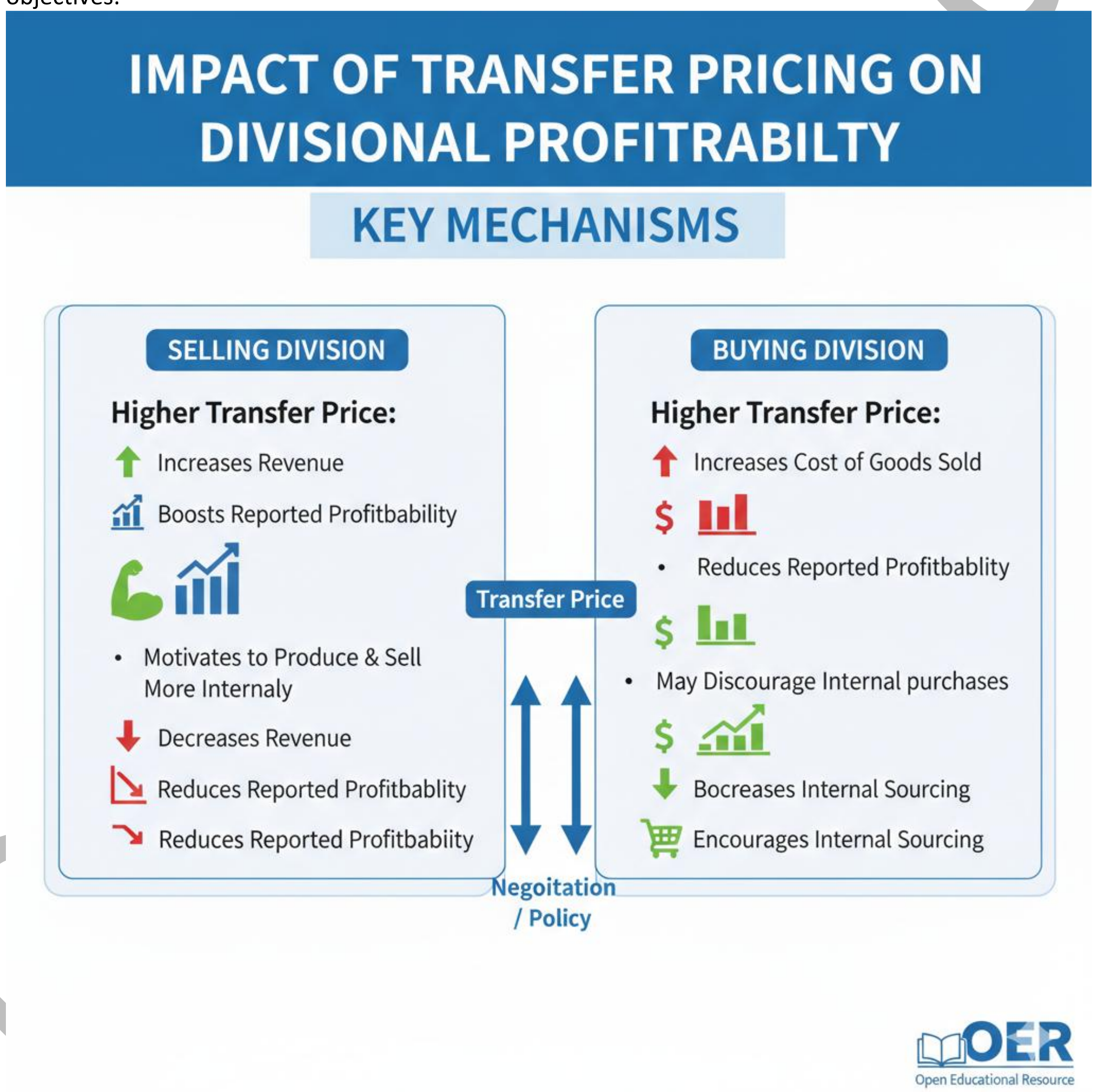
Fill in the blank: Customer satisfaction, innovation, and quality are examples of __________ measures of divisional performance.

Pilot questions 4.2
1. What is the purpose of divisional performance evaluation?
2. State one objective of divisional performance evaluation.
3. Name three financial measures used to assess divisional performance.
4. Which financial measure deducts a charge for the cost of capital?
5. Give one example of a non-financial measure of divisional performance.

4.3 Linking Transfer Pricing With Divisional Performance

4.3.1 Impact of transfer pricing on divisional profitability
Transfer pricing directly influences how divisional profitability is reported. If transfer prices are set too high, the selling division may appear more profitable while the buying division suffers. Conversely, low transfer prices benefit the buying division but reduce the apparent success of the selling division.

The choice of transfer pricing method therefore affects not only divisional results but also managerial motivation and fairness in performance evaluation. Organisations must balance divisional interests with overall corporate objectives.



Short description: Diagram showing how transfer pricing affects divisional profitability (selling division vs buying division).

Caption: Figure 4.3 Impact of transfer pricing on divisional profitability
Fill in the blank: Transfer pricing directly influences how __________ is reported for each division.

4.3.2 Aligning divisional goals with organisational objectives
For transfer pricing to be effective, divisional goals must align with overall organisational objectives. This alignment ensures that managers make decisions that benefit the entire organisation rather than just their division.

Strategies to achieve alignment include:
- Using transfer pricing methods that promote fairness and cooperation.
- Linking divisional performance measures to corporate strategy.
- Encouraging communication between divisions to reduce conflict.

Caption: Box 4.3 Aligning divisional goals with organisational objectives
Short description: A box summarising strategies for aligning divisional goals with organisational objectives.

Fill in the blank: Effective transfer pricing ensures that divisional goals are aligned with __________ objectives.

4.3.3 Case examples of transfer pricing and performance evaluation
Practical examples help illustrate the interaction between transfer pricing and divisional performance:
- In a manufacturing company, transfer pricing between production and sales divisions affects reported profitability and resource allocation.
- In a multinational corporation, transfer pricing policies influence tax liabilities and divisional competitiveness.
- In a retail chain, negotiated transfer prices between distribution and store divisions can determine divisional success and cooperation.

These examples show how transfer pricing is not just a technical calculation but a strategic tool that shapes divisional behaviour and organisational outcomes.

TRANSFER PRICING: CASE EXAMPLES

CASE STUDIES IN DIFFERENT INDUSTRIES

INDUSTRY	CASE EXAMPLE (SCINARIO)	TRANSFER PRICING METHOD & IMPACT
MANUFACTURING Automotive company with a engsion (selling) id asembly division, buying)	Cost-Plus Method: Ensures engine division costs + impacts divisions	Cost-Plus Method: Ensures engine division + margin; impacts profhabbility of both dvisions
MULTIUNATIJAL CORPORATION (buying IP)	Tech firm with R&D in USA (selling IP) and Production in Ire (buying IP)	Market-Based / Negotlization; compliance with internations (e.g, arm's length principle).
RETAIL CHAIN with a central purchasing/distribui (svision and individual sstores, (buyres	Grocery store chain with a central purchribution division (sellling and individual rstores (buying)	Cost-Based (e.p. Standard Cost) Cost control, ensurs fair affectim; store-level profhabbility & incentives

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Caption: Table 4.3 Case examples of transfer pricing and divisional performance
Short description: A table summarising examples of transfer pricing in manufacturing, multinational corporations, and retail chains.

Fill in the blank: In a multinational corporation, transfer pricing policies influence __________ liabilities and divisional competitiveness.

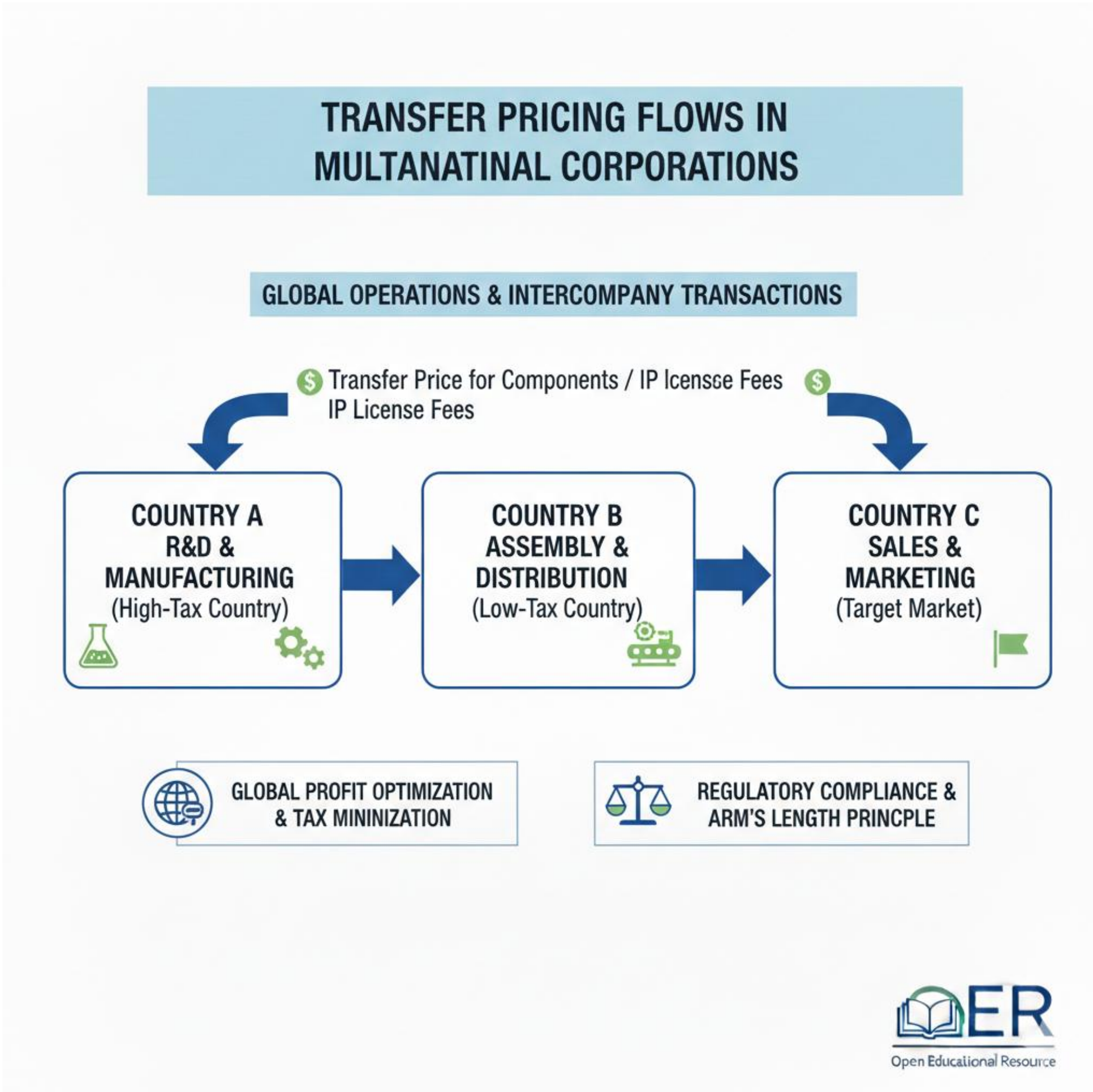
Pilot questions 4.3
1. How does transfer pricing affect divisional profitability?
2. Why is it important to align divisional goals with organisational objectives?
3. State one strategy for achieving alignment between divisional and organisational goals.
4. Give one case example of transfer pricing in practice.
5. How does transfer pricing act as a strategic tool in organisations?

4.4 Contemporary Issues And Challenges

4.4.1 Transfer pricing in multinational corporations
Transfer pricing becomes particularly complex in **multinational corporations**, where goods, services, or intangible assets are exchanged across borders. In these cases, transfer pricing policies affect not only divisional performance but also taxation, compliance, and competitiveness.

Key considerations include:
- Ensuring compliance with international tax regulations.
- Managing the risk of double taxation or tax avoidance accusations.
- Balancing divisional profitability with global strategic objectives.

Multinationals often face scrutiny from tax authorities, making transfer pricing both a financial and legal challenge.

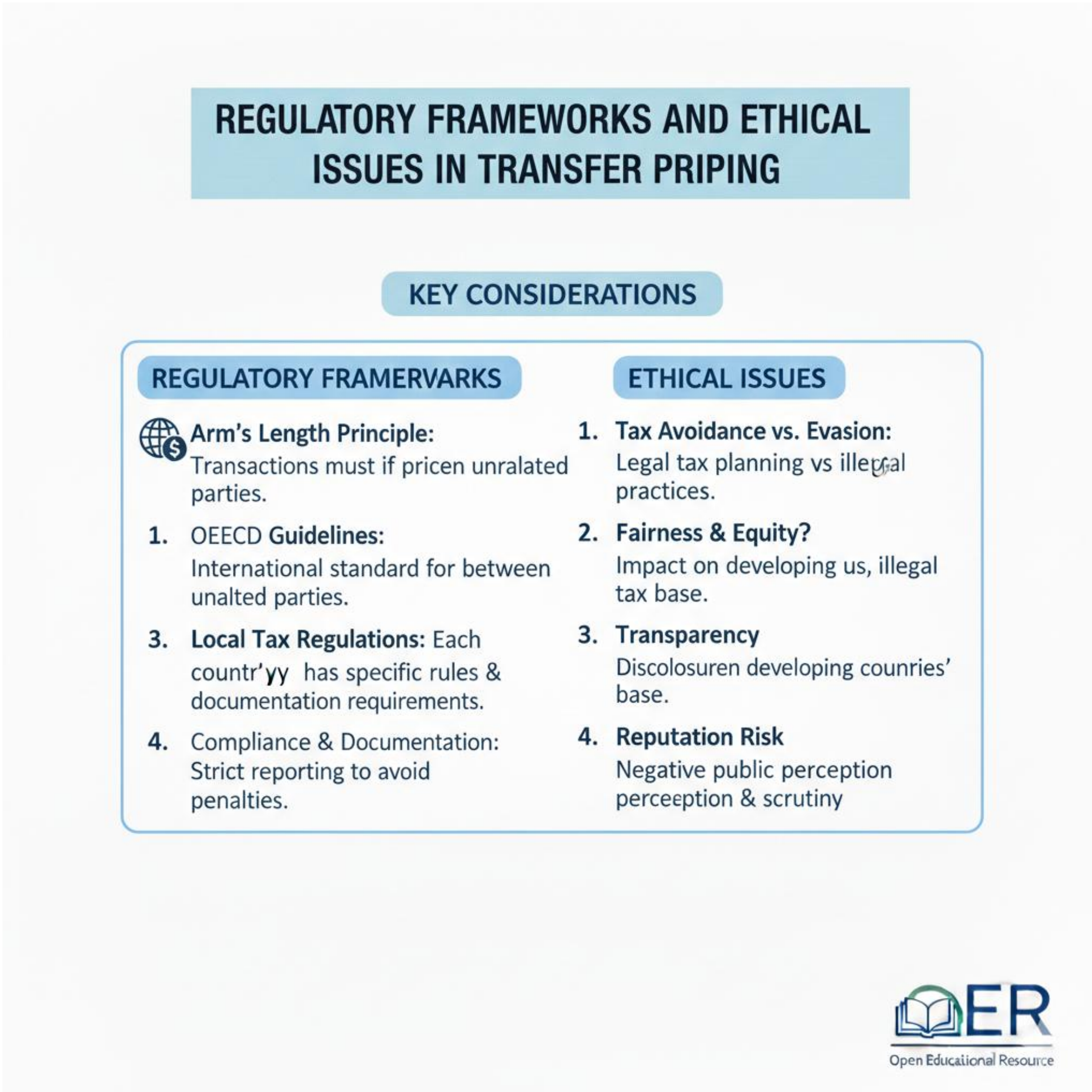


Short description: Diagram showing transfer pricing flows in multinational corporations across different countries.
Caption: Figure 4.4 Transfer pricing in multinational corporations

Fill in the blank: Transfer pricing in multinational corporations affects both divisional performance and __________ compliance.

4.4.2 Regulatory and ethical considerations
Transfer pricing is subject to strict **regulatory frameworks** such as OECD guidelines and local tax laws. Organisations must ensure that transfer prices reflect the **arm's length principle**, meaning transactions between divisions should be priced as if they were between independent entities.

Ethical considerations also arise, as aggressive transfer pricing strategies may reduce tax liabilities but damage corporate reputation. Responsible practices involve transparency, fairness, and adherence to both legal and ethical standards.



Caption: Box 4.4 Regulatory and ethical considerations in transfer pricing
Short description: A box summarising regulatory frameworks and ethical issues in transfer pricing.

Fill in the blank: The __________ principle requires that transactions between divisions be priced as if they were between independent entities.

4.4.3 Emerging trends in divisional performance management
Divisional performance management is evolving to reflect modern business realities. Emerging trends include:
- Greater emphasis on non-financial measures such as sustainability, innovation, and employee engagement.
- Use of digital dashboards and analytics for real-time performance monitoring.
- Integration of environmental, social, and governance (ESG) metrics into divisional evaluation.
- Adoption of hybrid transfer pricing approaches that combine financial and strategic considerations.

These trends highlight the shift towards a more holistic and forward-looking approach to divisional performance.

EMERGING TRENDS IN DIVISIONAL PERFORMANCE MANAGEMENT

TREND	DESCRIPTION	DESCRIPTION	KEY FEATURES
Sustainability & ESG Metrics	Incolpprates environmental, social governnance factors.	Fair/Objective Carbon Fodrit, Diversity, Goods	Thes-retame dat, Internal Feotiprics and Aucating, Farhet Givcicions
Sustaiannility & ESG Metrrics	Digital Dashboards & Analytics	Can Disincentize Eiflerization Aivarsity, Isustons	Measures: Preditytics, AI-driven insights
Digital Dashboards & Analytics		Prorrome data Insaullszation	Predictval, ensurs fair Prediciund Power insights
Hybrid Transfer Intangiibles	Grocery store chain a financial assts like & human capital	Poest-fales Feedback and Goal Setting	Measures: Patent Filings, Employee Engagement, Brand Value
Agile Performance Management	Continuous feedback Gioal Setting	Frequent Check-ins, Development	Employeee Demtabbiul Development

OER Open Educational Resource

Caption: Table 4.4 Emerging trends in divisional performance management
Short description: A table listing trends such as sustainability, digital dashboards, ESG metrics, and hybrid transfer pricing approaches.

Fill in the blank: Modern divisional performance management increasingly integrates __________ metrics alongside financial measures.

Pilot questions 4.4

1. Why is transfer pricing more complex in multinational corporations?
2. What is the arm's length principle in transfer pricing?
3. State one ethical consideration in transfer pricing.
4. Name two emerging trends in divisional performance management.
5. How do ESG metrics influence divisional performance evaluation?

Series Summary

This Series has explored the critical relationship between transfer pricing and divisional performance. We began by defining transfer pricing and examining its objectives, followed by a detailed look at the methods used, including market-based, cost-based, and negotiated approaches. We then considered the behavioural and strategic implications of transfer pricing, highlighting its influence on managerial motivation and organisational strategy.

Next, we studied divisional performance measurement, focusing on both financial measures such as ROI, residual income, and EVA, and non-financial measures such as customer satisfaction, innovation, and quality. We linked transfer pricing with divisional performance, showing how transfer pricing decisions affect divisional profitability, goal alignment, and organisational outcomes, supported by practical case examples. Finally, we addressed contemporary issues and challenges, including transfer pricing in multinational corporations, regulatory and ethical considerations, and emerging trends such as ESG metrics and digital dashboards.

By completing this Series, you should now be able to define and distinguish transfer pricing methods (SLO 4.1, SLO 4.2), analyse their behavioural and strategic implications (SLO 4.3), explain and apply divisional performance measures (SLO 4.4, SLO 4.5, SLO 4.6), assess the impact of transfer pricing on divisional profitability (SLO 4.7), evaluate alignment between divisional and organisational goals (SLO 4.8), illustrate concepts with case examples (SLO 4.9), and critically examine contemporary issues and trends (SLO 4.10). These outcomes provide a comprehensive understanding of how transfer pricing and divisional performance interact to shape organisational success.
Glossary Of Terms – Series 4: Transfer Pricing And Divisional Performance

Transfer pricing: The price charged for goods, services, or intangible assets exchanged between divisions within the same organisation.

Market-based transfer pricing: A method where transfer prices are set according to prevailing external market rates.

Cost-based transfer pricing: A method where transfer prices are determined using production costs, which may include variable cost, full cost, or cost plus a markup.

Negotiated transfer pricing: A method where transfer prices are agreed upon through negotiation between divisions.

Divisional performance evaluation: The process of assessing how well each division contributes to the overall success of the organisation.

Return on Investment (ROI): A financial measure of divisional profitability relative to the assets employed, calculated as divisional profit divided by divisional assets.

Residual Income (RI): A financial measure of divisional profit after deducting a charge for the cost of capital.

Economic Value Added (EVA): A refined version of residual income that adjusts accounting profits to better reflect economic performance.

Non-financial measures: Indicators such as customer satisfaction, innovation, and quality that assess divisional performance beyond financial results.

Arm’s length principle: A regulatory requirement that transactions between divisions should be priced as if they were between independent entities.

Multinational corporations (MNCs): Organisations that operate across multiple countries, where transfer pricing policies affect taxation, compliance, and competitiveness.

ESG metrics: Environmental, social, and governance indicators integrated into divisional performance management to reflect sustainability and ethical practices.

This glossary consolidates the essential terms introduced in **Series 4: Transfer Pricing And Divisional Performance**, providing learners with a quick reference to reinforce understanding of key concepts.
Concept Check Questions 4 – Series 4: Transfer Pricing And Divisional Performance

Objective questions
1. Transfer pricing refers to the price charged for __________ exchanged between divisions. (Linked to SLO 4.1)
2. In __________ transfer pricing, prices are set according to prevailing external market rates. (Linked to SLO 4.2)
3. Negotiated transfer pricing involves prices agreed upon through __________ between divisions. (Linked to SLO 4.2)
4. Transfer pricing influences both financial outcomes and __________ behaviour. (Linked to SLO 4.3)
5. ROI measures divisional profitability relative to __________ employed. (Linked to SLO 4.5)
6. Residual income deducts a charge for the cost of __________. (Linked to SLO 4.5)
7. Customer satisfaction, innovation, and quality are examples of __________ measures. (Linked to SLO 4.6)
8. The __________ principle requires transactions between divisions to be priced as if they were between independent entities. (Linked to SLO 4.10)

Short-answer questions
9. Define transfer pricing. (Linked to SLO 4.1)
10. State one objective of transfer pricing. (Linked to SLO 4.1)
11. Name the three main methods of transfer pricing. (Linked to SLO 4.2)
12. Mention one behavioural implication of transfer pricing. (Linked to SLO 4.3)
13. What is the purpose of divisional performance evaluation? (Linked to SLO 4.4)
14. Give one example of a financial measure of divisional performance. (Linked to SLO 4.5)
15. State one non-financial measure of divisional performance. (Linked to SLO 4.6)
16. How does transfer pricing affect divisional profitability? (Linked to SLO 4.7)
17. Give one strategy for aligning divisional goals with organisational objectives. (Linked to SLO 4.8)
18. Provide one case example of transfer pricing in practice. (Linked to SLO 4.9)
19. What is the arm's length principle? (Linked to SLO 4.10)

Long-answer questions
20. Analyse the objectives of transfer pricing and explain how they support organisational performance. (Linked to SLO 4.1)
21. Distinguish between market-based, cost-based, and negotiated transfer pricing methods, highlighting their advantages and disadvantages. (Linked to SLO 4.2)
22. Evaluate the behavioural and strategic implications of transfer pricing for divisional managers. (Linked to SLO 4.3)
23. Explain the objectives of divisional performance evaluation and discuss how financial and non-financial measures complement each other. (Linked to SLO 4.4, SLO 4.5, SLO 4.6)
24. Assess the impact of transfer pricing on divisional profitability and organisational goal alignment, using examples. (Linked to SLO 4.7, SLO 4.8, SLO 4.9)
25. Critically examine contemporary issues in transfer pricing, including multinational practices, regulatory frameworks, and emerging trends in divisional performance management. (Linked to SLO 4.10)

Answers To Pilot Questions 4 – Series 4: Transfer Pricing And Divisional Performance

Answers to Pilot Questions 4.1
1. Transfer pricing is the price charged for goods, services, or intangible assets exchanged between divisions within the same organisation.
2. One objective of transfer pricing is to promote goal congruence by aligning divisional decisions with organisational objectives.
3. The three main methods of transfer pricing are market-based, cost-based, and negotiated.
4. Cost-based transfer pricing uses production costs to set prices.
5. One behavioural implication of transfer pricing is that it can encourage cooperation or conflict between divisions depending on the method used.

Answers to Pilot Questions 4.2
1. The purpose of divisional performance evaluation is to assess how well each division contributes to organisational success.
2. One objective of divisional performance evaluation is to promote accountability by evaluating managers on controllable factors.
3. Three financial measures used to assess divisional performance are ROI, residual income, and EVA.
4. Residual income deducts a charge for the cost of capital.
5. An example of a non-financial measure of divisional performance is customer satisfaction.

Answers to Pilot Questions 4.3
1. Transfer pricing affects divisional profitability by determining how profits are distributed between selling and buying divisions.
2. Aligning divisional goals with organisational objectives ensures that managers make decisions that benefit the entire organisation.
3. One strategy for achieving alignment is linking divisional performance measures to corporate strategy.
4. A case example of transfer pricing in practice is a multinational corporation adjusting transfer prices to manage tax liabilities.
5. Transfer pricing acts as a strategic tool by shaping divisional behaviour and influencing organisational outcomes.

Answers to Pilot Questions 4.4
1. Transfer pricing is more complex in multinational corporations because it affects taxation, compliance, and competitiveness across borders.
2. The arm's length principle requires that transactions between divisions be priced as if they were between independent entities.
3. One ethical consideration in transfer pricing is ensuring transparency to avoid reputational damage.
4. Two emerging trends in divisional performance management are the use of digital dashboards and integration of ESG metrics.
5. ESG metrics influence divisional performance evaluation by incorporating sustainability and ethical practices into assessment.

References And Attributions 4 – Series 4: Transfer Pricing And Divisional Performance

Figures, Tables, and Boxes in this Series were either suggested as AI-generated placeholders or referenced from open educational resources (OER). Where AI generation was proposed, the prompt and tool are noted.

Figure 4.1 Objectives of transfer pricing
AI prompt: "Generate a diagram showing objectives of transfer pricing such as goal congruence, performance measurement, resource allocation, and motivation."
Suggested source search string: "objectives of transfer pricing diagram OER"

Table 4.1 Methods of transfer pricing
AI prompt: "Generate a table comparing market-based, cost-based, and negotiated transfer pricing methods with advantages and disadvantages."
Suggested source search string: "methods of transfer pricing comparison OER"

Box 4.1 Behavioural and strategic implications of transfer pricing
AI prompt: "Create a text box summarising behavioural and strategic implications of transfer pricing."
Suggested source search string: "behavioural strategic implications of transfer pricing OER"

Figure 4.2 Objectives of divisional performance evaluation
AI prompt: "Generate a diagram showing objectives of divisional performance evaluation such as profitability, motivation, accountability, and decision making."
Suggested source search string: "objectives of divisional performance evaluation diagram OER"

Table 4.2 Financial measures of divisional performance
AI prompt: "Generate a table listing ROI, residual income, and EVA with definitions and key features."
Suggested source search string: "financial measures divisional performance ROI residual income EVA OER"

Box 4.2 Non-financial measures of divisional performance
AI prompt: "Create a text box summarising non-financial measures such as customer satisfaction, innovation, and quality."
Suggested source search string: "non financial measures divisional performance OER"

Figure 4.3 Impact of transfer pricing on divisional profitability
AI prompt: "Generate a diagram showing how transfer pricing affects divisional profitability, highlighting selling division vs buying division outcomes."
Suggested source search string: "impact of transfer pricing on divisional profitability diagram OER"

Box 4.3 Aligning divisional goals with organisational objectives
AI prompt: "Create a text box summarising strategies for aligning divisional goals with organisational objectives."
Suggested source search string: "aligning divisional goals organisational objectives transfer pricing OER"

Table 4.3 Case examples of transfer pricing and divisional performance
AI prompt: "Generate a table summarising case examples of transfer pricing in manufacturing, multinational corporations, and retail chains."
Suggested source search string: "case examples transfer pricing divisional performance OER"

Figure 4.4 Transfer pricing in multinational corporations
AI prompt: "Generate a diagram showing transfer pricing flows in multinational corporations across different countries."
Suggested source search string: "transfer pricing multinational corporations diagram OER"

Box 4.4 Regulatory and ethical considerations in transfer pricing
AI prompt: "Create a text box summarising regulatory frameworks and ethical issues in transfer pricing."
Suggested source search string: "regulatory ethical considerations transfer pricing OER"

Table 4.4 Emerging trends in divisional performance management
AI prompt: "Generate a table listing emerging trends in divisional performance management such as sustainability, digital dashboards, ESG metrics, and hybrid transfer pricing approaches."
Suggested source search string: "emerging trends divisional performance management OER"

All references are aligned with open educational resource searches and AI prompts suggested for illustration. Learners are encouraged to consult standard texts such as Drury (Management and Cost Accounting), Horngren et al. (Cost Accounting: A Managerial Emphasis), and Emmanuel & Mehafdi (Accounting for Managers: Interpreting Accounting Information for Decision-Making) for further reading and validation of concepts.

COURSE CODE:ACC 303
COURSE TITLE: Management Accounting (Performance Management)
COURSE TITLE:(3 units C: LH 30;PH 45)
SERIES LIST
Series 1: Budgeting, Standard Costing, and Variance Analysis
Series 2: Behavioural Aspects of Budgeting and Strategic Performance Management
Series 3: Cost Reduction, Control Techniques, and Spreadsheet Applications
Series 4: Decision Making with Relevant Costs, CVP Analysis, and Pricing Strategies
Series 5: Divisional Performance, Transfer Pricing, Ethical Principles, and Topical Issues in Performance Management
Series 5: Strategic Performance Management

Part 5.1: Introduction to strategic performance management
  Sub-Part 5.1.1: Definition and scope of strategic performance management
  Sub-Part 5.1.2: Importance of aligning performance management with corporate strategy
  Sub-Part 5.1.3: Role of managers and stakeholders in strategic performance

Part 5.2: Tools and frameworks for strategic performance
  Sub-Part 5.2.1: Balanced Scorecard as a strategic tool
  Sub-Part 5.2.2: Key Performance Indicators (KPIs) and their design
  Sub-Part 5.2.3: Performance dashboards and analytics

Part 5.3: Integrating financial and non-financial measures
  Sub-Part 5.3.1: Linking financial metrics with strategic objectives
  Sub-Part 5.3.2: Incorporating non-financial measures such as innovation, sustainability, and customer focus
  Sub-Part 5.3.3: Case examples of integrated performance measurement

Part 5.4: Contemporary issues and future directions
  Sub-Part 5.4.1: Strategic performance management in global organisations
  Sub-Part 5.4.2: Ethical and governance considerations in performance management
  Sub-Part 5.4.3: Emerging trends such as ESG metrics, digital transformation, and AI-driven analytics

Introduction

Strategic performance management is about ensuring that organisations not only measure what matters but also use those measures to drive long-term success. Unlike traditional performance management, which often focuses narrowly on financial results, strategic performance management integrates financial and non-financial indicators to align divisional and organisational goals with corporate strategy.

The aim of this Series is to equip you with the knowledge and tools to understand how performance management becomes strategic, how frameworks such as the Balanced Scorecard and Key Performance Indicators (KPIs) are applied, and how financial and non-financial measures can be integrated to provide a holistic view of organisational performance.

We will begin by introducing the definition, scope, and importance of strategic performance management, followed by an exploration of key tools and frameworks. Next, we will examine how financial and non-financial measures are integrated to support strategic objectives, and finally, we will address contemporary issues and future directions, including global practices, ethical considerations, and emerging trends such as ESG metrics and AI-driven analytics.

Series Learning Outcomes – Series 5: Strategic Performance Management

Upon completing this Series, you should be able to:

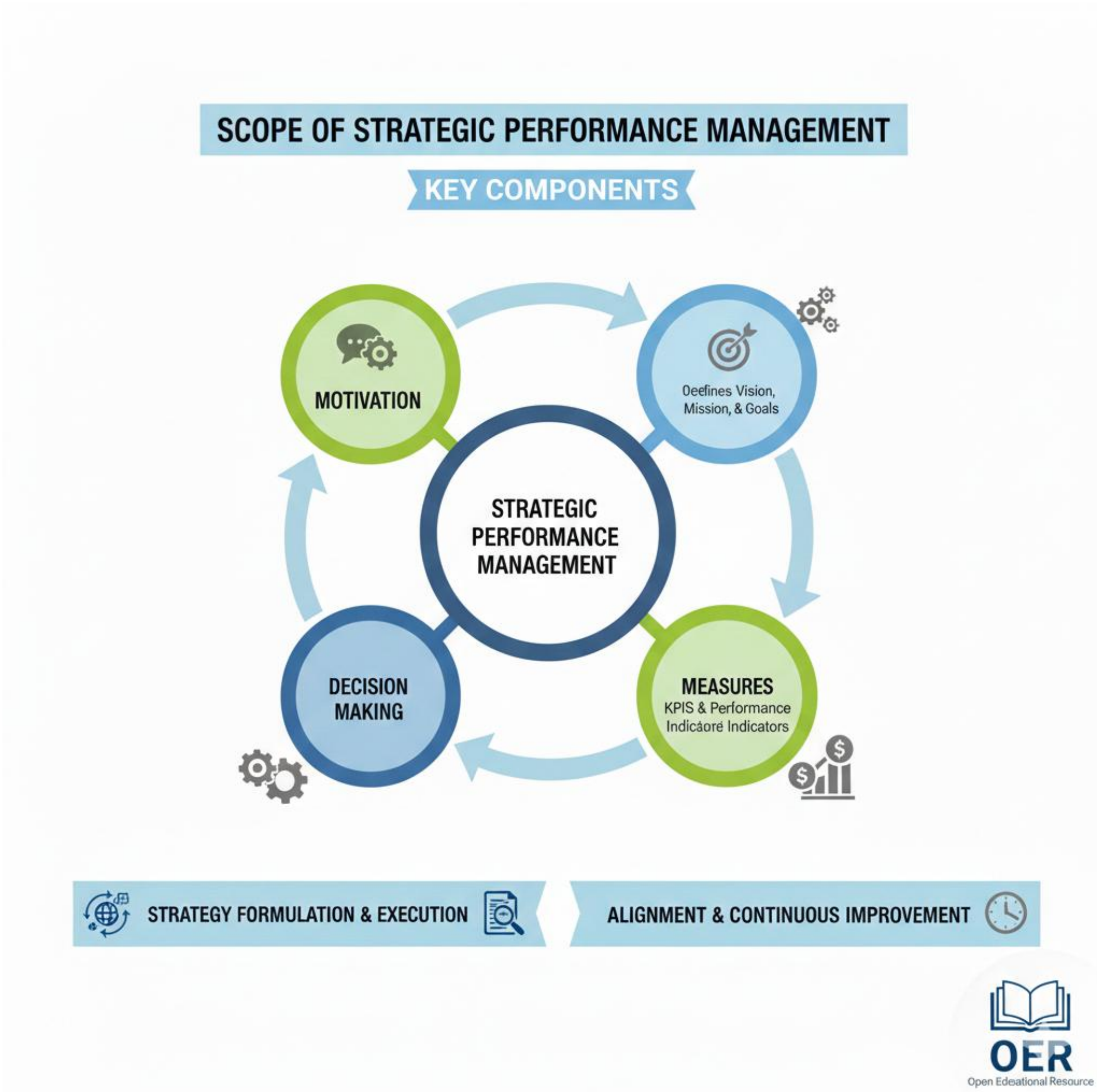
SLO 5.1 define the concept and scope of strategic performance management,
SLO 5.2 explain the importance of aligning performance management with corporate strategy,
SLO 5.3 analyse the role of managers and stakeholders in strategic performance management,
SLO 5.4 apply tools and frameworks such as the Balanced Scorecard and KPIs to evaluate performance,
SLO 5.5 design and interpret performance dashboards and analytics,
SLO 5.6 integrate financial and non-financial measures to support strategic objectives,
SLO 5.7 evaluate case examples of integrated performance measurement,
SLO 5.8 assess strategic performance management practices in global organisations,
SLO 5.9 critically examine ethical and governance considerations in performance management, and
SLO 5.10 explore emerging trends such as ESG metrics, digital transformation, and AI-driven analytics in strategic performance management.

5.1 Introduction To Strategic Performance Management

5.1.1 Definition and scope of strategic performance management

Strategic performance management refers to the systematic process of measuring, monitoring, and managing organisational performance in a way that aligns with long-term strategic objectives. Unlike traditional performance management, which often focuses on short-term financial outcomes, strategic performance management integrates both financial and non-financial measures to provide a holistic view of success.

Its scope includes:
- Setting clear performance objectives linked to corporate strategy.
- Designing measures that capture financial, operational, and strategic dimensions.
- Monitoring results through dashboards, scorecards, and reports.
- Using insights to guide decision making and continuous improvement.



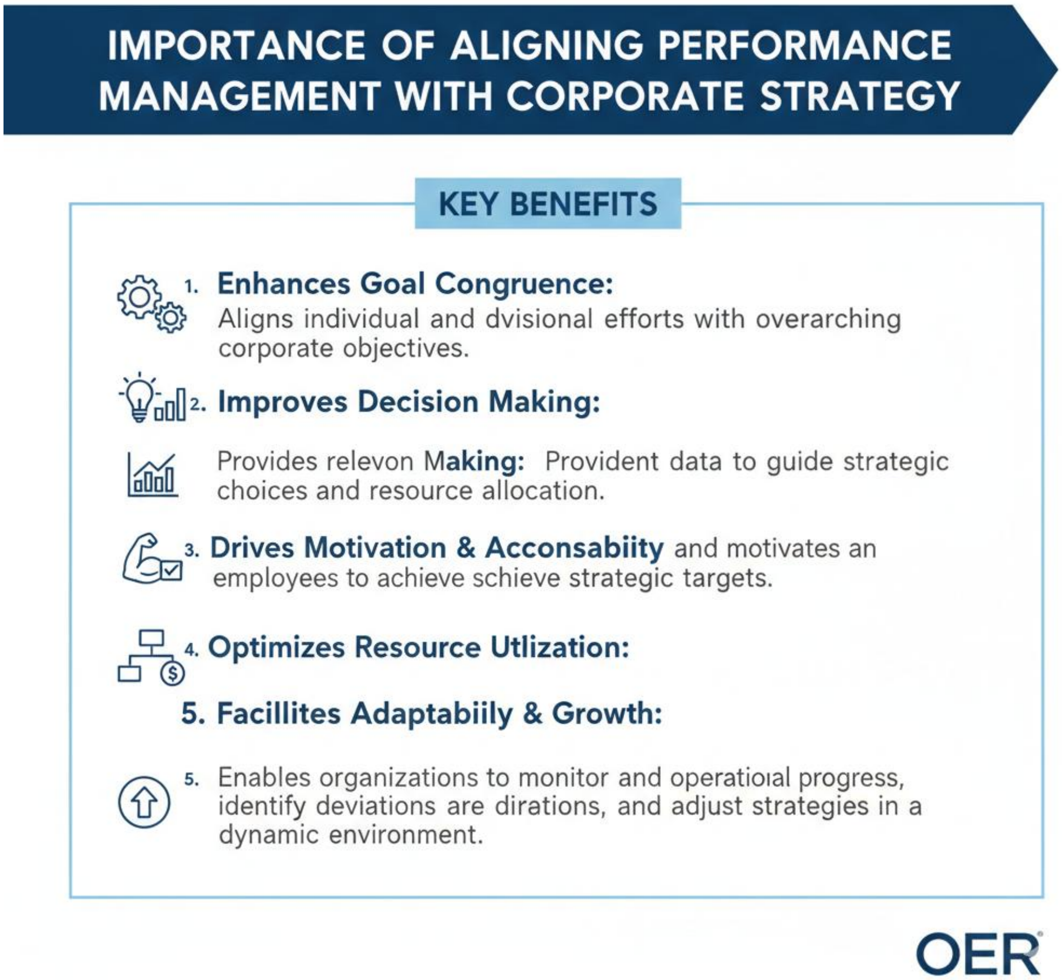
Short description: Diagram showing the scope of strategic performance management (objectives, measures, monitoring, decision making).
Caption: Figure 5.1 Scope of strategic performance management

Fill in the blank: Strategic performance management integrates both __________ and non-financial measures to provide a holistic view of success.

5.1.2 Importance of aligning performance management with corporate strategy
Performance management becomes strategic only when it is aligned with corporate strategy. This alignment ensures that divisions and individuals contribute meaningfully to organisational goals.

Key benefits of alignment include:
- Promoting goal congruence across divisions.
- Ensuring resources are allocated to strategic priorities.
- Enhancing accountability by linking measures to strategic outcomes.

- Supporting long-term sustainability and competitiveness.



Caption: Box 5.1 Importance of aligning performance management with corporate strategy
Short description: A box summarising benefits of aligning performance management with corporate strategy.

Fill in the blank: Performance management becomes strategic only when it is aligned with __________ strategy.

5.1.3 Role of managers and stakeholders in strategic performance
Managers and stakeholders play a crucial role in implementing strategic performance management.

Managers are responsible for:
- Setting divisional objectives that support corporate strategy.
- Monitoring performance using appropriate measures.
- Motivating employees by linking performance to rewards.

Stakeholders, including shareholders, customers, and regulators, influence performance management by demanding transparency, accountability, and sustainable practices. Their involvement ensures that performance management reflects not only internal goals but also external expectations.

ROLES IN STRATEGIC PERFORMANCE PERFORMANCE MANAGEMENT

MANAGERS & STAKEHOLDERS

ROLE	PRIMARY RESPONSIBILITIES		KEY ACTIVITIES
Senior Leadership (e..g). CEO, CFO)	Defines vision, strategy, and targets.	Defines vision, Resource Allocation, targets	Strategy Formulation, Resource Review & Feedback
Mid-Level Management (e..g). Dvisional Heads)	Translates strategy into operational ovistional plans; monitors team performance.	Goal Deployment, Opational Monitoring	Performance Review & Reporting
Employees	Trastles tasks; contributes objective achievement.	Task Execution, Coaching	Operational Monitornal Development
Board of Directors & overssht:	Executes tasks, Fresεback schive targets.	Feedback Provision, Orierion	Executive Evaluation
Customers/Supplires Growth	Provide feedback; quality & innovation.	Strategy Approval, Rkeeutırein innovation.	Collaboration, Quality Standards Adhertance

ER Open Educational Resource

Caption: Table 5.1 Roles of managers and stakeholders in strategic performance management
Short description: A table listing roles of managers (objectives, monitoring, motivation) and stakeholders (transparency, accountability, sustainability).

Fill in the blank: Stakeholders influence performance management by demanding __________, accountability, and sustainable practices.

Pilot questions 5.1
1. Define strategic performance management.
2. State one element included in the scope of strategic performance management.
3. Why is alignment with corporate strategy important in performance management?
4. Mention one benefit of aligning performance management with corporate strategy.
5. State one role of managers in strategic performance management.

6. Give one way stakeholders influence performance management.
5.2 Tools And Frameworks For Strategic Performance

5.2.1 Balanced Scorecard as a strategic tool
The **Balanced Scorecard (BSC)** is one of the most widely used frameworks in strategic performance management. It provides a structured way of measuring performance across four perspectives:
- Financial: How well the organisation is performing financially.
- Customer: How satisfied and loyal customers are.
- Internal processes: How efficient and effective internal operations are.
- Learning and growth: How well the organisation is developing its people, systems, and innovation capacity.

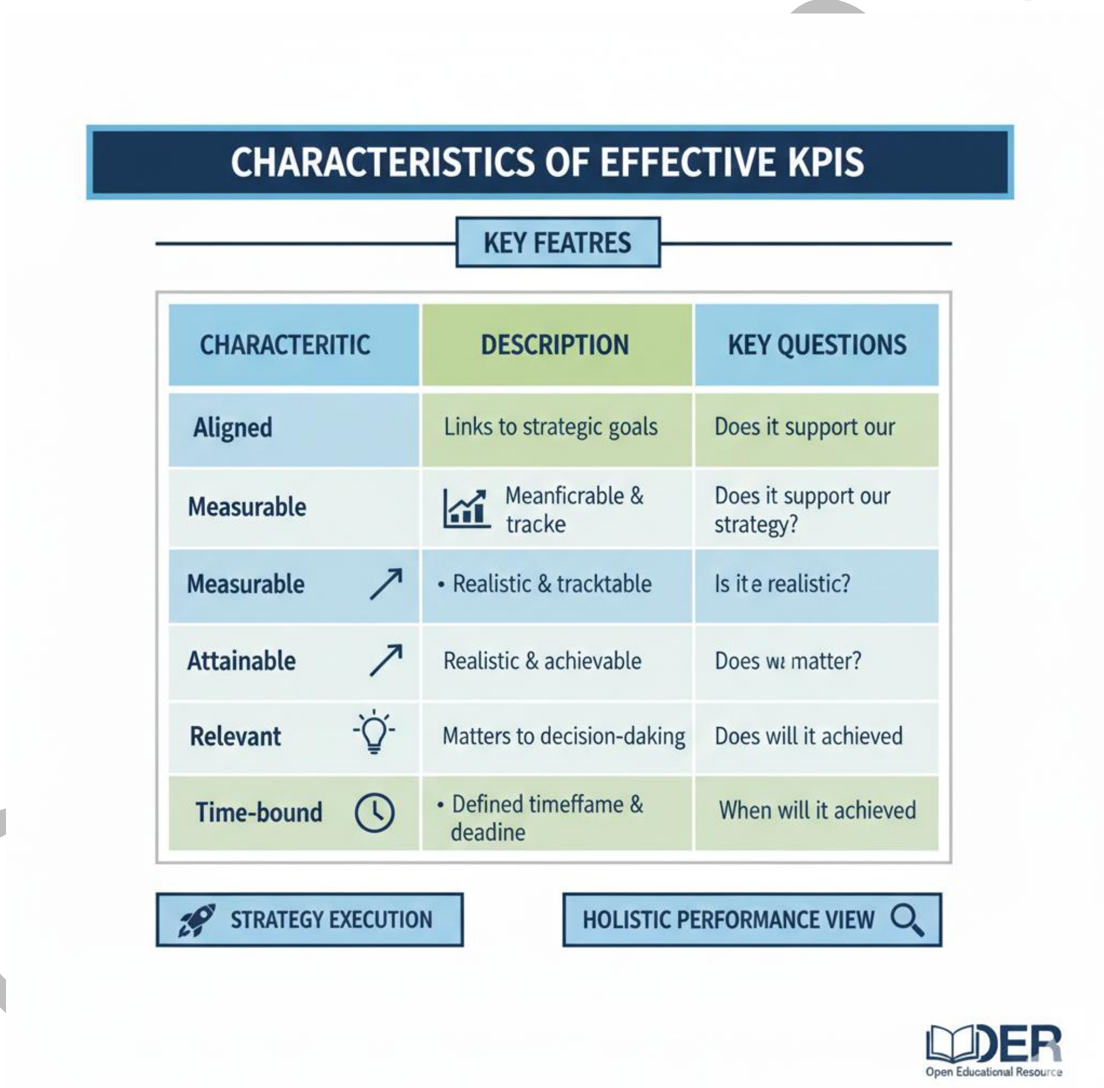
The Balanced Scorecard ensures that performance management is not limited to financial results but also considers customer satisfaction, operational efficiency, and long-term capability building.

Short description: Diagram showing the four perspectives of the Balanced Scorecard (financial, customer, internal processes, learning and growth).
Caption: Figure 5.2 Balanced Scorecard perspectives

Fill in the blank: The Balanced Scorecard measures performance across four perspectives: financial, customer, internal processes, and __________.

5.2.2 Key Performance Indicators (KPIs) and their design
Key Performance Indicators (KPIs) are specific, measurable metrics used to track progress towards strategic objectives. Effective KPIs should be:
- Aligned with corporate strategy.
- Measurable and quantifiable.
- Relevant to the division or activity being assessed.
- Time-bound, with clear targets and deadlines.

Designing KPIs requires careful thought to avoid measuring too many indicators or focusing on metrics that do not drive strategic outcomes.


CHARACTERISTICS OF EFFECTIVE KPIS

KEY FEATRES

CHARACTERITIC	DESCRIPTION	KEY QUESTIONS
Aligned	Links to strategic goals	Does it support our
Measurable	Meanficrable & tracke	Does it support our strategy?
Measurable	• Realistic & tracktable	Is it e realistic?
Attainable	Realistic & achievable	Does wı matter?
Relevant	Matters to decision-daking	Does will it achieved
Time-bound	• Defined timeffame & deadine	When will it achieved

Caption: Table 5.2 Characteristics of effective KPIs

Short description: A table listing characteristics of effective KPIs (aligned, measurable, relevant, time-bound).

Fill in the blank: Effective KPIs should be aligned with __________ strategy.

5.2.3 Performance dashboards and analytics
Performance dashboards are visual tools that present KPIs and other measures in a clear, accessible format. They allow managers to monitor performance in real time and make informed decisions.

Dashboards often include:
- Graphs and charts for trend analysis.
- Colour coding to highlight performance against targets.
- Drill-down features to explore detailed data.

Analytics enhance dashboards by providing deeper insights, such as predictive modelling and scenario analysis. Together, dashboards and analytics transform raw data into actionable intelligence.

Caption: Box 5.2 Features of performance dashboards and analytics
Short description: A box summarising features of dashboards (graphs, colour coding, drill-down) and analytics (predictive modelling, scenario analysis).

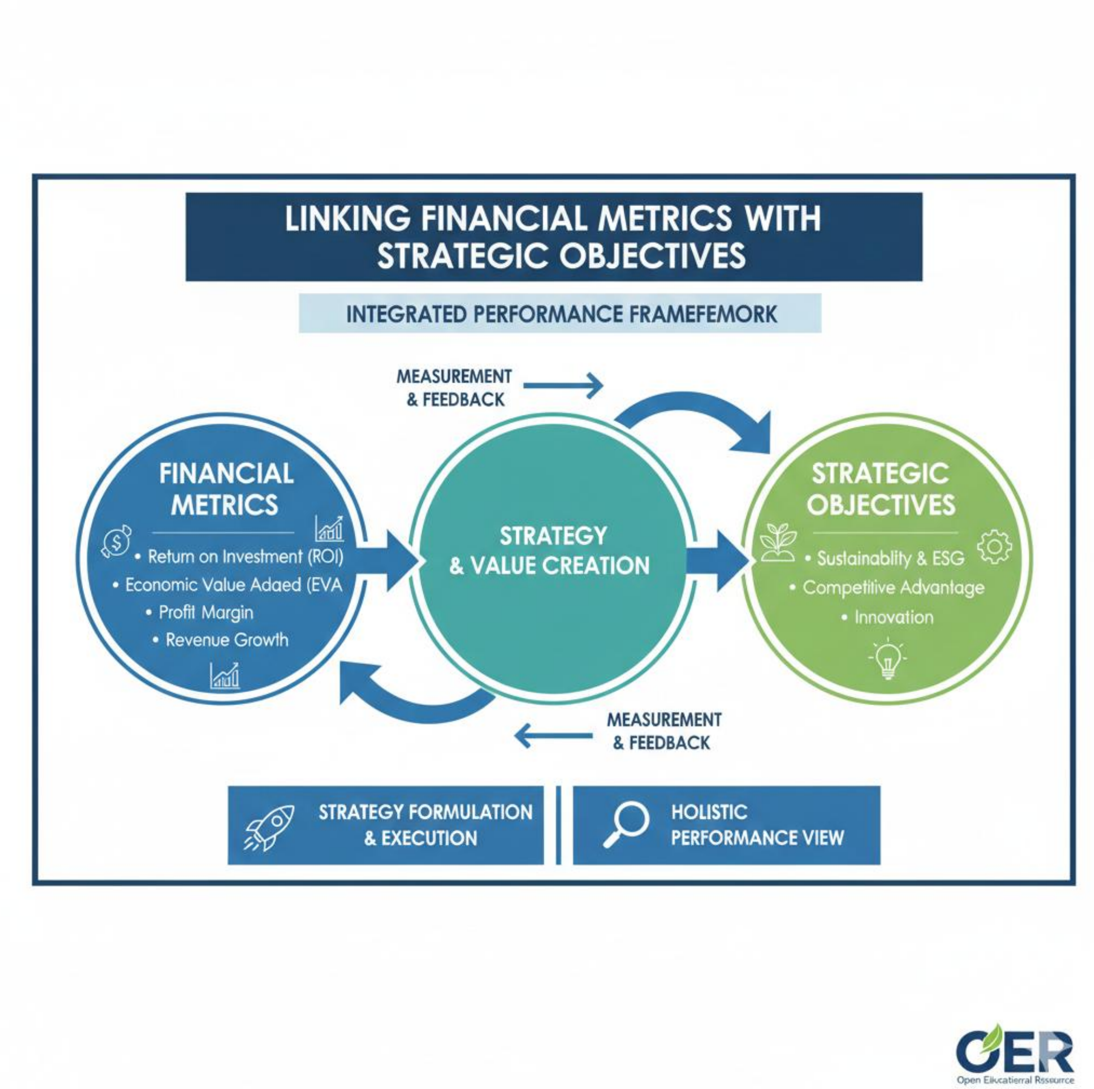
Fill in the blank: Performance dashboards transform raw data into __________ intelligence.

Pilot questions 5.2
1. What are the four perspectives of the Balanced Scorecard?
2. State one characteristic of an effective KPI.
3. Why should KPIs be aligned with corporate strategy?
4. Mention one feature of performance dashboards.
5. How do analytics enhance dashboards?

5.3 Integrating Financial And Non-Financial Measures

5.3.1 Linking financial metrics with strategic objectives
Financial metrics remain essential in performance management because they provide a clear measure of profitability, efficiency, and shareholder value. However, their true power lies in how they are linked to strategic objectives. For example, ROI or EVA can be tied directly to long-term growth strategies, ensuring that financial performance reflects not just short-term gains but sustainable success.

When financial metrics are aligned with strategy, managers can make decisions that balance immediate profitability with future competitiveness.



Short description: Diagram showing linkage between financial metrics (ROI, EVA) and strategic objectives (growth, sustainability, competitiveness).
Caption: Figure 5.3 Linking financial metrics with strategic objectives

Fill in the blank: Financial metrics are most effective when they are linked to __________ objectives.

5.3.2 Incorporating non-financial measures such as innovation, sustainability, and customer focus
Non-financial measures provide a broader view of performance by capturing aspects that financial metrics alone cannot. Examples include:
- **Innovation**: The ability to develop new products, services, or processes.
- **Sustainability**: Commitment to environmental and social responsibility.
- **Customer focus**: Meeting and exceeding customer expectations.

These measures ensure that divisions are not only profitable but also resilient, ethical, and competitive in the long term.

Caption: Box 5.3 Examples of non-financial measures
Short description: A box summarising non-financial measures such as innovation, sustainability, and customer focus.

Fill in the blank: Innovation, sustainability, and customer focus are examples of __________ measures.

5.3.3 Case examples of integrated performance measurement
Case studies illustrate how organisations combine financial and non-financial measures to achieve strategic objectives:
- A technology company links ROI with innovation metrics to ensure profitability while driving product development.
- A retail chain integrates customer satisfaction scores with sales growth to balance financial success with customer loyalty.
- A multinational corporation combines EVA with sustainability indicators to align shareholder value with environmental responsibility.

These examples show that integrated performance measurement provides a more balanced and strategic view of organisational success.

INTEGRATED PERFORMANCE MEASIUREMENT

CASE STUDIES IN DIFFERENT INDUSTRIES

INCHUSTRY	CASE EXAMPLE	KEY INTEGRATED METRICS & & IMPACT
Software Development Company implemating Agile Methodogies	**Financial:** Revenue Growth, Profit Margin Product Release Cycle Time, Employee Engagement	**Financial:** Revlenase Cycrle **Infnancial:** Customer lecmer Satisfation (NPS), Employee customer loyalty
RETAIL **Omni-Channel Retaiter** focusing of customer experience	**Financial:** Sales per Square Foot, Online Conversion Rate Customer Lifetime Value, Store Traffic, Inventory Accuracy	**Innancial:** Faster Lifetime Value, Store Trafic Accuracy, ESG Score **Impact:** Enhanctomer loyalty, reduced waste
MULTIUNATINAL CORPORATION Global Manufacturing Firm with focus of sustainability	**Financial:** ROI, EVA, Cost Reduction Noffinastliar Reduction, Innovation Pipeline, Employee Safety	**Innancial:** Forbon Reduction, Suphalin Ethics, Enplayeev Impact: Global prfiizion, enhanced brand reputation

STRATEGY EXECUTION | HOLISTIC PERFORMANCE VIEW | OER Open Educational Resource

Caption: Table 5.3 Case examples of integrated performance measurement
Short description: A table summarising examples of integrated performance measurement in technology, retail, and multinational corporations.

Fill in the blank: A retail chain may integrate customer satisfaction scores with __________ growth to balance financial success with customer loyalty.

Pilot questions 5.3
1. Why should financial metrics be linked to strategic objectives?
2. State one example of a non-financial measure.
3. How does sustainability contribute to strategic performance management?

4. Give one case example of integrated performance measurement.
5. What is the benefit of combining financial and non-financial measures?
5.4 Contemporary Issues And Future Directions

5.4.1 Strategic performance management in global organisations
Global organisations face unique challenges in strategic performance management because they operate across diverse markets, cultures, and regulatory environments. Performance measures must be adaptable to local contexts while still aligning with overall corporate strategy.

Key considerations include:
- Managing cross-border differences in customer expectations and market conditions.
- Ensuring compliance with varied legal and regulatory frameworks.
- Balancing global consistency with local flexibility in performance measures.

Short description: Diagram showing global strategic performance management with local adaptation and global alignment.
Caption: Figure 5.4 Strategic performance management in global organisations

Fill in the blank: Global organisations must balance consistency with local __________ in performance measures.

5.4.2 Ethical and governance considerations in performance management

Ethical and governance issues are increasingly important in performance management. Organisations must ensure that performance measures encourage responsible behaviour and do not incentivise short-term gains at the expense of long-term sustainability.

Governance considerations include:
- Transparency in reporting performance results.
- Accountability of managers and divisions.
- Fairness in linking performance to rewards.

Ethical considerations involve respecting stakeholder interests, promoting sustainability, and avoiding manipulation of measures.

Caption: Box 5.4 Ethical and governance considerations in performance management

Short description: A box summarising ethical and governance considerations such as transparency, accountability, fairness, and sustainability.

Fill in the blank: Ethical performance management requires transparency, accountability, and __________ in linking measures to rewards.

5.4.3 Emerging trends such as ESG metrics, digital transformation, and AI-driven analytics
Strategic performance management is evolving rapidly with new trends shaping its future:
- **ESG metrics**: Organisations increasingly integrate environmental, social, and governance indicators into performance evaluation.
- **Digital transformation**: Real-time dashboards, cloud platforms, and big data analytics are transforming how performance is monitored.
- **AI-driven analytics**: Artificial intelligence enables predictive modelling, scenario analysis, and deeper insights into performance patterns.

These trends highlight the shift towards a more holistic, technology-enabled, and socially responsible approach to performance management.

EMERGING TRENDS IN STRATEGIC PERFORMANCE MANAGEMENT

KEY INNOVATIONS

TREND	DESCRIPTION	DESCRIPTION	KEY FEATURES
ESG Metrics & ESG Mebility	Integration of environmmental, social and goveran factors into performance evaluation.	Corcrinats of tening; lormg value catoın.	Holistic view; logm, lormg value creztue creation, stakeaolder focus.
ESG Metrics & Sustainability	**Regital Transformation & Dashboards**	Real-rime data visauizating and insights.	Dojlity; data-driven decision-making
Digital Transformation & Dashboards		Utilizng AI fom corren macchining for forecsating.	Agilty; data-driven transparency
AI-Driven Analytics & & Predictive Insights	Grocerygs Analytics contrrinuous division Predictive insights	Prediictval, ensurs fair fair manegoling, pattern rattemed resource adjustments.	Frequent Check-ins, rapirloyee Engagement, Brand Vralue
Agile & Continuous Management	Frequent feedback loops, checkine, and flexible goal adadppations	Apirstcstive resource insights	Employee engagement, strategy execution

[
Caption: Table 5.4 Emerging trends in strategic performance management
Short description: A table listing emerging trends such as ESG metrics, digital transformation, and AI-driven analytics.

Fill in the blank: AI-driven analytics enable predictive modelling and __________ analysis in performance management.

Pilot questions 5.4
1. What challenges do global organisations face in strategic performance management?
2. State one governance consideration in performance management.
3. Why are ethical considerations important in performance management?
4. Name two emerging trends in strategic performance management.
5. How does AI-driven analytics enhance performance management?
]

Series Summary – Series 5: Strategic Performance Management

This Series explored how performance management becomes strategic when it is aligned with corporate objectives and integrates both financial and non-financial measures. We began with the definition and scope of strategic performance management, highlighting its importance in aligning divisional and organisational goals. We also examined the role of managers and stakeholders in ensuring accountability, transparency, and sustainability.

Next, we studied tools and frameworks such as the Balanced Scorecard, Key Performance Indicators (KPIs), and performance dashboards. These tools provide structured ways to measure and monitor performance across financial, customer, internal process, and learning perspectives. We then considered how financial metrics like ROI and EVA can be linked to strategic objectives, and how non-financial measures such as innovation, sustainability, and customer focus complement them. Case examples illustrated the benefits of integrated performance measurement.

Finally, we addressed contemporary issues and future directions, including the challenges of managing performance in global organisations, ethical and governance considerations, and emerging trends such as ESG metrics, digital transformation, and AI-driven analytics.

By completing this Series, you should now be able to define and explain strategic performance management (SLO 5.1, SLO 5.2), analyse the role of managers and stakeholders (SLO 5.3), apply frameworks like the Balanced Scorecard and KPIs (SLO 5.4, SLO 5.5), integrate financial and non-financial measures (SLO 5.6, SLO 5.7), assess global practices (SLO 5.8), critically examine ethical and governance considerations (SLO 5.9), and explore emerging trends in strategic performance management (SLO 5.10).
Glossary Of Terms – Series 5: Strategic Performance Management

Strategic performance management: The process of measuring, monitoring, and managing organisational performance in alignment with long-term strategic objectives.

Balanced Scorecard (BSC): A framework that evaluates performance across four perspectives: financial, customer, internal processes, and learning and growth.

Key Performance Indicators (KPIs): Specific, measurable metrics used to track progress towards strategic objectives.

Performance dashboards: Visual tools that present KPIs and other measures in real time, enabling managers to monitor and act on performance data.

Analytics: Techniques such as predictive modelling and scenario analysis that provide deeper insights into performance patterns.

Return on Investment (ROI): A financial metric that measures profitability relative to assets employed.

Economic Value Added (EVA): A financial measure that adjusts accounting profits to reflect economic performance after deducting the cost of capital.

Non-financial measures: Indicators such as innovation, sustainability, and customer satisfaction that capture performance beyond financial results.

Global performance management: The practice of managing performance across multiple countries, balancing global consistency with local adaptation.

Governance considerations: Principles such as transparency, accountability, and fairness in performance management.

Ethical considerations: Ensuring that performance measures encourage responsible behaviour and sustainability rather than short-term manipulation.

ESG metrics: Environmental, social, and governance indicators integrated into performance evaluation to reflect sustainability and ethical practices.

Digital transformation: The use of digital tools, dashboards, and big data analytics to enhance performance monitoring and decision making.

AI-driven analytics: Artificial intelligence applications that provide predictive insights and scenario analysis for performance management.

This glossary consolidates the essential terms introduced in **Series 5: Strategic Performance Management**, serving as a quick reference for learners to reinforce understanding of key concepts.
Concept Check Questions 5 – Series 5: Strategic Performance Management

Objective questions
1. Strategic performance management integrates both __________ and non-financial measures. (Linked to SLO 5.1)
2. The Balanced Scorecard evaluates performance across four perspectives: financial, customer, internal processes, and __________. (Linked to SLO 5.4)
3. Effective KPIs should be aligned with __________ strategy. (Linked to SLO 5.4)
4. Performance dashboards transform raw data into __________ intelligence. (Linked to SLO 5.5)
5. ROI measures profitability relative to __________ employed. (Linked to SLO 5.6)
6. EVA deducts a charge for the cost of __________. (Linked to SLO 5.6)
7. Innovation, sustainability, and customer focus are examples of __________ measures. (Linked to SLO 5.6)
8. Global organisations must balance consistency with local __________ in performance measures. (Linked to SLO 5.8)

Short-answer questions
9. Define strategic performance management. (Linked to SLO 5.1)
10. State one benefit of aligning performance management with corporate strategy. (Linked to SLO 5.2)
11. Name the four perspectives of the Balanced Scorecard. (Linked to SLO 5.4)
12. Mention one characteristic of an effective KPI. (Linked to SLO 5.4)
13. What is the role of performance dashboards in strategic performance management? (Linked to SLO 5.5)
14. Give one example of a financial measure linked to strategic objectives. (Linked to SLO 5.6)
15. State one example of a non-financial measure. (Linked to SLO 5.6)
16. Provide one case example of integrated performance measurement. (Linked to SLO 5.7)
17. Mention one challenge global organisations face in strategic performance management. (Linked to SLO 5.8)
18. State one governance consideration in performance management. (Linked to SLO 5.9)
19. Name one emerging trend in strategic performance management. (Linked to SLO 5.10)

Long-answer questions
20. Explain the scope of strategic performance management and its importance in aligning divisional and organisational goals. (Linked to SLO 5.1, SLO 5.2)
21. Analyse the role of managers and stakeholders in strategic performance management. (Linked to SLO 5.3)
22. Distinguish between the Balanced Scorecard and KPIs, highlighting their complementary roles in performance management. (Linked to SLO 5.4)

23. Evaluate the use of performance dashboards and analytics in monitoring and improving organisational performance. (Linked to SLO 5.5)
24. Discuss how financial and non-financial measures can be integrated to support strategic objectives, using case examples. (Linked to SLO 5.6, SLO 5.7)
25. Critically examine contemporary issues in strategic performance management, including global practices, ethical considerations, and emerging trends. (Linked to SLO 5.8, SLO 5.9, SLO 5.10)

These Concept Check Questions reinforce the Series Learning Outcomes by testing knowledge of strategic performance management, its tools, integration of measures, and contemporary issues.
Answers To Pilot Questions 5 – Series 5: Strategic Performance Management

Answers to Pilot Questions 5.1
1. Strategic performance management is the process of measuring, monitoring, and managing organisational performance in alignment with long-term strategic objectives.
2. One element in its scope is setting clear performance objectives linked to corporate strategy.
3. Alignment with corporate strategy ensures that divisions and individuals contribute meaningfully to organisational goals.
4. One benefit of alignment is promoting goal congruence across divisions.
5. Managers set divisional objectives that support corporate strategy.
6. Stakeholders influence performance management by demanding transparency, accountability, and sustainable practices.

Answers to Pilot Questions 5.2
1. The four perspectives of the Balanced Scorecard are financial, customer, internal processes, and learning and growth.
2. One characteristic of an effective KPI is that it is measurable and quantifiable.
3. KPIs should be aligned with corporate strategy to ensure relevance and impact.
4. One feature of performance dashboards is the use of graphs and charts for trend analysis.
5. Analytics enhance dashboards by providing predictive modelling and scenario analysis.

Answers to Pilot Questions 5.3
1. Financial metrics should be linked to strategic objectives to balance immediate profitability with long-term competitiveness.
2. An example of a non-financial measure is customer satisfaction.
3. Sustainability contributes by ensuring ethical and responsible long-term practices.
4. A case example is a retail chain integrating customer satisfaction scores with sales growth.
5. Combining financial and non-financial measures provides a balanced and holistic view of organisational success.

Answers to Pilot Questions 5.4
1. Global organisations face challenges such as managing cross-border differences and ensuring compliance with varied regulations.
2. One governance consideration is transparency in reporting performance results.
3. Ethical considerations are important to avoid manipulation of measures and to promote sustainability.
4. Two emerging trends are ESG metrics and digital transformation.
5. AI-driven analytics enhance performance management by enabling predictive modelling and scenario analysis.
References And Attributions 5 – Series 5: Strategic Performance Management

Figures, Tables, and Boxes in this Series were either suggested as AI-generated placeholders or referenced from open educational resources (OER). Where AI generation was proposed, the prompt and tool are noted.

Figure 5.1 Scope of strategic performance management
AI prompt: "Generate a diagram showing the scope of strategic performance management with objectives, measures, monitoring, and decision making."
Suggested source search string: "scope of strategic performance management diagram OER"

Box 5.1 Importance of aligning performance management with corporate strategy
AI prompt: "Create a text box summarising the importance of aligning performance management with corporate strategy."
Suggested source search string: "importance aligning performance management corporate strategy OER"

Table 5.1 Roles of managers and stakeholders in strategic performance management
AI prompt: "Generate a table listing roles of managers and stakeholders in strategic performance management."
Suggested source search string: "roles managers stakeholders strategic performance management OER"

Figure 5.2 Balanced Scorecard perspectives
AI prompt: "Generate a diagram showing the four perspectives of the Balanced Scorecard: financial, customer, internal processes, and learning and growth."
Suggested source search string: "balanced scorecard perspectives diagram OER"

Table 5.2 Characteristics of effective KPIs
AI prompt: "Generate a table listing characteristics of effective KPIs such as aligned, measurable, relevant, and time-bound."
Suggested source search string: "effective KPI characteristics OER"

Box 5.2 Features of performance dashboards and analytics
AI prompt: "Create a text box summarising features of performance dashboards and analytics."
Suggested source search string: "performance dashboards analytics features OER"

Figure 5.3 Linking financial metrics with strategic objectives
AI prompt: "Generate a diagram showing linkage between financial metrics such as ROI and EVA with strategic objectives like growth, sustainability, and competitiveness."
Suggested source search string: "linking financial metrics strategic objectives diagram OER"

Box 5.3 Examples of non-financial measures
AI prompt: "Create a text box summarising non-financial measures such as innovation, sustainability, and customer focus."
Suggested source search string: "non financial measures innovation sustainability customer focus OER"

Table 5.3 Case examples of integrated performance measurement
AI prompt: "Generate a table summarising case examples of integrated performance measurement in technology, retail, and multinational corporations."
Suggested source search string: "case examples integrated performance measurement OER"

Figure 5.4 Strategic performance management in global organisations
AI prompt: "Generate a diagram showing global strategic performance management with local adaptation and global alignment."
Suggested source search string: "strategic performance management global organisations diagram OER"

Box 5.4 Ethical and governance considerations in performance management
AI prompt: "Create a text box summarising ethical and governance considerations in performance management."

Suggested source search string: "ethical governance considerations performance management OER"

Table 5.4 Emerging trends in strategic performance management
AI prompt: "Generate a table listing emerging trends in strategic performance management such as ESG metrics, digital transformation, and AI-driven analytics."
Suggested source search string: "emerging trends strategic performance management OER"

All references are aligned with open educational resource searches and AI prompts suggested for illustration. Learners are encouraged to consult standard texts such as Kaplan & Norton (The Balanced Scorecard), Drury (Management and Cost Accounting), and Horngren et al. (Cost Accounting: A Managerial Emphasis) for further reading and validation of concepts.